SECTION 4 IMPROVING PARTNERSHIPS WITH ORGANISATIONS/AGENCIES OUTSIDE PARLIAMENT

4.1 Ensuring contestable policy advice

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4.4 Decentralisation

4.1 Ensuring contestable policy advice

The public service provides the principal source of official policy advice to the New Zealand Government. This entry examines the various ways in which the provision of policy advice to government has become more contestable over the past decade. In particular it looks at the New Zealand experience in separating policy advice from policy implementation.

The context for change

The rationale for the separation of policy from the operational or delivery functions of an organisation is to minimise the opportunity for the "capture" of advice by the organisation to suit its own rather than its client's objectives. The impartiality of advice may suffer if the adviser has a common organisational interest with the provider. In other words, if an agency has responsibility for policy advice and the delivery of services, the objectivity of its advice may be questionable. For example, it may be more difficult to recommend selection of a lower cost provider of services when the advisers are themselves part of the delivery agency.

The doctrine of separating policy from service delivery functions was set out in the *Strategos Report* 1988 which was the private consultant's report on which restructuring of the Ministry of Defence was based. The Strategos consultants argued:

> "Policy and advisory roles ought to be separated from the administrative and operational aspects of each department. The importance of this principle is to ensure that there is no monopoly on policy advice, and more importantly to ensure that policy is not the exclusive preserve of the operational agency. This principle does not preclude on-going feedback to the policy agency, but tries to prevent advice being tailored to meet the needs of the operational agency rather than the needs of the customer of the service."

In its 1987 study of the management performance of the core state sector, Treasury concluded that the traditional sectoral approach to structuring government departments could have a number of adverse effects, including the possibility of provider capture. Treasury argued that where advisers have a direct interest in the form of policy implementation they may give biased policy advice or advice that favours public over private provision. On similar lines it was contended that an agency whose existence was linked inextricably to a particular policy would be likely to favour perpetuation of that policy.

In general, the Treasury position was that, within the core state sector, there was insufficient contestability in the provision of advice and this often produced poor quality policy advice.

As a consequence, Treasury advocated a functional rather than a sectoral approach to institutional reform in the core state sector. The advantage of a functional approach were seen as:

- clearer organisational objectives;
- a reduced risk of producer capture;
- greater control for government over the quality of policy advice.

In any particular situation the merits of splitting operational from policy functions will need to be carefully weighed. Nevertheless, explicit separation can help to avoid conflict and confusion between the two roles. In New Zealand's experience some applications of the principle have proved to be more successful than others. An important consideration is that a policy agency should have sufficient critical mass to attract high calibre staff. At least initially in New Zealand, the expectation of a ready supply of qualified, competent and experienced policy analysts to staff the new policy ministries proved over-optimistic.

Apart from the separation of policy from operations, which might be described as the structural approach to enhancing contestability, governments also seek advice from a range of sources for a variety of reasons. A major reason for the establishment of advisory groups is to ensure the independence and comprehensiveness of advice, particularly if it covers matters of broad social concern. There are occasions when the expertise within the public sector has to be supplemented by outside sources of advice.

Implementing change

A key feature of state sector reform in New Zealand has been the desire to increase the contestability of policy advice. To achieve this, in some departmental restructuring there has been an explicit separation of the policy advice function from the service and operations functions. As a result, there are a considerable number of ministries in the New Zealand public service whose prime output is policy advice. As an illustration of this principle, the former Ministry of Defence was restructured in 1989 into two distinct organisations: the NZ Defence Force responsible for providing the country's military forces and a new, much smaller, Ministry of Defence responsible, primarily, for policy advice on strategic and military capability issues.

The restructuring of the core state sector in New Zealand in recent years has been heavily influenced by the idea of separating policy advice from service delivery to enhance the contestability of advice. For example, the Ministries of Health, Education and Transport are now predominantly policy advice agencies.

Institutional reform is not the only means of ensuring contestable advice. In a parallel movement, contestability of advice from departmental officials has been introduced at ministerial level by the employment of political staff in ministerial offices and a wider range of ministerial advisory groups drawn from all sections of the community. There is a considerable number of public advisory bodies. In 1990, over 110 such bodies established by government could be identified in New Zealand. An example of a non-statutory body is the Ministerial Advisory Committee on Women's Health. Occasionally, government sets up an ad hoc body to deal with specific issues in a relatively short period of time. These ad hoc bodies may take the form of a Royal Commission.

A further source of independent advice is provided by consultants. Consultants are particularly useful in the provision of services to departments.

International organisations are also an important source of official advice. In many matters, for example those relating to telecommunications, the environment, or international travel, many of the imperatives for change come from overseas. In these situations New Zealand advisers are responding to international developments rather than domestic pressures. As a responsible member of the international community, New Zealand Government decisions are often required to take into account events and trends external to New Zealand.

As elsewhere, it should be noted that New Zealand ministers have a number of informal or unofficial sources of advice. The public at large, political parties, and a great number of special interest or pressure groups all seek to influence government policy. All these people have a way of challenging or contesting official policy advice throughout the public hearings that are part of the process of introducing new legislation. The Select Committees of Parliament enable public scrutiny of legislation to occur through a process of written or oral submissions.

The Official Information Act 1982 can be seen as a supporting move to enable the public to participate more effectively in the decision-making process through having greater access to information. This Act means that official policy advice can be scrutinised by the public.

The reform process over the past decade has had the effect of moving New Zealand away from a situation where power was highly centralised and in which the public service played a predominant role in many sectors, to greater reliance on market forces and the empowerment of community interests. The trend towards more contestable policy advice can be seen therefore as consistent with a move away from reliance on a centralised bureaucracy which in the New Zealand context had tended to dominate decision-making.

Supporting material

(i) Boston, J, 1989, Machinery of Government: Theory and Practice, *Master of Public Policy Programme*, Victoria University of Wellington

(ii) *Efficient and Effective Policy*, Keith, K J, 1993, Law Commission, Wellington

(iii) *New Zealand: Changing the Public Service Culture; A Radical Approach*, 1990, State Services Commission, Wellington

(iv) *Government Management*, Volume 1, Treasury, 1987, Government Printer, Wellington

4.2 Deregulation

The last ten years have seen a comprehensive rethinking of the role of government in the New Zealand economy. The outcome has been a marked shift away from government intervention in the form of regulation to reliance, whenever feasible, on market forces. As a consequence, New Zealand has moved from being one of the most highly regulated economies in the OECD to one of the most free. The reform process overall has involved economic liberalisation, corporatisation and privatisation of many publicly owned trading organisations, as well as deregulation. Because the changes in New Zealand have been so extensive, this entry aims to provide a background and overview of New Zealand's decade of transition from central government control and regulation to a more open and internationally competitive economy.

The context for change

The term regulation is difficult to define but a useful working definition quoted in Haarmeyer is:

> "Government commands having effects on resource allocation. The degree of regulation depends on the extent to which government specifies in detail what would otherwise have been left to voluntary decision."

Regulation may be seen as intervention in the marketplace which modifies market outcomes such as prices, production, quality or the mix of these. Regulation is only one of the forms of government intervention in the market. Other forms include the use of budgetary measures and the ownership of economic resources. Because of its pervasiveness prior to the reforms, the regulatory environment in New Zealand constituted an important element in the economic functioning of the country.

In the years prior to the reforms, the New Zealand economy had performed poorly relative to other OECD countries. Despite a weak economic performance, New Zealand had sought to maintain its living standard through large-scale overseas borrowing. In many economic sectors New Zealand's international competitiveness was poor. By the mid-1980s macro-economic imbalance in the economy was such that government considered only a wholesale programme of economic reform would overcome the structural weaknesses of the economy.

By the mid-1980s there was a widespread perception among members of the government, business leaders and public that the New Zealand economy was over-regulated and that this was having an adverse impact on economic performance. In particular, it was considered necessary to allow businesses to respond to market signals by removing government regulation.

Much of the extensive array of regulations that had accumulated in New Zealand had been put in place on a case-by-case basis over many years. No systematic attempt had been made to answer such questions such as:

- Do the regulations serve any useful social or economic purpose?
- Do the regulations provide the most appropriate form of government intervention?
- Do the regulations inhibit a more effective allocation of resources?
- Do the regulations serve narrow, sectional interests at the expense of economic welfare as a whole?

A great many of the regulations that existed in the New Zealand economy had been put in place in response to events, problems and circumstances which had altered markedly. By their nature, regulations tend to be long-lasting and outlive their usefulness. A major reassessment of the regulatory regime in New Zealand was well overdue by 1984.

Implementing change

Deregulation in the New Zealand context has involved many aspects including:

- removal of controls over prices, wages and interest rates;
- in the agricultural sector, removal of agricultural subsidies and commodity price supports;
- freeing up the financial sector by abolishing controls over the movement of capital and restrictions on competition that used to apply to the banking sector;
- removing regulatory legislation that restricted competition from sectors such as telecommunications, energy and transport;
- deregulation of the labour market by means of the Employment Contracts Act of 1991 which freed up employee-employer bargaining.

As a result, New Zealand has now eliminated most forms of restriction on entry to markets, removed the price controls that formerly were applied to a large list of items, and abolished regulatory monopolies and licensing that applied to many professions and trades.

Deregulation is a key feature of the general programme of economic liberalisation that has occurred in New Zealand in the decade since 1984. It should be seen as consistent with a number of other steps including:

- significant changes to the tax system including the introduction of a value added tax (known as GST, for goods and services tax) and simplification of the tax scale to two steps;

- corporatisation and privatisation of government-owned trading enterprises;

- the major restructuring of core government departments;

- an extensive programme of financial management reform in the public sector including the introduction of accrual accounting and a capital charge regime.

The reform programme can be dated from the election of the Labour Government in 1984. The last major step of deregulation was the Employment Contracts Act which was passed in 1991. Labour was the last major economic factor of production to be deregulated. By international standards the reform process in New Zealand was remarkably rapid considering how radical and extensive it was. There was no overall plan or predetermined sequence to the deregulation process. There was a particular set of conditions in New Zealand that allowed for a sustained and comprehensive policy of deregulation to be pursued.

Within its democratic framework, New Zealand has had previous periods of radical change. As a relatively small society the political institutions have permitted radical reform. There is a single chamber Parliament and each Member of Parliament has been elected on a "first past the post" basis. (New Zealand is now in the transition to a Parliament elected by proportional representation). There is no upper house, state or provincial government to impede policy change. Moreover, there is no written constitution.

In summary, New Zealand's phase of deregulation followed a period of heavy government intervention in the economy. Prior to 1984, economic policy-making had been dominated by a concern with "market failure". Events after 1984 may be seen to some extent as a reaction to this approach which was considered to have contributed substantially to the economy's poor performance.

Supporting material

(i) *Liberalisation in New Zealand*, Bollard, A. & Buckle, R. 1987, Allen and Unwin, Port Nicholson Press, Wellington

(ii) *The Regulated Economy*, Economic Monitoring Group, 1985, New Zealand Planning Council, Wellington

(iii) *Competition Policy and Government Regulatory Intervention*, Haarmeyer, D. 1988, Economic Development Commission, Wellington

(iv) *Briefing Papers*, The Treasury 1984 & 1987, The Treasury, Wellington

4.3 Inter-governmental restructuring

New Zealand has a system of local government that is largely independent of central executive government but which, in constitutional terms, is subordinate to Parliament.

The structure of local government in New Zealand has been extensively restructured in recent years. The opportunity is used in this entry to look at the extent of the changes and reasons behind them.

The context for change

The key imperative behind local government reform was a desire to improve its accountability and performance. In addition, there were concerns with the extent of public access and involvement in local government processes and a desire to foster greater public participation.

In 1988, the Minister of Local Government noted that:

> "Reform is long overdue. It has been on the agenda of both main parties for every election since 1946. The plain fact is that there are too many local bodies in this country, 828 for a country of 3.2 million people. Local government does not have any rational structure for how the interests of local residents might best be served, or how various services might be best provided. The system demonstrably has no rational basis."

Thus the reforms were intended to enhance the strength and roles of local and regional government by consolidating them into a more robust, accountable, and managerially efficient framework.

Implementing change

On 17 December 1987, as part of the Government's, "Economic Statement," the Minister of Local Government announced a review of local government that would involve a fundamental rethink of local government functions, structure, organisation and funding.

A discussion document, *Reform of local and regional government*, covering the issues to be addressed, was issued by the committee of officials charged with co-ordinating the policy review.

Nearly 500 submissions on the discussion document were received. Following analysis of submissions, an Act of Parliament, the Local Government Amendment Act (No. 3) 1988, was drafted which had as its stated purpose, "to enable substantial reform of local government to take place before the elections in October 1989."

In effect, it was this Act which prescribed a class of directly elected regional councils with a chief function of resource management, territorial councils and special purpose boards for circumstances where neither of the first two classes of authority were appropriate.

Despite the ambitious timetable, re-organisation schemes were put in place during 1989, and the new local government framework was in place by the time of elections in October 1989.

In summary, the changes were:

- a drastic reduction in the number of regional territorial and special purpose authorities;

- local authorities were required to separate regulatory from other local functions in the organisation of their committee structures;

- provision was made for trading activities to be corporatised and formed into local authority trading enterprises;

- new accountability procedures were required including the adoption of accrual accounting and corporate planning processes;

- chief executives could be appointed on contract for up to five years.

New Zealand local authorities fall into three categories: regional, territorial and special purpose or ad hoc authorities. The roles and responsibilities of the regional and territorial councils are now distinct. In broad terms, the regional councils are concerned with establishing the regulatory environment on which the natural resources of land, sea, air and water can be managed on a sustainable basis. Territorial councils are to provide the local services within the regulatory environment established by regional councils.

In 1994 there are:

- 12 regional councils;

- 74 territorial councils;

- 155 community boards;
- 6 special authorities.

The rationale for a separation of functions between regional and territorial authorities is, in part, to enable sustainable use of resources to be considered at a regional level while the provision of community infrastructure and services is handled at a community level.

In the economic reform process begun in the mid-1980s, reform of the central government part of the public sector was tackled first. Reform of local government may be considered as being the next logical step.

The timing of local government reform can be seen as complementing government's re-examination of major functional areas such as education, resource management and health.

Much of local government reform can be seen as consistent with the principles of the central government reform which preceded it. There is a similar emphasis on:

- establishing clear objectives;
- the separation of commercial from regulatory and other functions;
- accountability (both managerial, i.e. within the organisation, and political, i.e. to the public);
- transparency of accounting practices (e.g. accrual accounting).

Accordingly, the reform of local government should be treated as part of the broad reform package begun in New Zealand in the mid-1980s.

Supporting material

(i) *Reshaping the State-New Zealand's Bureaucratic Revolution*, Boston, Martin, Pallot and Walsh, 1991, Oxford University Press, Oxford

(ii) *New Zealand Politics in Perspective*, Bush, G. 1989, Auckland

(iii) Elwood, B, 1990, Local Government's Responsibility to Community Development, *New Zealand Local Government*, June 1990, Wellington

(iv) Walker, D. B, 1989, Centralisation, Decentralisation and Local Government Reform, *Local Authority Management*, Vol. 15 (1), Wellington

4.4 Decentralisation

Historically, the factors of geography, demography, cultural values and constitutional tradition combined to give New Zealand a highly centralised system of government and administration. Since 1984 however, there has been a tendency to favour decentralisation as a key principle in the re-organisation of government agencies and functions. For the purposes of this entry, decentralisation will be taken to mean the delegation or shift of power away from a central authority. The entry looks at some instances of how the concept has been applied in public sector reforms.

The context for change

The growth of the centralised system of government in New Zealand has been attributed to:

- the fact that during the early years of European settlement only central government had the resources to deliver services effectively;

- relatively weak local government.

Since 1984 a number of public service sectors, including local government, have been extensively restructured. A key organising principle in the reform process has been a desire to transfer power away from the central control of Wellington-based departments, towards communities. This transfer or shift of power is usually referred to either as decentralisation or devolution.

In a number of instances of decentralisation in the public sector there has been a presumption that the function in question can be delivered more efficiently and effectively if decentralised. Whether in terms of trading activities or the delivery of social services, when the overall availability of resources is constrained, the extent and nature of state involvement in activities has been critically assessed. Decentralisation may be seen as part of the progressive rethinking of the role of the state that has occurred in New Zealand since 1984.

The move to shift more decision-making power to communities is based on a belief that decisions are likely be more efficient if made by the people directly affected by them. There is a perception that large, centrally organised bureaucracies are difficult to monitor and hold accountable.

Decentralisation is consistent with ideas of power-sharing, consultation and empowerment that have become increasingly important in public affairs. In New Zealand, these themes have assumed particular significance in relation to Maori, environmental and women's issues.

To be fully effective, agencies engaged in the delivery of social services need to be flexible and responsive to their client needs; this is difficult to achieve in highly centralised structures which tend to be hierarchical and unwieldy.

In periods of rapid social and economic change it is important for organisations to be structured for adaptability and innovation rather than continuity. This again favours a decentralised approach.

In New Zealand, some of the public support for the decentralisation of government functions may have arisen from disillusionment with what was perceived to have been the excessive centralisation of decision-making in the recent past.

Implementing change

Decentralisation is a two-way process. It requires centralising of those decisions which should be made centrally, such as national and strategic issues, and decentralising operational decisions within this overall framework. In the case of the decentralisation of education administration, ministers can set national objectives and priorities and allocate resources in accordance with these priorities. Thus decentralisation was, in most instances, accompanied by the decision to retain certain key responsibilities with central government.

The reforms in the education sector illustrate the principles of decentralisation. The intent of the reforms was to abolish the Department of Education which had previously dominated both policy-making and the delivery of education services. As set out in the Government's August 1988 policy statement on education, *Tomorrow's Schools*, the new system was based on the following features:

- Schools would be the basic building block of education administration, with control over their educational resources, to be used as they determined, within overall guidelines set by the state.

- The running of the school would be a partnership between the professionals and the particular community in which it was located. The mechanism for such a partnership would be a board of trustees.

- Each school would set its own objectives within overall national guidelines set by the Government. These objectives would reflect the particular needs of the community in which the school was located and would be clearly set out in a *charter* drawn up by the school itself. In effect, the charter would act as a contract between the community and the school and the between the school and the state.

- Schools would be accountable through a nationally established agency, the Education Review Office (ERO), for the public funds spent on education and for meeting the objectives set out in their charters. ERO would conduct a regular programme of school reviews.

- Schools would be entitled to purchase services from a range of suppliers.

- A Ministry of Education would be established to provide policy advice.

In summary, the value of decentralising the administration of schools was seen as making them more responsive to the communities they served, more accountable to the public and more flexible in the management of their inputs. Implementation of the *Tomorrow's Schools* strategy was carried out in little more than a year. Elections to boards of trustees took place in May 1989 and boards of trustees assumed responsibility for the running of schools from 1 October 1989. The former education boards went out of existence on 30 September 1989.

The major structural reforms in the health sector were implemented on 1 July 1993, and were similarly intended to produce a health care system that was more flexible and less centralised.

The moves towards decentralisation and devolution in the public sector are consistent with organisational trends in the private sector. Much of the management and business literature of the past decade has suggested that the management structure of the most successful companies has been decentralised, or in business parlance, "close to the customer".

In order to cope with a turbulent business climate, organisations are moving to flatter management structures and employee involvement. Concepts such as Total Quality Management (TQM) emphasise the idea that all staff should participate in work place improvement. For central management to be the focus of all decision-making is outmoded.

Developments in technology and communications are also supporting the trend towards decentralisation. Information is becoming more diffused throughout society and data that was once the preserve of public agencies is now widely available.

This entry should be read in conjunction with the entries on *Deregulation* and *Corporatisation and divestiture.*

Supporting material

(i) *Reshaping the State-New Zealand's Bureaucratic Revolution*, Boston, Martin, Pallot, Walsh, 1991, Oxford University Press, Oxford

(ii) *Redistribution of Power-Devolution in New Zealand*, Mckinlay, P. 1990, Victoria University Press, Wellington

(iii) *New Zealand Public Sector Reform*, State Services Commission 1993, Wellington