

# Current Good Practices and New Developments in Public Service Management

A Profile of the Public Service of New Zealand

The Public Service Country Profile Series: No.5



Commonwealth Secretariat

## Current Good Practices and New Developments in Public Service Management

A Commonwealth Secretariat publication series distributed in collaboration with The Commonwealth Association for Public Administration and Management (CAPAM).

This major publication series provides practical guidance to managers at all levels within the public service.

*The Commonwealth Portfolio* leads the series. In loose-leaf format for easy updating, it distils and analyses innovations and best public service management practice from across the Commonwealth. Its 65 entries will be published in stages and cover the following key areas:

- a. making the most of staff
- b. making government more efficient
- c. improving the quality of services
- d. improving partnerships with organisations and agencies outside of central government
- e. making management more effective
- f. improving the management of finance
- g. improving policy-making.

An overview of Commonwealth best practices and the management of change, and the entries in sections a and e were published in early 1995.

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Second print 2000

Published by the Commonwealth Secretariat

May be purchased from:  
The Publications Unit  
Information and Public Affairs Division  
Commonwealth Secretariat  
Marlborough House  
Pall Mall  
London SW1Y 5HX

Facsimile: +44 (0) 20 7839 9081

Email: [r.jones-parry@commonwealth.int](mailto:r.jones-parry@commonwealth.int)

ISBN: 0 85092 437 5

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## FOREWORD

Since 1975, the Management and Training Services Division of the Commonwealth Secretariat, and its predecessor the Management Development Programme, have been providing extensive assistance to Commonwealth governments confronting the challenge of securing administrative and managerial improvements in the public sector. The Division's analyses of major trends and opportunities for public sector reform are complemented by its tailored consultancy and training packages designed in response to national and regional needs.

The current widespread debate concerning the managerial and structural options which will best fit the public service for the challenges of the next century touches the very centre of the questions concerning the role and responsibilities of the governments of the future.

The structure and processes of the overall public sector, that area of national social and economic life which is directly answerable to government, are significant in two ways. They serve to deliver, or to fail to deliver, the policy objectives of government, and they serve as a marker which government unavoidably sets down concerning accountability and transparency in national affairs, and the legal and constitutional framework for development.

As the range of structural options and accountability relationships utilised within the public sector increases, the complexity and diversity of that sector are growing. Assessing the strategic options for the public sector requires a clear understanding of the managerial alternatives and the actual and potential capacities of the core public service. I believe that this publication, and its companion volumes, is a significant contribution towards that understanding.

*The Public Service Country Profile Series* has grown out of a larger publication series examining current good practices and new developments in public service management. A pan-Commonwealth expert working group met in Kuala Lumpur in early 1993 to discuss the possible development of a policy guide for senior officials, highlighting the key principles underpinning recent managerial developments within the public service. This ground-breaking workshop developed the framework for *The Commonwealth Portfolio*, a distillation and analysis of innovations and best practices in public service management from across the Commonwealth.

*The Commonwealth Portfolio* is being published in loose-leaf format for easy updating, and its 65 entries will cover the major areas of change within public service management.

I am particularly pleased to note that in constructing the Portfolio the expert editors and compilers have been determined to ensure its relevance to the real challenges faced by senior officials and managers. To ensure that the principles it identifies are firmly grounded in real experiences and genuine achievements within the public service, member governments across the Commonwealth were approached to take part in a unique mapping exercise, identifying the actual changes which had been made in some key areas of public service management. That so many governments unhesitatingly agreed is a tribute to the spirit of co-operation and to the strength of professional networks within the public services of Commonwealth countries.

*The Public Service Country Profile Series* sets out the results of that mapping exercise, country by country, to provide an unprecedented insight into the real managerial and structural changes underway in the public service. In providing some firm ground on which those public servants, both elected and appointed, who are faced with the challenge of public service reform can stand while assessing the options available, the Country Profile Series marks a milestone in the debate concerning the management of the public service. Reality is informing rhetoric at last.

Dr Mohan Kaul  
Director  
Management and Training Services Division  
Commonwealth Secretariat

## ACKNOWLEDGEMENTS

This publication is the product of some remarkable co-operation and some very generous assistance from experts and officials at all levels who have given their time and knowledge as a contribution towards Commonwealth co-operation and as a signal of their commitment to the improvement of the public service.

The publication owes a debt of gratitude to Roger Beckett of the New Zealand Treasury for assisting with the planning of the publication series and for facilitating access to the public service. I would particularly like to thank Alex Matheson and Allen Hepner and other staff of the State Services Commission, New Zealand who provided the comprehensive material on which this publication is based.

Sir Kenneth Stowe provided most valuable suggestions in designing the publication series and concerning the style and content of all the country profiles.

The cover design was provided as a corporate contribution towards Commonwealth co-operation through the kind assistance of Francis Plowden of Coopers and Lybrand, London.

Roy Chalmers and Greg Covington have assisted immeasurably in all aspects of the production of this series.

The excellent material in this publication was provided by many individuals and organisations within the New Zealand Government, co-ordinated through the State Services Commission. Although in editing every attempt has been made to retain the accuracy of the contributing authors, final responsibility for any introduced errors or inaccuracies rests with myself. The inclusion of any statement within this publication does not imply that this is an exhaustive analysis of current trends, or that this is official policy of the Government of New Zealand.

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# INTRODUCTION

New Zealand has earned international recognition for the scale and consistency of its state sector reforms. A consistent philosophical basis for the state sector's interventions in the economy and society has been maintained through almost ten years of change. This publication summarises the background to our reforms, the key principles on which they were based, and the shape of the new state sector. It concludes with discussion of the results and effects of New Zealand's reform programme.

The term *state sector* is used whenever a topic comprises government departments, Crown-owned entities and state-owned enterprises. The term *public sector* is applied when a broader concept incorporating the local government sector is applicable. The *public service* refers to the government departments and ministries in the core state sector defined by the State Sector Act 1988 and its subsequent amendments.

## Background

Through the first half of this century some strong expectations formed about the role of the state in New Zealand. One of these was that the state should provide comprehensive education, health and social security systems, funded from its revenue. Another was that the state should protect the viability of key industries both to assure high levels of employment, and to maintain and increase volumes of the mainly agricultural exports upon which the country's economic well being depended. Together these expectations gave the state a high degree of involvement in New Zealanders' lives, and in the nation's industries and businesses. New Zealand was seen as a shining example of a successful welfare state.

The impact during the 1970s of Britain's entry into the European Community which removed the exclusive market we had enjoyed for many years and of the oil shocks were profound. For the next ten years or so governments sought to cushion these effects by intervening increasingly to maintain key industries and to absorb unemployment, while seeking means at the same time to reduce New Zealand's vulnerability to further external shocks. While successes were claimed in some directions, these strategies tended to further increase the dependence of many citizens and businesses on the state, and locked the Government into a cycle of borrowing to fund escalating annual fiscal deficits, with consequentially worrisome inflationary pressures. By the early 1980s our indebtedness was considerable and increasing apace. Neither the Government, the business sector nor the state sector

were able to find alternative strategies to combat this trend. Concerns were gathering overseas with our international creditors as well as within New Zealand.

Many of the key ministers in the Government elected in mid-1984 were representative of the post-war generation. They tended to view New Zealand's future in less insular terms than some of their predecessors had done, and were also more sharply aware of and receptive to different philosophies in government and management.

These ministers took the view that the ideas, productive energies and confidence needed for New Zealand to make its way in the world and to overcome the problems associated with chronic debt would only emerge through exposure of all sectors of the economy to the forces of competition. The Government would therefore minimise its interventions, focusing instead on creating incentives and conditions to encourage these ideas and energies to spark and flourish in the community and business sector. It began with the removal of subsidies and other support mechanisms and the progressive dismantling of regulations and controls.

These were changes on an enormous scale – dynamic solutions for major problems. The Government saw the state sector, with its traditional focus on resource distribution, regulation and control, and with relatively little transparency in its processes and activities, not so much as a tool for reform, but as a significant part of the problem. It felt the state cost too much, contributed too little to wealth-generating production, and was a dead weight on our society.

The ministers of the Government elected in 1984 accordingly decided that the state sector should be exposed to the same sorts of market rigours that were beginning to reshape agriculture, manufacturing and business. The key overall concepts in the Government's approach to reform of the state sector were transparency and consistency, and it was the former which undoubtedly brought the most radical changes to the structures and systems of the state. Virtually all of the state's activities would become open and comprehensible, in the belief that this transparency would eliminate unnecessary functions and inefficient processes, and clarify accountabilities.

The Government elected in 1990 continued the broad thrust of its predecessor's approach to reform of the state sector, and also moved quickly into the social services area health, housing and social security. Initial boldness has been tempered in some areas, notably user-charging and aspects of income maintenance reform, but very substantial restructuring has been carried through nevertheless in housing and in health.

## **The key reform principles and legislation**

The concepts of transparency and consistency translated into a set of organising principles for the reform process that can be summarised as follows:

- The state should not be involved in any activities that would be more efficiently and effectively performed by the community or by private businesses.
- Trading enterprises would operate most efficiently and effectively if structured along the lines of private sector businesses.
- Departments would operate most efficiently and effectively with clearly specified and non-conflicting functions, and particularly with policy and operations functions separated, and with commercial and non-commercial functions separated.
- Departmental managers would perform most effectively if made fully accountable for the efficient running of their organisations, with the minimum practicable central control of inputs.
- The costs of state activities should, as far as practicable, be fixed through real market factors: in other words, the quality, quantity and cost of products should be determined by the purchaser's requirements, rather than the producer's preferences.

These principles were reflected in three important pieces of legislation:

- *the State Owned Enterprises Act 1986* which provided the basis for converting the old trading departments and corporations into businesses along private sector lines;
- *the State Sector Act 1988* which made departmental chief executives fully accountable for managing their organisations efficiently and effectively, and changed the role of the State Services Commission from employer and manager of the public service to employer of chief executives and advisor to the Government about management of the state sector; and
- *the Public Finance Act 1989* which changed the basis of state sector financial management from a focus on inputs the costs of production, to focus on outputs the relevance and effectiveness of actual products, and on outcomes the overall results of these outputs from the Government's point of view.

All three Acts have been amended from time to time, and affected by other legislation, for example by the Treaty of Waitangi (State Enterprise) Act 1988, and the Employment Contracts Act 1991. Their original purposes remain the same, however, as the basis of the overall approach to management of the state sector.

### **The State Sector in 1984**

The principal features of the state sector before the reforms began were:

- a number of large departments with competing policy advice/trading/regulatory/service delivery functions;
- centralised management and direction by control departments' the Treasury (input and expenditure controls, and centralised asset and consumables purchasing) and the State Services Commission (human resource management, accommodation and computing controls);
- centralised employment of all public servants by the State Services Commission;
- cash-based accounting systems;
- numerous 'quasi-autonomous national government organisations' (QANGOs) funded mainly or wholly by government grants;
- a small number of 'government corporations' trading commercially but with key strategic decisions requiring the Government's involvement.

### **The Reform Process**

The reform process had four main streams, as summarised in the following paragraphs.

#### ***Structural Reform***

Much of the major structural reform was undertaken in the first three or four years, when long-established and, in our terms, quite large departments, such as the Ministry of Energy, the Ministry of Works and Development, the Forest Service and the Post Office, were abolished and most of their functions assumed by 'state-owned enterprises' operating commercially under boards of directors. Many of these enterprises have subsequently been sold, in some cases to off-shore

interests. Most of the remaining 14 enterprises are viewed as potentially marketable.

The state has now withdrawn almost entirely from direct involvement in trading enterprises.

### ***Public Service Departmental Restructuring***

Departmental restructuring began in 1985, to rationalise the functions and shape of the core public service, particularly by separating policy advice functions from service delivery and moving much of this servicing to a new tier of non-departmental agencies now known as 'Crown entities'. While most of this was completed by 1990, restructuring continued in key areas including education, science, transport and social welfare, and is still in progress in a few areas.

### ***Education and Health Restructuring***

In 1988 the Government began a major restructuring of administration in the education sector, beginning with the schools system. Local education boards were abolished and their functions transferred to elected boards of trustees for each institution. The Department of Education was replaced by new core public service agencies and Crown entities. Approaches began towards improvement of accountability and performance in the tertiary education sector.

Local partly elected funder/provider health authorities have been replaced by appointed regional health authorities with funding responsibilities, and Crown health enterprises operating commercially as service providers.

### ***Reform of Management Systems***

Systems reform to improve accountability and performance in the core public service and the wider state sector began in 1988 when chief executives became individually accountable to the ministers responsible for their departments, ending 75 years of centralised control of the public service. The role of the State Services Commission changed from employer of all public servants to employer of the chief executives. The chief executives were placed on formal performance-related limited term contracts.

This was followed by a series of financial management and accounting reforms designed to introduce as many of the disciplines of the commercial operating environment as practicable to the state sector. In particular this was through the

formal purchasing by ministers of the outputs of departments, at specified standards of quantity, quality, timeliness and cost, through accrual accounting, and through capital charging. The apex of these financial and accounting reforms is the production of a rational set of national accounts – something we understand to be unique.

The key processes and instruments of the reformed accountability and financial management system are now firmly established. Modifications and refinements continue to be made year by year to improve the relevance and utility of these mechanisms and this will continue. Changes in political priorities and circumstances, and developments in technology and in the wider operating environment, will mean that we will probably never again have entirely settled structures and systems.

## **The new State Sector**

### ***The Public Service***

Many changes have been made to the departments of the public service over the last eight years. When the reforms began there were only two departments with fewer than 100 staff; now there are eleven of that size. Ten years ago the public service was dominated by a number of large departments, including Works and Development, the Forest Service, Energy, Education, the Housing Corporation, Transport, Inland Revenue, Social Welfare and Justice. Now half of the public service is employed in just the last three. When the reform process began, nearly 88,000 people worked in the departments of the public service; in 1993 the figure is just over 36,000. The functions and form of the public service are areas of continuous review and development.

Today the public service (or ‘core public service’ as it is often informally termed to distinguish it from Crown entities and State-Owned Enterprises) is characterised by relatively small departments with quite sharply defined policy advice, service delivery, regulatory and sectoral funding functions. However, some departments, including Inland Revenue and Social Welfare, continue to perform combinations of functions. The reform process has moved steadily towards definition of a ‘core public service’: a set of departments sufficient to carry out those functions which for fundamental reasons cannot be corporatised or purchased from other Crown entities or the private sector.

## *Crown Entities*

The Crown Entities sector covers organisations which were previously known as "quangos" and/or "Crown agencies". The term "Crown Entities" is used to describe agencies which are owned by the Crown and/or provide goods and services by or on behalf of core agencies, but may be legally separate and established under separate enabling legislation. The Crown entity sector encompasses organisations which are neither core departments and/or state-owned enterprises.

The Public Finance Act 1989 provided a statutory framework for enhancing the financial management and accountability reporting of Crown entities. A subsequent amendment to the Public Finance Act in 1992 identified Crown entities by listing them in the fourth schedule, and also as entities which were subject to varying levels of control by Crown organisations. Another amendment in 1994 further enveloped agencies of the Crown which had control over fifty per cent of voting rights attached to equity share capital of a company (e.g. Auckland International Airports Ltd.), half or more of issues shares in a company and where control could be exercised by virtue of holding maximum votes.

Functions embodied in Crown entities vary from regulatory and purchasing, to service delivery and policy advice. The formation of some entities has resulted from restructuring activity within the core departmental sector. Restructuring of the education sector in 1989 subsequently placed evaluation and delivery functions in five new Crown entities. More recently, significant activity in the health sector has established four Regional Health Authorities and Crown Health Enterprises (hospitals and medical facilities) within the Crown entity sector.

The reasons for establishing Crown entities are diverse, ranging from the need for politically independent advice (e.g. Law Commission), encouraging more competition in service delivery/policy advice (e.g. Crown Health Authorities), to meeting short-term purposes (e.g. 1993 Suffrage Centennial Year Trust).

The accountability and reporting requirements, governance and organisational structures, as a result, are also diverse. Some are governed by boards of parliamentary selected directors, to whom Chief Executives report, who are then accountable directly to ministers. Most Crown entities are required to produce statements of intent and annual reports which are tabled in Parliament. These statements may specify objectives, performance targets and measures, accounting practices and other performance and accountability provisions. Responsibility for monitoring the performance of Crown entities is held by central agencies, Crown Company Monitoring and Advisory Unit (CCMAU) and some departments.

### *State-Owned Enterprises*

The 'original' State enterprises in 1986 were:

- Air New Zealand
- New Zealand Railways
- The Petroleum Corporation
- The Tourist Hotel Corporation
- The Shipping Corporation

These were added to by nine new state enterprises created through the restructuring of the state sector:

- The Airways Corporation
- The Coal Corporation
- The Electricity Corporation
- Government Property Services
- The Land Corporation
- The Forestry Corporation
- New Zealand Post
- The Post Office Bank
- Telecom

Since 1986 there have been numerous changes to the First Schedule of the State Owned Enterprises Act, as new state enterprises have been added and as others have been sold. All of the original five have been sold, along with the Post Office Bank and Telecom, while the Forestry Corporation is also substantially privately owned.

The development and progress of the State-Owned Enterprises have been attended by some controversy surrounding the balance between social responsibilities and bottom-line commercial performance, the Crown's responsibilities under the Treaty

of Waitangi, accountability to ministers and Parliament, and their market value on sale.

### ***The Central Agencies***

While there is no formal precedence or hierarchy amongst the 36 departments of the public service, the Department of the Prime Minister and Cabinet, the Treasury and the State Services Commission operate, individually and collectively, as key advisers to the Government and co-ordinators of its business. They are known, informally, as the 'central agencies', while the others are 'line departments'. Together these three departments perform the functions of a corporate office for the Government. Their role is to be distinguished from that of the Controller and Auditor General, whose responsibility is to provide Parliament with independent assurance about the activities of the Executive.

The State Services Commissioner is regarded as the *de facto* head of the public service. This is reinforced by the fact that the Commissioner appoints departmental chief executives, and alone can dismiss them.

Before the changes brought about by the State Sector Act, the Treasury and the Commission were known as 'control agencies'. The change is significant: their function is no longer to control inputs to departmental activities, but rather, along with the Department of the Prime Minister and Cabinet, to co-ordinate policy and monitor performance.

The Department of the Prime Minister and Cabinet has an interest in any matter that is likely to carry implications for the Government as a whole. It advises the Prime Minister about general policy and constitutional matters and co-ordinates policy work in the state sector. The Department also incorporates the Cabinet Office, which provides constitutional advice, supports the Government in managing its business agenda, and keeps the official records of the Government.

The Treasury advises the Government about economic and financial matters, and especially the development and management of its Budget, and has interests in all issues that have expenditure and revenue implications, short- and long-term. These functions give it a powerful role in all aspects of policy development and management.

The Commission advises the Government about structural design, machinery of government, management of change, collective management standards and the co-ordination of the performance management system in the state sector.

Representatives of these three departments are available to advise Ministers at Cabinet Committees. Cabinet Office staff are present at all Cabinet Committee meetings. Advisors from any or all of the three 'central agencies' may also sit in on some of these, at a Committee's invitation.

Central agency representatives are present in key inter-departmental committees. They frequently take convening and co-ordinating roles, the Department of the Prime Minister and Cabinet especially. The heads of the three central agencies have been included as permanent officials in meetings of the Cabinet Strategy Committee, as a focus for policy co-ordination within the bureaucracy. Co-ordination has always been important, but has become particularly critical since the scale and volume of the Government's reform agenda have grown, and since the state sector reforms have both increased the number of policy agencies, and made chief executives directly responsible to their ministers.

### **The State Services Commissioner**

The State Sector Act 1988 provides for the positions of State Services Commissioner and Deputy State Services Commissioner, and for a department known as the State Services Commission. (The organisation has existed, first as the Public Service Commission and later as the State Services Commission, since 1912.)

The State Services Commissioner is appointed by the Governor-General in Council on the recommendation of the Prime Minister. The Commissioner is appointed for a term of up to five years, and is eligible for reappointment.

The Commissioner has a dual role as the chief executive of the State Services Commission, and as a statutory officer with a duty to act independently in matters relating to decisions about individual employees, and in the appointment and employment of departmental chief executives.

While there is no formally designated 'head of the New Zealand Public Service', the role of employer of all departmental chief executives means that the Commissioner for all intents and purposes fulfils this function, as has been discussed. Ministers view the Commissioner as the head of the service and look to the Commissioner for advice and services consistent with such a role.

The State Services Commissioner's principal functions relate to the public service:

- reviewing the allocation of functions between departments, the need for new departments, the need for amalgamations or abolition of departments, and the effectiveness of co-ordination between departments;

- reviewing the performance of departments and chief executives;
- appointing chief executives of departments and managing their employment and performance;
- managing the Senior Executive Service, in association with chief executives;
- negotiating collective employment contracts for public servants;
- promoting effective personnel policies for the public service, including Equal Employment Opportunities policies and programmes;
- advising on the training and career development of public servants;
- providing advice on management systems, structures, and organisations.

The Prime Minister may also direct the Commissioner to carry out any of these functions in relation to the wider state sector.

The Commissioner has varying degrees of involvement in determining the conditions of employment contained in collective employment contracts in the wider state sector. The Commissioner's responsibilities in each case are established by legislation and range from a direct involvement, for example in the education sector, through to a consultative approach, as for example in the health sector and in many Crown entities. The Commissioner has a similar range of statutory responsibilities in relation to the conditions of employment of chief executives of organisations in the state sector.

The State Services Commissioner also fixes remuneration for members of most statutory bodies, and sets rates of travelling allowances and expenses for members of statutory bodies and local authorities.

The Commission's functions follow those of the Commissioner as outlined above.

## **Reflections on the State Sector Reforms**

### ***The Present Position***

The point has been reached in New Zealand where it is possible to begin making some objective assessments of the reforms as a whole. The 1993 General Election and Referendum on the electoral system indicated that New Zealanders were close

to, or perhaps had reached their tolerance for large scale reform, for the time being at least.

The Government clearly cannot, however, stop exactly where it is; some further changes are bound to be necessary, not only to round off the existing programme but also because the lesson has been learned that New Zealand cannot be insulated from a dynamic and rapidly developing world economy and community. In order to plan effectively for the future we have to understand what in our almost ten years of reform has worked well and what has not, and why. We also need to accept that some initial expectations may have been unrealistic and to think about why that may have been so, and to recognise any significant unplanned results and outcomes.

In briefing papers for the new Minister of State Services appointed following the 1993 General Election, the State Services Commissioner suggested that it was time to revisit the key principles upon which the reforms have been based, to test the effectiveness of their translation into practice. Questions proposed included:

- Is the separation of policy and operational functions achieving the intended results?
- Is the public investment and public interest in non-core state sector agencies adequately protected?
- Does the new public service management system achieve an appropriate balance between collective and sectoral interests?
- Does the output purchasing regime assist ministers to take better decisions?
- Have the reforms improved the capacity of the public service to help ministers deal effectively with hard, long-term social policy problems?

While the weight of anecdotal evidence tends to be positive in relation to most of these matters – and there are undoubtedly other important questions – a little time and effort will be needed to produce objective analyses of the kind required to inform planning and further developmental work. The State Services Commission has begun some of this analysis.

### ***Key Areas of Success***

In advance of such detailed studies it can, however, be claimed that three particularly key aspects of the reforms have been extremely successful. Transparency in the activities and processes of the state, the liberation of managers

from central input controls, (on accommodation, equipment, vehicles, consumables and the like) and the new financial management and accounting systems are revolutionising the ways in which departments and officials work. Unnecessary and redundant activities and wasteful processes are being exposed and eliminated, and the efficiency with which the service does its business is improving as departments progressively become more skilled in specifying and pricing outputs. The new accrual accounting and financial management systems give much better appreciations of the financial positions of departments, and are part of the overall regime that leads to a rational set of government accounts.

Managers have relished the opportunities presented by devolution and some, at least, of that flourishing of ideas and energies sought by the Government when it began this process of reform, has occurred in the state sector. The public service has shed the stodgy, unadventurous and in some respects secretive character it had for many years.

The reform process has, as noted earlier, progressed steadily towards definition of a new public service comprising a set of departments sufficient to carry out core functions which, for fundamental constitutional or practical reasons, cannot be corporatised, or purchased from Crown entities, or purchased from the private sector. We are well beyond the half-way point in this transition, but in terms of departmental restructuring – functions, structures and numbers – there are still some significant tasks left to tackle.

### ***The Wider Impact in New Zealand***

Together the major corporatisations, structural reforms in education and health, and departmental restructurings since 1984 have affected the lives and careers of thousands of employees. In many cases, staff surplus from shrinking or abolished organisations were quickly hired by the newly created agencies and enterprises that sprang up, while others were able to establish their own businesses as contractors to the new organisations. However, the reforms did bring an end to state sector careers for a very significant number of people, and dramatically changed a number of rural communities that had previously depended upon a single state industry. There is no doubt that the scale and significance of these impacts were underestimated.

The reform process has also sharpened our focus on the relationship, founded on the Treaty of Waitangi of 1840, between the Government and the indigenous Maori people of New Zealand. Maori people undoubtedly experienced quite disproportionately the negative effects first of stagnation of the economy in the 1970s and early 1980s, and then the radical economic and social restructurings that followed. The Treaty, which for many years appeared to be largely symbolic –

from the Government's perspective at least – has now become a dynamic instrument for definition and settlement of longstanding land and other grievances. Just as importantly perhaps, the Treaty is now a firmly fixed reference point in the Government's wider policy development and legislation. The State Sector Act for example, specifically requires departmental chief executives to recognise, in their personnel policies, the need for greater involvement of Maori people in the Public Service. The Government's general policy development and operational activities now incorporate Maori perspectives far more consistently than they did twenty and even ten years ago.

### *The reforms in an international context*

These reforms were devised, as noted earlier, as part of a comprehensive and quite radical response to New Zealand's increasingly unsteady economic circumstances in the mid-1980s. The Government elected at that stage was seeking, in effect, to 'reform New Zealand' – to make its people, industries and institutions much more independent, and much more willing and able to compete in the world.

The Government's approach to the state sector followed the pattern of its wider objectives, and it was therefore able to begin with a set of clearly articulated principles. This firm foundation in principle has, more than anything, assured momentum and a high degree of consistency over a long period.

New Zealand's small population – 3.5 million – its geographical compactness, good levels of basic education, and well developed internal communications systems combined to give the Government the confidence it needed to proceed with a radical programme, and allowed it to feel justified in moving on a scale and at a pace that would inevitably affect the careers and lives of thousands of people.

Taken together these factors probably made New Zealand's overall approach to state sector reform unique. Other countries have undertaken very significant reforms of structures and/or systems over the last ten years but none has attempted anything of quite the comprehensiveness or on the scale that New Zealand has, and sustained it for as long.

Off-shore observers looking for models and ideas in New Zealand's experience – or perhaps looking for things to criticise – should always keep in mind where the Government started from and how broadly and how high our sights have been set. State sector reform in New Zealand has been part of a much wider endeavour to turn around a weak and over-protected economy, by changing the very character of the country.

## *Conclusions*

The questions that inevitably arise are, of course, whether these endeavours have brought the results that were intended. Is New Zealand better off than it would have been if the state sector had not been reformed, or if a less radical course had been taken towards it? Have all the effort and dislocation been justified? Would things be done in the same way with the benefits of hindsight? What lessons have been learned? What else is still to be done? Is the New Zealand approach to state sector reform exportable?

As observed earlier, serious analysis is needed to enable us to judge the effectiveness of the new structures and systems that have been introduced. In the meantime, judgements must necessarily be at least partly subjective and partly based on the results so far.

Some relevant facts are:

- New Zealand's economy is now recovering strongly, and on a much more substantial basis than in the past;
- New Zealand's credit rating has been regraded upwards;
- inflation has been reduced to less than two per cent and with the economy now beginning to grow consistently for the first time in twenty years there are strengthening prospects that we will soon be able to make inroads into our debt;
- employment has been growing steadily since December 1991.

There are, as in many other countries, some difficult problems to work through in employment and social welfare but these can now be tackled within the framework of a more sturdy and growing economy.

In the 1993 World Competitiveness Report, New Zealand's overall ranking moved from 15th to 8th amongst OECD countries. The report ranked New Zealand first in quality of government, while ratings in domestic and economic strength moved from 21st to 7th, in management from 18th to 8th, and in infrastructure from 13th to sixth. The Report rated business community optimism in New Zealand second in the world – a very significant turnaround after most of the last twenty years in the doldrums.

A number of other international commentators have viewed New Zealand's reforms positively, including Graham Mather of the European Policy Forum, who wrote last year about lessons from New Zealand's economic and policy reforms. The

Economist has followed developments over the last ten years with a view that has changed, as a New Zealand commentator put it recently, from an ‘imperfectly concealed yawn to active interest and a mild degree of concern’ – concern arising from the fact that reforms of the kind it had long advocated were actually being put to the test. As its concerns have eased, The Economist has gone so far as to recommend aspects of New Zealand’s reforms to other governments.

It is generally accepted that New Zealand’s economic restructuring and subsequent recovery could not have been accomplished if the state sector had remained in its previous form. The state sector quite clearly did cost too much, had an appetite for more and more resources, and undoubtedly was insufficiently responsive to the rapidly changing domestic and international environments.

The former major state trading enterprises – electricity generation, postal services, telecommunications services, railways, coal mining, forestry, banking – are no longer direct financial liabilities. Their operating efficiency has improved, in some cases dramatically. Telecom, now marketing its services aggressively, although not yet in fully competitive circumstances, can respond to new customers immediately, in contrast to routine delays of six weeks or longer for straightforward telephone connections ten years ago.

The now much smaller core public service is also beginning to show clear improvements in operating efficiency and in responsiveness to clients. It costs the Government less than it did ten years ago and it is no longer a regulatory impediment to ideas and productive energies in the wider economy and community.

All of this indicates that New Zealand is very clearly better off for having comprehensively reformed its state sector. Could it, however, have taken a less radical course towards these reforms?

The Government certainly drove the reform programme at a very hard pace, especially during the first five years, in the belief that ‘quantum leaps’ were needed to ensure key objectives were in fact reached. The approach worked, but there were some significant consequential costs and impacts – the effects on individuals and communities have been mentioned. The driving tempo meant that problems, which emerged continuously, had to be dealt with ‘on the run’, sometimes by higher than planned spending, for example, on redundancies and retraining of surplus staff. Mistakes were undoubtedly made. There is, however, little doubt the comprehensive changes that have been made would not have been achieved if a more gently paced approach had been taken. The process would very probably have bogged down in the first set of significant problems encountered.

The New Zealand experience suggests there are seven key elements to a successful reform process. They are:

- unflinching political determination;
- very clear objectives, agreed at the highest levels, and based on an intelligent appreciation of the community's tolerances;
- a set of comprehensive and well-integrated basic principles, agreed at the highest levels;
- sound legal architecture that re-defines the rules outright;
- a demanding but realistic timetable;
- a core of unified, highly motivated, experienced and imaginative senior public servants, provided with sufficient resources and discretion to manage implementation; and
- very effective information and public relations systems.

These characterised all of the most successful episodes in the reform programme, including the introduction of the Goods and Services Tax, the initial corporatisation of public service trading departments, decentralisation of the core public service, and the state sector financial management and accounting reforms. Needless to say those episodes where one or more of these elements were not present have proved much more difficult to manage, both politically and administratively, and have generally been significantly less successful in meeting their original objectives.

New Zealand is well beyond half-way towards its original overall reform objectives, but still has some significant matters to deal with. Just when the push is made into the last phase is, of course, a matter for the Government. Changes to the electoral system will almost certainly alter a number of priorities and objectives after the next General Election. In the meantime there is much for the public service to do in reviewing and refining the new systems and, particularly importantly, in ensuring that these continue to be as responsive as possible to the needs of both the politicians and the public. Great care will be needed to guard against circumstances where activities and processes begin to be shaped to meet the preferences and convenience of the bureaucrats themselves. That would put at risk a very critical part of what has been achieved.

Perhaps the most exportable aspect of New Zealand's reform programme is the practical experience that has accumulated about what has worked and what has not, and why – the lessons that have been learned. By and large, these lessons are summed up in the seven points set out above. It is fair to say that any proposed reform programme that includes all of these features will almost certainly succeed and that a programme that lacks any one of them will almost certainly not.

The picture presented here is of new state sector that is emerging from a long and comprehensive reform process in a shape that will enable it to be a positive force in New Zealand's economy and society. There is still much to be done, but that points to another significant lesson that has been learned – change is not an occasional or cyclical phenomenon: it is continuous and it is something which public administrators have to be able to manage extremely well.

**State Services Commission**  
**Wellington**  
**New Zealand**  
**1994**

**SECTION 1                    MAKING THE MOST OF STAFF**

- 1.1      Ensuring non-discrimination in employment practices
- 1.2      Enhancing staff training and development
- 1.3      Utilising performance appraisal
- 1.4      Improving recruitment practices
- 1.5      Utilising contractual employment
- 1.6      Developing a public service code of conduct
- 1.7      Human resource information systems
- 1.8      Managing redundancy

## **1.1 Ensuring non-discrimination in employment practices**

The New Zealand (NZ) public service has been the subject of equal employment opportunity initiatives since 1984 and of legislative provisions ensuring non-discrimination in employment practices since 1988. This paper explains the system used within the New Zealand public service to monitor overall progress in implementing equal employment opportunities (EEO).

Under section 6 of the State Sector Act 1988, the State Services Commission (SSC) is charged with the responsibility to "promote, develop and monitor in each department equal employment opportunities policies and programmes."

All Public Service departments are required to submit EEO reports to the State Services Commission on an annual basis. There are three required reports:

- an EEO plan
- a progress report on the previous year's plan
- a statistical report.

Based on the results of the SSC evaluation an EEO analysis is sent to each chief executive annually and this is used to inform a follow-up face-to-face meeting.

This information is collated to provide a picture of progress in implementing EEO throughout the Public Service. To date the SSC has published a formal report on this information on two occasions; most recently for the 12-month period to 30 June 1993. The 1994 report has been released.

The information gathered annually is evaluated using a standard methodology developed by the SSC. The methodology is based on a set of guidelines that have been issued to assist departments with their EEO programmes. The guidelines are entitled *EEO Stages of Development for the New Zealand Public Service* and entail three stages:

*Stage 1* Organisational Preparation and Analysis;

*Stage 2* Management of Change Process;

*Stage 3* Maintenance of Change Process.

The three stages of development can be applied in a cyclical and continuous fashion to ensure the ongoing adaptation of the EEO programme to the changing internal environment of the department.

## **The context for change**

As one of the largest employers in the country, the Government of New Zealand has taken a leading role in the development of EEO thinking and practice. The EEO information derived from individual departments by the monitoring process serves a number of functions:

- it enables progress across the public service as a whole to be assessed;
- it provides the sound statistical basis for policy and planning;
- it enables problem areas to be identified and targeted;
- it ensures that the legislative imperatives that underpin EEO in the New Zealand public service are complied with.

Ultimately the objective of EEO policy is that it should be fully integrated into all aspects of the business and human resources management of public service departments.

There is evidence that EEO principles are becoming part of a broader, more strategic approach to human resource policies and practices.

## **Implementing change**

An initial (1988) move was to conduct a Public Service EEO Census in order to provide all departments with their baseline data from which to measure progress.

In 1991 the SSC issued guidelines to all departments which described the various stages of development involved in establishing an effective EEO programme. The guidelines are intended to be used by departments as a diagnostic and analytical tool to assess their own level of progress, as well as identify barriers to, and opportunities for, achieving a satisfactory EEO programme which is specific to the department.

Departments have made differing progress in implementing the three stages of EEO development contained in the guidelines. Some are now well into Stage 3.

The achievement of the various elements of the guidelines since their introduction has been a function of the pressures and opportunities existing in each department. A key factor in EEO implementation has been the need for departments to appreciate that in some areas EEO did require sequential development.

The EEO Section of the SSC was established in 1986, but it was not until a legislative imperative for EEO was provided in the State Sector Act 1988 that substantive progress began to be made.

EEO policy and practice continues to develop as new strategies and directions emerge. The experience gained in implementing EEO programmes since the mid-1980s is incorporated into current practice. The quality of the data supplied by departments has progressively improved.

Most public service departments employ either a full-time or part-time EEO coordinator. The SSC, which promotes and monitors EEO activity, has a specialised EEO team. The EEO team has been operating since 1986 and its activities include running training workshops, preparing and editing publications and promotional material, and conducting research projects (some in conjunction with other departments). A major emphasis in the last two years has been the alignment of EEO with the business of the particular organisations and its integration into all aspects of management practice.

The "EEO Stages of Development Model for the New Zealand Public Service" guidelines provide a useful tool for departments to review progress and as a starting point for assessing impediments to further progress. In summary, the key elements of the guidelines are:

*(a) Organisation Preparation and Change*

- examination of the profile of the department;
- establishment of senior management commitment;
- allocation of resources;
- education of managers.

*(b) Management of Change Process*

- production of an initial EEO plan;
- setting up an EEO database on all employees.

*(c) Maintenance of Change Process*

- evaluation of progress;
- production of an annual EEO plan subsequent to the evaluation process;
- maintain and expand EEO database;
- target particular areas for change.

It is expected that departments will, in the future, take greater initiatives in tailoring or customising their approach to EEO implementation to their particular

organisational environment. Already it is apparent that increasing sophistication is being shown in the implementation of EEO as departments recognise the particular issues and challenges in their environment. For this reason it can be anticipated that the range of EEO strategies being adopted will diversify.

### **Supporting material**

- (i) Department of Labour, 1991, *Into the 90s: Equal Employment Opportunities in NewZealand?* Wellington
- (ii) State Services Commission/Department of Labour, 1991, *Equity at Work: An Approach to Gender Neutral Job Evaluation*, Wellington
- (iii) State Services Commission, 1991, *EEO: Progress in the Public Service as at June 1991*, Wellington
- (iv) State Services Commission, 1992, *EEO: Progress in the Public Service as at June 1992*, Wellington
- (v) State Services Commission, 1993, *EEO: Progress in the Public Service as at June 1993*, Wellington

## **1.2 Enhancing staff training and development**

The chief executives of New Zealand government departments are employers who are free to determine their own staff training and development needs and programmes. Some larger departments maintain in-house programmes but most agencies contract learning institutions as main providers.

New Zealand Government departments are therefore largely autonomous in relation to staff training and development. It is not possible to encompass in a single paper the experience of the sector as a whole. This entry will cover some of the main issues which experience in New Zealand indicates must be addressed in any departmental staff development and training programme.

Training may be seen as providing people with whatever skills they need to do their job effectively. Development is concerned with enhancing an organisation's skill base so that it is able to respond adequately to future challenges; thus, as the term implies, development looks ahead in order to anticipate what individual skills will be called for in the future.

Staff training and development has had to become more systematic in recent years for the following reasons:

- many organisations are faced by rapid technical change;
- the pressure on costs has led to lower staff numbers, all of whom must be competent in a wider range of skills;
- customers' expectations of service are rising;
- in the public sector, although there is no overt competition, there is an increasing need to demonstrate that value for money is being provided.

The benefits to staff that arise from an effective staff training and development programme include:

- the opportunity for self-improvement and better promotion prospects;
- greater ability to cope with an organisational environment often characterised by change and upheaval;
- greater job satisfaction.

Organisational benefits can include:

- greater staff productivity;
- more flexible staff;
- a minimum of loss due to low morale, staff turnover or other disruptions.

A training and development policy involves three elements:

- on-the-job training and development;
- formal training based on in-house and externally provided courses;
- professional development of the individual.

#### *On-the-job training*

This should be provided regularly and systematically and should be covered in the periodic review of the staff member's performance and development needs. It may include the following elements:

- developing institutional knowledge of the processes of the parent department and other public sector organisations;
- gaining experience in a wide variety of work, including job rotation;
- involvement in peer review and discussion;
- regular briefing by management both individually and collectively.

#### *Formal training*

The purpose of attending formal training courses is to supplement the individual's existing skills and qualifications base. External courses, while tending to be more costly than on-the-job training, can contribute new perspectives and expertise as well as providing an opportunity to broaden the individual's range of contacts outside the organisation.

#### *Professional development*

Staff who continue to develop their skills will improve their value to the organisation. Public sector organisations therefore encourage staff to continue self-development by assisting staff in training and development activities which are relevant to the organisation's objectives. In effect, self-development represents a long-term investment in the individual's and the organisation's human resource capability. Government departments assist staff in professional development by:

- providing information on the range of available courses;
- allowing time for individuals to attend, normally on a part-time basis, approved courses of study;
- meeting course fees and other expenses where appropriate;
- in some circumstances, allowing time for full-time study on either a full pay or some other basis;
- facilitating postings to other organisations, either in New Zealand or overseas, to broaden the individual's experience;
- meeting fees for involvement in professional associations and societies and their conferences and seminars.

In mid-1992 the Government introduced an Industry Skills Training Strategy designed to encourage the development of high quality systematic training for industry. The aims of the strategy were to:

- increase the range of skills and occupations covered by industry-wide training systems;
- broaden the range of people who have access to recognised training;
- make training more responsive to the needs of industry;
- allocate governmental resources for industry training more fairly.

A task force of departments has been established to oversee implementation of the strategy and to assist sectors to produce their own plans for industry-focused training. A series of Industry Training Organisations (ITOs) representing every area of enterprise is now in operation. There is a specific Public Service Training Organisation (PSTO) which will consider how to apply the broader concepts of industry training to the public sector.

Most New Zealand government departments have a staff training unit. The role of these units may be summarised as:

- undertaking training needs analysis for the organisation;
- designing, arranging and, in many instances, conducting training courses;
- maintaining an information base of training programmes and resources;

- developing organisational policy in regard to training and development;
- monitoring and evaluating training courses.

**Supporting material**

- (i) *Education Gazette* Vol. 72, No 7, 1993, Ministry of Education, Wellington
- (ii) *Training Directory*, 1993, Wellington

### 1.3 Utilising performance appraisal

One aspect of the state sector reforms begun in the mid-1980s in New Zealand was to improve state sector management practice and to bring it more into line with that of the private sector. This entry looks at how a procedure for performance appraisal has been applied to public service chief executives in New Zealand.

The State Sector Act 1988 and the Public Finance Act 1989 created the legislative framework for the reforms in the public sector. As a result of the legislation, the term *permanent head* of a department was replaced by *chief executive* to reflect the new management role of the senior executive. Chief executives are appointed on contracts for up to a term of five years. The contract emphasises the individual accountability of the chief executive to the department's responsible minister. The functions which they are responsible to their minister for carrying out include:

- the functions and duties of the department;
- the provision of policy advice to the minister;
- the general conduct of the department;
- efficient, effective and economical management of the activities of the department.

In outline, the model followed in New Zealand to evaluate chief executive performance is as follows:

- at the start of the reporting period a document outlining the expectations of the chief executive's performance is prepared;
- at the end of the reporting period performance is reviewed and assessed;
- the assessment then becomes the basis for incentives and sanctions.

The formal process of performance appraisal of chief executives is based on an annual performance agreement – encapsulating the chief executive's key result areas for the department and the personal accountability and commitment of the chief executive – drawn up between the chief executive and their Responsible Minister. At the end of the annual reporting period performance is reviewed against the initial expectations in a process conducted by the State Services Commissioner. While this is a relatively simple model to describe, in practice it has required considerable effort for it to become an effective process of performance appraisal.

## **The context for change**

State sector reform in New Zealand had a number of objectives, including improving efficiency and accountability within the sector. To achieve this, particular emphasis was placed on the person heading the department or agency (the chief executive). In order to achieve the benefits of clear relationships between chief executive and minister, clear departmental objectives and clear lines of accountability, the approach adopted was informed by *agency theory*. The ideas of *agency theory* were used to develop a new model of the relationship between minister and chief executive. As a key agent, the chief executive can, of course, affect the incentives and thus the performance of other agents in the organisation. The State Sector Act basically entailed a straight line of accountability between chief executive and Minister. This was summed up by Bushnell, Scott and Sallee:

"The essence of the State Sector Act is that it formalises in an employment contract the agency relationship between the departmental head and the minister and enables a more explicit accountability for performance."

The rationale for performance appraisal is to recognise the contribution of individual performance to organisational effectiveness and encourage behaviour that enhances that effectiveness. Performance appraisal of chief executives assumes that incentives can encourage good performance and, conversely, that sanctions will discourage poor performance.

At the chief executive level of the public service, assessing performance is difficult because of the complex business of government and the multiple accountabilities. It requires a system that allows for the complexity of the environment while enabling a chief executive's contribution to departmental performance to be assessed.

One advantage of the performance agreement process is its transparency and formality. Ministers are expected to set out their expectations and aims clearly and in writing. The role of the State Services Commissioner and the DPMC is to ensure that individual performance agreements are consistent with the Government's overall strategy and with each other.

Performance appraisal systems are implemented in various forms throughout public service departments. Consistent with the reform principles of devolution, these forms are primarily determined by individual chief executives.

## **Implementing change**

The first year of the application of formal performance agreements between ministers and chief executives was 1988/89. In the first year only 12 chief executives had agreements. In the initial stages, as experience was being gained in operating the new regime, two firms of management consultants were used to develop a review process and assist with information gathering.

A number of changes were implemented in the 1989/90 year to streamline and standardise the process. Key observations from the year included the need to condense the review cycle because of a general election and the need for key documentation and personnel to be available for interviews.

A major innovation in 1990/91 was the renewed emphasis that government placed on chief executives for considering departmental activities and policies in terms of the collective interests of government rather than solely in terms of narrowly defined departmental objectives. It is important that the performance agreement, while emphasising the chief executive's personal responsibility for the delivery of the agreed departmental outputs, should not lead to the fragmentation of Cabinet government. At this time, approximately half of the departmental chief executives had concluded a formal performance agreement. The need for better quality information from the central agencies in the assessment process was also recognised.

1991/2 was the first year that Cabinet directed that performance agreements would become compulsory for all chief executives and ministers. In addition, the role of the State Services Commission (SSC) in monitoring the process was reinforced. Since then, development of the procedures associated with the performance agreement have continued to be refined in the light of experience gained.

The key lessons that can be drawn from New Zealand experience are as follows:

- it is critical to specify performance expectations adequately and in a manner that can be measured and readily assessed;
- adequate monitoring against this specification is necessary so that issues can be dealt with as close to their occurrence as possible;
- it is important to undertake performance review and appraisal using a procedure that is accepted as fair and draws on a broad base of good evidence;
- it is important not to neglect follow up actions that reinforce good performance and encourage improvement in areas of weakness.

New Zealand's system of chief executive performance agreements has developed over the last six years. Initially agreements were on a voluntary basis and only covered a small number of chief executives. Since 1991/2 it has been mandatory for all chief executives and ministers to finalise a performance agreement.

Under section 43 of the State Sector Act 1988, the State Services Commissioner was given responsibility for reviewing the performance of chief executives. The Commissioner's approach breaks the process into the following stages:

- specification of performance;
- monitoring and reporting performance;
- assessing performance;
- follow-up.

The process continues to be developed but in 1993 the procedure worked as follows:

*Step 1* A performance agreement is provisionally concluded between the minister and the chief executive and a copy, including the purchase agreement which sets out department outputs to be purchased during the review period, referred to the State Services Commissioner.

*Step 2* The State Services Commissioner in consultation with the chief executives of Treasury and the Prime Minister's Department report to the Prime Minister, drawing to his attention any performance agreement which does not meet the requirements in terms of the collective interests of government.

*Step 3* The minister is advised by the State Services Commissioner of any further action required on the performance agreement.

*Step 4* The performance agreement is amended where necessary to reflect the State Services Commissioner's advice and any adjustments arising from the budget and signed by the minister and chief executive.

*Step 5* The signed performance agreement is forwarded by the chief executive to the State Services Commissioner and becomes the basis of the performance assessment as the end of the review period.

### **Supporting material**

- (i) Assessing the performance of chief executives: perspectives from New Zealand, Boston, J, 1992, *Public Administration* Vol.70 Autumn 1992

- (ii) *Making Good Government Seem Easy*, Mather, G., 1993, European Policy Forum, Brussels
- (iii) *Reform of the Core Public Sector: New Zealand Experience*, Scott, G., Bushnell, P. and Sallee, N., 1990, Treasury, Wellington
- (iv) *Review of Public Sector Chief Executive Performance in New Zealand*, Trotman, I. & Jones, N., 1993, paper delivered to Australasian Evaluation Society Conference 1993, State Services Commission, Wellington

## **1.4 Improving recruitment practices**

The State Sector Act 1988 represents the most significant change in public service since its establishment in 1912. A unified public service in which the State Service Commission (SSC) was the central employing agency, responsible for pay and conditions of service, was replaced by a decentralised system in which each chief executive became responsible for staffing his or her department.

This entry looks at the guide to hiring practices in the state sector that was prepared by the SSC to assist departments in their selection of staff in the new decentralised environment.

### **The context for change**

New Zealand public service departments operate in an increasingly cost-conscious environment. Typically, salaries account for a large proportion of departmental expenditure. The calibre of staff is one of the key variables in determining how effective this expenditure is.

Staffing an organisation has to be seen as a process that commences with recruitment and terminates when an employee leaves the organisation. By recruiting the best staff at the outset, the department will be saving itself considerable effort and cost over the duration of the employees' service by avoiding difficulties like basic skill deficiencies, problem staff and higher than necessary turnover. Investment in careful recruitment practices at the beginning of the process is likely to be far more effective than attempting to redress personnel problems later on.

Failure to attract and hold high calibre staff can lead to a number of adverse consequences for any organisation including:

- poor quality work;
- dissatisfied customers;
- low staff morale.

There are some particular advantages that can be obtained from having written policy or guidance for recruitment practices:

- A written procedure is a key aspect of quality assurance in recruitment. Unless an organisation thinks through and writes down its decisions on how to recruit the best candidates for positions, it is likely to have a very uneven standard of recruitment.
- Without a written policy and record, the department is open to charges of being arbitrary, and even unfair, by unsuccessful candidates.

### **Implementing change**

Under Section 59 of the State Sector Act the chief executives of the public service are formally the employers of departmental staff. They carry all the rights, duties, and powers of an employer. The extent of any recruiting therefore rests with the chief executive. Key provisions of the Act that chief executives must adhere to include:

- a) Appointments must be made according to merit (Section 60). Merit is defined as the applicant who is best suited to the position to be filled.
- b) Vacancies must be advertised in such a way that suitable applicants may apply.
- c) Personnel policies must comply with the provisions of being a *good employer*. This means the personnel policy must contain provisions generally accepted as necessary for the fair and proper treatment of employees in all aspects of their employment including:
  - the impartial selection of suitably qualified staff for appointment within the department;
  - recognition of the aims and aspirations of the Maori people and the need for greater involvement of the Maori people in the public service;
  - recognition of the aims, aspirations and cultural differences of ethnic and minority groups;
  - recognition of the employment requirements of women;
  - recognition of the employment requirements of people with disabilities.

- d) Each department must have in place a procedure for the review of appointments made within the department that are the subject of any complaints by an employee of that department.

The ability to recruit and retain the best staff is fundamental to the success of any organisation private or public. The objective of any recruitment and retention policy is to select and hold the best person for the job at a reasonable cost. Within the overall framework of the State Sector Act, departments are responsible for their own recruitment and retention practices.

In 1989, to assist departments with their recruitment and retention practices, the SSC issued a booklet entitled *Selection – Guide to Hiring Practices in the State Sector*. The purpose of the booklet was to provide departments with a practical tool for personnel managers and others involved in human resource management. It provides information on the key principles and concepts as well as the current legal framework (i.e. Privacy Act 1993, Human Rights Act 1993) that need to be taken into account. Although personnel practices continue to evolve and legislative requirements change, many of the basic principles of effective selection as presented in the SSC booklet are likely to remain valid.

In addition to the SSC booklet a number of departments provide their own detailed guidance for issues connected with recruitment such as:

- the composition of selection panel;
- selection criteria;
- preparing and conducting interviews;
- using psychological tests as an aid to recruitment decisions.

Employer-employee relations in the New Zealand state sector are covered by the provisions of the Employment Contracts Act 1991. There is still some difference in the laws which apply to state servants, for example the State Sector Act, but many of the distinctions in employment law between the private and state sectors have been removed.

In the New Zealand state sector, organisations are using an increasingly diverse range of employment arrangements when recruiting staff. For example, in addition to "career" staff recruited with an expectation of ongoing service, the use of limited-term contracts of various time frames has increased. These contracts may be either short- or long-term. There has also been an increasing tendency to recruit staff on the basis of individual employment contracts.

**Supporting material**

*Selection – A Guide to Hiring Practices in the State Sector*, State Services Commission, 1989, Wellington

## 1.5 Utilising contractual employment

This entry covers aspects of the industrial relations regime that applies in the New Zealand public service. The employment arrangements for chief executives and members of the Senior Executive Service are covered as well as the basis of the employment of all other public service staff.

### **The context for change**

The changes embodied in the State Sector Act were intended to foster recruitment of the very best available people, especially for the senior positions, to the public service. The private sector was perceived as being better at recruitment of top calibre staff and hence a private sector, contractually-based, employment model was followed.

The reform process in New Zealand has had a strong philosophical commitment to the use of market mechanisms wherever feasible. The greater use of contractually-based employment is consistent with the introduction of incentives, sanctions and individual accountabilities to improve performance.

The growing use of individual contracts of employment may be seen as part of a public service work climate that is more diverse, and where there is more need for terms and conditions of employment than can be encapsulated in a collective agreement.

Contractual employment allows individual needs, local conditions, and organisational factors to be reflected in the bargaining system.

### ***Chief executives***

The 1988 State Sector Act replaced the tenure of *permanent heads* with fixed-term contracts of up to five years for chief executives (CEs). Conditions of employment were established in the light of private sector practices. Provision was also made for the State Services Commissioner to consider recommending to ministers for reappointment chief executives whose term was due to expire.

When a CE position becomes vacant, the State Services Commissioner advertises the position, screens candidates and interviews candidates with the Deputy State Services Commissioner, the State Services Commissioner and panellists drawn from the public service and wider community. The decision by the Commissioner as to

who best meets the requirements of the position is then submitted to ministers, who may either approve or decline the recommendation.

The instrument that is used to specify accountabilities and performance objectives is the chief executive's performance agreement. This document, not mentioned in the State Sector Act, provides the essential baseline from which CE performance can be evaluated.

The chief executives performance agreement is covered in greater detail in the entry in this series on performance appraisal.

### ***Senior Executive Service***

The State Sector Act made chief executives the employer of all staff in their department. The Act also allowed for a number of senior management positions to be designated as the Senior Executive Service (SES). The objective was that the SES would provide a unifying force in a decentralised public service, in which chief executives enjoyed a large measure of autonomy. The idea was to create a cadre of top talent with the experience to manage at the most senior level and to constitute a unifying force in the public service.

Like CEOs, members of the SES are appointed for terms of up to five years. The Act provides for the State Services Commissioner to exercise a consultative role in relation to SES appointments and their conditions of employment.

### ***Other public service staff***

Many staff below the level of senior management are now employed on an individual contract basis. Others remain part of a collective agreement negotiated on their behalf, usually by a trade union organisation.

Employees, under the Employment Contracts Act 1991 (ECA), have a choice whether or not to belong to any form of employee organisation or union. Previous rights of automatic representation guaranteed through union registration have been abolished and employees and employers are able to choose who will represent them either individually or collectively in negotiations. The number, type, and mix of contracts to apply in a particular workplace are therefore highly negotiable. In New Zealand, employers and employees are able to negotiate whether to have individual or collective contracts.

## **Implementing change**

In the period 1988-91 there were three key developments in public service pay arrangements:

- senior positions were no longer covered in collective bargaining, though union coverage was optional;
- occupational classes were rationalised, for example, the Ministry of External Relations and Trade reduced the number of classes in its organisation from sixteen to two;
- ranges of rates were introduced in most departmental pay scales – an individual's placement in the range depends on performance and managers have discretion where they place an individual within the range.

The Human Rights Commission Act and the Race Relations Act provide a statutory framework to discourage anti-discrimination in recruitment processes.

The Employment Contracts Act applies to all employment contracts in the public as well as the private sector. Together with the State Sector Act 1988, the ECA forms the statutory basis for employment in the public service.

There is an important distinction between the employment contracts of full-time public service employees and the contracts of the self-employed. A contract of service applies to an employee and a contract for service applies to those who are independent or self-employed. The ECA covers the former but has little relevance to the position of the second category.

Taken together, these two Acts have created an environment where issues of performance and productivity are the key variable in negotiations about pay and conditions.

Until 1988, the public service was highly centralised in terms of employer-employee bargaining. The Government was committed to paying the same rate for the job across the country and to exercising centralised control over wages, salaries and employment. Public servants were the employees of the State Services Commission which negotiated with centrally organised unions.

Since the reforms were introduced there has been a trend towards an employer culture within departments. This has emphasised strategies of concessional bargaining, the progressive exclusion of managers from the coverage of collective bargaining documents, and enterprise bargaining at the level of individual departments.

Consistent with the trend toward devolution and decentralisation, the responsibility for negotiating collective as well as individual contracts of employment has been delegated to departmental chief executives. Chief executives are held accountable for their negotiations and are given broad parameters within which to bargain. Within these parameters employers have the flexibility to determine the issues they wish to address. The new regime allows departments to negotiate employment arrangements suited to their particular circumstances.

### **Supporting material**

- (i) *Negotiating Employment Contracts in New Zealand*, McCarthy, P, 1991, CCH New Zealand Ltd, Auckland
- (ii) *New Zealand Public Sector Reform*, State Services Commission, 1993, Wellington
- (iii) *New Zealand – Changing the Public Service Culture – A Radical Approach*, State Services Commission, 1990, Wellington

## 1.6 Developing a public service code of conduct

### The context for change

In 1988 the State Sector Act created a new structure radically different from the Public Service which had existed since 1912. The unified public service was ended, the State Services Commission ceased to be the central personnel agency and each departmental head became responsible for his or her department. Contained within the State Sector Act was the recognition that in the new public service environment accepted standards of behaviour needed to be maintained. Under the Act responsibility was placed on the Commission to prescribe "minimum standards of integrity and conduct that are to apply to the senior executive service and employees of departments."

### Implementing change

In May 1990 the State Services Commission issued a "Public Service Code of Conduct". Departments are encouraged to develop their own codes to ensure responsiveness to their own conditions. The Code of Conduct would provide the minimum standard. This Code established and explained in detail three principles of conduct which all public servants are expected to observe:

*Employees should fulfil their lawful obligation to government with professionalism and integrity.*

The issues covered under this principle include:

- employees' primary obligations to government;
- the need for political neutrality, whichever party is in power;
- guidelines on the making of political comment on government policy;
- guidelines on individual comment in the public area;
- guidelines on private access and communications with ministers and members of Parliament;
- the possibilities for conflict arising from individual participation in public bodies or voluntary associations, and the requirements if a public servant wishes to stand for Parliament;

- guidelines on the release of official information.

*Employees should perform their official duties honestly, faithfully and efficiently respecting the rights of the public and their colleagues.*

Under this principle the issues include:

- guidelines on expectations and responsibilities involved in satisfactorily carrying out duties at work;
- guidelines on need for courtesy toward and respect for the rights of colleagues and the public;
- guidelines on the need for honesty and impartiality and avoidance of situations which could compromise integrity or lead to conflicts of interest;
- guidelines on handling offers of gifts or gratuities.

*Employees should not bring their employer into disrepute through their private activities.*

This principle covers the following issue:

- guidelines on personal behaviour in both official and private capacities which might bring an employee's department into disrepute or jeopardise its relationships.

Although the Code was intended as a guide it has a force at law and each public servant is expected to have read and understood its contents. Its aim is to establish in a clear set of principles the obligations of public servants in their relationships with government, their colleagues and the public.

The rationale for the Code was that, although the New Zealand public service has traditionally enjoyed very high standards of integrity and probity, following a period of wide-ranging change, it was prudent to reinforce the standards of conduct that were required of public servants. The reform process had also been associated with major changes in staffing and some newer employees had had little experience of earlier ethical standards of public service and public interest. The emphasis placed on bottom line performance and contractual obligations for the delivery of outputs could also be seen as reasons to remind public servants of their obligations to the public's expectation of just and fair behaviour.

The new public service environment also resulted in senior officials gaining larger areas of discretion and decision-making commensurate with their responsibilities

and accountabilities. In many areas of the public service it is difficult to enforce accountability. Under such circumstances the public must trust officials to act within acceptable ethical standards. Observing a code of conduct is one means of building such public trust.

The State Services Commission will release a series of ten guidance papers in 1995. The Principles, Conventions and Practices guidelines will provide guidance to senior public servants in the discharge of their duties with regard to appropriate conduct and ethical values. The papers highlight various elements of the public service, including the constitutional and legal framework, the Treaty of Waitangi and resource management.

Attention is also being given to the formulation of protection for "whistle-blowers."

The "Public Service Code of Conduct" was prepared by the State Services Commission in a process involving widespread consultation with departments and the Ombudsman.

### **Supporting material**

- (i) *Public Service Code of Conduct*, State Services Commission, 1991, Wellington
- (ii) *Public Service and Public Servant*, Martin, J. (Ed), 1991, State Services Commission, Wellington
- (iii) *Ethics in the Public Sector*, Robertson, J. 1990, RIPAA Conference, Queensland, Australia
- (iv) *The Guardians*, Robertson, J., NZIPA Seminar, June 1991, Wellington
- (v) *Relevant Issues in New Zealand Public Service Since 1988*, Undated SSC paper, State Services Commission, Wellington

## **1.7 Human resource information systems**

Organisations have always needed systems and processes to manage their human resources. In the past, these have often been described as staff records or personnel systems. The development of Human Resource Information Systems (HRIS) can be seen as a response to the growing complexity of the personnel function. In New Zealand, as a result of public sector reforms, all departments have had to adapt to becoming their own employer instead of relying, as in the past, on the State Services Commission to perform a centralised employment function. The experience of each department differs in how they have met their particular requirements in terms of human resource information management. This entry will therefore outline some of the general issues identified in New Zealand as key to the development of such systems.

### **The context for change**

In its broadest sense a human resource management system is the means by which an organisation communicates advice, information, and decisions relating to human resource principles and practice. In contrast, a HRIS has a narrower focus comprising various elements, often including a computer database, that handles a wide range of personnel data including staff numbers, skills, grades, experience, training, qualifications and records of performance. The collection and use of workforce data provides the basis for operational human resource management.

Generally in New Zealand, a human resource information system will be a computer-based method of collecting, storing, maintaining, retrieving and validating data needed by an organisation about its employers, applicants and former employees to provide the necessary information for decision-making.

The characteristics of a HRIS are:

- a database approach;
- efficient, accurate and timely data entry;
- rapid retrieval of routine and ad hoc information through the use of flexible formats.

Although a HRIS may be paper-based, there are some significant advantages to be gained by using computer technology. Computers enhance the system's ability to:

- retrieve and process information for large numbers of employees quickly and efficiently;
- sort and produce reports in many ways;
- integrate many operations.

A human resource information system is designed to perform a number of functions:

- to document existing human resource practices in a systematic way;
- to collect and hold information in a form that is accessible and useful for management purposes;
- to provide a framework by which strategic human resource issues can be addressed.

In the past, human resource information was routinely held on personnel files. This method tended to have limitations in terms of accessibility, the amount of useful information that could be held, and how the information could be analysed.

An effective human resource information system is a useful tool in recording the skills currently available within an organisation where gaps exist, the likely impact of movements, retirements, secondments, or leave, etc. A well designed HRIS is capable of performing statistical analysis and other types of modelling which can provide valuable insights into the demography and other variables of the organisation.

The primary focus of most HRIS is meeting largely short-term or operational needs. There is value however when developing a system in ensuring it is capable of serving longer-term or strategic human resource planning needs. The intention behind a strategic approach to human resource planning is not to predict exactly the number of staff or the mix of skills required at some point in the future but to anticipate trends. This could include assisting in determining which functions of the organisation are likely to grow and which may become less important.

The topic of management information systems in general is covered in another entry in this series.

## **Implementing change**

New Zealand experience emphasises that each agency's particular needs and interests, in terms of a human resource information systems, differ. Many of the basic elements and much of the data to be recorded will, however, be similar. The data required by central agencies is also likely to be the same from department to department.

While there is no universal methodology for developing a HRIS, the following steps are generally found necessary:

- i) Establish a working party to advise senior managers and to research and develop proposals on the system.
- ii) Survey existing systems in relevant organisations, locally and internationally, including those that are commercially available.
- iii) Review the requirements of the system's users.
- iv) Consult all relevant stakeholders and interested parties to establish their needs and problems.
- v) Develop project objectives and specific user requirements.
- vi) Develop evaluation criteria to determine which information is essential and to determine the scope of the systems required.
- vii) Recommend a preferred solution.

Collecting the data for the HRIS takes a number of forms. The organisation's historical personnel records may be held in a manually-maintained system. When a new system is introduced it is usual to conduct a census of staff information such as past work experience, training courses attended, length of time in current position and so on. This is used to confirm and update the historical record. Additional information is collected on an on-going basis. For example, the results of an annual performance appraisal can be added to the existing data.

The actual data entered in a human resource database varies from department to department. In addition to the more usual elements covering pay, employment history and credentials the following data is relevant to human resource management:

- work areas in which the staff member has worked and at what level;

- work experience acquired and some indication of the extent of the experience (e.g. significant if more than 20 per cent of time on an activity, occasional if less than 20 per cent of time spent on an activity);
- date of staff member's last staff rotation;
- core competencies in which the staff member requires further development;
- formal training course attended;
- the staff member's overall performance rating;
- the staff member's rating in terms of promotion;
- the staff member's own career aspirations;
- career path options;
- planned absence from the organisation;
- gender, ethnicity and disability statistics (for EEO monitoring).

### **Supporting material**

- (i) *Report of the Working Party on Computerised Personnel Information Systems*, Health Service Personnel Commission, 1988, Wellington
- (ii) *Proceedings of the 1992 Public Sector Convention*, New Zealand Society of Accountants, 1992, Wellington

## 1.8 Managing redundancy

Prior to the mid-1970s redundancy was a relatively minor issue in New Zealand as the country enjoyed high levels of employment. There was very little redundancy or consideration of redundancy pay. Due to the major restructuring that has occurred within the public and private sectors over the past decade it has assumed much more importance.

Redundancy was defined in the 1987 Labour Relations Act as being a situation where:

"A worker's employment is terminated by the employer, the termination being attributable, wholly or mainly, to the fact that the position filled by that worker is, or will become, superfluous to the needs of the employer."

Redundancy occurs when:

- there is an acceptable cause or reason for the reduction of the position;
- the reduction is permanent;
- the surplus is of permanent staff;
- the redundancy is the result of termination by the employer.

In New Zealand law there is no general right to compensation for redundancy. The employer has to pay employees redundancy only if there is:

- a redundancy agreement which requires payment;
- a clause in the employment contract setting out redundancy compensation, or a formula for calculating it.

Employees and employers in the private and public sectors are free to negotiate about redundancy compensation at any time. This can be before or after redundancy is actually in prospect.

Employees can challenge their redundancy, if they believe that their employer has acted unjustifiably. If a redundancy is challenged, the Employment Tribunal or Court looks at the case on its merits. In particular, the Tribunal will require answers to the following questions:

- Did the redundancy occur for genuine reasons?
- Were the provisions of the existing employment contract observed (such as provisions for consultation and notice)?
- Were reasonable and fair dismissal procedures followed?

If the Employment Tribunal finds a redundancy to be unjustified it may decide on one of the remedies set out in personal grievance provisions.

### **The context for change**

During the past decade New Zealand has experienced large-scale restructuring. In the private sector removal of regulation and protectionist measures has compelled many businesses to re-organise and shed staff in order to remain efficient and competitive. Similarly, in the public sector redundancies have been an outcome of the restructuring process.

The financial and other pressures facing public sector organisations mean that they must continually look at what is produced and the staff required. In the more turbulent and dynamic conditions facing public sector organisations, redundancy is one of a number of possible means of adjusting an organisation's staff resources to its level of output.

### **Implementing change**

Reform of the public sector and the corporatisation, and subsequent privatisation of some State Owned Enterprises (SOEs) contributed to a large-scale growth in the extent of redundancies from the mid-1980s. The establishment of ten SOEs from April 1987 led to a major wave of employees being made redundant. It is estimated that the establishment of SOEs on a commercial footing resulted in over 25,000 redundancies between April 1986 and June 1989.

The cost of redundancies has been significant. Figures produced in 1990 suggest that the cost of the redundancies created through the corporatisation of state trading departments was at least \$800 million. The average pay-out to each redundant worker approached \$30,000 but this figure was subject to very wide variation depending on base pay and length of service.

Two points should be noted in relation to the major wave of redundancy mentioned above:

- In many instances employees were made redundant and rehired on a contract basis with their former employer.
- Many of the organisations affected would have had to adjust their staff numbers irrespective of whether corporatisation had taken place.

In government departments facing a surplus staffing situation, redundancy is regarded as the last resort. Whenever possible, redeployment of employees is the preferred option. In order to facilitate co-ordination between departments in relation to surplus staff, a number of agencies share information on vacancies. Vacancy information is also advertised in the official *Public Service Circular*.

For public sector staff made redundant, and for whom redeployment cannot be achieved, a formula exists to determine the amount of redundancy payable. In general, it compares very favourably with redundancy provisions in the private sector.

Most collective and individual contracts of employment in the public service now contain a clause to cover the situation of an employee's position ceasing to exist. If such a situation arises the broad options facing these employee are:

- another reasonable offer of employment in the public service;
- a redundancy payment calculated in accordance with an established formula.

In the public service the formula for redundancy payment is usually based on a month's base salary for every complete year of service. There is also usually a maximum payment, for example, the base salary of one year.

An issue that has been of concern in recent years is that where redundancy arrangements are perceived as particularly generous, this can lead to employees actively seeking redundancy when a restructuring occurs. The perceived generosity and prevalence of redundancy payments has created, in some circumstances, a so-called, "redundancy culture". In times when an employee's subsequent employment opportunities may be limited, a "take the money" approach may not be in the employee's own longer-term interests. Redeployment may appear to be a less attractive option in the short-term, when large-scale lump sums are available.

For this reason, redundancy payments have tended to become less generous in recent years and more in line with provisions in the private sector. Redundancy payments have also become taxable. This is consistent with government policy of bringing public sector employment terms and conditions into broad harmony with the private sector.

**Supporting material**

*Employment –Your Contract – Your Rights, Your Obligations*, Industrial Relations Service, 1993, Department of Labour, Wellington

**SECTION 2            MAKING GOVERNMENT MORE  
EFFICIENT**

- 2.1      Improving productivity
- 2.2      Selecting appropriate organisational  
          structures in government
- 2.3      Corporatisation and divestiture

## 2.1 Improving productivity

Productivity improvement lies at the heart of virtually all the public sector reform measures that have been implemented over the past decade. The State Sector Act (1988) and the Public Finance Act (1989) were aimed at improving public sector performance as was the restructuring of the public sector into such new entities as State Owned Enterprises, Crown Agencies and Policy Ministries.

### **A particular initiative in improving productivity: the Public Service Task Force on Productivity**

This entry looks at a project undertaken by a Public Service Task Force on Productivity to bring together in a single document instances of productivity that could be of relevance throughout the public sector.

A simple definition of productivity is that it is a means of increasing the quality, quantity and relevance of the work done for a given quantity of resources.

For organisations facing commercial pressures productivity is ultimately a matter of survival. While the imperatives facing public sector organisations are often less clear cut, in the New Zealand context, the public sector has also had to face a number of challenges. As a result of substantial public debt, on-going fiscal restraint has been necessary. Most areas of the public sector are having to maintain outputs with either a constant or declining real level of resources. In addition, public sector reforms aimed at enhancing accountability and financial management performance (the State Sector and Public Finance Acts) have added to the pressures on the public sector to improve productivity.

In the public sector context productivity can be considered at three levels:

- productivity change for the service as a whole, or for a particular agency;
- productivity change for specific activities within agencies, (e.g. measuring changes only in one or more sections of the organisation);
- productivity change that comes from particular initiatives.

The Public Service Task Force on Productivity was established in 1991 and was drawn from the employer parties – government departments and the State Services Commission (SSC) – and the public service union – Public Service Association (PSA). The handbook on productivity which the Task Force prepared, "Doing It

Better, Doing It Right", was the first comprehensive study of productivity within the public sector. The handbook contained a series of case studies on productivity drawn from both the public and private sectors. The structure of the handbook was as follows:

- Section 1*            The purpose of the project and the lessons derived from it.
- Section 2*            An overview of productivity initiatives.
- Section 3*            Case studies of organisations undertaking initiatives.
- Section 4*            Appendices covering particular methods of improving productivity, issues of productivity measurement, and references.

The Task Force did not interpret productivity in the narrow sense of improving the efficiency and effectiveness of operations through cost or staff cutting, but endeavoured to give the concept a human focus. The emphasis was on achieving a co-operative approach to productivity improvement. The intention was to seek benefit for all the stakeholders in public sector productivity in order that:

- the tax-paying public received value for money;
- the Government's policies were achieved;
- the public received a quality service;
- managers achieved agreed objectives;
- employees received recognition and job satisfaction.

To illustrate the diversity of topics covered in the Task Force's report the following list sets out the subjects and organisation for each of the case studies in section 3:

- (i) Accommodation Requirements: Department of Labour
- (ii) Goal Identification and Culture Change: Department of Labour
- (iii) Multi-skilling: Ministry of Foreign Affairs and Trade
- (iv) Productivity in the Probation Division: Justice Department
- (v) Quality of Policy Advice: Ministry of Commerce
- (vi) Quality of Service: Accident Compensation Corporation
- (vii) Quality of Written Material: Department of Health (*Write Right* project)
- (viii) Quality of Written Material: Department of Health (*Ministerials* project)
- (ix) Technological Change: Customs Department
- (x) Technological Change: Government Superannuation Fund
- (xi) Total Quality Management: Ministry of Transport-Marine Division

(xii) Total Quality Management: Air New Zealand-Logistics Centre.

The aims of preparing the handbook were:

- to identify ways in which productivity could be improved in the public sector to benefit employers, workers and the public;
- to identify the factors which inhibit or promote productivity in particular areas of the public sector;
- to examine productivity improvement experience in the public and private sectors, both nationally and internationally;
- to bring together the employees' union (the PSA) and the employing departments in a partnership for productivity improvement;
- to provide a mechanism to enable organisations to learn from each other's experience.

In producing the report, the first step undertaken by the Task Force was to identify from a literature survey factors that had been found to contribute to productivity. This was followed by a survey of departments and a number of organisations outside the public sector to locate any recent work they had done that related to the productivity factors. Based on the responses received it was possible to select the 12 case studies for inclusion in the handbook. The Taskforce was convened in 1991 and produced its report by April 1992.

In summary, the major lessons to emerge from the project were familiar but worth restatement:

- Management and employees must work together towards common goals.
- Improving productivity is not a one-time exercise but a continuing and comprehensive process.
- Real and lasting improvement only occurs when the whole organisation is participating in the process.
- Significant productivity improvement requires commitment, time and energy. These factors are difficult to achieve when people in an organisation are preoccupied with other issues such as restructuring.
- Almost any work place change is likely to encounter differences of opinion or disagreement. This should be acknowledged and addressed.

- Relatively few organisations studied had systematically monitored the process of productivity improvement. It is important that organisations take stock and evaluate the success of the initiatives they are taking.
- External consultants can make a useful contribution to productivity improvement provided management maintains a close oversight.

### **Supporting material**

- (i) For detailed information on the case studies and the particular lessons to be derived from each of them, the handbook itself should be consulted
- (ii) "Doing It Better, Doing It Right", Public Service Taskforce on Productivity, 1992, State Services Commission, Wellington

## 2.2 Selecting appropriate organisational structures in government

The New Zealand public sector has undergone a radical restructuring since 1984. The changes have affected the size, structure and organisational relationships in the public sector. The purpose of this entry is to give an overview of the reforms, many of which are the subject of separate entries in this publication.

The major areas of reform can be summarised as:

- liberalisation and deregulation of the New Zealand economy as a whole;
- transformation of government-owned trading enterprises, within the core public sector, into corporate, profit-driven organisations;
- sale to the private sector (privatisation) of formerly state-owned trading enterprises;
- separation of policy advice from service delivery functions, for many departments within the core public service;
- replacement of the position of *permanent head* of department by chief executive with specific power to act as the employer of departmental staff;
- appointment of chief executives on contract for terms not exceeding five years;
- definition and documentation of the relationship between Minister and chief executive in a formal performance agreement;
- major restructuring in many sectors including defence, health and education. Overall public service staff numbers have fallen by approximately 50 per cent since the mid-1980s;
- introduction of a package of financial management reforms to the public sector including accrual accounting and charging for the capital invested in Crown organisations.

## **The context for change**

New Zealand's reform programme has been driven by concern with the growth of public expenditure, a perceived need to improve the effectiveness with which these resources were used, a belief in the market as the best determinant of allocative efficiency, and the use of the disciplines of the market environment wherever feasible to create competitive conditions that would promote improved productivity.

In its briefing material for the incoming Government in 1984, the Treasury, which played a pivotal role in the reform process, highlighted the poor performance of the public sector as contributing factor to New Zealand's overall economic performance. In effect, this document and its successor, the 1987 briefing paper, provide a blueprint for the reform process.

Treasury criticisms were stated as follows:

- most departments have no clearly defined goals;
- most departments have no clearly defined management plan;
- there are few effective control mechanisms to review the performance of departments in meeting their output requirements;
- departmental managers have little freedom to change the way their department operates to meet their goals, especially in staffing matters. They lack the autonomy they need within an overall expenditure limit to use their judgement to produce the best outcome;
- too much emphasis is placed on the control of inputs;
- there are no effective review mechanisms for dealing with poor performance in senior management within departments.

The timing and nature of public sector reform must be placed within the context of a New Zealand economy which, before 1984, had been characterised by large fiscal deficits, a substantial overseas debt and a history of relatively low growth. After 1984, reforms in virtually every other sector of the economy led inevitably to concern with the effectiveness of the public sector as a whole. In the year ending 31 March 1984 the public sector accounted for 22 per cent of GDP, 28 per cent of gross capital formation and government expenditure including transfers was 39 per cent of GDP. Inefficiency in this sector obviously imposed a major burden on the economy as a whole.

## **Implementing change**

The reform process followed two main strands:

- The first phase of reform entailed the transfer of state trading organisations from the core public sector into commercially driven public corporatisations as State-Owned Enterprises (SOEs).
- The second phase entailed reform of the remaining core public service by means of the State Sector Act and introducing financial management reform with the Public Finance Act.

The speed of implementation of reform in New Zealand was heavily influenced by factors such as a three-year electoral cycle, the relatively small size of the society, and the nature of the Parliamentary system. In addition, Government considered there was an urgent need to address the fiscal deficit and open the economy to competitive forces.

The broad sequence of the reforms is marked by the three principle legislative milestones.

### ***State Owned Enterprises Act 1986***

The commercial aspects of departmental activity were seen as having the greatest potential for improved performance. The corporatisation, or State Owned Enterprises (SOE), policy had five main elements which were that SOEs should:

- have clear and commercial objectives;
- operate under conditions of competitive neutrality;
- have greater managerial flexibility and authority over key decisions;
- have their performance effectively monitored;
- have any non-commercial activities, undertaken at the request of government, the subject of explicit subsidy.

Initially nine SOEs were created from former government departments on 1 April 1987. Subsequently other SOEs have been created.

Privatisation has been a further development. On a case-by-case basis two key principles determined whether retaining ownership in the public sector was merited:

- (i) Would sale generate more for the taxpayer than continued public ownership?
- (ii) Would sale make a positive contribution to government's economic and social policies?

Privatisation has now been applied to 22 formerly publicly owned enterprises.

***State Sector Act 1988***

This Act took effect on 1 April 1988. A key premise behind shifting state trading organisations out of the core state sector had been to achieve better commercial performance through new incentives for management. A similar approach lay behind the State Sector Act.

The main features included:

- Changing the relationship between ministers and permanent heads (renamed as chief executives or CEOs). CEOs are appointed on contracts of up to five years;
- Chief executive performance is now subject to a formal appraisal system conducted by Treasury and the State Services Commission (SSC);
- The former centralised employment system run by the SSC was replaced. The chief executive of each department became the employer of all staff within the department;
- The industrial relations regime applying in the public sector was closely aligned to the private sector.

***Public Finance Act 1989***

This was the third and last component of the public sector reforms. Underlying the Act was a revised way of conceiving performance in the public sector. Financial management reform in New Zealand has been based on two main elements:

- (i) That there is an important distinction between the interest government has in the goods and services it purchases from a department (the purchase interest) and the efficiency with which the department operates (the ownership interest).
- (ii) That there is a need to distinguish between outputs and outcomes of public sector activity, government departments being accountable only for the delivery of the former. Outcomes are the impacts on the community of the

government's actions and these may be affected by a wide variety of factors.

These distinctions have been applied to the methods of appropriating finance, the reporting regime put in place and the way the policy advice function has been organised.

Under the Public Finance Act appropriations must be framed in terms of costs incurred in the production of outputs. The Act also established new mechanisms and content for reporting performance. The main focus of the requirements is the annual report and accompanying financial statements. While outputs constitute the basic building blocks of parliamentary appropriation, the process of refining the specification of outputs has been an on-going one. The 1991 Budget process was the first in which all departments operated under the new systems.

The role of policy advice is made explicit under the new financial management regime.

### **Supporting material**

- (i) Scott G, Bushnell P, Sallee N, 1990 "Reform of the Core Public Sector: The New Zealand Experience", *Public Sector* Vol.13, No.3, September 1991
- (ii) *The New Zealand Government Management Reforms 1987-1990*, State Services Commission, 1991, Wellington
- (iii) Steering Group, 1991 *Review of State Sector Reforms*, State Services Commission, Wellington
- (iv) *Economic Management*, The Treasury, 1984, Wellington
- (v) *Government Management*, The Treasury, 1987, Wellington

## **2.3 Corporatisation and divestiture**

By OECD standards, government has played a pervasive role in the New Zealand economy. As well as providing a wide range of administrative and social services the government came to own and operate a wide range of traded services. In 1984 government spending accounted for over 40 per cent of GDP and 31 per cent of employment. Most of the state trading activity was conducted by departments and was subject to close central control and parliamentary scrutiny in detail over activities and expenditure.

Since 1984 New Zealand has experienced widespread deregulation in many sectors of the economy including the labour market. This trend towards economic liberalisation was accompanied by a major restructuring of the public sector. This entry examines one aspect of New Zealand public sector reform, the corporatisation, and in many instances the subsequent privatisation, of public trading enterprises.

The mechanism developed to facilitate the divestiture of the state trading agencies was the State Owned Enterprise Act of 1986. In many cases government-owned enterprises, in fields such as banking, forestry, insurance, transport, communications and broadcasting, were transformed from departmental into corporate form. Corporatisation was often subsequently followed by full-scale privatisation (over 20 government businesses have been sold since 1988).

### **The context for change**

In the decades prior to the mid-1980s, New Zealand productivity and economic growth had been poor relative to the OECD as a whole. The government that came into office in 1984 initiated a comprehensive series of reforms designed to free up the economy, reduce the role of government and promote sustainable economic growth. The move to corporatise organisations that had previously been government trading departments or enterprises was consistent with a government objective to open up many sectors of the economy to internal and external competition. Promoting competition in as many fields as possible was seen as a way of enhancing New Zealand's overall economic performance.

Before the corporatisation process began it is estimated government trading enterprises collectively accounted for about 12 per cent of GDP and 20 per cent of the gross annual investment in New Zealand.

Before corporatisation, many organisations combined a mixture of commercial and social objectives. A major aim of the State Owned Enterprises Act of 1986 was to

give SOEs a clear commercial mandate. Accordingly, Section 4 of the Act required SOEs to operate as successful commercial businesses. This was taken to mean that they should emulate the efficiency and profitability of their private sector counterparts.

The basic imperative, i.e. market failure, that had caused New Zealand governments in the past to acquire trading activities in a wide range of sectors no longer appeared valid. Instead, governments became more concerned with *government failure* or poor productivity that occurred when commercial activities were undertaken by government-owned enterprises.

The theoretical arguments in support of corporatisation were based on the presumption that efficiency could be improved by approximating the operating conditions that applied in the private sector. Furthermore, there was a widespread perception that, relative to private sector performance, many government trading enterprises were poorly managed and inefficient.

The impulse for privatisation, which developed after corporatisation was under way, was strongly influenced by:

- the desire to use the proceeds of asset sales to close the fiscal deficit and reduce the level of public debt;
- a conviction that for some organisations the full efficiency gains would not be achieved until the entity was entirely outside the state sector.

### **Implementing change**

Before the reforms initiated in the mid-1980s the New Zealand public sector was characterised by a wide range of functions. Government agencies could be grouped into three broad categories:

- core or non-trading departments such as Treasury, Defence, and Health;
- trading departments or enterprises such as New Zealand Railways, Air New Zealand, and New Zealand Post;
- Local Government.

Prior to corporatisation, most public trading enterprises were government departments and their employees public servants. In 1985 the Minister of Finance outlined five key principles for the re-organisation of state trading enterprises:

- (i) Non-commercial functions would be separated from major state trading organisations;
- (ii) Managers would be required to run them as business enterprises;
- (iii) Managers would be responsible for using inputs, for pricing, and for marketing their products within performance objectives set by ministers.
- (iv) The enterprises would be required to operate without competitive advantages or disadvantages, so that commercial criteria would provide an assessment of managerial performance;
- (v) Enterprises would be set up on an individual basis depending on their commercial purposes, under the guidance of boards modelled on the private sector.

The main vehicle for the re-organisation of state trading enterprises was the 1986 State Owned Enterprise Act. The Act provided for the appointment of a board of directors accountable to the Minister of Finance. If government wanted a State Owned Enterprise (SOE) to provide a non-commercial service it had to contract to do so. The SOE model can be approximated to that of a publicly listed company. By 1989 fifteen SOEs had been created.

In 1987 the Government decided that, in future, public trading enterprises would be expected to fund their spending from unsubsidised private sector capital sources and that they would be expected to pay taxes and dividends.

Although many countries have undertaken corporatisation and privatisation programmes, New Zealand's programme can be distinguished by its comprehensiveness and speed.

The process of corporatisation should be seen as a variety of processes rather the application of a standard formula. In general, the process involves setting up an establishment board or steering committee to oversee the transition. The variety of routes to corporatisation reflect the diversity of organisations under which the government traded. Apart from departments, there existed government-owned limited liability companies (e.g. Air New Zealand) and different types of public corporations covered by specific legislation.

Because of the diversity of organisational forms from which SOEs were created, it is difficult to generalise about the method and speed of the transition to SOE status. In the more straightforward cases, transition was achieved within two years. In other cases the transitional arrangements were complicated by a variety of factors such as valuation of assets.

Similarly, for the privatisation process a range of routes and methods were adopted, depending on conditions in the marketplace, fiscal considerations and political factors influencing sale. Privatisations have tended to follow one of the two following routes:

- an equity route where shares were sold in clearly defined commercial organisations;
- an asset route that entailed selling assets because of the less commercial nature of the organisation;

The process of privatisation has proved more controversial than corporatisation. Particularly in the initial years, mistakes were made in privatisation as government and the public service gained experience. In the privatisation of assets, as long as safeguards were installed, there was no restriction on foreign ownership.

Corporatisation should be viewed as one aspect of the economic liberalisation of the New Zealand economy that occurred in the period 1984-94. This transformed an economy characterised by heavy protection and large-scale government intervention to one in which intervention was minimal and large parts of the public sector had been either corporatised or sold to the private sector.

At the outset of the corporatisation process the aim was to reform publicly owned enterprises so they would perform more efficiently and make a reasonable rate of return rather than being a drain on the public purse. The transfer of these enterprises into the private sector through the process of privatisation was a separate idea that emerged subsequently.

New Zealand commenced its process of corporatisation in the mid-1980s and by the end of the decade the process was substantially complete. Although most of the large-scale privatisations, involving organisations such as Telecom, New Zealand Rail and Air New Zealand, have been completed, privatisation is on-going.

### **Supporting material**

- (i) Bollard A and Mayes D, 1991, *Corporatisation and Privatisation in New Zealand*, New Zealand Institute of Economic Research, Wellington
- (ii) Bollard, A, Buckle, R 1987, *Economic Liberalisation in New Zealand*, Allen and Unwin, Wellington
- (iii) Duncan, I, Bollard, A, 1992, *Corporatisation and Privatisation – Lessons from New Zealand*, Oxford University Press, Oxford

- (iv) Zino, M. 1992, *The Effects of Post-1984 Deregulation in New Zealand*, New Zealand Banker, Wellington

**SECTION 3                    IMPROVING THE QUALITY OF SERVICES**

- 3.1            Introducing a quality management approach
- 3.2            Establishing a customer orientation
- 3.3            Introducing performance measures
- 3.4            Improving performance evaluation

### **3.1 Introducing a quality management approach**

Quality Management is seen by many organisations as an important tool in the contemporary economic climate. The imperatives that have led the private sector to introduce Quality Management (QM), enhancing profitability through increased market share and customer loyalty, are less compelling in the public service. Nevertheless, the importance of improving quality and productivity are leading a number of organisations in the New Zealand public service to apply QM. This entry looks at the current use of QM in the New Zealand Public Service and comments on that experience.

Quality Management is often referred to as Total Quality Management (TQM). TQM is a theory of management that emphasises the involvement of all employees in the continuous improvement of all of an organisation's processes. To achieve this goal certain principles and practices are deemed necessary. These are encapsulated in the management principles set down by W. Edwards Deming, one of the leading figures in the quality management field. The core ideas of TQM are:

- Quality is determined by the customer.
- All processes are subject to variation. Knowledge of variation, its causes and effects, is therefore critical to improving the performance of a process.
- Decisions should be based on data.
- All employees must be involved in quality improvement.

#### **The context for change**

QM was applied originally in manufacturing and subsequently in the service sector. Public Service organisations, in New Zealand and overseas, have been slow to adopt the concept. Adapting an organisational theory developed in the manufacturing sector requires care. A simplistic "management is management" approach will overlook the particular conditions that exist in the Public Service but those conditions are not so unique as to invalidate the potential of QM. All organisations, private and public, need to be able to answer three fundamental questions:

- Who are our customers?
- What do they value?

- How do we design and develop systems to deliver that value?

QM provides a systematic approach to answering these questions. In applying the above questions the key factors that distinguish public service organisations are their wide range of customers and the difficulty in determining what they value. The need to identify customers and what they value applies to all organisations; it is the application of these ideas that present particular difficulties in the public service. The fact that the public service is, ostensibly, a hard environment to apply QM in makes it even more important to try. When it is difficult to identify customers and their expectations the classic conditions exist for an organisation to become self-contained and lost in "doing its own thing".

### **Implementing change**

In a sense, all New Zealand public service organisations could claim to be implementing one or more of Deming's principles, such is their level of generality. Most would assert, for example, that they had become more customer-focused in recent years and had made deliberate efforts to clarify who their customers were. Equally, most could point to initiatives, aimed at continuous improvement.

For example, in 1992 the State Services Commission and the Public Service Association jointly produced a booklet, *Doing It Better - Doing It Right*, that included various public sector productivity initiatives, one of which involved QM (in the Maritime Division of the Ministry of Transport). What distinguishes those public service organisations that are specifically using QM is that they are overtly applying QM as a strategy for organisational transformation. While QM ideas can be, and are, applied piecemeal, an organisation implementing QM needs to show evidence of intent to treat the concept in a coherent and systematic way.

The Department of Survey and Land Information (DOSLI) was a pioneer in QM in New Zealand. Their quality programme commenced in earnest in 1989 when a full-time co-ordinator was appointed. MAF Fisheries, part of the Ministry of Agriculture and Fisheries (MAF), was also an early user of QM ideas. A number of other areas in MAF have been using the ISO9000 route to quality improvement. For example, in May 1993 MAF Quality Management's Dairy and Food Business Group was certified to the ISO9002 standard, one of the first public service organisations to have achieved ISO accreditation.

Other agencies that have been actively involved with QM are the Department of Internal Affairs, Ministry of Commerce, Statistics New Zealand and the Ministry of Transport (now a small policy unit of about 50 staff). A number of areas that were formerly part of the Public Service such as the Applied Maths Division of the Department of Scientific and Industrial Research, the Meteorological Service, and

the Maritime and Aviation Divisions of the Ministry of Transport were active in QM. In addition there have been individual projects run using QM principles. For example, in 1990/91 the Probation Service (now Corrections Group) developed a new system of providing sentencing reports to judges using QM.

However, QM initiatives need to be considered in relation to the specific conditions that prevail in the public service and in individual agencies. For example, individual performance assessment, now a common practice in the New Zealand public sector, is, according to many QM authorities, not consistent with QM principles. Deming has pointed out the unfairness of rewarding and punishing on the basis of individual performance when, in reality, the individual often has little control over variability in the output of work. Moreover many employees are on short-term contracts and this tends to undermine the longer-term perspective that QM requires.

One feature of the New Zealand public service that has had to be taken into account when addressing the potential of QM is the role of policy analysis. In the New Zealand context, there is now much greater emphasis on the provision of policy advice to government. Policy advice is a field where the use of QM would be most commonly questioned. The complex client relationships, the fact that outcomes may be uncertain for years, the difficulty in applying quantitative measurement, all appear to make policy analysis the least promising area for the application of TQM principles.

In New Zealand, those public sector organisations adopting QM have almost invariably been service delivery rather than policy advice agencies. Nevertheless, policy advice is produced by a process. Using QM principles may enable agencies to understand better, evaluate and improve the policy process. In practice only a small number of New Zealand Public Sector agencies have accumulated any significant track record in implementing QM on a broad front (e.g. DOSLI, Commerce). Therefore any assessment of the longer-term potential for the concept within the public service must be provisional. Subject to this caveat a number of observations can be made on the QM experience of both DOSLI and the Ministry of Commerce:

- Both have had substantial continuity. It is perhaps not a coincidence that DOSLI is the largest organisation (approximately 1000 staff) to have sustained an organisation-wide QM programme. Neither DOSLI nor Commerce have encountered the wholesale restructuring that many government organisations have.
- The Chief Executives of DOSLI and Commerce were both strongly committed to the introduction of the QM.

- Both organisations have had the benefit of knowledgeable and enthusiastic full-time QM co-ordinators.
- Both organisations have adopted a team approach which has involved building up an awareness of QM and then training staff in the tools and techniques available.
- Both have used external consultants sparingly and used them to cover specific shortfalls in expertise.

Not all the teams established by DOSLI or Commerce have been effective. Overall, however, what both organisations have achieved includes savings, simplified processes and improved services to customers. A lot of experience has been gained in what makes effective QM teams and what sort of problem responds well to QM methods. The DOSLI and Commerce initiatives must be judged successful in introducing the tools and techniques of TQM. Both would agree that they still have a long way to go in establishing a culture where the QM approach is the norm.

New Zealand experience suggests that there are a number of preconditions necessary for QM to work. Many organisations give up sooner or later. There are no grounds for believing that implementing QM is easy even if favourable preconditions apply. The three factors set out below are therefore a guide and not a guarantee of success.

- Senior management commitment is fundamental to success. After all, without such a commitment from the top why should anyone else get on board? If top management are not committed it is very easy to become distracted or diverted from applying QM ideas in the face of a particular short-term problem or crisis. The role of the chief executive in the public sector is different from that in the private sector. Despite increased accountability the fact remains that, in general, private sector CEOs have more scope to exercise autonomy than their public sector counterparts.
- Despite the increased autonomy that resulted from the 1988 State Sector Act, the role of the public service CEO in New Zealand is circumscribed by ministers, legislation and a host of other influences and requirements – all of which have an impact on the internal processes of the department. Governments and the public are concerned not only with results achieved by public service organisations but also the processes used to obtain them. Unless QM becomes a core feature of government policy it is difficult to see how a public service chief executive can make the necessary commitment to it.

- Those considering embarking on QM should not do so if major restructuring or organisational change is likely. QM is very much a trust-based management philosophy. During organisational upheaval, with associated job losses, morale and trust in management is low. In the last six years employment in the public service has declined from 88,000 to about 37,000. Most departments have been affected by restructuring, others are newly formed, and there has been considerable uncertainty. While these conditions no longer prevail, they may have accounted, in part, for the relatively slow uptake of TQM by departments.

In summary, QM is still in its infancy in the New Zealand public service. Estimates vary of the length of time it takes large organisations to adopt QM but timescales of five to ten years are commonly cited. As yet, no part of the New Zealand public service has developed an organisational culture in which QM principles are applied in a routine and consistent way.

### **Supporting material**

*Doing it Better, Doing it Right*, Public Sector Task Force on Productivity 1992, State Services Commission, Wellington (Includes a case study of TQM in the Maritime Division of the Ministry of Transport)

## **3.2 Establishing a customer orientation**

Throughout the public service in New Zealand there has been an increasing awareness of the imperative to identify either client or customer groups and meet their needs. At one extreme this may mean meeting the policy advice needs of the Minister, at the other it may entail surveying the attitudes to the service provided to international passengers by the Customs Department.

### **A particular initiative in establishing a customer orientation: Statistics NZ**

Statistics NZ is New Zealand's national statistical office. It provides a wide range of commercially marketed and supplied information services as well as meeting its obligations under the Statistics Act to provide most of the official statistics in New Zealand.

Statistics NZ (until 1993 the Department of Statistics) is one of the oldest departments in the New Zealand public service. In recent years it has faced the challenge of converting a department with a traditional public service culture into a customer-oriented organisation. In his preface to the 1994 product catalogue of the department the Government Statistician stated:

"Providing an information service to our customers and listening to customer needs is an important function of Statistics New Zealand."

The key features of an organisation focused on meeting customer needs may be summarised as follows:

- attention is concentrated within the organisation on maintaining the relevance of its products and services to its customers;
- it is responsive in meeting customer needs;
- within the organisation there is an understanding that all parts of the organisation contribute to achieving customer satisfaction;
- the organisation adopts pricing policies which reflect the value of the product or services in meeting customer needs.

Under the Statistics Act, Statistics NZ enjoys a protected status in terms of its ability to collect and process official information. In many areas however, its monopoly position can no longer be taken for granted. The department is only a

part of the "information industry" that operates in New Zealand. That industry includes a mixture of private and public sector organisations such as market research agencies, information brokers, business consultants, computer networks and other government agencies that process information.

In the event that a private sector organisation could demonstrate an ability to meet customer requirements better and at lower cost in a particular statistical field, government might favour non-public sector provision of the service.

Government expects Statistics NZ to generate a return to the Crown from the commercial use of its information base. Statistics NZ now has to generate a large proportion of its own revenue from sales of its statistical products. Therefore, it must actively promote its products and continually strive to demonstrate the value of its information to a wide range of customers.

Expectations of customer service in New Zealand are rising. This applies to the information industry as well as most other sectors. As a result of increased competition in virtually all sectors of the economy during the past decade an attitude of indifference to customers and their needs is no longer acceptable. Statistics NZ, like all public agencies, must operate in an environment where a higher standard of service delivery is the norm.

As part of improving its customer orientation, Statistics NZ has embarked on a quality improvement programme designed to introduce the principle of Total Quality Management throughout the organisation. This has involved training staff and management in the tools and techniques of TQM and using teams to improve progressively departmental processes. Although still at a relatively early stage, the ultimate purpose of the Quality Management initiative is improved customer service.

The department is also investing heavily in new information technology in order to enhance its customer service.

Improving customer service starts with answering the following set of basic questions:

- Can the need for the service or product be establish and defined?
- Can the service or product meeting the need be specified?
- Can a quality standard at a specified cost be agreed?

In practice, product costing and pricing is a particularly important and complex aspect of service delivery in the public service. Statistics NZ uses three broad categories to classify its services for price-setting purposes:

- a) *Data free, free access* – this covers products and services that are available in the public domain as public goods at no charge.
- b) *Data free, access charge* – this covers products for which the department does not charge for the data itself but does charge for the time and effort required in accessing and presenting the data.
- c) *Commercial charge* – in this instance the department imposes a full market price.

Statistics NZ has been moving progressively to market pricing for its commercial products rather than using cost recovery as in the past. Establishing market prices for many statistical products can be complicated because each customer may derive different value from any particular set of information depending on the way it is utilised.

In practice benchmark prices for statistical products are set from:

- prices established by past negotiation;
- prices established by negotiation for comparable products;
- prices of comparable private sector products marketed in New Zealand;
- overseas prices of comparable products;
- costs of production.

Public good information is provided on a cost recovery basis but some products, such as the New Zealand's Year Book, receive a subsidy.

The active marketing of statistical information is a relatively recent development. In 1993 Statistics NZ hosted the first international statistical marketing workshop. Many countries at the leading edge of marketing statistics attended, to exchange ideas and address common marketing problems.

In order to serve its customers effectively, Statistics NZ has to monitor the market for information continually in two ways:

- by monitoring government policies and priorities and their implications for statistics;
- by maintaining a good awareness of the business and community needs for statistics through on-going contacts, the demand for particular products and other activities to keep up to date with changes in the external environment.

In 1992/3 the department restructured itself in order to serve its customers better. It now consists of three main groups:

- Survey Management, which collects the data;
- National and Regional Statistics, which analyses the data;
- Information Marketing, which delivers the results to the department's customers.

The role of the Information Marketing Group is to develop customers services, disseminate information and to inform the media, commercial and community users of the departments products. The structure of the Information Marketing Group is also divided into three main divisions:

- Marketing and Sales – this unit's main responsibility is to understand the information market and ensure that current and potential customers are aware of the department's products and services.
- Electronic Data Services – this unit has two functions – to extract and customise information from all department databases to meet individual requests and, in addition, the unit is responsible for all electronic data services.
- Publishing and Community Information – the focus of this unit is on meeting community information requirements through media releases and through readable, easily updated publications.

To enable customers to have easy access to statistical information, Statistics NZ has information consultants and officers who are experienced in assisting clients to determine their information needs. These consultants can be contacted in the department's four offices in Auckland, Wellington, Christchurch and Dunedin.

Statistics NZ produces a comprehensive range of statistical products which are described in an annual catalogue and other publications. There is an on-going programme of client-focused product development.

## Supporting material

- (i) Lindsay P, 1991, Case Study of Customer Focus in Statistics NZ, *NZIPA Seminar*, Wellington
- (ii) *Are you being served? Service Delivery in the Public Sector*, Research Papers Vol VIII No 3, 1991, New Zealand Institute of Public Administration, Wellington
- (iii) *Public Value as End and Means*, collected papers from the RIPAA National Conference 1993, Sydney, Royal Institute of Public Administration Australia (RIPAA)
- (iv) *Product Catalogue*, Statistics NZ 1994, Wellington

### **3.3 Introducing performance measures**

Traditionally public service reporting has been heavily oriented towards financial measures. In the New Zealand public service since 1989 a significant effort has been made to demonstrate, through performance measurement, what the sector does and how well it does it.

#### **The context for change**

Performance measurement in the public service poses particular problems. Much public service activity does not lend itself to precise quantification, particularly in regard to quality. Perceptions of quality can vary from client to client. There must also be recognition that the achievement of performance measures can be affected by factors beyond the control of the department, such as unexpected delays in other government agencies and changes in government policy.

A performance measurement system must be capable of specifying the performance targets or expectations and then monitoring and assessing actual performance. It should provide a basis for applying rewards and sanctions, which implies that there must be a capacity for change and development based on the performance or results obtained.

There are two primary reasons for developing performance measures: to improve external accountability and to assist decision-making within the organisation.

For public sector agencies, performance measurement is a major aspect of accountability. Financial reporting alone is insufficient to meet this requirement. While financial reporting covers the collection and distribution of funds and the allocation of resources it does not show the service provided nor the quality of these services. A set of performance measures is needed to provide a balanced and accurate picture of an organisation's performance.

Performance measurement provides a valuable tool for management. In particular, measurement of performance can assist towards improving the delivery of goods and services. As a consequence, the best performance measures tend to be those integral to the organisation's business and not merely a set of data prepared to meet an external reporting imperative.

Performance measurement is compatible with various modern management approaches such as Total Quality Management (TQM). Performance measurement, while focused on operational issues, can also be used to inform a department's

strategic planning process. The development of performance measures can be enhanced by an effective management information system.

### **Implementing change**

The Public Finance Act 1989 provides the legislative reporting framework for government departments and requires output-based reporting. The Act stipulates that a statement of service performance should accompany the reporting on each class of outputs produced. The statement of performance represents a consolidation of a department's performance measures at the end of the year.

Each departmental output will have associated with it a number of performance measures covering the primary categories of timeliness, quantity and quality. Each department has to formulate performance measures relevant to its own circumstances. As an example, Statistics NZ uses the following definitions:

#### ***Timeliness***

Unless otherwise stated, this is the date by which non-confidential summary statistical information should be released to users. In most instances it is the expected date of publication of the media and information releases which summarise the data and comment on statistical trends.

#### ***Quantity***

For Statistics NZ, targets may be specified, for example, for the number of unique statistical releases and publications to be produced.

#### ***Quality***

For Statistics NZ, relevant standards can include:

*Coverage:* the extent to which users can be assured that the data faithfully represents the measured characteristics of the target population is in part indicated by the achievement of the expected response rate in statistical censuses and sample surveys.

*Design Sampling Error:* this represents a measure of the uncertainty arising from the use of a sample rather than by surveying the entire population of interest.

In the New Zealand public service the following criteria have been considered important in devising a set of performance measures:

*Agreed Targets:* The intended performance needs to be specified at the outset of a reporting period. Without this benchmark it is difficult to determine the significance

of data recorded. The targets should be formally recorded and agreed between the relevant parties.

*Key Variables:* Quality, quantity, timeliness, cost and location are among the most commonly applied variables to measure. In the public sector quality tends to present the greatest area of difficulty.

*Control:* Any performance measures developed should cover aspects of performance over which the organisation has a significant measure of control. In terms of the accountability function of performance measurement, organisations should not be held to account for something they cannot control.

The difficulties with qualitative measures have not yet been resolved. The following list covers some of the ideas that are being applied in New Zealand to improve measurement of qualitative aspects of service:

- customer surveys of client satisfaction;
- surveys of the satisfaction of ministers and other elected representatives when appropriate;
- measurement of public complaints;
- acceptance levels or levels of valid objections.

In the New Zealand public service, departments must consult Statistics NZ before conducting surveys in order to ensure that high survey standards are maintained. Since customer surveys are an increasingly popular method of gauging public satisfaction it is important when conducting a survey that an appropriate methodology is applied.

### **Supporting material**

- (i) *The Public Sector Challenge: Defining, Delivering and Reporting Performance*, Conference Papers, November 1992, New Zealand Society of Accountants, Wellington
- (ii) *Performance Measurement and Service Delivery*, Provost, L., 1991, NZIPA Seminar, Wellington
- (iii) *Reporting Service Performance*, Provost, L., New Zealand Society of Accountants Conference, November 1992, Wellington

### **3.4 Improving performance evaluation**

Evaluation is an activity designed to provide senior managers and other decision-makers with independent and high quality analysis of the contribution a particular activity makes to an organisation's goals. Evaluation can be conducted by either external or internal evaluators. Larger public sector agencies may have a separate research and evaluation or internal audit unit, but even smaller agencies are capable of undertaking a process of self-review of their performance. Whether internally or externally conducted, evaluation is a powerful tool for improving organisational performance.

#### **The context for change**

Evaluation can be defined as:

"A rigorous process of gathering data in a systematic, fair and verifiable manner to produce conclusions, and/or recommendations about a defined subject to improve effectiveness, minimise risk, and assess relevance."

What distinguishes evaluation from auditing is the extent of collaboration and involvement of all the parties involved. While auditing is concerned with accountability, evaluation is more concerned with clarifying processes and improving outcomes. At the heart of evaluation is an attempt to assess what contribution a particular output, programme or activity is making, and to consider if there are better ways of doing it.

Evaluation first became a major interest in the New Zealand public sector in the early 1980s. An early instance was the establishment of an evaluation unit in the Department of Social Welfare in 1981. This unit was separate from the Department's research section. The purpose of the unit was to provide timely and objective analyses of the department's social policies and programmes with the aim of improving their performance.

However, it was not until recently that other departments began to set up separate evaluation units (Tourism 1989, Justice and Inland Revenue both in 1991).

The task of evaluation has become more critical because of a number of factors:

- Government is demanding greater efficiency and effectiveness from departments. Evaluation can indicate to managers where and how services can be improved.

- New accountability mechanisms in the New Zealand public sector require a greater level of accountability from managers for the performance of their agencies. External and self-review processes are required in an environment where managers have greater autonomy and discretion to apply their judgement.
- Organisational and process complexity means that it is important that the linkages between and within organisations are functioning effectively. Evaluation needs to encompass the cross-functional aspects of organisational performance.

The increasing emphasis on evaluation can be attributed in part to a series of major economic changes brought in by the Labour Government after 1984. The array of reforms introduced greater transparency and accountability and a focus on service delivery.

Evaluation is closely aligned to the traditional assurance approaches of auditing and management reviewing. There is no precise way the terms can be distinguished as they all come within the broad concept of review – a process for obtaining feedback on how an organisation is performing.

The State Sector Act 1988 and the Public Finance Act 1989 created a new accountability environment in New Zealand. This, in turn, led to a need to develop appropriate indicators of departmental effectiveness and means of evaluating them. This entry should be read in connection with the entry on *Introducing performance measures*.

Evaluation can be seen as complementary to a Quality Management approach because both are aimed at a continual improvement of the organisation through using the actual evidence of current performance to adjust and change existing practices.

In New Zealand, considerable effort has been devoted to the issue of the evaluation of the policy advice function – a field that presents particular difficulties in terms of determining objective measures of quality.

In New Zealand, chief executives of departments complete a formal performance agreement with their minister. The State Services Commission draws on a number of sources in forming a judgement of a chief executive's overall performance. This may include other chief executives, ministers, central agencies, other references and chief executives themselves.

Following a recent evaluation conference, a Wellington Evaluation Group was set up in April 1991 and now provides a forum for evaluators from diverse backgrounds.

### **Implementing change**

The detailed format of every evaluation will differ but the experience of the New Zealand public service indicates that the following checklist is key:

#### *Rationale*

To what extent are the purposes and objectives of the output, programme or activity under review still relevant?

#### *Achievement*

To what extent are the objectives currently being achieved?

#### *Impact and Effect*

What impact and effect, intended and unintended, is the activity having?

#### *Alternatives*

Is there a more cost-effective way to achieve the desired objective?

In any major evaluation a team will need to be assembled and the quality of the evaluation will be greatly affected by the quality of the staff who work on it. Senior management must accept that there is a considerable opportunity cost in having key individuals away from their regular duties. A range of skills and attributes appropriate to the particular evaluation tasks will need to be assembled including:

- economic and social science research skills;
- a management perspective;
- departmental background and knowledge;
- general investigative and analytical skills;
- networking and facilitation skills.

The end product of an evaluation will be a report to senior management. To be effective it is important that the results of the work are presented in a way which:

- highlights the key findings and the issues to be resolved;

- suggests a solution and how it was derived;
- recommends a way of implementing the solution as well as a method for ensuring it can be verified.

The key principles which should inform any evaluation process and which are necessary to ensure its credibility are:

#### *Objectivity*

Evaluation relies on gathering data in a fair and verifiable manner. In keeping with Quality Management principles, it aims to avoid decision-making on the basis of hunch or guesswork. Conclusions or recommendations derived from evidence clearly carry more weight than if the evaluation relied only on the best judgement of the reviewer.

#### *Management Driven*

As evaluation is ultimately to provide information for management decision-making, it is important that management be involved in defining the requirements and key project parameters of the evaluation at the outset. This requires that senior managers, as the principal client, take an active interest in the evaluation and receive regular reports on progress and key decision points.

#### *Purpose*

The emphasis in evaluation should be on reaching a better understanding of the impediments to improved performance or suggesting areas for development. Its purpose is not to attach blame or assess individual staff performance in meeting organisational goals.

#### *Stakeholder Involvement*

Those affected by the scope of the evaluation should be consulted. In many instances representatives of the activity or unit under review should be included in the evaluation team itself. Evaluation does not occur in an organisational vacuum. Meaningful involvement of stakeholders is one way to engender the trust and openness that is necessary to conduct a useful evaluation and ultimately to get its conclusions owned by those most affected. Major evaluations will involve external stakeholders such as central agencies.

#### *Quality Control*

A quality control procedure is required to monitor the ongoing relevance and quality of the evaluation. Evaluations often include an informal peer review process at both the project design stage and during the ongoing work. The amount of consultation will vary according to the significance or complexity of the project.

If the evaluation is particularly large and complex it may be desirable to establish a steering committee with representation by senior management, evaluators and possibly independent experts such as external consultants. The value of a steering committee is in setting the strategic direction of the evaluation, providing guidance on specific issues or problems, and communicating the results of the review to external audiences. The time, effort and expense entailed in operating a steering committee can be considerable. Therefore the contribution that the committee's perspective and overview makes must outweigh the costs.

#### *Linkages to other processes*

Evaluation is most effective when linked to other aspects of the management process rather than treated as an isolated and distinct function. For example, the results of evaluations need to be incorporated into the organisation's planning and budgeting cycle.

Conversely, the programme of evaluations should be driven by genuine problem areas or information shortcomings that have been revealed, initially, by the planning process.

#### *Staff*

Those likely to be affected by a significant evaluation should be kept informed. In most instances an evaluation is in reality part of a management of change activity and should involve staff as far as is practicable and use their input. Staff expertise, experience and perspectives constitute a valuable resource that should be utilised in the evaluation process.

### **Supporting material**

- (i) *Evaluation in the Public Sector*, PLC Group, AIC Conferences, 1992, Auckland
- (ii) *Effectiveness and Efficiency – A Way to Achieve It*, Anderson, B, 1989, New Zealand Society of Accountants, Wellington
- (iii) *The History of Evaluation in New Zealand*, Donnell, Anne, 1992, Department of Social Welfare, Wellington
- (iv) Matheson, A, Audit, 1992, Evaluation and Review in the Public Sector, *Public Sector* Vol 15, 1992, Wellington

**SECTION 4                    IMPROVING PARTNERSHIPS WITH  
   ORGANISATIONS/AGENCIES OUTSIDE  
   PARLIAMENT**

- 4.1            Ensuring contestable policy advice
- 4.2            Deregulation
- 4.3            Inter-governmental restructuring
- 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 to 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

## **SECTION 5**

## **MAKING MANAGEMENT MORE EFFECTIVE**

- 5.1 Enhancing management skills
- 5.2 Improving information technology support
- 5.3 Improving the management of external consultants

## 5.1 Enhancing management skills

The state sector reforms that have occurred in New Zealand over the past ten years have created an inherently more complex and demanding management environment. The separation of policy from service delivery functions, the contestability of advice and widespread restructuring have all been features of the state sector environment. The transition from a traditional public service culture to one more closely reflecting private sector practice has also imposed new demands on public service managers. A major management development programme is now under way that is designed to equip the public service with the skills and leadership style necessary for a highly decentralised public service.

This entry examines the background to the current management development programme, why it was considered necessary, its underlying philosophy and the approach taken.

### The context for change

Management development may be defined as those steps that enhance the ability of managers to organise and direct resources to achieve agreed objectives. In view of the scale and diversity of the part played by the state sector in society and the economy, the efficient and effective management of its resources is of national importance.

Prior to the introduction of the State Sector Act in 1988, the State Services Commission was the formal employer of all public servants, and determined salaries and other terms and conditions of service. The impact of the State Sector Act, and the Public Finance Act passed 12 months later, was to transform radically the New Zealand state sector, effectively creating approximately 40 autonomous government departments each run by a chief executive. With the State Sector Act, chief executives replaced the State Services Commission as the employer of public servants.

In 1991, the Government undertook an in-depth review of the impact of the two key Acts. This review, officially known as the *Review of State Sector Reforms*, is more generally known as the *Logan Review* because of its chairman Basil Logan. The *Review* concluded that in general the reforms had been successful. One area of concern however was the issue of senior management development. The report declared, "the quality of senior management is critical to the reforms," and went on to recommend that, "immediate attention should be given to formulating a service-wide management development policy."

After the *Logan Review* was concluded, the Cabinet State Sector Committee directed, inter alia, that a steering group drawn from representatives of the central agencies, departments and ministries be convened by the State Services Commissioner to develop detailed policy proposals for senior management development throughout the public service.

The final recommendations from the steering group were put to government at the end of June 1993 and were accepted. As result, a major management development project is now under way to ensure that the public service will retain the capacity for effective management in the current and expected environment.

As the *Logan Report* and subsequently the steering committee found, there was no common understanding of what constituted a good manager in the new conditions and also no means of fairly assessing individuals against an agreed standard.

While some departments had launched individual management development initiatives, there was no sector-wide attempt to define what strategic direction the public service was likely to take or what specific managerial competencies would be required.

A Cabinet Minute of May 1988 defined Senior Executive Service (SES) positions as "those top management positions which have a significant responsibility for administrative and managerial functions and for formulation of advice to Ministers on higher level policy matters. Essentially they shall be in the top collegiate management group...who take collective responsibility for key corporate decisions. The skills applied and the experience gained in the position should be portable and applicable at the most senior level elsewhere in the public service."

This definition complements the State Sector Act, Sections 46 and 47, which places the requirement to provide and train the most senior level managers within the responsibility of the Commissioner *and* the chief executives. This joint responsibility has not yet fulfilled its potential.

Early experience with the SES has shown that it had not gained the membership originally envisaged. Neither had it been able to ensure the inter-departmental development initiatives which would ensure a long-term supply of high calibre officials able to maintain the fundamental ethos of the public service.

A number of factors have contributed to this. Part of the original concept had been the creation of short-term contracts for SES members. This was to allow both for recruitment from the private sector and to break the expectation of long-term tenure. Such arrangements, coupled with government controls on remuneration (in comparison with the private sector) have now proved to be an inhibitor, lessening the attractiveness of SES membership. The SES was set up at a time when

devolution of responsibility to individual chief executives for personnel matters was taking place. The legislative requirements in relation to SES membership have been seen as a form of centralised control at odds with that relating to other employees.

Early SES-wide development initiatives were inhibited by lack of support from departments unwilling to release members for training. However, in more recent times, members have expressed a desire for some form of co-ordinated inter-departmental development opportunities, and departments are beginning to show active interest.

Some other factors were also instrumental in encouraging a major initiative on management development:

- The New Zealand public service has a diverse range of organisations. Many of the smaller agencies are of insufficient size to be able to sustain an independent management development programme from their own resources.
- One of the risks of a highly decentralised public service system such as is the case in New Zealand is that of fragmentation into distinct and perhaps unco-ordinated "fiefdoms". A service-wide management development policy is one mechanism for fostering a consistently high standard of management practice as well a sense of overall collective or public interest.

### **Implementing change**

The Senior Management Development Project steering group started by first establishing a number of key assumptions and propositions:

- that public service managers, like their counterparts in the private sector, were capable of development, learning and changing;
- that it was important to get things right at the top if management development was to be firmly established throughout the public service;
- that it was important to work within the accountability framework established by the state sector reforms;
- that it was necessary to restate and in a sense revive the concept of the collective interest of government which had been given less emphasis in the reform process;

- that it was possible to reconcile department autonomy with co-operation and that management development was one area where a collegial approach was preferable;
- that if any lasting improvement derived from the management development initiative it would be because those chief executives and senior managers involved in it were themselves committed to it.

The approach adopted by the steering group had a number of components. First, it was necessary to develop a broad statement of the vision, purpose and principles and values for the New Zealand public service. Secondly, it was necessary to discern the trends that would shape the future managerial environment. The third phase was to establish the particular mix of experience skills and attributes that would be required to meet the vision.

In more detail, the steps involved in the senior management development initiative were:

- (i) The steering group identified all key stakeholders – those who had a legitimate interest in the management capacity of senior public servants. This group considered what was expected of senior managers and how the public service might develop over a 15-year period. From this the steering group distilled an initial draft statement of purposes and principles.
- (ii) The draft statement was considered by a major conference of senior public service managers who also added their insights into how the public service might develop. Cabinet endorsement was sought and obtained for the resulting statement of vision, values and fundamental principles.
- (iii) In a separate but associated exercise the steering group established a special task group to look at the prevailing managerial environment and identify emerging trends for the next 15 years. The futures task group ran two seminars using the machine-assisted decision-making system at Victoria University, Wellington. The results of those sessions were used to generate three fields of information:
  - the existing national environment;
  - the current public service senior management environment;
  - key trends likely to emerge over the next 10 to 15 years.
- (iv) Another sub-group to the steering committee worked on the competencies issue as recommended by the Logan review. It was decided to test this

issue as recommended by the Logan review. It was decided to test this approach which had been followed by a number of departments on a public service-wide basis. As the Treasury had already introduced competency-based management development, it was decided to test this approach to see if it were more generally applicable across the public sector. As part of the pilot project, a group, including ministers, members of the Government Administration Select Committee, and influential private sector people, was asked to differentiate between good and bad managerial performance and to describe the behaviour that made the difference. The grouped behaviours were then converted into core competencies. These were competencies that were considered to be the skills and qualities every chief executive should have. They would be used as a basis for managing and developing activities centred on chief executives and senior managers.

- (v) The steering group went on to position management development within an overall strategic human resource development framework. Within this framework the steering group have considered other issues such as job design, recruitment, performance evaluation and management training and development.
- (vi) The specific responsibilities for senior manager development were clarified. It was agreed that Chief Executives would be responsible for the development of their senior managers. They are to take account of both the needs of their own departments and the broader needs of the public service as a whole. The State Services Commissioner is responsible for ensuring that they do it.
- (vii) The steering group developed the idea of a Centre where chief executives, working collegially, could agree on the core competencies for senior public service managers and develop strategies for recruiting and training them. The State Services Commission would still retain a role in the provision of policy advice on senior management development. Work is now under way by a group of chief executives to establish the Centre.
- (viii) As a result of the restructuring of the SSC in 1993, a newly established Strategic Human Resource Development Branch now provides a focus for senior management development issues. This branch is co-ordinating the implementation of the Senior Management Development project. In addition, it will work closely with the Management Development Centre.
- (ix) The Senior Management Development project has progressed to the stage where the intention is to modify the present SES into a wider and more loosely defined group. Its particular focus will be on public service-wide

development. In due course, the State Sector Act, specifically where it relates to the SES, will be changed to reflect this evolution.

### **Supporting material**

- (i) Institute of Personnel Management New Zealand, 1993, *Developing Managers: Managing Development, Proceedings of the Institute's Annual Conference*, Auckland
- (ii) *Public Service and the Public Servant*, Martin, J. 1991, State Services Commission, Wellington
- (iii) Scott, G, Bushnell, P, Sallee, N, Reform of the Core Public Service: The New Zealand Experience, *Public Sector* Vol. 13, No. 3, pp 11-24, September 1991
- (iv) *Review of State Sector Reforms (The Logan Report)*, Steering Group, 1991, State Services Commission, Wellington

## **5.2 Improving information technology support**

This entry looks at information technology and information systems in the New Zealand state sector. The entry draws on a booklet entitled *Getting the Bits Right – a Guide to Best Practice in the Provision of Information Systems in the State Sector*.

### **The context for change**

Government departments are major users of computers and management information systems which are a major items of government expenditure. Such systems were estimated to cost the New Zealand taxpayer \$400 million annually in 1992. Ensuring that this expenditure is used to best effect has a significant impact on the overall efficiency and effectiveness of the state sector.

Government departments are now able to exercise considerable autonomy in the development of their management information systems. In a decentralised situation it is important that managers in the field of information technology have adequate training and guidance in order to make cost-effective decisions.

The New Zealand economy is highly deregulated. There is ample opportunity for departments to seek innovative solutions to their IT requirements.

Effective computer systems can transform the way a service is provided. For example, the computer systems introduced in recent years by the Department of Inland Revenue (known as the FIRST system) and that introduced by the Department of Social Welfare (known as the SWIFT system) have had a major impact on the way the departments operate.

### **Implementing change**

In 1991 the State Services Commission (SSC) undertook a review of computing in the State sector. The report which resulted from the review found a number of areas where management of information systems could be improved. To assist chief executives and managers in the area of management of information systems it was decided to provide guidance on what constituted best practice by means of an explanatory booklet.

The key points made in the booklet are:

- Senior management must accept responsibility for management of the IT resource.
- The organisation needs an IT strategy which is compatible with the business strategy.
- All the key components and activities, as shown in the list at the end of this entry, require effective management.
- Managers must know what level of service is expected and be able to monitor actual performance against this expectation.

Those developing management information systems in the state sector need to take account of the statutory requirements that apply to IT. For example in New Zealand, under the 1957 Archives Act, government departments are not allowed to destroy records without the permission of the chief archivist.

There are also requirements under the occupational health and safety regulation that affect IT; for example, the correct methods of deploying and using visual display units (VDUs).

Government purchasing and procurement policies need to be complied with in the acquisition of IT. In New Zealand, there are policies which are designed to ensure that competitive NZ (and Australian) producers are given full and fair opportunity to supply goods and services to government departments. The New Zealand Ministry of Commerce issued a booklet in 1991 entitled *Government Purchasing Guidelines: Opportunity for Suppliers*. It is important to note that these guidelines are not mandatory and government departments have a great deal of freedom in developing their systems.

The New Zealand Government has recently set up three bodies to advise it on information technology policy.

- (i) Inter-departmental Committee of Information Technology made up of representatives from six departments and convened by the State Services Commission. Its function is to advise on issues relating to the government's role as a user and purchaser of IT. It considers the collective interests which cross departmental boundaries. Currently these cover standards and what will happen to GOSIP (Government Open Systems Interconnection Profile), and information management practices and purchasing guidelines in the public sector.

- (ii) IT Policy Unit housed in the Ministry of Commerce, whose scope is to advise on IT issues relating to the government's role as a social/economic policy-maker. These have included copyright and education.
- (iii) IT Advisory Group made up of 10 leading private sector people. Their role is to advise the Minister for IT on issues relating to the government as economic policy-maker from a supplier and user perspective. It is particularly charged with developing a medium- to long-term strategy for IT in New Zealand.
- (iv) Other governmental bodies include the Government Communications Security Bureau which has an advisory role on matters of computer security.

The New Zealand guidelines provide, in outline form, a generic set of steps that are commonly necessary when putting a new IT system in place. The guidance is intended as a framework rather than a rigid set of procedures that must be adhered to.

To install a new system the following processes are recommended:

- allocate responsibility for managing the project;
- produce a scoping statement that specifies the objectives of the project;
- specify each operation in detail, including:
  - descriptions of the functions of the staff involved
  - how the management procedures will operate
  - what other procedures will interface with this one
  - when monitoring is required
  - logistic and support requirements
  - budget details;
- review current procedure for managing the above operations;
- analyse the gaps and identify the differences between the current and proposed procedures;
- determine the most appropriate approach to achieving the goals;
- determine the staffing and budget requirements for implementing the new procedures;

- produce a project plan for introducing the new procedures;
- specify staff requirements and activities;
- define the procedures;
- select any tools which will assist staff;
- select and train new staff;
- promote the new procedures;
- train users;
- introduce new procedures;
- set up reporting mechanisms;
- monitor the process.

### **Supporting material**

- (i) *Getting the Bits Right – a Guide to Best Practice in the Provision of Information Systems in the State Sector*, State Services Commission 1992, Wellington
- (ii) *Information Technology Overview*, Wickes B. 1992, Paper presented at New Zealand Society of Accountants Conference, Wellington

### **5.3 Improving the management of external consultants**

When a public service department decides to use external (private sector) resources to undertake a particular activity that activity is said to have been contracted out. This has been an increasingly common practice for public service agencies in New Zealand. The use of external consultants is the most widespread example of the use of contracting out.

No one set of procedures or rules can cover all the multitude of situations in which consultants are employed. This entry offers some general guidance concerning the employment of external consultants emerging from experience in New Zealand.

Contracting for consultancy services external to the public service involves a number of processes including:

- defining the purpose of the contact;
- selecting the consultant;
- developing the contract itself;
- managing the contract.

The practice of engaging external consultants by New Zealand departments has become more common as a result of the restructuring of recent years.

External consultants offer certain advantages:

- specialised expertise and experience;
- the flexibility to increase or decrease staff resources – often at short notice;
- because of the need to protect their reputation they have a strong incentive and commitment to deliver on time, to budget and at the required standard;
- they offer the prospect of skills transfer to the organisation's own staff.

The disadvantages of external consultants are that they require management oversight, they may not appreciate the nuances of the client's organisational culture and they can be expensive.

Use of consultants during restructuring or if the departmental budget is under strain, can also cause difficulties with permanent staff. For these reasons it is important that consultants conduct themselves with diplomacy and tact during any consulting assignment.

Confidentiality is often a key aspect of consulting to the public service. In terms of the New Zealand Official Information Act 1982, consultants need to be aware that the information contained in their contract (as well as the project they are engaged to undertake) is official information and may be released to the public unless there is good reason under the Act to withhold it.

In engaging a consultant, three broad phases of contract negotiation can be defined:

- a pre-documentary stage;
- documentary stage;
- implementation.

All contracts involve the establishment of relationships. It is important that both sides understand clearly:

- the nature of the relationship and what is the purpose of the contract;
- the performance standards and requirements;
- the legal obligations;
- the obligations on both parties to meet the delivery or performance objectives.

New Zealand experience indicates that:

- Time spent on identifying the right consultant is seldom wasted. The tender process is commonly used for major projects. Care is needed to determine who should be invited to tender and what the evaluation criteria will be in selecting the successful tenderer.
- There is merit in involving the consultant at an early stage of a project before all the key parameters are "fixed in concrete". Unless the client only wants the consultant to implement what has been agreed it is better that the advice and expertise of the consultant is incorporated into the project at an early stage.

- Depending on the complexity of the project, legal advisers can play an important part in developing the proposal to engage consultants, particularly in determining the method of engagement, for example fixed fee or a daily rate, and in drafting the written contract.
- The exact form and content of the agreement with the consultant will vary according to the needs of the project. In some circumstances a simple exchange of letters recording the intent of each party will suffice to provide a legal contractual agreement between the consultant and client department.
- An important dimension of contracting out is risk management. To a large extent the process of contract negotiation is to reduce or manage the risks to the government in a project. The risks the organisation carries in engaging a consultant can include:

*Technical*

- risk of inadequate performance
- risk of poor quality

*Cost*

- risk of paying too much
- risk of failure to minimise funding costs

*Schedule*

- risk of delayed delivery

*Contract amendment*

- risk of excessive cost for contract amendments
- risk of reduced performance
- risk of amendment induced delay.

- From the consultant's point of view, the risks involve receiving payment and estimating correctly the time and other resources the contract will require. It is important to think about the risk inherent in any project requiring the engagement of consultants, particularly as these projects tend to be non-routine and one-off where there is no obvious pattern or precedent to follow.
- In the public sector those engaging consultants need to be aware of any legislative provisions that may be applicable.

## **Supporting material**

Buyers and Sellers: Negotiating Contracts In the Public Sector, *Proceedings of NZIPA Seminar*, Research Papers Vol. VII No.2 1991, New Zealand Institute of Public Administration, 1991, Wellington

**SECTION 6 IMPROVING THE  
MANAGEMENT OF FINANCE**

- 6.1 Strengthening internal audit systems
- 6.2 Achieving an output orientation
- 6.3 Improving output costing
- 6.4 Introducing capital charging
- 6.5 Introducing accruals-based accounting
- 6.6 A particular initiative in improving procurement procedures: published guidance for suppliers and purchasers
- 6.7 A particular initiative in improving fiscal responsibility: the Fiscal Responsibility Act (1994)

## 6.1 Strengthening internal audit systems

The effect of public sector reform in New Zealand has been to place increased accountability on management for organisational performance. Internal audit is one of the management systems used in the public sector to promote the efficient and effective use of resources. While internal audit is not new, its traditional role has been in ensuring that departments comply with various administrative and financial rules and requirements. It has now developed into a comprehensive tool for improving organisational performance in the New Zealand public sector.

### The context for change

The New Zealand Institute of Internal Auditors uses the following definition and explanation of internal auditing:

"Internal auditing is an independent appraisal function established within an organisation to examine and evaluate its activities as a service to the organisation. The objective of internal auditing is to assist members of the organisation in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel and information concerning the activities reviewed.

The members of the organisation assisted by internal auditing include management and the public sector equivalent of directors. Internal auditors inform them about the adequacy and effectiveness of the organisation's system of internal controls and the quality of performance."

In contrast, external audit is carried out for Parliament and is concerned with ensuring departments meet legislative requirements.

Comprehensive auditing assesses departmental performance from three inter-related, but distinct, perspectives:

- (i) *Financial statement auditing* – proper accountability depends on assurance that management assertions in the financial statements are true.
- (ii) *Compliance auditing* – in the public sector it is important to have assurance of the probity and legality of departmental activity.

- (iii) *Value-for-money auditing* – meaningful accountability requires that there be an assessment of whether departmental outputs are being delivered economically and efficiently and whether they are effectively contributing to the achievement of outcomes.

In recent years there has been a significant expansion of the number of internal audit units in the New Zealand public sector. Most of the larger government departments now have an internal audit unit. In 1990, the Auditor-General reported that there were internal audit units in 13 of the 43 departments.

The growth in the internal audit function is attributable to a number of factors:

- Internal audit reports serve objectives which are consistent with public sector reform – clarifying objectives, providing greater accountability and demonstrating the effectiveness of resource use.
- Public sector reform in New Zealand increased delegations and decentralised decision-making. For managers the *quid pro quo* for this autonomy was greater accountability. In this environment managers have a strong incentive to support internal auditing.
- The audit process can highlight where economies can be made. This is an important function in departments with static or falling levels of resources.

Internal auditors in New Zealand are in the business of advising management as to the efficiency, economy and effectiveness of internal controls and practices in a systematic and independent way. It should be seen as complementary to the following approaches:

- programme evaluation;
- total quality management;
- specialist review units/management consulting teams;
- corporate planning/performance management systems.

To be effective, internal audit must be treated as part of a wider planning and monitoring process.

## **Implementing change**

The support of the chief executive is critical to the success of any internal audit unit. This support is required to ensure the unit is adequately resourced and also has the necessary authority to conduct the audit process. Chief executive support is also necessary to ensure recommendations are acted upon.

Credibility is a major element of a successful internal audit team. Without credibility anything the unit reports will tend to be dismissed or discounted no matter how objectively correct or compelling its findings on an issue. This means the unit needs staff with the appropriate mix of expertise and seniority to be able to deal with all levels of management.

When an audit unit is established, a directive, circulated to all staff, setting out the authority and responsibility of the internal audit unit, can act as the unit's charter which establishes its independence and its right of access to all information and staff.

A number of public sector organisations in New Zealand have established Audit Review Committees comprising senior management to endorse the internal audit unit's work programme and, of equal importance, to ensure that audit reports do not go unheeded.

Many of the departmental staff who work in an internal audit role initially acquired their skills from courses run by the New Zealand Institute of Internal Auditors.

There are a variety of internal audit methodologies followed in New Zealand but a common practice is to encompass the broad stages of:

- overview
- preliminary survey
- identification of the issues
- evidence gathering
- report writing.

Respecting confidentiality is the basic principle for ensuring a free flow of information.

Independence of all operations and management which it is to review is another requirement of an internal audit unit.

The planning of an audit programme is a major task. This will set out the scope, objectives and resource requirements of each audit planned in the period ahead.

The selection of topics for detailed internal audit scrutiny will depend on a number of factors. Generally projects are undertaken because of a combination of significance in terms of money spent or collected, the risks associated with them, and by the social or economic impact of the activity.

In summary, if internal audit reports are to be of value they must:

- address areas of concern to management;
- focus on risks;
- assist management decision-making;
- lead to improvement;
- be clear and concise.

### **Supporting material**

- (i) The Challenge of Performance Audit in a Policy Department, *Public Sector*, Vol 12, No 1, Mansfield, M. 1989, Wellington
- (ii) Audit, Evaluation and Review in the Public Sector, *Public Sector*, Vol 15, No 3, Matheson, A. 1992, Wellington
- (iii) *The Changing Role of Internal Audit*, Provost, L. 1992, Institute for International Research, Internal Audit Conference, Wellington
- (iv) *Internal Audit in the Public Service*, Management Leaflet No 14, State Services Commission, 1986, Wellington

## 6.2 Achieving an output orientation

The New Zealand public service has undertaken major financial management reforms in recent years. A core concept of these changes has been to shift department Estimates from an input to an output basis. This entry looks at the introduction of output-based budgeting and the role it plays in the public sector's resource allocation process.

### The context for change

Under the 1989 Public Finance Act all departments are required to specify their activities in terms of outputs when preparing annual Estimates.

*Definition:* An output is an identifiable good or service supplied outside an organisation. In the case of government departments, outputs include goods and services for ministers, other departments, the public and the private sector. Possible types of output include policy advice, the administration of regulations, the provision of services, the production of goods and the administration of grants and benefits. It is important that departments are able to define their outputs in terms of quality, quantity, cost and time.

The degree of precision in the specification of outputs varies according to the use to which the information is to be put. The uses of output information are:

- parliamentary accountability;
- ministerial decision-making concerning output purchasing;
- internal management decision-making.

In terms of parliamentary scrutiny (and in accordance with the Public Finance Act) appropriations are approved for broad classes of outputs. These classes are more aggregated than is generally useful for internal management purposes.

Ministers are responsible for choosing the quality and quantity of outputs purchased annually from departments. They may also make decisions on whether or not they wish to purchase the outputs at all.

New Zealand adopted an output-based financial management system for a variety of reasons including:

- To improve Parliament's capacity to scrutinise departmental expenditure. Specification of outputs represents a significant improvement in the standard of information available to Parliament.
- To improve managerial performance. Associated with the introduction of outputs was a removal of many of the former detailed input controls. This gave chief executives and other managers greater freedom to make decisions on the mix of inputs necessary to ensure resources were used to best effect.
- To enhance departmental accountability, allowing a much clearer statement of what is expected than was previously possible. It allows for ministers to make more meaningful decisions about what they wish to purchase. It is also much easier to judge the efficiency and effectiveness of departmental activity and make meaningful comparisons of performance between departments and the private sector.

In summary, the rationale for an output focus is that it allows a more effective acceptability relationship between minister and department. Chief executives can be held accountable for performance in the delivery of services at an output level whereas they cannot be held accountable for the ultimate consequences of government programmes, i.e. the outcome level.

Financial management reform in the New Zealand state sector has been wide-ranging. The intention is that each of the key elements of financial management reform, such as the output focus, accrual accounting, capital charge and corporate planning, will reinforce each other in improving state sector performance.

### **Implementing change**

The basic preconditions for introducing output-based Estimates are:

- departmental accounting systems able to operate the new procedures;
- the outputs must be capable of being defined;
- key stakeholders such as ministers and chief executives must be involved.

In New Zealand the Treasury played a pivotal role in the shift to an output focus. In outline, departments developed their initial set of departmental outputs through the following steps:

- (i) The department would meet with Treasury to work through some of the basic issues.
- (ii) Detailed discussions involving the department and Treasury.
- (iii) The department would establish a small working group reporting to senior management. Discussions would continue until Treasury and the department concurred on an output specification.
- (iv) The agreed specification would be vetted by a quality control panel of senior central agency officials. The purpose of this group was to oversee all outputs and develop a consistent specification approach across all departments.
- (v) If cleared by the senior officials, the department would seek endorsement from their minister, and Treasury would submit a recommendation to the Minister of Finance that the outputs be used for inclusion in the department's annual Estimates.

The introduction of a formal public service management system based on outputs was done in a series of stages. Because it was not realistic to convert all departments to an output regime simultaneously, it was necessary to distinguish different types of financial appropriation. The principal categories were:

*Mode A:* Departments in this category continued to be funded on a traditional input basis. The function of this category was to allow departments time to convert the way they were managed. From the passing of the Public Finance Act on 1 July 1989, departments had until 1 July 1991 to move from Mode A status.

Mode B is split into two groups:

*Mode B (Net):* Departments who receive revenue from third parties as part of their activities, as well as receiving direct funding from government. This may include proceeds from the sale of goods and/or services (e.g. charges for passport licences). This additional funding may be used to cover operating costs and other costs of output production. The additional revenue is counted as part of the department's total appropriation.

*Mode B (Gross):* Any third party revenue received, other than direct funding from government, is directed to the consolidated fund.

*Mode C:* Departments in this group also focused on inputs but were in competition with other suppliers. Like Mode B departments, these organisations had to provide information on the price and the quality of their outputs, but because their prices could be compared with competitors, they were also to develop a capital structure and pay notional interest, tax and dividends.

Mode A, the transitional device to allow departments to convert to an output basis, was in place for two years.

The initial set of outputs that departments developed were rarely definitive. As expected, the specification of outputs continues to be refined in a joint process between departments and Treasury. In effect, Treasury provides the quality control for the specification of output classes across the public service. Changes in government policies and priorities are also reflected in adjustments to outputs in an on-going way.

As experience has been gained in defining outputs it has become apparent that there is need to specify outputs, and associated costs, with progressively greater precision. For this purpose the output classes appropriated by Parliament are too broad for management purposes. Departments are now required to produce annually a formal *purchase agreement* with their minister that sets out in considerable detail the exact composition of each output.

The trend toward output budgeting as a means of enhancing accountability is widespread. We are not aware of any other country that has adopted as comprehensive a set of financial management reforms as New Zealand.

In summary, from New Zealand experience, the following general criteria for defining outputs appeared to be the most important:

- outputs have to be goods and services;
- the goods and services have to be supplied outside the organisation;
- outputs do not include either the ultimate effects on the community, or goods and services consumed in the department itself;
- the production process has to be under the control of the department in order that the chief executive can be held responsible for their production;
- the output should be significant either because of the expenditure involved or for other reasons such as its importance constitutionally;

- the set of all outputs should be complete and should include all goods and services produced by the department.

Common problems encountered in the New Zealand context include:

- a tendency to want to specify outcomes rather than outputs;
- a temptation to aggregate inputs together in the belief that this would give management greater flexibility;
- initially some departments included as outputs goods and services which did not go outside the department;
- a tendency to think that outputs have to reflect the existing organisational structure.

Thus three key lessons emerge from the New Zealand experience:

- the need for strong support from senior management;
- the need to concentrate on goods and services that leave the department;
- the need to think beyond current organisational structures.

### **Supporting material**

- (i) *Putting it Simply – An Explanatory Guide to Financial Management Reform*, The Treasury, 1989, Wellington
- (ii) *Specifying Organisational Outputs*, Bushell, P. 1989, New Zealand Society of Accountants Conference, 1989

### 6.3 Improving output costing

There is an increasing demand for better management information in the public service. In New Zealand, departmental financial reporting is based on the outputs it delivers (outputs being discrete services delivered or policy advice rendered). This is achieved by directly assigning as many direct costs as possible to outputs and indirectly assigning the balance of costs on the basis of various assumptions. The aim of an output-based approach is that ministers and departmental managers should be clear about the quantity and quality of the services that government is purchasing from departments.

This entry covers a number of ideas connected with improving output costing. In particular, it draws on guidance recently published by the Treasury to assist operational and financial managers to improve the quality of cost information and costing systems.

#### The context for change

Cost accounting systems fill two objectives:

- They facilitate external reporting by providing information on the costs of departmental estimates. This information appears in the department's main Estimates, monthly monitoring reports and in annual financial statements.
- They are used internally to help departmental managers plan and control departmental expenditure. Cost accounting data can also be used in non-routine decision-making situations.

The 1994 Treasury booklet entitled, *Improving Output Costing – Guidelines and Examples*, has two parts:

*Part 1* covers the role output costing plays in the public service and identifies ways of improving costing systems;

*Part 2* sets out an example of an internal costing system report in a hypothetical department.

The specific topics covered in the booklet include:

- indicators of effective and out-dated systems;

- areas for internal system review;
- definition of cost objects;
- cost classification;
- assigning direct and indirect costs;
- costing system development;
- documenting cost systems;
- disclosure of cost accounting systems.

Output costing has been crucial to public service reform because:

- Public service organisations are now accountable for the delivery of pre-specified outputs and government is interested in receiving value for money from these purchase decisions.
- Apart from its interests as a purchaser of services, government also has an ownership interest in the performance of a department.
- Many public service organisations and departments have to recover all or part of the costs of producing their outputs.

Improving the quality of cost information can enhance the ability of decision-makers to:

- control and allocate resources within the organisation;
- assess the cost-effectiveness of outputs;
- determining the merits of new spending opportunities and the consequence of terminating activities;
- pricing, planning and forecasting outputs;
- contracting for the delivery of outputs.

The ability to cost well-defined outputs with a reasonable degree of accuracy lies at the heart of New Zealand's public sector financial management reforms. This entry should therefore be read in conjunction with the entry on *achieving an output*

*orientation* which describes how New Zealand moved to an output-based regime as part of its financial management reforms.

### **Implementing change**

New Zealand experience suggests that the three main steps to be followed in designing or developing a costing system are:

- analysing the system;
- developing the system;
- implementing the system.

The following factors must be taken into account in the design of a system:

- the level of information required by users;
- the complexity and diversity of cost objects;
- the frequency of cost allocation;
- the reporting structure within the department;
- the costs of maintaining and operating the system.

A checklist for ascertaining whether the costing system is reporting accurate information or needs improving could be:

*Penetration:* a good costing system will routinely facilitate decision-making and be accessible at all levels of the department.

*Accuracy:* the closer the costing system tracks actual consumption of resources the more effective it is. A problem that public service organisations share with service organisations in the private sector is that joint or common cost attribution tends to account for a large proportion of total cost. As a general rule the larger the proportion of total costs to outputs that the costing system can assign the more successful it will be.

*Flexibility:* government departments are now frequently subject to changing structures, technology and activities. The costing system should be able to adapt to this changing environment.

*Timing:* it is important that the information from the costing system is available when required. Management decisions often require real time information.

*Automation:* the value of automation is in reducing personnel costs and the risk of human error. The aim should be to minimise the human intervention in the interfaces between components of the costing system (i.e. the input and output modules).

The symptoms of an out-dated costing system include:

- wide variations between actual and budgeted cost information;
- lack of usefulness of information for internal decision-making;
- managers running independent information systems because of a lack of confidence in the department's system;
- operational managers not taking ownership of costs;
- the need for frequent and manual adjustment to results and reports.

### **Supporting material**

*Improving Output Costing – Guidelines and Examples*, The Treasury, 1994, Wellington

## **6.4 Introducing capital charging**

Capital charging has been widely used in the private sector in order to take account of the full cost of capital in decisions involving capital investment. Similarly, in the public sector, the capital charge is a charge levied on departments which represents the cost of the capital government has invested in them. This entry explains the use of the charge in the New Zealand public sector, its rationale and method of calculation.

### **The context for change**

New Zealand has an investment of over \$10 billion in the net assets of government departments. Much of this investment is in the form of physical assets. These assets have been purchased with tax-payer funds: funds which would otherwise be available for purposes such as new programmes. The capital charge makes the cost of capital tied up in government's investment explicit. This, in turn, enables the real cost of different activities and spending decisions to be determined. With such information, the full financial implications of decisions can be made and more efficient asset management achieved.

A primary reason for the capital charge is to enable a true comparison of costs to be made. Taxes impose a burden on the community and the government, therefore, has to continually assess the merits of competing claims for spending. In order to do this effectively, it is important to know the true cost of activities. If the cost of capital is not made explicit, it is possible that departmental activities requiring capital would be favoured because such investment would appear to have lower on-going costs and to be better value in terms of their contribution to government objectives than is really the case.

Departmental managers should be aware of the full cost of the decisions they make. Managers have the responsibility of producing, in the most cost-effective way, the services government requires. If they do not have to account for the cost of the capital used, this is likely to bias decisions in favour of greater use of capital. This arises from the difficulty in making a fair comparison between activities that incur a cost of capital and those that do not.

Many departments sell goods and services. By including a capital charge, all the production costs of output are included and there is no hidden subsidy to purchasers. A choice in favour of subsidised production is still possible but use of the capital enables the extent of the subsidy to be known.

Another major reason for adopting a capital charge is to encourage efficient asset management. In the past, capital was, in effect, a "free good" to New Zealand public service managers and they had little incentive to use it in the most economical fashion. Now that capital carries a cost, departments have a strong imperative to think about their use of investment capital and dispose of assets that are not contributing effectively to outputs.

Finally, the charge indicates the return government expects to receive from its investment in departments. The charge allows a comparison to be made between similar investments in the private and the public sector. In this way the charge permits a government to measure the full cost of public sector activities against the benefits that are generated.

In recent years New Zealand has adopted a wide range of reforms aimed at improving financial management performance in the public sector. Overall, these measures are designed to clarify what government departments produce and at what cost. The capital charge regime is an integral part of this reform process.

### **Implementing change**

From 1 July 1991 all New Zealand government departments were subjected to a charge for the level of capital employed in their operations. This reflects the opportunity cost to tax-payers of the funds employed. At the end of each half-year the charge is included in the department's costs at a particular rate for each dollar of capital employed. Since its inception the application of the capital charge regime has been progressively extended to include not only government departments but also other public sector organisations.

In 1991, the first year that the capital charge was introduced, departments were funded in a manner that was largely fiscally neutral. Departments received full compensation for the annual capital charge. This resulted, in effect, in a rise in the sale price of outputs. Where departments sold goods and services to customers other than the government, they were expected to recover the costs of capital by increasing prices or lowering overall costs. It was recognised that this could not be achieved immediately.

Initially, all departments paid a standard rate of 13 per cent. This rate was derived from a consideration of the rates of return required for debt and equity in the private sector.

Further development and refinement will enable more individual rates to be set taking into account each department's particular business. The aim is to establish the cost of capital associated with particular activities.

From the 1993/94 financial year a pilot group of departments was selected to test the use of departmental specific charge rates. An officials group has been established to oversee the introduction of the capital charge and its future development.

Since its initial introduction, the capital charge regime has been progressively refined and its application broadened. With effect from 1 July 1994, all Crown entities (other than tertiary institutions) are now required to include a capital charge in their accounts.

The capital charge is calculated by multiplying a department's capital base by the capital charge rate.

$$\text{CAPITAL CHARGE} = \text{CHARGE RATE} \times \text{CAPITAL BASE}$$

#### *Capital base*

The capital base of a department represents the Crown's investment in a department. In the New Zealand context the department's capital base is the Net Tax-Payers Funds reported in their published financial statements.

The figure for Net Tax-Payers Funds tends to be understated. This is because reported asset values are likely to be lower than economic values and because some important assets, such as human resources, are not included. Nevertheless this accounting framework is widely used in the private sector and is the best measure currently available.

The valuation of assets often poses particularly complex issues in the public sector where no readily available market for the assets exists (for example, in the case of types of military equipment). Often a considerable number of assumptions and judgements have to be made. The issue of valuing public sector assets is on-going and a number of valuation methodologies are being explored and developed.

#### *Capital charge rate*

The capital charge rate is set at approximately the rate that the government could expect as a return in a given year if its capital were invested in a business or organisation comparable to the department. Like other costs incurred in a particular period, the capital charge is matched to revenues earned in the same period.

In a sense it is akin to the annual cash returns received by investors in the private sector.

## **Supporting material**

- (i) *The Capital Charge Regime*, McCulloch, B., New Zealand Accountants Journal, Oct. 1991, Wellington
- (ii) *New Zealand's Capital Charge Regime*, Lally, M., Victoria Economic Commentaries, March 1992, Wellington

## 6.5 Introducing accruals-based accounting

New Zealand has become a world leader in the extent to which its government accounts include a balance sheet of its assets and liabilities and an accrual-based operating statement of income and expenses. This entry looks at the adoption of accrual accounting in the New Zealand public sector.

### The context for change

Governments have traditionally used a cash-based method of accounting to measure budget deficits, revenue and expenditure which are recorded when cash is received or paid out. (The New Zealand Government adopted cash-based accounting during the second world war.) In contrast to cash accounting, accrual accounting records spending and taxes when they are incurred, regardless of when the money changes hands.

Cash-based accounting has some major limitations:

- It can give a misleading picture about the sustainability of government policies and programmes. It fails to distinguish between current and capital expenditure and does not take account of the future cost of existing policies (for example the pension liability which accrues for as long as an employee is a member of a state superannuation scheme).
- It does not keep track of the changing value of assets and liabilities. Capital investment should be depreciated over the life of the asset rather than all being written off in the years the money is spent, as is the case with cash accounting.

Until the introduction of accrual accounting, departments only recorded the cash that was actually spent so budgets always equalled estimated spending. Capital items were handled in the same manner as say, personnel expenditure, with no recognition of the benefits for future years.

Accrual accounting enables the cost of resources consumed in the production of goods and services to be aligned with the revenues of the services produced.

Accrual accounting enables the economic and financial impact of policies to be seen more clearly and the government's net worth to be determined. The New Zealand Government has adopted accrual accounting because it believes that the new

reporting system will give a more realistic picture of which government policies are sustainable over the long-term and what is happening to the country's asset base.

In the New Zealand context, accrual accounting should be seen as part of a wide-ranging initiative to make the public sector more efficient.

Accrual accounting is one element of the wide-ranging financial management reforms that have been introduced to the public sector in recent years. In total, these changes are designed to improve the quality of information available on how government uses the nation's resources. For example, now that departmental balance sheets are in place, departments depreciate capital and pay a capital charge calculated as a rate of return times the value of net departmental assets.

The accounting reforms have not occurred in isolation from other fundamental changes in the management and organisation of the public sector, such as the State Sector Act 1988 which introduced a new accountability regime between Ministers and departments.

### **Implementing change**

In moving to accrual accounting in New Zealand, two fundamental issues had to be addressed:

- The establishment of an opening balance sheet, through a register of capital assets, that required valuing many major assets and liabilities. Assets include items as varied as military equipment, national parks and the roading system. An example of a major liability was the entitlement of public servants to state-funded pensions.
- Methods of combining all the diverse types of Crown-owned agencies such as State Owned Enterprises.

Following the passing of the Public Finance Act on 1 July 1989, New Zealand was able to move all departments to an accrual basis within 18 months. Within accrual accounting, multiple alternatives practices are possible. Therefore one aspect of the strategy to introduce accrual accounting was the use of generally accepted accounting practice (GAAP) of the New Zealand Society of Accountants, as the basis of reporting by departments and the Government as a whole. Use of an existing accounting standard conferred a number of benefits:

- It avoided the Treasury having to lay down a set of precise accrual accounting rules – a process that would be both time-consuming and a duplication of existing standards.

- It enabled private sector resources to be used in the implementation phase. Following conversion of the core departments to accrual accounting, a step by step approach was adopted to widening the coverage to all Crown Entities.
- In the longer term it meant that essentially the same accounting practices would be followed in the public and the private sector. This would facilitate understanding of governmental financial information, and, in a small society such as New Zealand, permit interchange of accounting staff between private and public sectors.
- In the transition to accrual accounting, the Treasury played a key role. A part of its role was to provide some advisory and training services. These functions were consistent with the principle that chief executive officers had primary responsibility for managing the transition.

The Public Finance Act 1989 required all departments to have an accrual accounting system put in place within a two-year time frame. Although departments had to be ready for the financial year beginning on 1 July 1991, this objective was, in fact, achieved by 1 January 1991.

The 1994/5 Budget Estimates were the first that required all Crown entities to submit accounts on an accrual basis.

New Zealand experience suggests that when public sector organisations are preparing to adopt accrual accounting, a series of key questions and issues have to be addressed:

*(a) Is the accounting system ready for accrual accounting?*

This broad issue can be divided into a number of subsidiary questions:

- Has an adequate time frame been established to convert the accounting system from a cash-based to an accrual accounting system?
- Has the Chart of Accounts been revised for accrual accounting?
- Is the fixed asset information available for accrual accounting?
- Have overhead allocation policies been established for the reporting on each significant activity?
- Are the administrative procedures for operating the accounting system defined and efficient?

- Is the existing accounting software likely to present any difficulties in adopting accrual accounting?

*(b) Do the users understand accrual accounting?*

- Has an education programme been established to improve the understanding of accrual accounting statements?
- Are the objectives of introducing accrual accounting clearly established?
- Which groups within the organisation should be included in the education programme?

*(c) How is accrual accounting information to be presented and used?*

- Will accrual accounting be used for monthly internal management reporting as well as periodic external reporting?
- Will budgeting and management planning use accrual accounting?

The introduction of accrual accounting requires good project planning that addresses the conceptual, technical and educational issues involved. A project timetable and regular monitoring is required, as well as the active involvement of senior staff. Without this involvement they will neither understand nor use the financial statement prepared on an accruals basis.

### **Supporting material**

- (i) *Accounting and Management Reform in the New Zealand Government*, McCulloch, B., 1993, Pan-Commonwealth Working Group, Kuala Lumpur, Commonwealth Secretariat, London
- (ii) *Preparing Accrual Based Financial Statements*, McNally, G. 1989, New Zealand Society of Accountants, Public Sector Convention 1989, Wellington
- (iii) *Financial Management Reform in the New Zealand Government*, Scott, G. & Ball, I., The Treasury, Wellington
- (iv) The Treasury, 1989, *Putting It Simply – An Explanatory Guide to Financial Management Reform*, The Treasury 1989, Wellington

## **6.6 A particular initiative in improving procurement procedures: published guidance for suppliers and purchasers**

Public sector agencies are large-scale purchasers of a broad range of goods and services. The New Zealand Government has taken a number of initiatives to ensure that public sector organisations give domestic industry full and fair opportunity to compete for this business. This entry looks at:

- the guidance issued by the New Zealand Ministry of Commerce to the suppliers of goods and services to the public sector;
- the policy guidance that public sector purchasers should follow.

In 1994 the Ministry of Commerce issued two booklets which are complementary and which should be read in conjunction with each other:

- i) A policy guide, *Government Purchasing in New Zealand – Policy Guide for Purchasers*, is for use by departments, statutory authorities and other publicly funded organisations to help them understand government purchasing policy. It contains a checklist on implementing the policy and which is intended to be suitable for copying and inserting into any manuals held by purchasing officers. Emphasis is placed on a number of issues including the use of the New Zealand Industrial Supplies Office, multi-stage procurement processes or calling for alternative proposals to encourage innovation and new products.
- ii) A further booklet entitled *Government Purchasing – Guide for Suppliers*, is intended to help suppliers understand and operate in the government purchasing environment. This booklet includes information on:
  - how and where suppliers can obtain assistance on government purchasing policy;
  - purchasing contacts in New Zealand departments and other State sector agencies with an indication of the goods and services they require;
  - the role of the New Zealand Industrial Supplies Office;

- background to the state sector reforms (suppliers to the sector must take account of the comprehensive changes that have occurred).

In the New Zealand government purchasing context, "domestic" or "local" refers to products or services which are wholly or partly produced in New Zealand and/or Australia. This is because New Zealand and Australia have made a commitment under the Australia-New Zealand Closer Economic Relations agreement (ANZCER) and the Government Procurement Agreement to give each other's products and services equal access and opportunity to compete in their government's purchasing markets on the basis of value for money. This does not imply that it is the New Zealand Government's policy to discriminate against foreign suppliers. Government agencies must be fair buyers who expect high standards and who support internationally competitive local producers only where they offer value for money to the tax-payer.

The basic purpose of the two booklets on procurement is to improve communication and understanding between public sector buyers and domestic industry to their mutual benefit. The booklets provide an opportunity to state the advantages of purchasing locally.

Government purchasing is substantial. New Zealand departments alone currently spend about \$3 billion annually on purchasing goods and services. Other areas of the state sector also spend large amounts. Government wants to ensure that local producers get full and fair opportunity to cater to this market.

Government procurement policy helps to ensure that taxpayers receive value for money from the expenditure of departments and other state sector agencies. Because of the scale and diversity of expenditure, government purchasing practices can have a significant impact on the domestic economy and employment.

New Zealand has undertaken a widespread decentralisation and deregulation of government purchasing as well as removal of most import controls. After a long period of strict regulation and control this may have led some state sector agencies to favour unduly imported over locally produced goods.

There has been a significant move to greater autonomy in the purchasing activities of government departments (part of the trend towards decentralisation and devolution). No longer are detailed rules set down for government procurement activity. In this climate it is important that both suppliers and purchasers are aware of the key government policies and guidelines.

The purchase of locally made goods, whenever justified on a competitive and cost-effectiveness basis, can assist the development of local industry that is innovative and internationally competitive.

Within the Ministry of Commerce there is a unit known as the New Zealand Industrial Supplies Office (NZISO). The NZISO was established to give practical support to the Government's purchasing policy by facilitating contact between public sector buyers and suppliers about purchasing requirements and domestic industry capabilities. Public sector purchasers can take advantage of the free and confidential information and advisory services (and the very extensive and detailed NZ industry capability database) as an aid to cost-effective market research and purchasing.

One particular aspect of procurement policy is offset and industrial participation. The New Zealand Government seeks opportunities for New Zealand industry arising out of major purchases from overseas by government departments and other public sector agencies. For example, the ANZAC frigate project, a major collaborative project to build frigates for the Australian and New Zealand Navies, has involved large-scale participation by New Zealand industry as part of the agreed contract.

There is a private sector initiative known as the "Buy New Zealand Made Campaign". This campaign is sponsored by the New Zealand Manufacturers' Federation and the New Zealand Council of Trade Unions. The campaign is aimed at the buying public in general in order to promote consumer awareness and selection of New Zealand made products.

Institutional and policy change in New Zealand has been rapid in recent years. In order to keep up with changes in the procurement environment, any official guidance requires regular revision. The publications issued in 1994 for purchasers and suppliers replace guidelines issued in 1991 and 1992 respectively to these two groups. New sections have been added to cover issues such as the environment, quality assurance and energy efficiency.

The policy guidance for purchasers provides explanations on the following topics relevant to giving full and fair opportunity to local producers:

- preparation and planning;
- defining requirements;
- environmental and energy efficiency considerations;
- researching the market;

- dealing with unfamiliar products (risk aversion);
- buying patterns;
- purchasing methods;
- evaluation/negotiation/debriefing;
- post-contract relationships;
- purchasing consultants and agents;
- role of the Ministry of Commerce.

### **Supporting material**

- (i) *Government Purchasing in New Zealand – Guideline for Suppliers*, Ministry of Commerce, March 1994, Wellington
- (ii) *Government Purchasing in New Zealand – Guideline for Purchasers*, Ministry of Commerce, March 1994, Wellington

## **6.7 A particular initiative in improving fiscal responsibility: the Fiscal Responsibility Act (1994)**

In 1994, the Fiscal Responsibility Act was passed which sought to enhance the transparency with which the Government manages public funds and to improve overall fiscal management.

The four main elements of the Act are:

- a requirement for regular and explicit fiscal reporting;
- a set of benchmarks against which fiscal policies can be assessed;
- a move to a more open and transparent Budget process; and
- a requirement for select committee review and Parliamentary debate of fiscal reports.

The requirement to articulate fiscal objectives and to demonstrate progress towards achieving them will encourage government to place fiscal management within a longer-term perspective. The Act also encourages Government to ensure consistency between its policy stance and its stated fiscal objectives.

The Act requires government to:

- produce annual progress reports, with three-year economic and fiscal projections;
- prepare Crown financial reports in accordance with generally accepted accounting practice;
- publish a budget policy statement of the Government's long-term fiscal objectives and intentions for the next two financial years, three months before the start of each financial year.

Although the Act requires government to be explicit about its fiscal stance, it leaves it to government to decide what that stance is.

Since the Act was passed, the Estimates have been separated into two documents, reporting details of appropriations and information on departmental activities. The Estimates are now easier to understand and ministerial objectives and departmental performance are now clearer. This facilitates more effective scrutiny and

performance monitoring of government departments and other agencies.

**Supporting material**

Fiscal Responsibility Act: brief overview, Treasury Briefing Note (1994), New Zealand Treasury

**SECTION 7            IMPROVING POLICY-MAKING**

7.1            Enhancing policy advice

7.2            Enhancing policy co-ordination

## 7.1 Enhancing policy advice

### The context for change

If government is to make well-informed decisions on matters of public policy it requires high quality policy advice. Policy advice is now explicitly identified as an output of many of the core state sector agencies in New Zealand. In July 1991 the Minister of State Services directed the State Services Commission (SSC) to review the provision of policy advice from government departments in order to identify ways of improving its cost-effectiveness.

The New Zealand Government requires from the public service pertinent, timely, high quality policy advice which is efficiently produced. For the following reasons, emphasis has been placed on improving the quality of policy advice:

- The impact of poor quality advice on government decision-making is profound. In total, public expenditure in New Zealand exceeds \$30 billion, much of it on transfer payments such as pensions and benefits. Policy advice plays a key role in ensuring that these resources are used effectively and efficiently.
- The direct cost of providing policy advice is considerable (approximately \$400 million annually). There are about 1000 policy analysts working in the New Zealand public service.
- Following public service restructuring, a significant number of ministries have policy advice as their core business. Others have policy advice as a large proportion of their outputs. Virtually all state sector agencies undertake at least some policy development work. In seeking ways to improve the cost-effectiveness of this activity, government was signalling its concern both at the cost and the quality of the policy advice it was receiving.

By 1991, the New Zealand Government was sufficiently concerned about the following aspects of the advice it was receiving from its primary source of policy advice – the public service departments – to instigate the Policy Advice Review:

- the relevance of much of the advice to the government's long-term objectives and more immediate needs;
- the coherence of the advice and its use in a form that Ministers could make best use;

- the quality of the advice in terms its purpose, accuracy, logic, consultation, practicality and presentation.

The report *Review of the Purchase of Policy Advice from Government Departments* (also known as the Policy Advice Review) represented a major study into the policy advice function in the New Zealand context. One outcome of that Review was a *Policy Advice Initiative* – a series of ideas and actions focused on the production of policy advice within departments.

### **Implementing change**

Preparation of the handbook, *The Policy Advice Initiative – Opportunities for Managers* represented the first of a series of steps intended to enhance policy advice.

Another step taken as part of the Initiative was to promote the exchange of policy staff within the public service. Benefits were seen as accruing to departments and individuals, as well as government from expanding the number and spread of policy staff exchanges.

The Initiative is part of on-going efforts to strengthen the quality of policy advice in the public service. This topic should therefore be read in conjunction with the entries on *enhancing policy co-ordination* (which cover the requirement to follow Cabinet Office procedures in the development of policy) and *ensuring contestable policy advice*.

There are a number of other related developments. In 1991 guidelines for the purchase of policy advice were approved by Cabinet and issued to departments. The purpose of the guidelines were to foster a consistent set of performance measures such as quality, quantity, cost, time and coverage of the policy advice function.

Another step in improving policy advice is a decision by Cabinet to adopt a *benchmark* approach to assessing the trade-off between price and quality in the purchase of policy advice. The Treasury has developed costing standards for policy based on an analysis of the costs of all policy units. The objective of this exercise is to give ministers and chief executives comparative price information to guide choices on the quality and quantity of policy advice purchased.

The New Zealand Ministry of Commerce (predominantly a policy agency), for example, has developed its own policy analysis framework for use as an analytical tool by the Ministry's staff. Introduction to the policy framework is part of the induction process for new staff and, in addition, a training video has been produced. It should be noted that the Ministry of Commerce is formally adopting a Total

Quality Management (also known as TQM) approach and has an extensive process improvement network throughout the Ministry.

Other departments have also developed their own quality indicators for their policy advice outputs. Treasury, for example, has a set of detailed quality parameters under the headings of: completeness, relevance, communicability, timeliness, cost-effectiveness, reliability and assessment of quality.

Many of the policy analysts working in the state sector have now received specialist training in methods and techniques used in policy analysis in addition to whatever formal academic qualifications they hold. Some staff have been involved in exchanges and secondments to overseas policy agencies or the policy units within departments.

A number of conferences and seminars devoted to the topic of improving policy advice have been held.

In addition, both private training organisations and Victoria University, Wellington, provide a variety of short and tertiary level courses covering the qualitative and quantitative aspects of policy analysis.

The policy advice review was undertaken by the SSC at the direction of its Minister and commenced in July 1991. The Review's report was published in December of the same year and contained, inter alia, a recommendation that a Policy Advice Initiative be launched to raise the quality of policy advice. The report recommended specifically that one department, the SSC, facilitate the initiative in conjunction with other departments and inviting the participation of specialist groups such as the Institute of Public Administration, the Institute of Policy Studies and the Public Policy Group at Victoria University of Wellington. The handbook, the first step taken under the Initiative, was completed in 1992.

#### **A particular initiative in enhancing policy advice: the Policy Advice Initiative – Opportunities for Managers (a handbook)**

Central to the preparation of the handbook was the premise that policy advice is a multi-disciplinary craft involving a body of theory and practice that can be applied by all policy agencies. Economics, law and statistics are frequently used as are a number of other disciplines.

Although policy advice is difficult to define, according to Professor Claudia Scott of the Public Policy Group at Victoria University of Wellington (a member of the Policy Advice Initiative Committee that oversaw production of the handbook) it includes the following characteristics:

- it is a method of synthesising information and research results to produce recommendations for policy decisions;
- it evaluates options in terms of explicit criteria, such criteria being formative and prescriptive, not descriptive;
- it involves theory and is value-based; the results are linked to concepts and frameworks and good analysis makes such frameworks explicit.

The Social Policy Agency, part of the Department of Social Welfare, has developed the following definition which encapsulates many of the key elements of policy advice:

"Excellent policy advice is based on rigorous objective analysis of relevant research and information, and operational feasibility and uses a wide range inputs from other interested parties."

The handbook entitled *The Policy Advice Initiative – Opportunities for Management* is designed primarily for use by policy managers as a reference source and as a quick tool for assessing particular policy issues. The four chapters bring together the issues of policy and good management practice and cover the following issues:

- Expectations
- Policy Analysis
- Human Resource Management
- Organising Resources

Each chapter concludes with a set of questions designed to help managers think about the performance of their unit. There is also a checklist for ministers when reviewing departmental papers.

### **Supporting material**

- (i) *Efficient and Effective Policy*, AIC Conferences, June 1993, Wellington
- (ii) *Managing Quality Policy*, AIC Conferences, March 1994, Wellington
- (iii) *Review of the Purchase of Policy Advice from Government Departments*, State Services Commission, 1991, Wellington

- (iv) *The Policy Advice Initiative – Opportunities for Management*, State Services Commission, 1992, Wellington

## 7.2 Enhancing policy co-ordination

This entry looks at events in New Zealand over the past decade in terms of their impact on policy co-ordination. It outlines how one particular mechanism, the Cabinet Office system, is used for enhancing policy co-ordination.

In 1984, New Zealand commenced a decade of economic and public sector reform. Radical change occurred in the economic, social and environmental policies of the country as well as in the public sector. During this period of reform a significant number of machinery-of-government changes occurred, with departments being abolished, merged or created. As a consequence, many departments were faced with implementing major policy changes as well as re-organising themselves.

The State Sector Act (1988) placed particular emphasis on the vertical relationship between chief executives and their portfolio minister, and relatively less on the horizontal, or consultative relationships among chief executives. The net effect of all these changes was to add to the complexity of co-ordinating policy.

Against that background, one of the mechanisms adopted to improve policy co-ordination was to clarify, emphasise and more strictly enforce the Cabinet Office procedures for consultation. The Cabinet Office Manual, revised in 1991, contains a section that specifically sets out the requirements for consultation that are expected of departments.

Consultation is necessary to ensure that ministers receive properly co-ordinated policy advice. The aim of revising Cabinet Office procedures was to avoid situations in which departments were not given an opportunity to comment on issues in which they had a legitimate interest, before the proposal was submitted to Cabinet or one of its Committees.

The results of poorly co-ordinated policy can be seen as:

- conflicting or inconsistent policy;
- abrupt reversals or changes in policy;
- wasted resources.

Efforts to improve the co-ordination of policy advice have been initiated from time to time whenever deficiencies in existing procedures have become manifest. For example the single Department of The Prime Minister and Cabinet (combining the policy advice role of the Prime Minister Office and the Cabinet servicing role of

the Cabinet Office) was created in 1990 as a means of improving policy co-ordination.

A number of official committees are also in operation to service most key Cabinet Committees. The practice of having departmental officials attend most Cabinet Committee meetings has the advantage of allowing officials greater understanding of ministerial objectives and expectations.

Detailed requirements in respect of the consultation that is expected by government in respect of policy are set out in the New Zealand Cabinet Office Manual. In summary the key points are:

- The primary responsibility for good consultation lies with the department initiating a Cabinet paper. Departments must ensure that they consider all the implications for other government agencies and consult them at the earliest opportunity when preparing a Cabinet submission.
- The actual process of consultation needs to be tailored to the complexity of the issue, the resources available and the deadline to which departments are working.
- When the views of other departments are summarised, this must be done accurately.
- Departments are to certify, using a set form, to the satisfaction of their minister that they have consulted all government agencies with an interest in the issue and that the views of those organisations are reflected properly in the paper.
- Departments should endeavour to produce a single joint submission rather than attaching separate reports whenever possible.
- Cabinet Office staff are authorised to refer back to the minister who signed it, any submission where consultation appears to have been inadequate.
- All submissions that contain recommendations on expenditure and revenue, or which have financial, fiscal or economic implications, must be referred to the Treasury for comment.

### **Supporting material**

- (i) *Manual 1991*, New Zealand Cabinet Office, Wellington

- (ii) The Problems of Policy Co-ordination: The New Zealand Experience, *Governance*, Boston, J., January 1992

## **Contact Addresses**

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A stylized graphic on the left side of the cover. It features a sun with radiating lines in the upper left, partially overlapping a globe with a grid of latitude and longitude lines. The sun and globe are rendered in dark blue and light blue tones against a background that is red at the top and light blue at the bottom.

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ISBN: 0 85092 437 5

