

**POLICY, SERVICE DELIVERY AND INSTITUTIONAL  
DESIGN:  
THE CASE OF NEW ZEALAND'S SOCIAL SECTOR  
GOVERNMENT AGENCIES, 1984 - 2007**

By

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**The Patchwork Quilt**

# **Abstract**

## **Policy, Service Delivery and Institutional design:**

### **The case of New Zealand's social sector government agencies,**

**1984 – 2007**

The separation, on functional lines, of policy and operational activities in public sector departments was one feature of the reforms of the State sector which took place in New Zealand from 1984. The New Public Management, or NPM as it quickly became known, provided an umbrella title for the reforms which were taking place in public sectors in many OECD countries. NPM involved two sets of ideas - economics-based theories and managerialist systems. Over the period NPM evolved with many transitions, phases and ages as academic observers and some bureaucrats sought to document the changing nature of NPM and compare the inter-country variances.

The thesis addresses changes in institutional design, which have taken place in New Zealand through the period from 1984 to 2007. This period is discussed in two phases. The first, from 1984 to 1999, covered the major changes in legislation and structural arrangements, with phase two, which involved consolidation and rebuilding, being from 1999 to the present. A multifaceted research approach was adopted with evidence from public policy literature, study of relevant secondary data and interviews with some of the key political and administrative actors who were engaged in the implementation of the reforms.

During the mid to late 1990s it became increasingly apparent that the new institutional format was not without its problems, including implementation deficits which were arguably, at least in a large part, a consequence of the decoupling of policy and operational/regulatory functions. With the formation of a new Labour Government in 1999, moves commenced to reintegrate the policy and service delivery functions of government agencies and address the problems, which had been identified.

The research questions focus on the identification of the administrative doctrines and practices which had informed the separation of policy from operational activities in government agencies through the first phase of reforms and the rationale for the

modifications which took place to guide the machinery of government arrangements which unfolded from 2000. The realignment of the policy and operational functions, which progressed through the second phase of the reforms, was guided by a pragmatic approach to analysing the problems which had emerged, on a case-by-case basis, to establish a coherent joined-up government approach to the management of the public sector. The conclusions reached involved the identification of a fourth age for the New Zealand NPM-based reforms. Here there has been a rejection of the earlier managerialist focus and an acknowledgement that a whole-of-government approach is required to administer the public service efficiently.

The lesson learned from this investigation is that unintended consequences can emerge from any empirically based solution grounded in theory and applied in varying degrees in other jurisdictions. A pragmatic approach which considers both the individual characteristics of each situation, and the whole-of-government impact, is required when addressing structural design issues in the future.

# Preface

## 1. The origins of the research

My interest in the reforms which have taken place in the New Zealand public sector have extended for a period of over twenty years from 1984, when the fourth Labour government came to power. Initial involvement in the reforms commenced in 1986 as a member of the Management Policy Branch of the State Services Commission, continued through 1987 as Assistant Director of that Branch and through my Masters degree in Public Policy which was completed in 1990. I then spent five years in the Banking industry, returning to the State sector in 1995, initially to the Ministry of Women's Affairs and then to the New Zealand Community Funding Agency which combined with the Children, Young Persons and their Families Service to become the Department of Child Youth and Family Services in 1999.

The work in the State Services Commission gathered momentum with the arrival of Dr Roderick Deane who was appointed Chairman of the Commission on 1 April 1986. His activities as Chairman are well described in "Roderick Deane – His Life and Times" (Bassett and Bassett, 2006). Later in 1986 Dr Deane assembled a small group to work with him on designing a public service which would really serve the public and be cost efficient. We started from the position of 'what is the business of Government?' The basic business was border protection, the maintenance of law and order, regulations necessary for the management of essential services and taxation collection. The work being undertaken, in conjunction with the Treasury, was to develop a platform for legislation to govern the operations of the public service. The group developed a framework of analysis which allowed us to address machinery of government, accountability and personnel issues. I recall a presentation that we did at the Treasury to a group of permanent heads<sup>1</sup> of departments. We outlined some of the changes which were required and, after listening politely, one of 'old hands' said "it sounds like the IBM way to me". We were puzzled. He then explained "you do it one way for a while and then you do it the other way." This was a typical reaction as some of the permanent heads did not see, at that time, that such radical changes could ever proceed.

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<sup>1</sup> Prior to the State Sector Act (1988) heads of departments had security of tenure and were known as permanent heads.

However, undeterred we continued the planning work which culminated in a presentation to Cabinet in March 1987. Dr Deane explained that the changes envisaged would address the need to: clarify objectives and delivery systems; improve accountability mechanisms; create greater flexibility and adaptability in personnel practices; and reduce the centralist role of control agencies in the operation of departments.

As a member of the team of two who accompanied Dr Deane I remember the occasion well. While other Cabinet members engaged in the discussion, The Prime Minister, David Lange, remained silent. At the end of the presentation he remarked that if this “got out it would bring down the Government.” Work ceased in the short term, Dr Deane left to be Chief Executive of the Electricity Corporation of New Zealand (ECNZ) and I became Director of Training for the State Services Commission. The election of 1987 returned the Labour Government with an increased majority, and work on legislation for the State Sector proceeded within the State Services Commission, culminating in the introduction of the State Sector Bill in December 1987. The State Sector Act came into force on 1 April 1988, followed by the Public Finance Act in 1989. The reform platform was in place.

## **2. The original focus of the research**

One of the manifestations of the reforms was the separation of the policy functions from the operational activities of government departments. My interest in the decoupling was rekindled after I joined the New Zealand Community Funding Agency (NZCFA), a business unit of the then Department of Social Welfare, in 1996 and continued through the merger of the Community Funding Agency with the Children, Young Persons and their Families Service to become the Department of Child, Youth and Family Services in October 1999. What was apparent then was the impact of the decoupling which had occurred in the social welfare area. The then Department of Social Welfare, which became the Ministry of Social Policy in 1999, developed policy initiatives but did not have an operational capability. NZCFA (and later Child Youth and Family) had a network of funding advisors throughout the country, and an established contacting system to deliver programmes through ‘approved’ community-based providers. A policy initiative would be developed in the Ministry of Social Policy and passed to Child Youth and Family to implement.

My observations in that period indicated that while the policy initiatives were developed by the policy agency, there was often little thought given to implementation – or so it appeared. Each year when the Budget was announced, usually in the third week of May, the operating agency would receive several million dollars to implement specific projects for delivery to targeted groups. The availability of funding from 1 July (the commencement of the Government's financial year) meant a short lead time to have the programme operating. Because of the budget secrecy convention operating at that time, the initiative could not be discussed with potential providers, who would be delivering the programme. The period between the Budget announcement in May and the 1 July date for implementation was a maximum of six weeks. This has resulted in instances, where, because of the extensive lead time required for gearing up for delivery and employing suitably qualified staff, the available funding was unable to be spent in the financial year for which it was appropriated. Consequently carry forwards of unspent appropriated funds to the next financial year often occurred, or unspent funding would be returned to the consolidated fund.

### **3. How the project evolved over time and in a changing environment**

The lag between the availability of programme funding and the implementation, which appeared to be caused the separation of policy from delivery, was of concern. However, my plans to investigate further required review from 2001 when, in a series of re-coupling moves, the Labour Coalition Government, brought both policy and operational focus together in the enhanced Ministry of Social Development. This Ministry, from 2005, contracts directly with community providers for the provision of targeted services through the Family and Community Services group (FACS). Those services related to the care of children, and youth justice services, remained under Vote Child, Youth and Family Services.

This change caused a review of my thinking. Rather than proceed with detailed analysis of the implementation deficits, with case study evidence, as was my original intention, I now needed to paint a bigger picture to encompass both the de- and re-coupling activity over the period from 1988 and investigate the logic for the changes which have occurred.

In 2006 a further event changed again the research environment in which I was operating. In March 2006 the Ministers of Social Development and State Services

announced that the Department of Child, Youth and Family Services would merge with the Ministry of Social Development from 1 July. Thus the functions of policy development and service delivery were again brought together in one department of State. My research project required a refocus.



## **ACKNOWLEDGEMENTS**

This dissertation has extended over many years as it was initially planned as a retirement project for when I reached age 65. However, my department kept providing me with interesting work, so retirement was deferred for another four years. I have been collecting material, which I considered potentially relevant, since the late 1980s, initially for my Masters in Public Policy (1990) and then for the doctoral research databank. Over that period my original topic was overtaken by the post-1999 events which are addressed in this dissertation.

Since my initial part-time enrolment in 2004 I have worked with Dr Chris Eichbaum as chief supervisor and his input has been much appreciated as I grappled with taking my practical knowledge and experience of what actually happens in government agencies to the higher academic level required of a doctoral thesis. Dr Bob Gregory (now Professor) has also provided helpful advice along the way as the work has progressed.

The 36 respondents (listed in Appendix one), who agreed to be interviewed for this study, also warrant thanks as they have willingly given their time to participate in the interviews. Many, although promised that the interview would take a half hour, have continued on for an hour or more as they have recalled their experiences from the initial reforms in New Zealand through to the present. All the interviews were conducted in 2006.

Over the period there have been many people who also deserve to be mentioned here. During my work with the Department of Child, Youth and Family Services I was able to access the Ministry of Social Development's (MSD) Information Centre and received fantastic support from Alison Druce, Phil Worthington and Adrienne Fletcher who were able to locate source material for me. Emails from me would result in books and other records arriving on my desk. Information Centres are a great asset to government departments and their dedicated staff do a superb job. The MSD Chief Executive, Peter Hughes, whose letter of support allowed me access to MSD records, has provided encouragement along the way.

For a 'mature' student, the Victoria University Library system can be intimidating. However, the Commerce Librarians Janet Kellar and Charlotte Clements have been

wonderfully patient and helpful as I grappled with accessing material and the use of End Note.

Others deserving of a mention include: my room mate of two years Nestar Russell, who has cheerfully put up with my outbursts of frustration: and my coffee provider at Rutherford House – Sweet Fanny Annes – and their wonderful friendly team; and the School of Government management staff who have been unfailingly helpful and sorted me out when I struck problems.

The period of PhD study can produce moments of self-doubt and the temptation to give the whole thing away. Late in 2007 The Post-Graduate Students Association (PGSA) held a Colloquium “Things I know now that I wish that I knew then”. This provided an opportunity to meet with other current or past students of all ages, and share experiences. Hearing the difficulties they had encountered and how they coped provided the energy for me to continue to work through the 2007/08 summer holiday period.

My family, Sue and Rod, have treated me with good humour over the period and deserve thanks for their support. Rod has been my IT advisor for my home computer which has enabled me to work productively and securely both at home and at the university. Son-in-law John photographed my patch-work quilt, which I had made over a period of some 20 years and which now covers my spare bed. Also family is my cat Xie Xie who, at age 20, has provided support and encouragement along the journey.

And lastly I would like to thank all my women friends who, over the period of my study, have been supportive and caring. For many of us who left school for a job with the ultimate goal of marriage and a family, tertiary education has been a long hard road. I am following the path of many of my sisters who have worked through bringing up families as a sole parent to attain the ultimate academic achievement of a doctorate.

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<sup>2</sup> Social services is defined in this context as the Department of Social Welfare and those departments and agencies which have arisen from the original department, or have joined the Ministry of Social Development from 2001.

# Chapter 1: Introduction

When discussing the consequences of public sector reforms, it is difficult to identify which changes were the intended outcomes of the reform processes, which changes were unintended, or which changes resulted in developments that would have taken place regardless of the reforms (Kjær, 2004: 31).

## 1.1 Outline

This research examines the changes in institutional design which have taken place in New Zealand, focussing on the functional separation of the policy and operations in government departments in the late 1980s and 1990s, and the logic which guided the changes. The impact and consequences of the decoupling are assessed with evidence from the literature and from interviews with some of the key political and administrative actors who were engaged in the implementation of the reforms.

During the mid to late 1990s it became increasingly apparent that the new institutional format was not without its problems, including implementation deficits which were arguably, at least in a large part, a consequence of the decoupling of policy and operational/regulatory functions. Also becoming apparent were ministers' concerns about the quality of policy advice that they were receiving. With the formation of a new Labour-led Government in late 1999, moves commenced to reintegrate the policy and service delivery functions of some government agencies.

A two phase distinction in the development of the New Zealand model of governance provides a framework for the research. The period from 1984 to 1999 which covered the major changes in legislation and structural arrangements, heralded the first phase, with phase two being from 1999 to the present. The distinction being that phase one involved the major structural changes with phase two being a period of "consolidation, development and renewal" (Boston and Eichbaum, 2005:3).

The study will concentrate on the social sector and examine the extent that the move towards a closer alignment or re-coupling of policy/regulatory functions has reflected a coherent theoretical framework. The research will also explore the prospects for a new theoretical foundation for institutional design, machinery of government, and governance arrangements, on an ongoing basis.



The main research questions covered in this dissertation are: first, what were the administrative doctrines and practices that informed the separation or decoupling of policy and operational and/or regulatory functions in the first phase of New Zealand's state sector reforms (1984 -1999)? The focus will be on the social services sector where sustained decoupling proceeded.

Second, to what extent have the administrative doctrines and practices been modified over time and particularly so in the second phase of the reform period from 1999; why were the changes deemed necessary; and what were the specific consequences for machinery of government arrangements which had been so influential in the first phase of the reforms?

Third, given the tendency over the second phase of the reforms towards greater alignment between, and re-coupling of, policy and operational functions, is there a coherent set of administrative doctrines and practices that has informed machinery of government changes over the second phase of the reforms able to be identified? If so, does that constitute an appropriate foundation for policymakers to address such issues in the future?

This approach will contribute to the understanding of the process of structural reform of government agencies by examining the impact of changes intended to improve performance, and the subsequent implications of those changes. The result should provide governments and public sector decision-makers with an understanding of the desirability of taking a wider perspective when contemplating short-term solutions.

## **1.2 Scope and focus of the project**

Since the fourth Labour Government came into power in New Zealand in 1984, the changes to the public sector have been well documented as writers from within the country and beyond have observed the reform processes carried out by the Labour government from 1984 to 1990, the succeeding National governments from 1990 to 1999<sup>3</sup>, and Labour-led governments from 1999 to the time of writing in 2007. (Important contributions to the literature include those of: Aucoin, 1990, 1995, 1998;

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<sup>3</sup> Initially, National formed a coalition with New Zealand First but from 18 August 1998 the coalition collapsed leaving a National minority Government.

Barzelay, 2001; Boston et al., 1991,1996; Christensen and Lægreid, 2001, 2006, 2007; Gregory, 2001, 2003, 2006; Hood, 1990, 1991, 1998; Hood and Jackson, 1991; Hood and Peters, 2004; Kettl, 2000; Peters and Savoie, 1998; Pollitt, 1998, 2001; Pollitt and Bouckaert, 2004; Scott, 2001; 2006; Scott, Bushnell and Sallee, 1990).

The briefing to the incoming government *Economic Management*, published by the Treasury in July 1984, set the scene for the reforms which were to follow. Since then widespread changes have progressively taken place in each successive regime. The programme began with the separation of publicly owned trading operations to create new state-owned enterprises, the establishment of new wage-fixing arrangements and the reorganisation of government departments. The changes were designed to achieve greater efficiency and effectiveness in the management of government resources.

The essential principles underlying the new approach to public sector management were outlined by Dr Roderick Deane, Chairman of the State Services Commission, to a New Zealand Institute of Public Administration Convention in 1986 and were summarised as “a shift in emphasis from input controls to output assessment within the public sector, and an accompanying need to review the associated organisational issues” (Deane in Clark and Sinclair, 1986:15).

The passing of the State Sector Act (1988) resulted in the creation of autonomous agencies of government headed by a chief executive. The list in the first schedule of the State Sector Amendment Act (No 2), 1989, contained 41 departments of the public service. Previously there had been 34 departments. The increase reflected the dismantling of larger departments into policy ministries and operational departments which focussed on service delivery.

The theoretical underpinnings of public sector reform comprised: public choice theory; agency theory; transaction cost analysis; and new public management (Boston et al., 1996). New Public Management (NPM) is a label which has been used to both define the general trend towards a changing style of governance and administration and to describe a number of the reforms which were carried out in many countries from the 1980s onwards. The first use of the NPM is attributed to Hood (1991) and since then has been used extensively in the literature as an umbrella term to encompass the changes which have progressed in different

regimes. NPM has been identified as a global trend (Christensen and Lægreid, 2001). In its briefing to the incoming government in 1987 (*Government Management*), the Treasury used public choice theory to argue that departments should not both advise their political masters and implement policy. Contestability of advice was also deemed essential. The disaggregation of large bureaucratic structures and the separation of policy advice from implementation was a central feature of NPM (Boston et al., 1991).

This dissertation focuses on the successive changes which have occurred in the structure of government departments and the logic behind the changes which have taken place under different governments since the initial decoupling. The changes have reflected the perspectives of the various governments and key Ministers within those governments. However, the main focus will be on the social sector where the environment has been particularly fluid. The social sector can encompass the areas of health, education, justice and social welfare and also employment and housing. However, because of the continuous changes which have taken place in the health sector over the period, health has been excluded from the main discussion. In a constantly changing environment there has been de- and re-coupling within these broad groups of related activities. While the main focus has been narrowed to cover the field of social welfare there will also be interface with other constituents in the broader social services environment.

The decoupling of the service delivery operations of the Department of Social Welfare, with the initial creation of business units, resulted in the establishment in 1992 of the Social Policy Agency, Income Support Service (later to become the Department of Work and Income), the Children, Young Persons and their Families Service, and the New Zealand Community Funding Agency. In January 1999 the latter two business units were combined to form the Children, Young Persons and their Families Agency (CYPFA) and on 1 October 1999 a new department, the Department of Child, Youth and Family Services was established. The major social policy functions remained with the Ministry of Social Policy, which became the Ministry of Social Development when the Department of Work and Income was recombined with the Ministry of Social Policy in October 2001.

Since that time further changes have involved the Ministry of Social Development which was expanded in 2003 to include the Ministry of Youth Affairs, the Office for the Community and Voluntary Sector and the Office for Disability Issues. Further

expansion took place in 2004 with the addition of the Families Commission. Family and Community Services (FACS) was established within the Ministry as a provider and funder of services. Some operational funding for the community sector, previously handled by the Department of Child, Youth and Family Services, was transferred to FACS in Budget 2005, and in 2006. The Department of Child, Youth and Family Services merged with the Ministry on 1 July 2006.

Now that some fifteen years have elapsed since the initial separation of policy functions from operational departments in the social service area, it is useful to investigate this period with a view to forming an opinion on whether this separation has impacted upon the delivery of social policy initiatives and whether the reintegration has provided a better mix of informed policy and efficient and effective service delivery. In the initial reforms the separation was driven by the perceived 'capture' of policy advice by sector and service delivery interests (*Government Management*, 1987). However, post-1999 the logic underpinning the re-coupling of policy and operational agencies has appeared to be based on pragmatic considerations.

The study will explore the theories behind the public sector reform in New Zealand to establish the rationale and expected benefits from the separation of the policy and service delivery functions in the social welfare area. In addition, the propositions: that the separation of policy and service delivery functions has militated against seamless (effective and efficient) implementation of new social policy initiatives; and that the process for the development of new social policy initiatives is becoming more integrated as policy and operational perspectives are considered, will be addressed.

### **1.3 The Research Approach**

The research was initially triggered by an interest in obtaining best value for social policy initiatives, with particular interest on the apparent timing gap between when funding for new policy initiatives became available through the Budget process, and the duration before any programmes were actually delivered to the client groups for whom the funding was intended. However, the project has encompassed a wider perspective as since 1999, when a Labour Coalition Government came to power, there has been progressive re-integration of social sector departments and agencies.

The need for the separation of policy from operations was first outlined in *Government Management* (Treasury, 1987). The current public management system at that time was criticised for not providing Government with quality policy advice. Conflicting objectives arose when advice and implementation occurred within one organisation. The phenomenon of 'producer capture' was identified. As Government required advice to enable it to assess the most appropriate intervention, doubt was expressed that the agency involved in the provision of advice would be impartial, if it was also involved in the delivery of services. Ministers needed contestable policy advice from a variety of sources. Progressively the decoupling of policy ministries from operational departments followed.

The restructuring of government organisations was based on five principles. The first was a separation of ownership and purchase responsibilities; the second principle was the separation of policy making from operational activities to avoid the domination of policy advice by the operational needs of the agency. The separation of funding, purchasing and provision of services was the third principle and competition between service providers the fourth, although it was acknowledged that this had mixed success. The fifth principle was the reallocation of functions so that "large conglomerate ministries were dissected into more manageable forms" (Scott, 2001: 21/2).

The reintegration process which has proceeded in phase two has added a further dimension to the study.

#### **1.4 The research design**

In order to scope, document and analyse the course of the de-and re-coupling which has taken place in the New Zealand public sector, a qualitative evaluation approach has been followed. This approach taken to gathering the research data involved three strands of work.

1. A review of the public policy literature from 1984 to the present – both from New Zealand and international sources;

2. Interviews<sup>4</sup> with those decision makers who have had involvement in the changes in the public sector in New Zealand – both in the 1980s reforms and the subsequent restructurings in the twenty-first century;
3. Review of other documented information from Ministers' statements, parliamentary papers and legislation.

Qualitative research has been defined as “a situated activity that locates the observer in the world, it consists of a set of interpretive, material practices that make the world visible” (Denzin and Lincoln, 2005: 3). While this is a somewhat general interpretation, this study comprises a set of activities and analysis which are brought together (see Chapter two Methodology). In this aspect, the study will exemplify the Denzin and Lincoln notion of the researcher as a ‘quilt maker’ – “deploying whatever strategies, methods and empirical materials are at hand” (Denzin and Lincoln, 2005: 4). Thus the dissertation will resemble a quilt where the component parts are joined together to develop a coherent whole – a research montage.

By adopting the two phase distinction, each phase can be examined in detail to establish the events which unfolded and the rationale for these. The logic behind the separation of policy from operations is well documented. However, the logic behind the re-coupling which has taken place since 1999 has been more difficult to isolate and identify its genesis. Gregory, in his analysis of the action following the announcement of the Government's intention to act on recommendations from the Review of the Centre (2001), noted that:

Its failure to revisit theoretical design in the light of about a dozen years of practical experience in New Zealand may simply reflect the fact that the theoretical coherence of the original reforms was something of an opportunistic aberration, since overtaken by the pragmatic contingencies involved in getting on with the job (Gregory, 2003:53).

The most productive source of information on the re-coupling, which has ensued, has been the writing and speeches made by Ministers of Labour Governments since 1999, and the various reviews which have been established (see Review of the Centre 2001, 2002). It is apparent that the Government came to power in 1999 with a view that restructuring had caused fragmentation of the public sector and that had resulted in adverse consequences for the effective delivery of services, (New

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<sup>4</sup> The interviewing technique used to support the process, has comprised interviews with those in decision-making positions, which includes senior state sector employees, is known as elite interviewing (Lilleker, 2003).

Zealand Labour Party Manifesto, 1999) and on the quality of policy advice (Clark, 2004). One particularly insightful observation on the separation of policy advice from service delivery was from the State Services Commissioner in his contribution to the State Services Commission's Annual Report 2001. He raised the question "Separating Policy Advice from Service Delivery: Temporary Expedient or Long Run Equilibrium?" From the recent experiences he concludes:

The net result is that separating policy advice and service delivery may well have an initial beneficial impact on both the policy function and on service delivery. But over time the separation may well create a situation where a reversal of the separation seems desirable (Wintringham, 2001).

The Review of the Centre (2001) identified the problems which were becoming apparent and advocated reducing structural fragmentation through structural consolidation. The final Workstream Report on Integrated Service Delivery (2003) advocated the removal of structural barriers to collaboration and the need to emphasise ways to ensure that government systems and processes support and incentivise collaboration. It recommended that further policy work be undertaken to support collaborative working with stakeholder groups and better monitoring and evaluation mechanisms.

The pace of this consolidation is summarised below.

- **2001** The Ministry of Social Policy and the Department of Work and Income were re-coupled.
- **2001** Housing Corporation of New Zealand merged with Housing New Zealand Ltd and Community Housing Ltd together with housing policy staff from the Ministry of Social Policy to form Housing New Zealand Corporation.
- **2002** Special Education Service returned to the Ministry of Education.
- **2003** Other smaller ministries and offices have been added to the Ministry of Social Development. (Ministry of Youth Affairs, Office for the Community and Voluntary Sector, Office for Disability Issues).
- **2003** Early Childhood Development returned to the Ministry of Education.
- **2003** The Department for Courts merged with the Ministry of Justice.
- **2004** The Transport Sector was reorganized.
- **2004** The Ministry of Housing was expanded and renamed as the Department of Building and Housing.

- **2004** The Department of Labour had a major restructuring to realign key functions and improve responsiveness and organizational adaptability to the labour market now and in the future.
- **2006** the Department of Child, Youth and Family Services merged with the Ministry of Social Development.

The merger of the Department of Child, Youth and Family Services with the Ministry of Social Development (MSD) was announced on 6 March 2006. The reason provided in the media statement by the Hon David Benson-Pope, Minister for Social Development and Employment, was that “We need to bring all the levers together around CYF’s – policy, services and other social agencies – and bring them back with MSD’s organization and support” (Benson-Pope, 2006). However, there appears to be some inconsistency in the Government’s approach as the Prime Minister is quoted<sup>5</sup> as saying that the difficulty of recruiting a new chief executive was a key factor in the decision. As this was the most recent merger, the structural changes which ensued have been monitored closely and are discussed in chapter eight.

## **1.5 Thesis structure**

The dissertation addresses the reform processes which have taken place in New Zealand since the mid-1980s through to the present. The ‘New Zealand model’ as it has been called (Boston et al., 1996), has been closely observed in the context of the structural and financial reforms which have taken place in Westminster systems over this period. In New Zealand the reform programme adopted by the fourth Labour government addressed three major areas: the first was the creation of largely autonomous state-owned enterprises to conduct trading activities on a commercial basis; the second was the establishment of new wage-fixing and employment arrangements; and the third was the reorganisation of the public service (Whitcombe, 1989).

The Introduction sets out the scope of the research project in the context of the public sector reforms, with the methodological approach adopted outlined in chapter two.

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<sup>5</sup> Dominion Post, March 7 2006.



Chapter three focuses on the New Public Management (NPM) and state institutions. In most western jurisdictions NPM reforms took hold from the 1980s and were implemented, at varying speeds, in different countries. The origin of NPM in the literature is credited by Barzelay (2001) to “two seminal articles” by Aucoin (1990) and Hood (1991). Subsequent writers have charted the progress of the development of NPM, with more recent writing using terms like “middle-aged” (Hood and Peters, 2004). The ages of NPM, using the Hood and Peters’ framework, have provided the structure for the literature reviewed in the chapter. The theoretical underpinnings of NPM, and the administrative doctrines and the practices that have shaped the machinery of government arrangements, are identified.

In chapter four a specific New Zealand focus is adopted to place the reforms in an historical context and then move forward to examine the New Zealand variant of NPM and the theories and doctrines on which the reforms were based. In the Treasury briefing to the Incoming Government in 1987 the dangers of capture – by professionals, bureaucrats and providers – are outlined (Treasury, 1987). Capture avoidance and public choice theory influence the subsequent separation of policy ministries from operational departments. The New Zealand model has been of an evolving kind, with major legislative changes taking place in 1988 (State Sector Act) and 1989 (Public Finance Act) which would reshape the operation of the public sector. The reforms which took place in phase one are analysed in the context of the literature and through the eyes of a sample of interviewees who were involved, either as employees or observers, in the changes in the public sector throughout the period.

The reforms are reviewed in chapter five. There were major reviews of the New Zealand system undertaken in the 1990s, the first by a Steering Group convened by Basil Logan “Review of State Sector Reforms” (1991), and the second by Professor Allen Schick (1996) at the behest of the Treasury and State Services Commission. In addition the various evaluations and summaries undertaken over the period have been identified and commented on.

The machinery of government issues related to the decoupling are addressed in chapter six, with emphasis on the social sector. Another impact of the structural changes is on the changing role of the central agencies. Here a new Department of Prime Minister and Cabinet has been added to the duo of Treasury and the State Services Commission (previously known as the control agencies as they had

exercised control functions). While the period covered is phase one, there are some signs, from the speeches of Cabinet Ministers in 1997 and 1998, that some problems were starting to emerge.

Chapter seven moves into phase two of the reforms and reviews the impact of the change of government and the restructuring which has proceeded. Since the arrival of a Labour-led government in 1999 there have been further machinery of government changes with departmental restructuring to bring together the policy ministries and the operational service delivery departments. The new Labour government was not happy with the separation which had taken place. Indeed, the Manifesto of the New Zealand Labour Party, issued prior to the 1999 election, reviewed the past fifteen years in the central government sector and noted that it was showing signs of stress from constant restructuring. One of the consequences of this was the fragmentation of the sector. The separation into departments and ministries was seen to have resulted in inefficiencies, duplication and a lack of policy co-ordination.

While the main thrust of this research has been on the social sector and the related ministries and departments in education, justice, housing, employment and social welfare, it is the changes in the last of these which are focussed on in chapter eight. The role and coverage of this portion of the social sector, from the Department of Social Welfare to the Ministry of Social Development, are examined to ascertain, through Ministerial speeches and statements, Cabinet papers and departmental notices, the logic which underpinned the changes. The respondents interviewed also included a small group from the community sector which is involved in the delivery of social services through non-governmental organisations.

Chapter nine investigates the logic behind the subsequent re-integration and the rationale for the changes which took place in the period following 1999 in phase two of the reforms. The logic apparent in the changes resulting in the expanded Ministry of Social Development is studied in the wider context of the social sector.

The final chapter addresses the research questions sequentially. It examines the logic which supported the reforms which took place in phase one, especially the separation of policy from operations, and assesses its relevance to the subsequent reintegration taking place in phase two. The fragmentation, which was identified as a major negative by the government and addressed in the Review of the Centre

(2001), is not necessarily the only problem identified. It is also interesting to speculate that if the government of the day, following the next general election in 2008, is not happy with the way the public service is performing, further changes would be made.

The chapter structure, outlined above, will enable the research questions to be addressed. Analysis of first phase of the reforms, both in New Zealand and in the wider world scene, undertaken through a study of the literature and the examination of secondary data sources, establishes the rationale for the reforms. Using the dimension of time, the structural changes which took place, and the machinery of government adaptations which ensued, are identified. Later chapters address the re-coupling which followed, the reasons provided for these changes, and the issues which were considered. The aim of the thesis is to draw together all these threads to establish the circumstances to take into account when structural design for government agencies is being considered.

## **Chapter 2: Methodology**

'Perhaps no other structural change has provoked more disagreement among participants and observers than the question of those designs that have brought about the organizational separation of policy and operational responsibilities in the Westminster systems' (Aucoin, 1998:327).

### **2.1 The original focus**

This research has been an evolving project. Initially, when the research ideas were being considered in the late 1990s, the New Zealand public sector reforms had addressed the decoupling of the social sector departments to achieve policy ministries and operational departments and eliminate the 'capture' of advice by operational interests. The intention then was to challenge the separation of policy and operations by focussing on case studies of social policy initiatives, to follow the process from the development of policy through to implementation where problems were being identified. However, with the change of government in 1999, further changes were in store. The Manifesto of the New Zealand Labour Party, issued prior to the 1999 election, signalled the assessment that constant restructuring was resulting in fragmentation of the sector in terms of output delivery and in the number of agencies with responsibilities, which were formerly under one department.

Subsequently there have been a series of reviews which have highlighted fragmentation and advocated more joined-up and co-operative working arrangements between government agencies. The most wide-ranging was the Review of the Centre (2001) which was concerned with the fragmentation of policy and delivery mechanisms and the lack of coordination which had been identified. Reintegration in the social sector has continued from 2001.

### **2.2 Research Strategy**

A multi-faceted qualitative research approach has been adopted for this study. Qualitative research is grounded in an 'interpretivist' position in that it is concerned with how the social world is interpreted, understood and experienced. It is based on methods of data generation that are flexible and sensitive and the methods of analysis involve understandings of detail and context (Mason, 2002).

According to Patton, qualitative findings grow out of three types of data collection: in-depth open-ended interviews, direct observation and written documents (Patton, 2002: 4). The approach for this research has involved these three types of data collection. The in-depth open-ended questions were carried out in 2006 on a sample of respondents who were involved in the public sector over the period covered in the study. The interview approach is outlined in 2.3.2. Direct observation has been achieved through the researcher's involvement in the public sector environment from 1980 as a policy analyst and planner and finally as a participant, being on the staff of the departments concerned in some of the restructuring which has taken place in the social services sector. The analysis of written materials has extended over time and, with the advent of comprehensive websites, a rich vein of information can be accessed from departmental, parliamentary and ministerial sources in addition to the hard copies of reports available in departmental archives.

The qualitative approach investigates the why and the how of decision-making. It also allows a smaller interview sample to be used which, in the context of accessing key decision-makers and observers, represents a considerable time-saving. This approach enables analysis of the reforms, which have taken place in the New Zealand public sector; consideration of the explanations provided for the changes made; and subsequent review of the outcomes which resulted. The direction the reforms took needs to be understood in the context of the environment at the time. While the subsequent reviews, undertaken at the request of government, have provided an official view, this is tested against the views and experiences of those who have been involved in the changes over the twenty-year period under study.

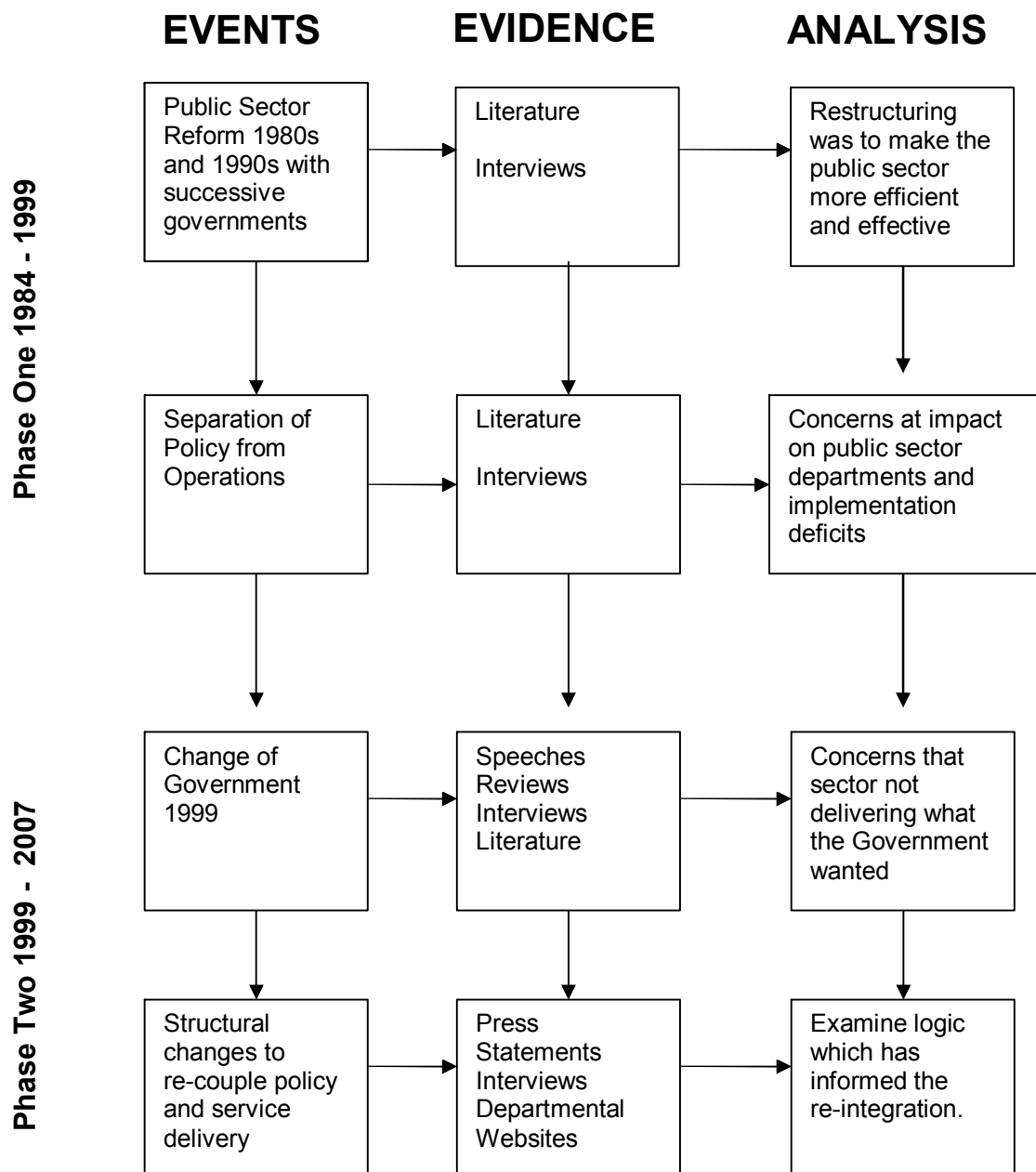
Although a weakness of qualitative research can be that it is essentially subjective, in this case the active involvement of the researcher, over the period covered by the study, can provide a check on the reliability and accuracy of the interview data. It has also been possible to balance the views of the respondents by using a sample drawn from designers, recipients and observers of the reform processes. The strengths of the method – insights from participants and the greater depth of the analysis – made it the preferred approach for this research.

### **2.3 Methodology adopted**

The approach taken to gathering the research data has involved three strands of work. These are described in detail in the following sections.

1. A review of the public policy literature from 1984 to the present – both from New Zealand and international sources;
2. Interviews with those who have had involvement in the changes in the public sector in New Zealand – both in the reforms of the 1980s and 1990s and the subsequent restructurings post 1999 and analysis of the interview responses; and
3. Review of other documented information from Ministers' statements, parliamentary papers and legislation.

The diagram below outlined the process followed for developing the information base for the study.



The challenge for the researcher seeking to evaluate systemic reforms was pointed out by Boston who noted the difficulties involved in evaluating and assessing changes in the field of public sector management. Boston identified problems – epistemological, conceptual and methodological – and considered that there had been few attempts to address the problems of assessing systemic changes (Boston, 2001: 1). He did acknowledge that there had been a burgeoning number of studies and reviews of the New Zealand public management reforms, however “few of the studies thus far have provided a comprehensive or systematic assessment” (Boston, 2001:11). While acknowledging the Logan and Schick reviews, it was considered that they applied only a limited range of criteria to the assessment of the reforms and ignored significant elements of the new model – including service delivery.

One experienced academic commentator, interviewed for this study, pinpointed the problems in reviewing the reforms and identifying specific impacts.

- The difficulty for this research is that you have changes upon changes, upon changes – in the sense that you’ve got financial management changes going on; changes in the policy perspective; changes in the way in which outputs are specified; and structural organisational changes happening – trying to disaggregate and delineate the impacts of the different changes on a certain set of outputs, and try and work out cause and effect is extremely difficult – which means we must be careful about making claims about the impacts of these sorts of changes, while at the same time being reasonably sceptical about any positive claims that are made about the impacts of changes. (17)

### **2.3.1 Literature Review**

The literature study for this project is primarily based in the disciplines of public policy and public management with social science research providing the methodological underpinning. The analytical context focuses on establishing the logic which has underpinned the changes which have taken place. The logic of decoupling has been carefully documented in the New Public Management literature and is based on well advanced theories: public choice theory, agency theory, and transaction cost analysis. The identification of the logic behind the re-coupling which has taken place since 2000 has been more difficult to isolate, as has identifying any overarching theoretical framework to guide the changes. Each of the moves to reintegrate agencies back under their initial policy umbrella, or into another policy environment, has been marked by Ministerial announcements, Cabinet papers and information on the host department’s website.

The public sector reform literature is wide-ranging and multidisciplinary. In New Zealand the scene was set by the Treasury publication *Economic Management* (1984), which was the brief to the incoming government in that year. This was followed, in 1987, by the Treasury's brief for the next incoming government, *Government Management*. The overseas observers writing in the late 1980s and early 1990s pronounced New Zealand a 'world leader' and many made the pilgrimage to New Zealand to observe for themselves the changes which were occurring.

New Zealand mentions included:

- the country which has perhaps taken NPM the furthest (Hood, 1990: 207).
- has gone furthest along the entrepreneurial path (Osborne and Gaebler, 1992: 330).
- has acquired considerable international prominence. There is now talk of the NZ model of public sector management. Delegations of public sector managers from all around the world come to observe and copy (Boston, 1996: 107).
- is often cited as a "world leader" in NPM (Guthrie, Olson, Humphrey in Jones, Schedler, Wade, 1997:261).
- can realistically aspire to have one of the very best managed governments in the world (Scott, 2001: xxi ).
- the NPFM<sup>6</sup> system led the world (Newberry, 2002: 2).

Reading the literature related to public sector reform one is struck by the variety of opinions expressed. A very rough classification was developed to categorise the literature and the views of the authors using the general thrust of the writer's argument. The categories became: those in favour and enthusiastic about the reforms, the observers who took a neutral stance, the sceptics who placed the changes in the context of earlier reforms, and the doubters who opposed the changes made in the name of reform.

While this classification is superficial, and branding the tenor of the writing entirely subjective, the interesting finding which did emerge was that the doubters were usually the more recent writers, and, even more interesting was that some of those who were initially enthusiastic, shifted position in their later writings. This suggests

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<sup>6</sup> New Public Financial Management



that as more evidence became available, deficits were becoming apparent and this caused some to review their earlier position.

### **2.3.2 *The interviews – approach adopted***

In order to obtain the views of those who were involved in the public management reforms in the 1980s and early 1990s and then in the subsequent re-coupling which has taken place since 1999, the method of in-depth open-ended interviews with key participants was deemed to be potentially a rich line of enquiry. The method of interviewing people in important positions is referred to as “elite interviewing”. Elites can be defined as “those with close proximity to power or policy making” this includes elected representatives and senior state employees (Lilleker, 2003). Open-ended questions are recommended as these allow the respondent to interpret events from their own experiential base. Richards (1996) also provides guidance on approaches and pitfalls. The interviewer needs to know the subject well and be prepared to be flexible.

According to Aberbach and Rockman, interviewing elites is important if one needs to know how they interpret an event or series of events. The authors note that elites especially do not like being put in a straightjacket of close-ended questions, and that it can be quite difficult to secure interviews with busy officials (Aberbach and Rockman, 2002:673-4). However, for a Wellington-based interviewer with a public service background the ‘distance’ from political and public sector elites is less daunting than in the United States and interviews can be more easily achieved (see Whitcombe, 1990). For this research prospective interviewees were sent a letter, signed by supervisor and researcher, which explained the purpose of the study and stated that a follow-up contact would be made to arrange an interview. The list of questions and Informed Consent form were also included. While the letters were addressed personally to the intended respondents, they were marked for attention of the Personal Private Secretary, who had been contacted separately to advise that the letter was being sent. In every case but one interviews resulted.

The literature alerts the interviewer to the drawbacks of interviewing decision-makers and the issues and challenges to be met. Interviewees can be self-serving and promote only those situations where they were directly involved, or portray their role in a favourable light. Facts can be corroborated using primary and secondary data sources. Davies (2001) offers the solution of triangulation to solve the reliability problem – cross-referencing interview data where the recollections of the

interviewee are checked against existing documentation and the literature. High profile respondents may also be reluctant to be quoted. However, the Informed Consent process adopted for this research (Victoria University Human Ethics Committee Approval) clarified the position for respondents as the undertaking was made that no comments would be directly attributable to them.

The added value of elite interviewing was mentioned by Lilleker (2003) who states that “interviews do provide insights into events about which we know little: the activities that take place out of the public or media gaze, behind closed doors [...]. Interviews can provide immense amounts of information that could not be gleaned from official published documents, or contemporary media accounts” (Lilleker, 2003:208).

Thirty-six semi-structured interviews were undertaken to obtain the views and opinions of those who were involved in the changes which took place in the public sector during the 1980s and 1990s, the period when decoupling was proceeding apace. The range of potential interviewees was substantial. Randomised sampling was neither feasible nor appropriate and the snowball approach had limitations in terms of the specific coverage required. A semi-stratified approach was undertaken to locate people with the particular backgrounds and experience sought. It was thought necessary to concentrate on those who were working in the central agencies and key departments at the time of the initial changes. It was also important to gain the views of those who were not intimately involved, but were observers of the changes underway. The views of the commentators at the time, usually individuals from within the University environment, were sought, as were the views of community sector people involved in non-governmental organizations delivering social services. The Summary Table in Appendix One shows the sampling frame used and also tracks the positions held in phase two. While each respondent was given a unique numerical identifier to enable their comments to be traced throughout the text, these numbers bear no relation to the alphabetical list of respondents shown in Appendix One.

What was apparent from the literature, both written at the time and subsequently, was that the initial enthusiasm for decoupling began to diminish as deficiencies became apparent. This changing of views seemed to occur both from the New Zealand observers and those writers from overseas who had initially seen New Zealand as a “world leader”. Interviewing people whose experience extended over

the longer period established their views both at the time of decoupling, and covered any rethinking, which may have taken place through the re-coupling process.

Differentiating between those who were involved at the time of the main thrust of the reforms and those who are currently implementing re-coupling, was essential and the questions asked have concentrated on their experience in a re-coupled environment, their views on the 'drivers' of these changes and the reasons for this, and their overall reflections of the earlier changes and the current result. They were also asked what they thought lay ahead for public sector departments. Again the distinction has been made between the group currently working in government departments and the 'observers' who, in addition to those located in academic institutions, were now consultants operating in New Zealand and overseas.

Another major group of interviewees is represented by a sample of those currently working in a re-coupled environment – either in a government department or the community sector. This group was asked to give their views on the current situation and express an opinion of what had been the previous situation. Their views on what may occur in the future would also be of interest.

The above identification of groups of interviewees has omitted a key group – the politicians (cabinet ministers) who were involved in making the decisions at the time. The period under study covers three regimes. Initially there was the Fourth Labour Government (1984 – 1990); National Coalition Governments (1990 – 1999) and then the Labour Coalition (1999 - 2002 and Labour minority 2002 – present). Former Ministers were contacted together with Ministers from the current government. The portfolio with the most involvement in the reform process was that of the Minister of State Services and, as this study has a specific focus on the social sector, the Minister of Social Welfare – now the portfolio is Social Development and Employment.

### **2.3.3 Secondary data**

Analysis of the secondary data has encompassed accessing a variety of sources, which have reported on the reforms and have documented and expressed views on the impact of decoupling and re-coupling. These include the Manifestos of both major parties which have provided some indication of what actions might follow electoral success. The Labour Party Manifesto for the 1999 Election was particularly relevant.

Another strand of work is represented by the examination of Ministers' speeches and relevant Cabinet papers. The effects of decoupling were being observed and commented on by Ministers, initially within the National Government - Shipley (1997) and Upton (1998), and later in speeches by senior Ministers in the Labour government and Prime Minister Clark (2004).

Major Reviews and Evaluations occurred in 1991 (Logan Review), 1996 (Schick Report), 2001 (Review of the Centre), and the Final Workstream Report from the Review of the Centre (2003). A study of these reports, their recommendations and the follow-up action on the recommendation is another important strand of the study.

The websites of government departments have provided information on recent changes but the earlier phase one reforms have required access to hard copy material, such as earlier published reports, as departmental websites usually have a limited time horizon. The Treasury and State Services Commission websites have provided a rich information source for Occasional Papers, Working Papers, Annual Reports and subsequently released Cabinet papers. Access to the Ministry of Social Development's Information Centre has proved extremely helpful.

Monitoring the websites of political parties also provides an indication of possible issues to be considered in the next, 2008, election.

## **2.4 Summary**

The scale and pace of the reforms in the 1980s and early 1990s resulted in widespread acceptance that the New Zealand restructuring was soundly based. This view resulted from reviews of the Reforms undertaken by the Logan team (1991) and Professor Allen Schick (1996). However, the translation of theory to organizational design was not without problems. The reality emerged that some structural changes had dysfunctional aspects and the separation of policy from delivery of services had implementation deficits. Some of these problems have been addressed in the actions following the Review of the Centre (2001, 2002).

This study investigates the logic and drivers behind both the separation of policy from operation and the re-coupling which has proceeded into the twenty-first

century. The period under review, 1984 to the present, is separated into two phases – the first covering 1984 to 1999 and the second from 1999 to the present.

The aim of the research is to use the evidence accumulated through review of the extensive literature, interviews with key participants, and secondary data sources, to draw together some conclusions, and also to explore some implications for consideration when public management issues are being deliberated and further structural changes contemplated.

## **Chapter 3: The New Public Management and State Institutions**

To put it simply, if the adoption of NPM forms and practices had not been accompanied by consistent, verifiable gains in efficiency or effectiveness, why have these forms apparently continued to spread? (Pollitt, 2001:937)

### **3.1 Introduction**

Public sector reform has captured the attention of politicians, academics and researchers in all western democracies since the 1970s. While there were cells of activity and change in many countries, there did not appear to be any universal embracing theme, theory or collection of theories until the literature started to focus around the notion of a new style of governance which became known as the New Public Management or NPM.

This chapter sets out to distil the contemporary literature and describe the origins of NPM, its defining features and interpretations, and its influence and impact on the countries where it was adopted. The advance of NPM is documented from the initial attribution in 1990, to the twenty-first century where recent cross-country studies have referred to 'second generation reforms' (Christensen and Lægreid, 2006) or even 'transcending NPM' (Christensen and Lægreid, 2007). The development of NPM has been evolutionary, and the focus has changed as writers seek to place their observations in a relevant context of time, or place.

Analysis of the major literature over the period from the late 1980s reinforces, for this writer, the usefulness of the lens of time through which to view the unfolding nature of NPM in OECD countries. Accordingly, three main phases or "ages of NPM" have been employed to study the developments in the public sector reforms over the period (see Hood and Peters, 2004:267). However, while the Hood and Peters' three ages is a useful descriptor for the period they cover, more recent contributions to the literature, which have emerged in the twenty-first century, warrants consideration. For the purposes of this review, and for the analysis which follows in subsequent chapters, a fourth age which extends from 2000 has been identified.

NPM consists, essentially, of two sets of ideas – economics-based theories and managerialist systems. The theories which initially underpinned NPM, public choice theory and agency theory, and transaction-cost analysis had their origin in the discipline of economics and are referred to as the ‘new institutional economics’ (Boston et al., 1996). Public choice theory had an influence on institutional design in a number of jurisdictions, and the application of one aspect resulted in the restructuring of government sector agencies to separate policy ministries from operational departments. Agency theory clarified the relationship between principals and agents and focussed on accountability relationships. In New Zealand, it codified relationship between chief executives and Ministers under the State Sector Act (1988). The other component of NPM was the managerialism wave, which imported generic private sector management practices into the public sector in order to improve performance and increase efficiency and accountability.

While the NPM literature presents a multiplicity of interpretations and documents the changes made in the name of reform throughout OECD countries, the form of NPM which developed in New Zealand was unique – and thus became referred to as the ‘New Zealand model’ (Boston et al., 1996).

New Public Management embraced economic theories and management imperatives and the impact was wide ranging. However, the prime focus of this research is on institutional design and the structural changes, which took place as a result of the New Zealand reforms, and their impact. It is these aspects which are explored in subsequent chapters.

### **3.2 The origins of New Public Management**

The initial labelling of NPM as such (see Aucoin 1990, 1995; Barzelay, 2001; Boston 1991a; Christensen and Lægreid, 2001; Hood, 1990, 1991; Hood and Jackson, 1991; Pollitt, 1993) was an attempt to provide a framework for the various economic and public administration theories which were underpinning the changes in public administration and management, made around the world in the 1980s and early 1990s. The changes which took place were often being driven by reviews of the role of governments and their functions in a changing environment. There were also major changes in the managerial environment where the role of corporate management in the private sector was facing a transformation in management

styles. For example, Peters and Waterman's *In Search of Excellence* (1982), based on the earlier McKinsey projects launched in 1977, revolutionised management and became a world-wide phenomenon. The public sector began to notice the management revolution too.

Christensen and Lægneid (2001) make the important point that the agents behind the reforms launched in the 1980s and early 1990s, did not use the term NPM, but that the content was later classified as such. This means that what may have started out as national administrative policy has been interpreted later as NPM reforms. However, it is argued that reforms always involve deliberate change, and that:

for a reform to be labelled NPM it must constitute an intentional effort by central political-administrative actors to change the structure, processes or personnel of the public sector, and contain certain key elements (Christensen and Lægneid, 2001:18).

The hybrid character of NPM has meant that a number of different elements (referred to as a 'shopping basket' by Christensen and Lægneid, 2001:19) have been used by the reformers of public administration. These elements involved the primacy of economic norms and values, and the hybridisation of organisation and management theories.

The origin of the term 'New Public Management' and its appearance in the literature has been open to some debate. In his review of NPM, Barzelay (2001) acknowledges NPM as an international trend and stimulated by "two seminal articles" by Aucoin (1990) and Hood (1991) (Barzelay, 2001:9). This would place the origin in the late 1980s. Barzelay considers that NPM:

Is a shorthand expression used by scholars and professionals to refer to distinctive themes, styles and patterns of public service management that have come to the fore within the past two decades, notably in the United Kingdom, Australia and New Zealand (Barzelay, 2001:xi).

According to Barzelay, the term first appeared in academic literature in the early 1990s and quickly caught on. However, he commented that while scholars agree that the term exists, they differ on what it means. In a later article, Barzelay includes New Zealand with Australia and Britain, as "NPM benchmark countries" and that in the period of the 1980s and 1990s they were considered as cases of "comprehensive public management policy change" (Barzelay and Gallego, 2006: 544).



The Aucoin article<sup>7</sup>, referred to by Barzelay, saw two major sets of ideas which have influenced the design of governance and management – the first “from the school of thought known as public choice theory, which seeks to re-establish the primacy of representative government over bureaucracy”; the second set of ideas being “generally referred to as the ‘managerialist’ school of thought focuses on the need to re-establish the primacy of managerial principles over bureaucracy” (Aucoin, 1990:115). Although not using the term ‘new public management’ Aucoin’s analysis of administrative reform in public management laid the platform for the development of NPM by bringing together the two key sets of ideas – those based on economic theories and those with a base in managerialist systems.

The often-quoted Christopher Hood (1991)<sup>8</sup> states that the rise of NPM over the past 15 years “is one of the most striking international trends in public administration” (Hood, 1991:3). That would place the origins of NPM in 1976, certainly before Margaret Thatcher came to power in Britain in 1979. However, while the origins of the term are open to debate, it quickly became a convenient neologism, which was used to cover the variety of public sector reform practices which were unfolding around the world from the late 1970s (Christensen and Læg Reid, 2006:328).

Another view of the origins of NPM is put forward by Pollitt (1993). His focus was initially on the Thatcher and Reagan administrations. He notes that in the third Thatcher term, from 1987, the pace and scale of change increased dramatically. This second wave of reforms continued with the Major administration from 1990, and comprised four main elements: a bolder use of market mechanisms in those parts of the public sector that remained; intensified decentralisation; a constant emphasis on the need to improve service quality; and greater attention to the wishes of the individual service user/consumer. In the academic literature this package has become known as the “new public management or NPM” (Pollitt, 1993:180)<sup>9</sup>.

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<sup>7</sup> Aucoin, 1990, *Governance*, Vol. 3 No. 2.

<sup>8</sup> Hood, 1991, in *Public Administration*, Vol. 69 Spring (3-19)

<sup>9</sup> Earlier work by Pollitt, *Managerialism and the Public Services: The Anglo-American Experience*, (1990) did not refer to New Public Management and concentrated on managerialism.

Earlier, NPM had been thoroughly examined by Hood<sup>10</sup> who saw NPM as “today’s equivalent to cameralism” – which, in eighteenth century Europe, had been the new administrative orthodoxy and like NPM had had no single strain (Hood, 1990:205). Hood’s analysis sought to establish the “doctrinal keys” which would turn the lock of political acceptance of the NPM doctrines and identified five possible ways of explaining the rise of NPM in the 1980s. These ranged from “a ‘mood swing’, a new intellectual fast food for the fickle consumers of takeaway management” (Hood, 1990: 205) through to an administrative reflection of the “post Fordism”<sup>11</sup> social changes marked by the advent of technology, which had huge implications for the management of public services and allows for greater movement between the public and private sectors (Hood, 1990:207). Of the five possible explanations Hood considers the last to be the most complete. However, he still has doubts as NPM had developed in countries which were not really “Fordist” in the first place. Here he instances New Zealand, which he considers had taken NPM the furthest.

In endeavouring to identify and explain the differences between the take-up of NPM in different countries, Hood used Britain, Australia and New Zealand to show how NPM was practised differently in the different constituencies. Hood identifies four striking differences.

- (i) Who does the “managing”? The Australian approach was to put ministers in a better position to manage their departments. But in the New Zealand approach and also in the Next Steps approach in Britain, the aim was to take away the need for ministers to manage by creating smaller departments and put management responsibility onto the chief executives<sup>12</sup> rather than on to ministers. (Australia had merged departments to produce fewer agencies.) He notes that New Zealand had taken a more extreme position by decoupling policy advice and execution agencies (Hood, 1990: 209).
- (ii) A second difference related to the appointment of chief executives and monitoring their progress. While in Australia and Britain there had been a

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<sup>10</sup> *De-Sir Humphreyfying the Westminster Model of Bureaucracy: A new Style of Governance?* April 1990 issue of *Governance*, Vol 3, No 2

<sup>11</sup> Post-Fordism is the mode of production, and associated socioeconomic system said to be found in most industrialized countries. It can be contrasted with Fordism, the productive method, typified by the Ford car plants, in which workers work on a production line perform specialized tasks in a repetitive manner. Post-Fordism is characterized by new information technologies, the rise of the service and white-collar worker, and the globalization of financial markets.

<sup>12</sup> Hood uses the term chief executive to apply to the heads of government departments in each jurisdiction.

demise of the former central personnel agencies (the Public Service Board and the Civil Service Department respectively), in New Zealand the State Services Commission had retained the responsibility for appointing chief executives of government departments and monitoring their performance.

- (iii) There had been a marked shift in conditions of employment of public servants – again with the observation that New Zealand had gone further than the other two countries in that they had moved away from a single employer structure to each chief executive being the employer for their department.
- (iv) The movement to privatisation was seen to vary in extent and style, where New Zealand and the UK had moved faster than in Australia, where there had been little movement at Commonwealth level.

Using the dimensions of “degree of reasoned justification of NPM” Hood considers that Australia and the UK seemed to be closer together and had taken a more pragmatic approach, but with the UK leaning more towards an economics focus. On the other hand New Zealand was considered to be far out to the right on the new institutional economics end of the spectrum (Hood, 1990:210).

The New Zealand Treasury document *Government Management* (which was the briefing to the incoming government in 1987) was called by Hood “Treasury’s NPM manifesto” in that it set out the principles for the “administrative revolution – goal clarity, transparency, contestability, avoidance of capture, congruence of bureaucratic incentive structures with stated government goals, the enhancement of accountability and the cost-effective use of information” (Hood, 1990:210). (The impact of the Treasury on the New Zealand reforms is discussed further in chapters four and five.)

Hood points out that, at the initial time of writing (1990), there had not been a great deal of debate around NPM. He acknowledged that there were doubters and detractors and dealt with the four areas of concern: the apparent demise of traditional public service ethics and loyalty to the notion of public service; reconciling the public choice focus which involves decentralisation to provide for consumer input with government administration which requires a centralised focus on performance indicators; the implications of how far the obsession with performance measurement would be taken; and the kind of public service would the NPM produce (Hood, 2001:

212-3). Further analysis of the impact of the NPM reforms over subsequent years, in the New Zealand situation, is addressed in later chapters.

The literature reviewed here indicates a variety of interpretations of the rationale for the reforms of the public sector in different jurisdictions, taking place over the period from the mid 1980s. Despite Hood's early doubts and concerns, the literature post 1990 indicates that NPM, in its various interpretations, has received wide acceptance and provided a useful umbrella to cover the range of theories and ideas which were driving public sector change, in the name of reform. NPM has been defined in different ways by different writers and a review of the literature indicates that the variety of interpretations is based upon the timing of the observations and the reform activity in the country or countries under review.

### **3.3 NPM - Defining features and interpretations**

The origins of NPM have been addressed by reviewing the early literature from 1990, as observers sought to interpret the changes taking place, explain their significance, and place them in a coherent framework. The path of NPM has varied throughout the literature, especially between the early writing and the later literature which reports on the unfolding of NPM in different countries and through changes of governments (see Aucoin, 1990, 1995; Barzelay, 2001; Boston et al., 1991,1996; Christensen and Lægheid, 2001, 2006; Gregory, 1998, 2000, 2003; Hood, 1990, 1998; Hood and Jackson, 1991; Kelsey, 1995; Kettl, 2000; Peters and Savoie, 1998; Pollitt, 1993, 1998, 2001; Pollitt and Bouckaert, 2004; Shaw, 2000). Along the way NPM has received some further analysis in more recent literature. It was deemed to be "middle aged" by Hood and Peters (2004) and, in 2007, the term "post-New Public Management reforms" is used to cover the changes which have continued in the twenty-first century (see Christensen and Lægheid, 2007).

This section will concentrate on the major writing over the period<sup>13</sup> which addresses NPM, with emphasis on the features identified in the literature and the interpretations which have supported the changes made in the name of public sector

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<sup>13</sup> While an international focus has largely been adopted in this section, Boston et al. (1991) has been included here as this work provides a base analysis of the impact of the NPM doctrines and has been cited in much of the subsequent literature. Writers who have dealt more specifically with developments in New Zealand are covered in chapter four (see Goldfinch, 2000; Gregory 1998, 2000, 2001, 2003, 2006, 2007b; Gregory and Norman, 2003).

reform. A sequential approach has been adopted to bring into focus the changing positions taken in the academic writing.

In *The Middle Ageing of New Public Management: Into the Age of Paradox*. Hood and Peters took the opportunity to review the implementation of NPM and focus on the unintended effects of the NPM interventions. The term NPM 'industry' is used to describe the scale of the international effort which had been under way over the past twenty years to "chronicle, interpret, and assess the wave of efforts to reform executive government across the world" (Hood and Peters, 2004:267). Hood and Peters identified three main phases or ages of NPM and this framework has been used to organise the literature which discusses the defining features and interpretations of NPM which have followed initial identification of the NPM phenomenon. The Hood and Peters' organisation of the developments of NPM into ages appeared in 2004 (see Table 1). However, since then there have been further developments in public management reform and a fourth age has been employed to identify these later changes.

**Table 1 Phases in the development of NPM**

<b>Ages</b>	<b>Hood and Peters (2004)* Three main phases or ages of NPM</b>
<b>1st</b>	Early writings developed from the late 1980s – broad-brush normative concerns and attempts at descriptive mapping. The "New Right" agenda was dominant in a number of OECD countries.  Hood, 1989,1991; Pollitt 1990
<b>2nd</b>	Developing themes with refinements, variants of public sector managerial reforms as themes changed and new issues emerged. More awareness of cross-national differences, with antipodean countries seen as the leaders.  Savoie, 1995; Aucoin, 1995
<b>3rd</b>	From the later 1990s there was increasing intellectual self awareness. More comprehensive textbook treatment and a more formal approach to the study of public sector reform.  Barzelay, 2002; Christensen and Læg Reid, 2001; Hood, 1998

\* Hood and Peters, 2004:267-8.

The evolving nature of NPM is described by Barzelay (2001) who differentiates between NPM<sub>1</sub> – the discussion taking place within governments, with the New

Zealand Treasury's *Government Management* (1987) used as an example<sup>14</sup>; NPM<sub>2</sub> - professional commentary exemplified by Osborne and Gaebler in *Reinventing Government* (1992); and NPM<sub>3</sub> – which is referred to as academic scholarship. Barzelay notes that nearly all the works he quotes in *The New Public Management* are falling into the NPM<sub>3</sub> category (Barzelay, 2001:159). However, while this three-step distinction provides a useful perspective, it does not appear to have been taken up in the subsequent literature.

Barzelay's account of the origins and evolution of NPM incorporates his three evolutionary phases and provides a useful summary of the developments (Barzelay, 2001:159-160). His point that some scholars in continental Europe argued that NPM is an Anglo-American model whose general relevance is questionable has been supported by later writing with a European focus (see Christensen and Lægreid, 2001, 2006, 2007; Kjær, 2004; Pollitt and Bouckaert, 2004). Pollitt and Bouckaert specifically make the point "the anglophone literature has, perhaps unsurprisingly, been dominated with anglophone ideas, so that it has been easy to assume that (a) these are the only reform ideas around and/or (b) these are clearly the best ideas around" (Pollitt and Bouckaert, 2004:201).

The Barzelay evolution is limited, from a classification perspective, in that it does not address the sequential developments over the period under review for this study. The Hood and Peters 'ages' of NPM is developmental and reflects the literature which has described the intellectual development which has taken place. Using the Hood and Peters "ages" of NPM classification the interpretations, from mainly overseas writers, are discussed to establish the defining features of NPM and, as noted earlier, an additional fourth age has been added to attempt to define the development which has taken place in the more recent analysis of public sector reforms.

### **3.3.1 First age – early writings**

The first age describes the early writing on NPM. The origins of NPM and early writing have been reviewed in the previous section. In describing this age Hood and Peters note that much attention was given to critique of the new generation of public sector managerialism and that there was no general theoretical treatise emerging from the academic world. The New Zealand Treasury is given as an example of the

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<sup>14</sup> Neither public choice theory or agency theory, key components of NPM, are referred to by name in *Government Management* (1987). However, producer capture is discussed (page 75).

emergence of early ideas from practitioners. They consider that the descriptive mapping of the ideas and practices was “largely based on fairly casual empiricism,” and that observations from the United Kingdom, the USA and the antipodean countries had led to the listing of key traits to distinguish the design principles of the reforms. The summing up of this period was that “NPM turned out to be somewhat mystical in essence, as no two scholars of that era listed exactly the same features in enumerating its traits” (Hood and Peters, 2004:268). The analysis undertaken for this study would support that conclusion. Certainly in the early phase of NPM writing, each author has brought their own particular perspective to their work and sought to interpret the evidence of changes that were unfolding.

### **3.3.2 Second age – developing themes**

The second age is seen to build on the earlier themes but with refinements as themes changed and new issues emerged. Awareness of cross-national differences in public management reform were becoming more apparent with the antipodean countries seen to be the ‘movers and shakers’. The period covered by this phase is from the mid to late 1990s.

In his review of NPM from a comparative perspective, Aucoin<sup>15</sup> (1995) revisits the situation in Britain in the late 1970s to expand on the concept of NPM. Margaret Thatcher became Prime Minister of Great Britain in 1979 at a time when ‘restraint in government’ had become the order of the day. Thatcher is seen to differ from the other leaders in that she “relished the prospects of rolling back the liberal welfare state with its extensive interventions in the socio-economic order” (Aucoin, 1995:1).

The Thatcher reforms covered three dimensions of the British Government system in that it sought to diminish the power of the civil service and make the state more responsive; introduce private sector management practices; and reduce the dominance of the state in the design and delivery of public services and thus provide more freedom for individual citizens. The resulting changes in organizational design and management practices became “what Christopher Hood has called new public management” (Aucoin, 1995:1). Aucoin captured the feeling of governments in the late 1970s (Thatcher in Britain and Mulroney in Canada, and later in Australia and New Zealand) where the incoming governments felt that ministers were not in control and the bureaucrats had too much power. This was the perception of

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<sup>15</sup> Aucoin, 1995. *The New Public Management: Canada in Comparative Perspective*

Ministers from the Fourth Labour government on New Zealand who were interviewed for this thesis.

As described earlier in this chapter, Pollitt saw managerialism as a distinct ideology and argued that it was becoming a dominant way of running public services in Britain and the USA. He took a more global view in *Managerialism Revisited* (in Peters and Savoie, 1998). While direct references to NPM are avoided in this work, by distinguishing three perspectives of managerialism (as an ideology, as a rhetoric, and as a set of practices) he provides a cogent analysis which has direct application to the NPM environment of the time. On the ideological dimension, managerialism is deemed to have achieved considerable penetration during the past fifteen years or so and to have suited two powerful groups – politicians and senior officials (Pollitt, 1998:51).

On the rhetorical dimension, the managerialist speeches and documents are seen to have been constructed on the basis of four assumptions, but seldom subject to critical testing. The four starting points are:

1. that existing public sector organizations are outmoded and in need of reform;
2. that a body of proven management ideas and techniques is available to guide the reform process;
3. that it is self evident that efficiency will flow from the application of such techniques and that greater efficiency and flexibility are desirable in themselves;
4. that it is progressive to redefine the citizens who interact with public sector organizations as consumers or customers (Pollitt, 1998:56).

Pollitt's four starting points capture the essence of the situation in New Zealand from 1984, where the incoming government considered that the public sector was in need of a shake-up, the available body of economic and managerialist ideas would serve their purpose, efficiency gains would follow and that the public who received government delivered services were the customers.

The review of managerialism as set of practices, notes that it is easier to ask questions on its impact, than to get answers. Pollitt raises questions about priorities, service quality, and notes that while more performance information is available than ever before, what use has it been put to? "On closer inspection it turns out that the serried ranks of mission statements, charters and performance indicators seldom



offer conclusive evidence concerning the success of the managerialist reforms” (Pollitt, 1998:64). However the good news was that significant productivity gains seem to have been achieved in many organizations although the ‘flimsy’ nature of managerialism’s empirical foundations is commented on (Pollitt, 1998:67).

A further concern at the time was the nature of the public service in the “managerialised” public sectors. New Zealand and Britain are given as examples where “governments have thrown themselves at reform with ‘evangelical’ zeal, proclaiming high expectations and roughly overriding dissenters and resistance from public service unions” (Pollitt, 1998: 68).

Pollitt traversed the practices of various countries and their experiences with managerialism in areas such as: political leaders’ dealings with public servants; the role of central agencies; the provision of policy advice, policy coordination, and contracting out. Debates in Britain and New Zealand about the organization of the provision of policy advice and the coordination mechanisms across government, are noted, and the question of where managerialism leaves the public service was raised. Under Reagan (US) Thatcher (UK) Mulroney (Canada) and Lange (New Zealand) civil servants were frequently depicted as an obstacle to change and attempts to develop a “humanist” model had been overwhelmed by the contrary forces of cutbacks, pay restrictions and increased workloads (Pollitt, 1998:72).

In *The Changing Role of the State* Rockman (1998) addresses NPM head-on by addressing the question ‘has the role of the state actually changed?’ in that a whole new way of operating, based on the private sector model, is being advocated under NPM. He challenges the NPM assumption that management of the public and private sectors is alike – or ought to be. While the environment in which the state operates is changing, at both macro and micro levels, there are basic functions of the state which must continue. The impetus for the changing role of the state is identified as – financial pressures (bankruptcy), neo-liberalism and political leadership, and globalisation, but while change was required, Rockman questions whether the slavish following of the latest ‘fashion’ of NPM is necessarily the best approach? Rockman’s conclusion represents a caution against dismantling the public sector in favour of the market metaphor, which has limitations. He suggests that there are distinctive virtues and liabilities in the way the both the public and private spheres operate and that looking for quick fixes is not necessarily the best way forward (Rockman, 1998:40).

There was much comprehensive literature in the later 1990s which shed more light on the impact of NPM from an Australasian perspective.<sup>16</sup>

The major writers of this second age period reviewed the reform processes which were unfolding in the different jurisdictions and aired some concerns. Key points emerging from their work were scepticism of the pervading managerialist rhetoric, applying private sector practices to the public sector, and the power shifts as politicians sought to wrest more control from bureaucrats. These concerns are relevant to the New Zealand context and are discussed in later chapters.

### **3.3.3 Third age – increasing intellectual self-awareness**

The third age of NPM is characterised by Hood and Peters as having “increasing intellectual self-awareness” in that there are encyclopaedia entries which cover the intellectual history and development in particular regions and policy domains (Hood and Peters, 2004:268). Barzelay’s work is singled out as an attempt to explain the evolution of NPM and to locate the comparative analysis of public management policy within a political science policy-process framework and to develop a more coherent approach to public sector reform. Hood and Peters considered that scholarly attention has moved from “descriptive mapping and a priori critiques” to more detailed analyses of the surprises and paradoxes associated with the recent and contemporary reforms (Hood and Peters, 2004:267).

By 1998 Hood, in *The Art of the State: Culture, Rhetoric, and Public Management*, had decided that it was time to build on his earlier work in public administration and management and adopt a different perspective. He notes the burgeoning literature on public service reform and that it was built on three closely related assumptions. The first (and the most common) is that public management is in the throes of a millennial transformation to a new style, and that societies are moving from “outmoded tradition to managerial modernity in public services.” Hood notes that “more or less explicit assumptions of convergence and modernity provide the *raison d’être* of a range of professional reformers, including management consultants,

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<sup>16</sup> In *New Ideas Better Government* (1996) Davis and Weller (eds.) Boston provided a summary of New Zealand’s model of public management and Sinclair discussed NPM in the context of a new paradigm requiring new discourse. A 1997 approach, *The New Contractualism?*, Davis, Sullivan and Yeatman (eds), provided 16 chapters, which addressed various aspects of the reforms, again with an Australasian focus and authors. Here there are some worthwhile contributions from those actually involved in implementing the reforms. In the case of Scott, a key designer of the New Zealand reforms, the chapter *New Institutional Economics* provides an excellent summary of the influence of the new institutional economics (NIE) on the subsequent reforms undertaken (Scott, 1997: 154-163).

central agencies, and international organizations like the World Bank, IMF and OECD”, with the aim being to have all countries up to date with best practice (Hood, 1998:4). The second assumption is that ‘new public management’ differs from earlier eras and that the ‘traditional model’ of public administration is outmoded, while the third, is that the economic rationalist models of contemporary public management will enhance efficiency. The argument advanced is that most of the ideas of how to manage in government have a history and that the use of grid/group cultural theory will enable an analytic focus on a number of the themes in public management.

Kettl provides an American perspective in *Public Administration at the Millennium* (2000) where he reviews the public sector reform literature and comments particularly on the influence of Osborne and Gaebler’s *Reinventing Government*. Kettl notes that the Clinton government in the USA, especially Vice-President Gore, embraced the NPM concepts and launched the National Performance Review (NPR) to reinvent the federal government. While NPR aggressively downsized the bureaucracy and included some bottom-up reforms with more input from the public, there were concerns that the private sector approach threatened democracy in that government administration, including law and constitutional practice, were being threatened (Kettl, 2000:25).

The NPR proved to be a part of broader, global management reforms which sought to reduce the size of government and improve its performance. The reforms in New Zealand and Britain are singled out as leading the movement. Kettl notes that all the reforms which were unfolding around the world, “were christened the new public management” and that while there was debate among scholars as to whether this represented a new paradigm or a battle to reconcile old ideas, it represented a substantially different approach. However, there were three important areas where the American practices did not fit the NPM model: management style, outcome measures and customer service standards for all government programmes, and the American political tradition where policy was not separated from administrative responsibilities in a parliamentary system. Kettl concludes that “American institutions and traditions simply do not fit the requirements of many NPM strategies and tactics” (Kettl, 2000: 27). However, it is acknowledged that NPM had heavily influenced the NPR.

The difficulties of reconciling the notion that there is a convergence towards the new style of public management, associated with Osborne and Gaebler's ideas, is highlighted by Pollitt in *Convergence: the Useful Myth?* (2001). He maintains that the evidence of global diversity is at variance with the pronouncements of convergence made by politicians, civil servants and some academics. Pollitt's argument attempts to explain why many commentators continue to invoke the notion of convergence when there is ample evidence of national differences. A key point is the acknowledgement that words and concepts can develop lives of their own and that there has been a lot of talk around NPM with a variety of actions emanating from this. Pollitt asks the question "who benefits from a situation where convergence is much more a matter of talk, symbolism and pronouncement than of day to day practices?" (Pollitt, 2001:934). His identification of the beneficiaries from the propagation of the convergence story, ministers, senior civil servants, consultants and academics is an insightful one and observations over the past 25 years would indicate that each group has benefited, in many cases financially, from the packaging of NPM ideas for consumption.

Pollitt's evidence can be summarised as:

Ministers – feel the need to be doing something and, while not necessarily knowledgeable themselves, see advantages in being able to refer to a global model.

Senior civil servants – may be more knowledgeable about the details but have a problem in that there are no commonly agreed, scientifically validated models for well functioning government agencies. There are attractions in an 'off-the-shelf' set of reforms which have been validated by other governments and 'dynamic management consultancies'. The NPM package meets these criteria and has the advantage of being pitched at a high level of generality<sup>17</sup>.

Management consultants – the UK, USA and New Zealand<sup>18</sup> are named as countries where consultants have been important players. Pollitt considers that management consultancies provide packaged ideas for which ministers and senior civil servants have such a strong appetite and notes that many former senior public servants have continued to work as consultants.

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<sup>17</sup> One of the former chief executives interviewed in the course of the research made the comment that it was necessary to reduce the complexity and use 'bumper sticker phrases' to explain the changes proposed.

<sup>18</sup> People interviewed for this research made reference to the role of management consultants benefiting from NPM (see chapter four).

Academics – It is stated that in some countries (Finland, Germany and The Netherlands) academics play a more important role than in others, here France and New Zealand are mentioned. That academics have benefited from NPM convergence is noted in two ways – the first to stimulate academic production and debate and the second that familiarity with NPM may offer a passport to consultancy. Here Pollitt makes the observation that NPM is “not hugely demanding in intellectual terms” (Pollitt, 2001:942).

Another of Pollitt’s particularly acute observations is that political kudos comes more from launching reforms than from trying to claim credit for their benefits several years later. He also observed that ‘implementation’ or ‘execution’ is someone else’s responsibility, and later difficulties can be attributed to ‘poor implementation’. He sums up by saying that the dominant, but loosely specified set of reform ideas, can be applied to a wide range of public sector contexts and that because final outcomes don’t arrive until the major players have moved on, even the attribution of causes is likely to be open to dispute (Pollitt, 2001:943). This last point is particularly relevant to the study of the reforms in New Zealand and the exploration of re-integration. Chapter seven will discuss the New Zealand experience.

The four-country study *New Public Management: the transformation of ideas and practice*, edited by Christensen and Lægreid (2001) was assembled to provide an examination of the transformation of the civil service after two decades of NPM. The countries chosen, Australia, New Zealand, Sweden and Norway, provide an interesting contrast in that they are typified almost on a continuum<sup>19</sup>. New Zealand and Australia are highlighted as countries where extensive reforms had taken place with New Zealand considered to be radical and aggressive and Australia using NPM more pragmatically. Sweden is assessed as generating a lot of talk but a much less coherent reform programme and Norway is seen to be a more reluctant reformer with NPM being more marginal and having less impact (Christensen and Lægreid, 2001:6).

The main features of NPM identified in the study included its hybrid character (see 3.2), and the convergence and divergence of the reforms being carried out in the four countries under examination. The notion of the convergence of reforms, which was being promoted by OECD, was questioned by Christensen and Lægreid who

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<sup>19</sup> Hood (1990) had earlier used the continuum notion to position New Zealand on the far right.

used the Norway/New Zealand comparison to demonstrate the divergence of reform practices.

Christensen and Lægreid focus on a transformative perspective to study administrative reform and to determine what further development of government could be expected under the three different scenarios. The experience of the four countries over the past fifteen year period indicates that the NPM ideas and practices are here to stay, and that the new administrative orthodoxy will continue (using the British example where Blair continued with the Thatcher reforms<sup>20</sup>). In their conclusion the possible return to the values of the 'old civil service' is discussed, as some of the deficiencies of the NPM doctrines start to become more apparent. Their study supports the hypothesis of divergence and the transformation of NPM into more hybrid forms (Christensen and Lægreid, 2001:311). By drawing extensively on the current public sector reform literature and using examples from the four countries studied, Christensen and Lægreid have been able to make a major contribution to the study of the impact of NPM and possible future scenarios.

In the Preface to *The New Public Management* (2001), Barzelay considers that while the NPM literature is impressive, in that it had received attention from scholars from different disciplines, the weak point is that it has gone off in many directions leaving him with mixed feelings about the literature and "uncertainty about its potential scholarly achievement and practical utility" (Barzelay, 2001:xii). His book seeks to improve the situation in three aspects. The first is to focus on analysis of parts rather than holistically, the second is to explain governments' handling of policy-level issues, and the third is a belief that substantive analysis required an interdisciplinary dialogue. However, his review of the threads of NPM literature indicates that although the idea of NPM had promoted international scholarly discussion, "neither research nor doctrinal and policy argumentation on this subject are wholly satisfactory as yet" (Barzelay, 2001:13).

Another example of third age development is Kjær (2004) who provides a later European perspective, with a structural rather than a process focus. She acknowledges that many different types of reform measures have been grouped under the label of NPM, with a lack of agreement on which measures belong. Of the six elements of NPM that are identified, those which relate most directly to New

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<sup>20</sup> The New Zealand example is where the incoming National government in 1990 continued the structural reforms initiated by the Fourth Labour Government.

Zealand include: the transfer of private sector management principles to the public sector; privatization, the selling or transferral of public sector enterprises to private ownership; decentralization in the name of improved efficiency; and citizens' empowerment which is typified by the establishment of user committees. The New Zealand equivalent would be the establishment of School Trustees to run primary and secondary schools. While Kjær's six headings roughly describe NPM, a corresponding footnote indicates that there can be doubts that decentralization or citizens' empowerment are part of the NPM (Kjær, 2004:25-31).

Looking back over the past twenty years, Hood and Peters (2004) remark on the wave of efforts which have taken place to reform executive government around the world. They traverse the period further to consider the unintended consequences of the reforms and the paradoxes which had emerged and point out that sweeping away the former administrative practices has resulted in them being developed to a higher degree. Thus Osborne and Gaebler's emphasis on 'results orientation', to replace rules based and process driven routines, had resulted in increased formality and more regulations imposed. Another example is that while the NPM reforms were seen to be initiated by the "New Right" the same approach was used as part of a centre-Left "third way" (Hood and Peters, 2004:271).

Hood and Peters conclude that there is a paradoxical future for NPM in that many of the aims of NPM and the problems it was supposed to address have had unintended consequences. It is acknowledged that unintended side effects are unavoidable in any reform programme, and that overconfidence can cause a failure to anticipate side, or reverse effects. Three features of selection are identified to explain the unintended consequences which have occurred: the casual adoption of poorly grounded models; disregard of historical evidence; and a selective approach to evidence and a resistance to learning from this. They point out that, while "NPM reformers made much of castigating the "one-size-fits-all" forms of bureaucracy<sup>21</sup>, NPM reforms have adopted precisely that approach in practice" (Hood and Peters, 2004:278). They conclude that the identification of paradoxes associated with NPM provides an opportunity to improve and enhance understanding of the administrative reforms.

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<sup>21</sup> Many of the people interviewed for this research commented on the "one-size-fits-all" approach which had been taken in phase one of the New Zealand reforms.

The incidence of unintended consequences identified by Hood and Peters (2004) is only to be expected as what is an appropriate course of action to meet a particular situation, in one context, can have adverse side effects. It is this aspect on which this thesis is based. The separation of policy advice from service delivery was intended to remove the possibility of capture by operational interests and provide governments with robust and contestable policy advice. However, the evidence from the New Zealand experience is that the resulting policy advice has been uninformed by the realities of implementation, with the result that agency re-coupling has taken place.

The transformative perspective of Christensen and Lægreid is useful as each country has sought to make changes, but it is the hybrid nature of the changes, made in the name of reform, which has differentiated the methods adopted. The difficulty of reaching any uniform conclusions about the success or otherwise of the reforms has annoyed Barzelay (2001) who is critical of the literature which has gone off in different directions. However, each writer on public sector reform has sought to differentiate their work by adopting a different viewpoint or perspective and thus different directions are the likely result.

The literature, classified here as third age, has built on the earlier work which established NPM in the public sector reform context. Here again the difficulties of generalising across countries are pointed out. Kettl sought to remove America from the NPM stable but to acknowledge its influence on the NPR review process. The broader global movement of reducing the size of government has been more apparent in Westminster countries than in Scandinavian. Another theme arising from the third age literature is the lack of convergence. Pollitt's identification of the beneficiaries of the convergence notion – Ministers, senior civil servants, management consultants and academics – and his observation that NPM is not intellectually demanding, suggests that many countries have been exploited by the people who have promoted NPM as the way forward to achieve eminence – and financial gain. While this is an extremely harsh analysis by Pollitt there is some evidence to support his views. The point that political kudos comes from launching reforms, rather than implementing them, also resonates with those who have worked in the public sector.



### **3.3.4 A fourth age? – a refocus on public administration**

When the literature emerging from the first years of the twenty-first century is reviewed it becomes apparent that there has been a change of focus. This is especially so with the comparisons between Scandinavian countries and western jurisdictions (see Christensen and Lægreid, 2001, 2006, 2007; and Pollitt and Bouckaert, 2004). The literature now seems to be acknowledging that the public sector is unique and that public administration is a distinctive field of study. Throughout the first three ages of NPM the term public management was used to differentiate from the earlier public administration paradigm. Those promoting NPM were wanting to emphasise the 'new', and 'management' was the new way forward. Later writers, for example Pollitt and Bouckaert (2004) and Lynn (2006) can use the terms interchangeably.

In their twelve country analysis Pollitt and Bouckaert (2004) attempt to define public management reform, initially by focussing on the deliberate changes to the structures and processes of the public sector organisations with the aim of getting them to improve performance. The changes could be structural - merging or splitting public sector organisations to, either, create a smaller number of big departments to improve coordination, or a larger number of small departments to sharpen focus and encourage specialization; or process – involving the redesign of systems (Pollitt and Bouckaert, 2004:8). The definitions of 'public management' and 'reform' are explored by Pollitt and Bouckaert. Public management is seen as a new kind of activity, in contrast with the older form 'public administration.' The authors describe their stance as 'sceptically open-minded' and doubt whether the ideas behind NPM are as new as some of more enthusiastic proponents proclaim (Pollitt and Bouckaert, 2004:14).

In their concluding chapters Pollitt and Bouckaert question the advances of NPM under such headings as "Forwards to the past?" and "More rhetoric than rigour?" In the latter section they state that:

Reform-watching in public management can be a sobering pastime. The gaps between words and deeds and between the view from the top and the experience at the grassroots are so wide as to provide scepticism or – according to taste – cynicism. The pace of underlying, embedded achievement tends to be so much slower that the helter-skelter cascade of new announcements and initiatives .....The apparent ability of leaders to forget the lessons and limitations of previous administrative reforms is impressive (Pollitt and Bouckaert, 2004:199).

In 2005 the OECD<sup>22</sup> published the results of the two-year review of the initiatives their thirty member countries had taken to modernise government over the past twenty years. By using selected key public management reform policy levers the process of examining the changes taking place was studied. While NPM is mentioned by name only twice in the text, it is acknowledged that the scope and pace of change in member countries has varied greatly with some strongly embracing New Public Management doctrines while other countries have adopted a slower pace of reform. While evidence suggests that there have been improvements in sharpening the focus of government performance, providing better quality public services and managing people better, the findings are that the early reformers did underestimate the complexity of introducing private sector management arrangements to the public sector (OECD, 2005:181).

The OECD Report notes changes over the past two decades. Governments have a larger role in the societies of the OECD countries, but the nature of public policy programmes is still undergoing change. Governments are moving away from direct provision of services and limits on expenditure have been a constant throughout the period. Most administrations have become more efficient, transparent, customer oriented and more focused on performance. (Here there is a caution that reformers need to be aware of the possible effects on wider governance values, OECD, 2005:10).

In order to investigate the changes which had taken place the review examined six key public management policy levers: open government, enhancing public sector performance, modernising accountability and control, reallocation and restructuring, the use of market-type mechanisms and modernising public employment. Each lever is examined in depth. While acknowledging the huge changes which have been made in response to the social, economic and technological developments in the latter half of the twentieth century, the report notes many challenges. The Report cautions that governments should be wary of over-rating the potential of performance-oriented approaches to change behaviour and culture and that structural change should not be undertaken lightly as dismantling can lead to the loss of continuity and institutional memory<sup>23</sup>. The need to maintain financial control

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<sup>22</sup> OECD, 2000, *Modernising Government: The Way Forward*, OECD Publishing, Paris

<sup>23</sup> Many of those interviewed for this research made reference to the loss of institutional memory which had taken place over the period.

in decentralised and delegated systems remains, as does the need to protect key governance principles and not confuse private gain and the public interest. Decisions to use market-type mechanisms should be made on a case-by-case basis (OECD, 2005:11-12).

The ongoing nature of reform is emphasised as governments need to adapt to constantly changing societies and reform is not a matter of one-off changes but “of having a whole-of-government public management policy capability that enables governments to make adjustments with the total system in mind” (OECD, 2005:13).

The 2006 publication *Autonomy and Regulation* from Christensen and Lægreid (eds) addresses the regulatory reforms and focuses on the two research fields of regulation and agencification. The NPM movement had gained a strong footing in many countries and “structural disaggregation, autonomisation, agencification, devolution, deregulation and market competition have been central instruments of NPM” (Christensen and Lægreid, 2006:3). Different countries, policy areas and agencies are covered and the most recent literature is accessed to address public sector reform beyond NPM and examine a second generation of reforms. The challenges being faced involve fragmentation, coordination, ‘joined-up’ government and ‘whole-of-government’ initiatives in the aftermath of NPM. (These issues are identified in the New Zealand context and examined in chapter seven.)

In their introduction, Christensen and Lægreid identify the tensions in the NPM movement which have become more apparent as it has continued. These are the conflict between: politics and administration; autonomy and control; centralization and decentralization; and between entrepreneurship and political accountability (Christensen and Lægreid, 2006:4). The broad picture painted is that most of the Anglo-Saxon countries have remained pioneers in the new reform wave, while those countries which were slower to take up NPM are now making changes which are more late NPM reforms and early second-generation in nature (Christensen and Lægreid, 2006:360-1). Their conclusion that “there is no easy solution or one ideal type of public management system” is hardly surprising. While changes were certainly required in most jurisdictions, to break out from the lack of accountability and move into a new technological era, each country has its own culture and each started ‘reform’ from a different position. The concluding statement is likely to remain relevant for years to come as governments wrestle with maintaining balance:

How to balance fragmentation and integration, autonomy and control, individualization and common identities, and market pressure and cultural cohesion remains a major challenge for public sector reformers (Christensen and Lægreid, 2006:378).

Another view of the impact of NPM was taken by Hood and Lodge (2006a), who approached NPM from the agency theory component, in their study of public service bargains<sup>24</sup>. They quote Moshe Maor in stating that increasing the principal's control over the agent was the basic driving force behind the NPM movement, rather than the achievement of efficiency (Hood and Lodge, 2006:45). Examples from the British experience, which demonstrate the principal's control, include increasing politicians' control over tenure and reward arrangements; making political advisor positions a staging post to regular civil service appointments; increasing the emphasis on 'delivery skills' relative to those of judgement and policy advice; and more elaborate control systems in the form of politically set targets and performance indicators to ensure that the principal's directives are followed (Hood and Lodge, 2006:45-6).

Hood and Lodge note that over the NPM era, stress has been placed on the importance of managerial and leadership skills in executive government and of finding ways to have organisations deliver against targets. However, concerns about public service competencies are not new. The chapter, which features control, blame avoidance and cheating, notes the reality that the "arm's length approach to controlling bureaucracies" which is espoused by the 'managerialist' reformers is not reflected in the public service bargains that the authors studied.

While the interpretations of public service bargains by Hood and Lodge is very much located in the Britain of the Blair government, there are some parallels in the New Zealand, where the established relationship between public servants and ministers was radically changed under the State Sector Act 1988 and the arms-length approach which the Act sought to establish has been modified in the light of subsequent experiences. The Partnership for Quality Agreement<sup>25</sup>, between the New Zealand Public Service Association and the Government, is a model of good

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<sup>24</sup> The traditional understandings that structure the relationships between public servants and the wider political system are formalised in a series of bargains. Traditionally the British public service gave up the right to an open political life and high salaries for relative anonymity a trusted role and job security with generous pensions – to compensate for their modest salaries. Politicians gave up the right to blame and fire civil servants at will in exchange for a lifetime of loyal service from the best university graduates. The three key dimensions of any Public Service Bargain are reward, competency, and loyalty and responsibility (Hood and Lodge, 2006).

<sup>25</sup> The background to the Agreement is discussed in chapter 7.2.

workplace practice for the public sector. The initial agreement was signed in 2000, with a third agreement between the parties signed in 2007.

The most recent contribution (at the time of writing) to the NPM literature is Christensen and Lægreid's 2007 publication *Transcending New Public Management: the transformation of public sector reforms*, which contrasts the NPM-based reforms of the late twentieth century with the current post-NPM reforms. This time a five country approach is taken (Australia, Denmark, Norway, New Zealand and Sweden) with Denmark added to the group of four studied in 2001. The comparisons between the Scandinavian approach and the Antipodean are also continued.

In their opening chapter, Christensen and Lægreid support Pollitt's view that NPM is by no means over. However, in contrast to the initial reforms which were based on the logic of economics, a second generation of NPM reforms has appeared on the scene which have been initially labelled 'joined-up government' and later known as 'whole-of-government' (Christensen and Lægreid, 2007:11). This latter phrase denotes the need to achieve horizontal and vertical co-ordination to eliminate situations where policies undermine each other, to make better use of resources and offer citizens seamless delivery of services. The reasons provided for the emergence of a 'whole-of-government' approach are the fragmentation and siloisation, which had developed where there were many smaller agencies; structural devolution through decentralization and the transfer of authority to regulatory agencies; and a perceived undermining of political and central control. In summary they state that:

...central government apparatus is characterized by problems of inter-sectoral and inter-ministerial co-ordination. Executives tend to focus on their own sectors, thus contributing to the horizontal fragmentation between policy areas (Christensen and Lægreid, 2007:13).

The points made resonate with the New Zealand situation and will be discussed in subsequent chapters, where phase two of the New Zealand reforms has sought to address the problems of fragmentation and siloisation, initially through the Review of the Centre (2001).

The earlier focus of Christensen and Lægreid (2001, 2006) has been on the effects and implications of NPM for political democracy. Among their conclusions are: that

central political control has been undermined by NPM; that commercial aspects of public activity have become more prominent under NPM; and that administrative leaders often both initiate and stand to benefit from the reforms (as in the state owned enterprises). The second generation of reforms is seen as an effort to reassert central control. However, they further conclude that it remains to be seen whether post-NPM reforms will strengthen political reforms and note the challenge of finding a sustainable balance between centralization and decentralization, between political control and agency autonomy, and between co-ordination and specialization (Christensen and Lægreid, 2007:16). Their conclusion with an OECD quote, “the fundamental purpose of public service is government not management”, makes clear the direction which the authors would like to see followed in the future.

For the purposes of identifying the defining features and interpretations of NPM, the three ages of NPM, as described by Hood and Peters (2004), have been expanded to extend to a fourth age – a refocus on elements of traditional public administration. The literature supports the view that NPM is being reappraised and that the claims for the radical reforms of the early “ages” of the NPM are being reassessed.

The emerging issues from the fourth age are:

- The problems identified with fragmentation and siloisation have caused a refocus on structural changes to achieve a more coordinated approach (Pollitt and Bouckaert, 2004) and that ‘joined-up government’ and ‘whole-of-government’ approaches are receiving consideration (Christensen and Lægreid, 2006, 2007).  
“As governments move forward on future organisational change, the case for adopting a whole-of-government perspective is overwhelming” (OECD, 2005:190).
- While competition is a driving force for successful private sector businesses, the importance of cooperation between government agencies is essential (Christensen and Lægreid, 2006; Pollitt and Bouckaert, 2004).
- The blanket importation of private sector management models has not necessarily been a success in the public sector, as the sector’s relationship with the government of the day requires a different approach (see Christensen and Lægreid, 2006; Hood and Lodge, 2006; OECD, 2005).

The more recent literature suggests that the fourth age of NPM is more one of review and refocus rather than a total reversal. Again, there are jurisdictional differences and overall generalisations can be misleading. The sources quoted here suggest that some countries are dealing with NPM implementation problems through a revisiting of institutional design and that some of the earlier structural changes have had a negative impact. While the operation of the public sector can never return to its pre-1980s modus operandi as the environment has changed, the examination of the impact of NPM which has taken place more recently (the fourth age) has shown that the process of government administration is distinctive and requires the design of operational systems which best serve particular national contexts - governments, public sector employees and citizens. Fourth age developments in New Zealand are discussed in chapter nine.

### **3.4 Underlying theories**

The literature on public sector reform has paid particular attention to the economic theories which have been influential in guiding progress along the reform path. While NPM covers a range of processes, the particular place of economic theories warrants mention here. The umbrella terms used to cover the economics based theories were the 'new institutional economics' (NIE) and 'the new economics of organisations' (Boston et al.,1996). Included in these groupings are public choice theory and agency theory<sup>26</sup>.

The two key theories which underpinned most of the New Zealand public sector reforms – public choice theory and agency theory – are summarised briefly below. While the literature, generally, takes a descriptive approach to the role of theory, Kelsey considered that the parallels between the public and private sectors - theoretical paradigms of agency and public choice theory – “ignored the diverse responsibilities of ministers and of a professional public service, and the ultimate coercive power of the state” (Kelsey, 1995:145).

**Public choice theory** asserts that public servants and ministers are motivated by self-interest, and would want to maximize budgets and seek to obtain more resources. Arising from this was the contention that because departments have an interest in their own survival, they should not both tender advice to their political

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<sup>26</sup> Although it should be noted that one economist has stated that there is “an application of institutional economics that has been glorified with the title ‘agency theory’ ”(Scott, 2001: 28).

masters and implement policy. The other facet of public choice theory was the notion of provider or producer capture and the need for government to receive high quality policy advice which is contestable (Boston, 1991a: 3-4).

A background to the development of public choice theory is provided by Shaw (1996) who notes the origins in Chicago in 1963, where a meeting of a group of scholars with an interest in the application of economic reasoning to the study of non-market decision-making took place. From this a journal was launched – subsequently renamed Public Choice. In its initial form, the critique of public sector decision-making and policy implementation is largely applied to issues concerning the decision process within the political executive and in particular the extent to which the self-interested actions of the elected members of government can result in economic outcomes that are sub optimal (Shaw, 1996:69).

The April 1990 issue of *Governance* featured a series of papers on public sector reform by key participants and observers from Britain, Australia and New Zealand. Here Aucoin notes that two major sets of ideas have influenced the design of governance and management. The first was from the school of thought, known as public choice theory, while the second set was those of the managerialist school. Aucoin addresses public choice theory from the perspective of the relations between politicians and public servants and the assumption the career public servants are motivated by their own individual or collective self interest rather than the public good. Public choice theory assumes that these self interests will be at odds with those of the elected representatives. The self-interest perspective is also carried forward to the politicians who will put seeking re-election before the interests of their constituents. An example of the bureaucratic self interest was portrayed by Sir Humphrey Appelby in the “Yes Minister” television series. (The Sir Humphrey example is also used by Hood, 1990<sup>27</sup>) The nature of bureaucratic ‘distance’ in Westminster systems invited suspicion, according to Aucoin.

The advancement of public choice theory is attributed to Niskanen (1971) and his “budget-maximising bureaucrat” thesis became the challenge to the administrative state. However, Aucoin acknowledges that while the most acclaimed public choice theorist was Buchanan, who won a Nobel prize in Economic Science in 1986, it was

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<sup>27</sup> Hood, Christopher, *De-Sir Humphreyfying the Westminster Model of Bureaucracy: A New Style of Governance* (1990) *Governance*, Vol. 3, No. 2



Niskanen's focus on the failings of the bureaucracy that resonated with those who saw the bureaucracy as the culprit. Politicians could attribute the wealth maximising behaviour of public servants to the growth in public expenditure and needed to devise ways of curbing the perceived bureaucratic excesses. Prime Minister Thatcher's determination to 'roll back the state' can be attributed to wanting to curb the power of bureaucrats and put politicians in control. Although Aucoin acknowledges that while the notion of the budget-maximising bureaucrat had appeal, "the empirical evidence to support its principal claims is limited, especially in Westminster systems" (Aucoin, 1995:34).

Writing in 1990 to address the sweeping advances of managerialism in the British and American public services, Pollitt is critical of the impact of the 'radical right' on the Thatcher and Reagan regimes, and of the extensive academic theorising which had taken place. Pollitt identifies the main theoretical sources as, monetarism, Austrian school economics, and public choice theory.<sup>28</sup> Pollitt is particularly scathing in his opinion of the advocates of new right economics. "In the hands of its interpreters (including politicians), this body of scholarship and polemic was transformed into an apparently simple (but radical) programme for addressing the major perceived contemporary problems" (Pollitt, 1990: 43).

Dunleavy provides a political science perspective on public choice theory and discusses its strengths and weaknesses. "Public choice theory is widely seen by political scientists as simply another abstruse specialism produced by overdeveloping particular techniques without putting equal effort into showing how they can add to out substantive knowledge about central topics in political life" (Dunleavy, 1991:3). However, Dunleavy goes on to discuss, in economic terms, supply side and demand side behaviours of politicians, bureaucrats and the public. He concludes that development and refinement of institutional public choice, and the exploration of different starting assumptions have the "potential to shed new light on some central questions of political science" (Dunleavy 1991:259).

Other grounds for challenging public choice theory were advanced by Boston who notes the destructive nature of the theory's behavioural assumption that competitive self-interest dominates human behaviour. He argues that bureaucrats are not just

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<sup>28</sup> The American exponents of the theories were Buchanan, 1968; Downs, 1967; Friedman, 1980; Niskanen, 1973; and in the UK the most influential was Hayek, 1986.

interested in maximising the size of their departmental budgets and other influences such as “credibility, integrity, duty, professional standards and doing a good job” impact upon their work behaviour. Boston considers that the evidence does not support the claim that politicians are simply vote maximisers and is critical of Niskanen’s budget maximisation hypothesis. The evidence suggests that there is little connection between the size of the growth of departments and the salaries of their employees. The argument is taken further, as once the notion of self-interest as the motivating force for the behaviour of bureaucrats and voters is abandoned, ‘capture’ is no longer a problem (Boston, 1991a:15). (The notion of capture and its impact is discussed in chapter four.)

The literature acknowledges public choice theory as a key plank in the NPM structure, however, the interpretation and focus varies – often according to the academic discipline of the writer. The academic discourse in the early days of NPM was generated mainly by economists, political scientists or those with a background in public administration. Understandably, the writing and analysis from these groups varied from the ‘enthusiastic’ (economists) through to the ‘interested’ (political scientists) to the ‘sceptics’ (those with a public policy background).

While opinions of the usefulness of public choice may vary, its key role in the New Zealand reforms is acknowledged. “Public choice proposes a solution to a problem which may or may not have existed in New Zealand before those reforms, but that notwithstanding, its implementation has substantially changed the structure and operations of the public service” (Shaw, 2000: 276).

**Agency theory** appeared in the context of the new institutional economics and involves establishing the relationship when one party (the principal) enters into an exchange with another (the agent). A simple interpretation of the principles of agency theory is that one, the principal, contracts the services of another (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent. The objective is to design a contract between the parties which will align the interests of the agent with that of the principal. It rests on the idea that political and social life can be understood in terms of a series of ‘contracts’ (or agreed relationships) and has played an important role fashioning policies relating to institutional design and governance arrangements (Boston et al., 1996: 18). There is extensive literature on agency theory, which is directly related to

the public sector, see *Public Management: the New Zealand Model*, (Boston et al., 1996:18)<sup>29</sup>

It has also influenced the thinking relating to employment relations, incentive structures, remuneration systems and performance management and has contributed to the move to fixed-term employment contracts for senior public servants (Boston et al., 1996:27). The principal/agent relationship between Minister and chief executive in New Zealand government agencies was specified in Part III of the State Sector Act (1988). The further use of agency theory in public sector reform has been in the contracting out, to private sector or community organisations, the delivery of services previously supplied by government agencies.

Agency theory establishes the concept of agency costs, the transaction costs associated with designing, implementing, monitoring and enforcing the rules of the relationship. Scott (2001) uses this application of institutional economics to specify the relationship between shareholders, directors and managers in the private sector, which was adapted for use in the state-owned enterprise policy in New Zealand (Scott, 2001: 28).

Earlier, work on the usefulness of agency theory in relationship to the government structure in New Zealand, had been carried out by the Treasury in 1986<sup>30</sup>. A preliminary paper explored the potential application of agency theory to clarify the relationship between Ministers and their departmental heads. It was considered that the earlier convention that departmental officials should remain anonymous while their Minister spoke on their behalf, 'is dead' and that the permanent head<sup>31</sup> is the most important of the Minister's agents. In order to apply government policies effectively, the Minister needs an appropriate level of control over the permanent head, and that the present conditions of employment for permanent heads did not provide this.

Boston (1991a) points out the identified problems with the application of agency theory. While some are similar to those affecting public choice theory, such as the failure to take into account the context in which the behaviour takes place and the limitations of the assumptions of self interest, there are other areas of criticism. The

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<sup>29</sup> Of 21 citations, the better known literature is from Jensen and Meckling (1976), Moe (1984, 1990), Perrow (1986).

<sup>30</sup> Treasury (1986) Public Sector Management Issues. Unpublished Treasury paper.

<sup>31</sup> Under the State Sector Act 1988, heads of government departments became chief executives.

use of the model (agent-principal) to describe and analyse complex social interactions and constitutional relationships can be misleading and the model copes poorly when there are multiple principals for the agent to interact with. It tends to ignore the question of the unequal distribution of power and authority in human relationships, and the problems of opportunism by principals is often ignored (Boston, 1991a:16). However, Boston does acknowledge that the need to be cautious in applying agency theory to complex constitutional arrangements has been recognised in the New Zealand reforms.

An important point in the principal/agent relationship is taken up by Shaw (1996) who points out that while much of the literature deals with the problems faced by principals who have to deal with the self-interest of agents, little attention has been paid to the reverse situation. Perrow (1986) is cited to address the situation where the principal might lie or shirk their responsibilities (Shaw, 1996: 82).

Aucoin (1995) considered that agency theory was more useful than public choice theory in understanding ministerial-public service relations. The multiple roles of ministers preclude them from taking responsibility for the running of departments and considerable delegation is required for the development of policy proposals and the administration of the public services provided by their departments. Agency theory was considered to be at least as persuasive as public choice theory in explaining the power of agents in relation to their principals for the agent does have an advantage of knowledge and experience over their minister. It is also pointed out that agency theory, in contrast to public choice theory, does not assume that the agent will necessarily pursue their self interest over that of the principal (see Aucoin, 1995: 34-36).

The application of agency theory in the New Zealand context, where it provided the foundation for the relationship between chief executive and minister under the State Sector Act (1988) with chief executives having performance agreements with their minister(s), is discussed further in chapter four.

### **3.5 New Public Management and Institutional Design**

One of the influences of NPM has been on the institutional design of the public sector. The structures of government agencies have been reviewed, revised and modified in the various countries. Certainly the main thrust of the reforms in many

jurisdictions has been to clarify, and redefine in necessary, the purpose of the organisation and to provide clear goals to enable subsequent performance to be monitored and assessed.

The initial moves in institutional design and addressing machinery of government issues resulted from 'rolling back the state' adopted by Prime Minister Thatcher in Britain and in New Zealand the drive of the 1984 incoming government to separate out commercial activities through the creation of State Owned Enterprises. Under the State Owned Enterprises Act (1986) eleven government trading departments were transformed into commercial operations.

Hood (1990) saw differences between Britain, New Zealand and Australia, with Britain and New Zealand moving to smaller departments and Australia combining departments such as the Department of Employment, Education and Training (known as DEET) where three major departments were brought together. The drivers behind the restructuring of departments were twofold – the perceived need to separate policy from operational agencies to avoid policy capture and, in the Australian case, priority was given to the sectoral model where closely related tasks and objectives are grouped together in one department.

The Pollitt and Bouckaert (2004) study covered 12 OECD countries in their comparative analysis of public management reform and used a fourfold 'mainstream' scheme to discuss organizational trajectories and classify the restructuring which had taken place under the NPM reforms:

- specialisation – single or multi-purpose?
- coordination – by functions, levels or sectors?
- centralization/decentralization – what functions and to what degree?
- scale – optimal size for an organisation (Pollitt and Bouckaert, 2004:81)?

Variances between countries are apparent on all these dimensions. However, once again the similarities between Britain, Australia and New Zealand are commented on and characterized as: more specialized organizations; coordination achieved through market mechanisms and contractual relationships; decentralization of authority from the centre towards the periphery (in both hierarchical and geographic terms) and decreasing size by breaking up and downsizing large bureaucracies. It is important to keep in mind that these are generalizations, and ongoing at that, as a

detailed study of a single country, in this case New Zealand, will show variances in structures and timing.

Coordination has been a key component of the later reforms, especially in the fourth age. Pollitt and Bouckaert note that there have been attempts at improved coordination, often as late responses to the fragmentation caused by the earlier enthusiasms for specialisation and decentralisation, and that merging departments had been one way of improving coordination. However, while New Zealand was allowing the number of departments to expand, Australia was reducing its number of departments from twenty-eight to eighteen (Pollitt and Bouckaert, 2004:86). The movement in the number of departments of State in New Zealand is discussed in chapter four.

Models of bureaucratic design are discussed by Boston who uses functional and sectoral differentiation. Under the functional model, the department or agency is organised around the functions performed, with policy ministries and operational departments concentrating on their primary functions - the development of policy or operational activity such as service delivery. The sectoral model groups all functions according to the sector in which they operate. Thus a Department of Health would cover the Health sector. The functional model was promoted to reduce the risk of capture, create conditions for government to receive more contestable policy advice, provide more efficient service delivery and to enable departments to have more clearly focused objectives. The advantages of the sectoral model were seen to be: better interaction and feedback between those responsible for providing policy advice and those responsible for implementation. This would result in more informed policy with a better understanding of implementation issues and better focussed delivery of services (Boston, 1991b:234). Boston also makes the point that political factors are involved, and the way bureaucracies are organized in Westminster systems into departments, is related to the structure of Cabinet and the Ministerial Portfolios.

Structural change in New Zealand over the period from 1984 to 1999 generally followed the functional model and is discussed in chapters four and six. However, by 1999 the downside of the earlier separation of departments into smaller units and the decoupling of the policy and operational functions was becoming apparent and following the change of government, a reversion to the sectoral model has taken place (see chapters seven and nine).

### 3.6 Other Administrative doctrines

Many ideas about administration are better described as doctrines than as theories (Hood and Jackson, 1991:199).

The features of NPM and its impact have been summarised in the previous sections of this chapter. However, it is important to look at the wider perspective of administrative doctrines when viewing public sector reforms and considering the matter of institutional design. 'Getting organised' is the approach taken by Hood and Jackson (1991) who start, in *Administrative Argument*, by exploring three types of doctrines and approaches – military, business and religious, in order to examine the main stereotypes which had characterised public administration. Their research team were then tasked with exploring major textbooks in administration, reform documents and historical works and stopped, on instruction, when 99 examples of doctrines of administration had been identified. This clearly proved their point that there is no simple method of analysis of administrative doctrines. However, their research led them to conclude that, at the level of 'administrative philosophies', there had been two key specimens – New Public Management and late cameralism (Hood and Jackson, 1991:177).

The parallels between cameralistic ideas in eighteenth-century Europe and the adoption in the late twentieth-century of the NPM administrative doctrine was first aired by Hood (Hood, 1990:205) and developed in *Administrative Argument*. Hood and Jackson take the cameralism parallels further by acknowledging that the term NPM is a loose one:

NPM is a neologism – a convenient but imprecise shorthand term to denote a philosophy of administration which came to dominate the agenda of public administration in the 1980s in the UK, New Zealand and Australia. There are also Canadian and American variants which have some family resemblance (Hood and Jackson, 1991:178).

They decide that NPM, like cameralism, can be regarded as a generic movement crossing different policy sectors as well as national boundaries.

Principles, or rules of thumb, are used to identify the administrative doctrines which have guided policy makers in their choice of organisational forms. The continuing debate around the organisation of public bureaucracies is noted, as is the lack of scholarly consensus, with some thirty sources, some as early as the 1950s, cited to support the point (Boston et al., 1996: 69-70).

The administrative doctrines analysed by Boston et al., (1996) use a ten item table which was based on Hood and Jackson's work in 1991. Each doctrine has alternatives and each alternative has justifications to support what it can deliver.

1. Public versus private organisation
2. Kinds of public organisation
3. Kinds of private organisation
4. Scale of organisation
5. Functional scope of organisation
6. Degree of uniformity
7. Inclusive versus divided responsibility
8. Single source supply versus multi-source supply
9. Combine like activities versus combine unlike activities
10. Long versus short hierarchies (Boston et al., 1996:74-5).

While the 'typical justifications' describe the options in the dichotomies, it is in the categories using "kinds" or "scale" where the distinctions are helpful. Thus, kinds of public organisation can be 'ministerial department' or 'non-departmental' forms such as statutory boards, companies, trusts etc<sup>32</sup>. Kinds of private organisations are: for-profit or non-profit, independent or voluntary organisations. The options for 'scale' are large, or small. However, while the summary table produced is wonderfully comprehensive, each justification must be looked at in the context of the environment of the time, the identified problem, and the policy outcome sought. Thus the justifications, which are advanced to recommend different organisational arrangements, can be paradoxical and it is pointed out that the ten doctrines are context dependent (Boston et al., 1996:72).

The movement away from the sectoral model (based on vertical integration of policy and operations in the same department) was considered one of the most significant shifts in administrative doctrines since the mid 1980s. The traditional placing of policy and delivery functions in the one agency was consistent with vertical

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<sup>32</sup> It is interesting to note that the term 'crown entities' is not used in this context. Crown entities in New Zealand were defined by inclusion in the Fourth Schedule of the Public Finance Act 1989. They form a large part of the state sector and have a wide range of regulatory, quasi-judicial, service delivery and commercial functions. Crown entities are legally separate from the Crown, but have a substantial relationship with it, so there is a need for strong and well-understood governance and accountability arrangements that strike the right balance between their autonomy and ministerial control (State Services Commission, 2000, Crown Entity Reform: Overview).



integration, and had been defended in the past on the grounds that it improves interaction and feedback between those responsible for the provision of advice and those responsible for implementing the government's decisions.

The claims in support of vertical integration included: policy advisors have a better understanding of the problems of implementation; there is up-to-date knowledge of client group needs; feedback loops enable prompt action when policy initiatives are not achieving their aims; and transaction costs are minimised. In short, the policy/operations integration provides for more informed policy and better integrated implementation (Boston et al.,1996). These arguments in support of vertical integration, expressed when the decoupling of New Zealand departments of state was at its height in the 1990s, have subsequently been advanced in support of the re-coupling of government agencies which has taken place in the twenty-first century under Labour-led governments.

The critics of the sectoral approach and who advocated the policy/operations split, gave bureaucratic or provider 'capture' as the alleged reason for separation. The principle of separation resulted from the Treasury report to the incoming government in 1987. (The rationale for and impact of capture, will be discussed further in chapter four.) Those who focussed on the perceived dangers of 'capture' and the need to restructure government departments included the consultancy firms<sup>33</sup> operating at the time. The functional model was seen as the way to reduce the risk of capture in that it opens up the way for contestable – often contracted - provision of services, and accountability is improved.

When reviewing the new regime (that is New Zealand in 1996) Boston identified eight key objectives, which had guided public policy on machinery of government matters, and noted that the dominance of market liberalism and managerialism had had a significant bearing on the administrative doctrines which were preferred. The objectives can be simplified to reflect what actually occurred in New Zealand in the 1980s and 1990s. The separation of commercial functions took place under the State Owned Enterprises Act (1986). The contracting of operational funding to non-governmental organisations (NGOs) for delivery of services, especially in the social sector, proceeded. There were smaller focussed departments and ministries and the

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<sup>33</sup> Boston et al. make multiple references to the consultancy firm Strategos who provided advice to many government agencies, and even to the State Services Commission, who provided in their advice, a similar rationale for the separation to avoid the risk of policy capture (Boston et al., 1996: 73).

operational functions were separated from policy functions to create policy ministries and operational departments. Tiers of middle management in government agencies were removed in order to promote efficiency. Finally, the accountability relationship between chief executives (of government departments) and ministers was clarified through performance and purchase agreements.

The lack of agreement on organisational forms or the criteria to guide machinery of government decisions is hardly surprising as, from this writer's experience in government agencies, the factors which impact on organizational design are influenced by several issues including: the latest management fashion<sup>34</sup>; the authority of the consultancy firm advising on restructuring; the relative positions of Ministers in the Cabinet hierarchy; the relative power and standing of the head of the government agency or department at the time; and the latest scandal or media focus which is of embarrassment to the Government of the day. Some of these points were subsequently supported in the views expressed by the people interviewed for this research who had had government agency experience.

### **3.7 Conclusion**

The public sector reforms, which took place from the 1980s in western democracies, have produced a continuous procession of changes throughout the public administrative and managerial structures of those countries. The component theories and administrative practices of the NPM have, to some extent, guided the actions taken by governments. Determining the success or otherwise of the changes on a broad canvas is not the purpose of this dissertation. However, in order to focus on the New Zealand situation, an overview of NPM and its interpretations has been undertaken.

The origin of the term 'new public management' is generally attributed to Hood (1991) and Aucoin (1990) with other writers around the early 1990s adding their interpretations (see Boston et al., 1991, 1996; Hood, 1990; Hood and Jackson, 1991; Pollitt, 1993). These early writers also explored the theoretical underpinnings of NPM – public choice theory, new institutional economics and agency theory, together with managerialism.

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<sup>34</sup> See Jackson, B. (2001) *Management Gurus and Management Fashions* Routledge, New York

The NPM literature, summarised in this chapter is extremely wide-ranging and diverse as numerous academics and observers have ventured into the NPM debate to discuss the actions which were being taken around the world, since the late 1970s, in the name of improving public administration and management. Writers have also sought to find a new perspective from which to review the reforms which would differentiate their work from other literature. This has created some interesting parallels with other systems, practices or theories such as cameralism and post Fordism, and insights from earlier literature such as the writing of Weber, Merton, de Tocqueville and Wilson have also been used. Another observation from a study of the literature is that some of those writers who were initially enthusiastic about NPM have revised their views in later publications, as some deficiencies in the doctrines have become more apparent.

While the concept of NPM has been widely accepted, opinions differ on the application of the term. NPM has been identified as: a 'fashion' by Rockman (1998); a 'new intellectual fast food for fickle consumers of takeaway management' by Hood (1990); an 'anglophone' concept by Barzelay (2001); a 'shopping basket' of different elements by Christensen and Lægheid (2001); a 'myth,' in that there has not been convergence towards a new style of public management, Pollitt (2001); 'paradoxical' in that many of the aims have had unintended consequences, Hood and Peters (2004); and that the emphasis should be on government and not management Christensen and Lægheid (2007).

By reviewing the literature sequentially, it has been apparent that clarification of the reform practices adopted in different jurisdictions have taken different paths and produced a variety of different problems and unintended consequences. To the three phases or ages of NPM identified by Hood and Peters (2004), which have been used to provide a framework for discussion of the developments of NPM in the literature, a fourth age has been added. This fourth age encapsulates the developments since 2000, identifies the distinguishing characteristics of the public sector, and emphasises the moves to develop an administrative governance framework, which is 'joined-up' or 'whole-of-government' in its focus.

Hood and Lodge (2006) note that not every country which has taken up the managerialist practices has necessarily been successful:

Nevertheless, a major academic and consultancy industry has grown up around NPM, and the idea has gained its defenders and detractors, its assessors and reframers, its

obituarists and chroniclers of all persuasions. The 'death' of NPM and its replacement by other at least equally ill-defined and all-encompassing notions – such as 'governance' and the 'third way' – has often been proclaimed. But despite the frequency with which the last rites have been said over it, the putative corpse has an uncanny habit of coming back to life for another round of books and conferences (Hood and Lodge, 2006:173).

The next chapter will examine further the New Zealand variant of NPM and its method of implementation. This focus will provide a background from which to examine the research issues which the thesis will address.

## **Chapter 4: The New Zealand reforms of the 1980s and 1990s and the logic and consequences of institutional and policy and operational decoupling**

Reforms solve problems existing at any one time, often in the process creating a new set of problems that may generate subsequent reforms (Peters 2001:4).

### **4.1 Introduction**

The theories relating to the New Public Management (NPM) have provided a context in which to examine the reforms which have taken place in the public sectors of western democracies from the late 1970s. The evolution of NPM and the component theories were described in chapter three. This chapter turns the focus on to the specific situation of New Zealand. In the literature New Zealand is often described as a world leader in public sector reforms and in the application of NPM, or to have come further than other countries (see Boston et al., 1996; Gregory, 2006; Hood, 1990; Jones, Schedler, Wade, 1997; Newberry, 2002; Osborne and Gaebler, 1992; Scott, 2001).

Improving the performance of the public sector to make it more efficient and effective has been an ongoing aim of many governments. However, in New Zealand the process of major reforms did not proceed in any coherent way until the election of the fourth Labour Government in 1984. The development of public administration had proceeded in a slow but orderly manner from the 1912 Royal Commission, which established a non-political, unified and career public service. This regime continued through to the 1962 Royal Commission and the ensuing State Services Act (1962). Following each Royal Commission major legislation was introduced which governed the operation of the public service until the next review.

This chapter provides a background to public administration in New Zealand, before focusing on the changes which unfolded post 1984. A new legislative platform was required on which to base the reforms and permit the required changes to the operating environment. The drivers underpinning those changes which reflected the

influence of NPM are discussed. The 'New Zealand model,' as it came to be known, had features which differentiated it from the NPM practices in other countries.

The New Zealand variant of NPM has many dimensions which include institutional design, theoretical underpinnings, changing institutional topography and these have been reflected in policy decisions, statutes and the sequencing of the reforms. As phase one of the reforms unfolded from 1984 to 1999, the changes are documented here, as are the views of those involved at the time who were interviewed for this research. Throughout this period of both Labour and National-led governments, widespread changes occurred in each successive regime. The progress of the reforms in New Zealand has been recorded and commented on over the period by many including: Boston et al. (1991, 1996), Boston and Eichbaum (2005), Boston and Holland (1987), Easton (1999), Goldfinch (2000), Gregory (1998, 2000, 2001, 2003, 2006), Kelsey (1995), Logan (1991), Norman (2003), Schick (1996), Scott (2001). The reviews of the New Zealand reforms are discussed in chapter five.

The key driver of the separation of policy from operations and service delivery was identified in the Treasury's Briefing to the Incoming Government in 1987 *Government Management*. While not referring directly to public choice theory, it made extensive reference to the notion of 'capture,' by bureaucrats, professionals and providers, and the need for government to obtain balanced policy advice. The thinking behind, and the impact of capture are discussed here, together with the restructuring of departments which took place in the period, with emphasis on the social sector agencies which are the focus of this research.

## **4.2 The Historical Context**

### **4.2.1 Public administration in New Zealand prior to 1984**

In the early twentieth century the New Zealand public service was seen to be inefficient and wasteful and with political patronage widely practised. Following the 1911 general election, the government appointed a Royal Commission, known as the Hunt Commission (after its Chairman), to address personnel matters, appointments (many 'temporary' positions had been established) and establish a civil service without direct political links. The Public Service Act of 1912 resulted from the findings of the Commission. It established a non-political and unified career service; non political in that the powers of appointment, promotion and dismissal were entrusted to an independent body – the Public Service

Commissioner. By providing uniform salary scales and other conditions of service in all departments, the Service was unified. Recruitment was to come from those leaving school and they would progress through the ranks with their careers protected from competitors, from outside the service, who may seek entry.

The 1961 a Royal Commission (known as the McCarthy Commission after its Chairman the Honourable Mr Justice McCarthy) was appointed to “inquire into, investigate and report upon the organisation, staffing and methods of control and operation of Departments of State.”<sup>35</sup> The report produced contained 130 recommendations. The government of the day accepted most of the recommendations and translated these into the 1962 State Services Act. The Royal Commission did not see its efforts providing the definitive answer to all future operations of the state sector and saw value in holding inquiries at regular intervals. It was critical of the fact that fifty years had separated their efforts from the 1912 Hunt Commission’s report and suggested that an interval of 15 or 20 years would be more appropriate.

The 1962 State Services Act was:

An Act to provide for the appointment of a State Services Commission, to assist in promoting the efficiency of the State Services in performance of their duties, and in respect of the Public Service to ensure that their members are impartially selected, fairly remunerated, administratively competent and imbued with the spirit of service to the community. (1962 State Services Act - long title)

The main principles, which had provided the foundation for the New Zealand public sector, had remained relatively unchanged since the 1962 State Services Act, with some modifications from the State Services Conditions of Employment Act 1977. These were: political neutrality, ministerial responsibility, efficiency and economy, merit selection, grievance procedures, a career service, anonymity, and a unified public service. The principle of a unified and uniform public service had been embodied in all the legislation. In this unified public service, employees moved between departments and enjoyed a standard set of working conditions and rates of pay. The ‘career’ public service provided a career for life – or at least a maximum of

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<sup>35</sup> Royal Commission of Inquiry, (1962) The State Services in New Zealand, Government Printer, Wellington. (page ix)

40 years<sup>36</sup>, with security of tenure and promotion based on merit. In return, the principle of political neutrality meant that public servants would loyally serve the government of the day – of whatever political persuasion. The ‘faceless bureaucrat’ was seldom publicly identified and thus remained free from outside influences. The convention of ministerial responsibility operated which meant that Ministers were required to account publicly for the actions of their department. They were supposed to accept responsibility for errors, and even resign in serious cases. As the complexity of departmental activity increased, weaknesses in the doctrine were exposed (see Whitcombe, 1989).

The impetus for change and the need to improve the performance of the public sector was the aim of governments in Australia, Britain and Canada from the late 1970s. In New Zealand there had been ongoing incremental criticism of the growth of the public sector (with public expenditure to over 40 per cent of GDP) and of the role of central government. Calls for reduction in public sector expenditure and reform of the existing structures were made at the 1979 conference of the New Zealand Institute of Public Administration. The inefficient use of public resources, and the lack of accountability of state enterprises, had been highlighted in a paper from the New Zealand Planning Council in 1982. An earlier 1978 report to Parliament from the Controller and Auditor-General commented on the poor financial management of administrative departments, the lack of accountability and the need for better value for money from the services provided (Whitcombe, 1989:156).

However, while there were critics of the public sector performance through the early 1980s, little change had been achieved prior to the election of the fourth Labour Government in 1984. The National government under Prime Minister Robert Muldoon had adopted policies of wage and price freezes to contain expenditure and a ‘sinking lid’ policy, where public servants who left could not be replaced, to constrain the growth of the public service. The exception was the so-called ‘Science Budget’, where science positions were able to be replaced on a priority system administered by the then, National Research Advisory Council (NRAC).

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<sup>36</sup> In 1962 an officer was obliged to retire either on completing 40 years’ service provided that he is aged 60 or more; or at the age of 65 irrespective of service.



In 1980 Roger Douglas, Opposition finance spokesperson, published a booklet, *There's Got to be a Better Way*, subtitled 'A practical ABC to solving New Zealand's major problems.' The booklet set out, under each letter of the alphabet, what was needed to restore New Zealand's position in the world and how to break out of the present economic and social morass (Douglas, 1980: 9). Under "G" he covered Good Government, Government Charges (charge the correct price and avoid subsidies), and Government Departments (making departments justify everything that they do, reduce inefficiencies and trading departments should charge for services). The subsequent changes made by the fourth Labour Government are all foreshadowed in this booklet.

Long before the 1984 election, critics from the opposition Labour Party were calling for greater accountability for the use of public resources by governments and major changes in the organisation and management of the public sector, with a reduction in the activities of central government. Within Parliament itself, the Public Expenditure Committee, in its 1984 report, recommended improvements in annual reporting and better accounting procedures (Whitcombe, 1989:156). The snap election called by Prime Minister Muldoon for July 1984, brought to a head the pressures that had been steadily building up.

#### **4.2.2 The situation in 1984**

The election of New Zealand's fourth Labour Government in July 1984 was notable because "it marked a crucial turning point in the style, character and content of the politics in the post-war era" (Boston and Holland, 1987:1). Little did the authors know, at the time of writing in late 1986, what further changes were in store in the next years of the fourth Labour Government's occupancy of the Treasury benches. While the way forward had been signalled in 1984 with the publication of the Treasury's Briefing to the Incoming Government, the average public servant employed in a core public service department, was quite unaware of the changes which were about to take place.

Within the New Zealand Treasury there had been concerns about economic performance under the National Government headed by Robert Muldoon, well prior to 1984. These concerns were articulated in a paper from two Treasury economists Rob Cameron and Pat Duignan in a paper to the New Zealand Association of Economists in February 1984. While the paper focussed on Government Owned Enterprises, it covered the fields of public administration, management, political

science and economics (Cameron and Duignan, 1984). The paper also addressed agency costs, the process and structure by which they are controlled in the private sector, and the cost of producing goods and services in the public sector. Its purpose was to examine the costs and benefits of producing goods and services within public sector organisations from an economics perspective. In the interviews undertaken for this study, several made reference to this paper as a key reference point for Treasury thinking at that time.

I think there were two separate strands of policy development which came together. The SOE stand was driven from the Treasury and was a response to years of poor financial performance by a number of largely operational departments providing essentially commercial services. All attempts to impose financial and management disciplines had failed. Empirical evidence was brought together and analysed in an institutional economics framework. This came together in a seminal paper by Rob Cameron and Pat Duignan which concluded that reforming these activities into corporate entities owned at arm's length from the Government via shareholding ministers, and removing regulatory advantages, could bring major benefits. This meant, of course, finding a new home for the residual policy and non-market functions.

(26) Former chief executive

The situation facing the country in 1984 was reviewed by Treasury in *Economic Management* (1984). Part One dealt with the Economic Situation and Outlook with Part Two focussing on Policy and Organisational Issues. Inappropriate interventions by the government were listed: subsidisation of industry, restrictive practices by professional and trade groups, unwarranted state monopolies and the protected position of the public service. The unwillingness of the government to accept realistic limits as to what the government can deliver was noted under 'resistance to adjustment' (Treasury, 1984: 107).

The performance of the government sector at that time was summarised as:

- a. most departments have no clearly defined goals;
- b. most departments have no clearly specified management plan;
- c. there are few effective control mechanisms to review the performance of departments in meeting their output requirements;
- d. departmental managements have little freedom to change the way their departments operate to meet their goals, especially in staffing matters. They lack the autonomy they need within an overall expenditure limit to use their judgment to produce the best outcome;
- e. too much emphasis is placed on the control of inputs;

- f. there are no effective review mechanisms for dealing with poor performance in senior management within departments (Treasury, 1984: 290).

The parlous state of the New Zealand economy was faced by the Government the day after the Election on July 14 1984, when the Reserve Bank closed the Foreign Exchange Market, and on July 18 the dollar was devalued by 20 percent. Further moves to stabilise the dollar were attempted with the final floating taking place on 4 March 1985 (Boston and Holland, 1987: 263). However, in order to understand why the core public service departments were changed so dramatically, it is important to appreciate the events which were taking place through the period.

The views of one interviewee described the situation encountered by the fourth Labour Government when they took office.

- In 1984 there was a wide acknowledgement that a lot needed to be changed. The private sector has been cosseted and protected and was isolated from the real world. The public finances were in an unsatisfactory position the debt levels were too high. The principal concerns were about the country's economic position – and Ministers were as concerned about the public sector as about the private sector. The public accounts were not in good shape and the government had been spending more money than it had been raising in revenue. The tax collected was not covering expenditure commitments – back from 1974. There were high levels of debt – both in absolute terms and as a proportion of the total budget - one fifth of the annual budget was spent just on interest - servicing debt. (31) Former Cabinet Minister

Another not dissimilar perspective of the situation was expressed.

- The public sector needed a shake-up. There was a huge fiscal deficit and Treasury was worried. There was huge wastage in the state sector – departments operating commercially paid no taxes, paid no dividends and kept asking for more capital expenditure but there was no accountability for that expenditure. They were inefficient and costing the taxpayer a fortune. So it was a combination – huge fiscal deficit and inefficiency in the state sector. (35) Former chief executive

The situation in 1984 was reviewed in retrospect in a paper given by Dr Graham Scott (Secretary to the Treasury 1986 – 1993) to the Conference 'Lange and the Fourth Labour Government'<sup>37</sup>, which was held in May 2004 to mark the twentieth

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<sup>37</sup> Several of those who had been involved in the period of the Lange Government, as Ministers, bureaucrats or observers, provided their comments on the events of the period. Papers from Colin James, Michael Bassett, Roger Douglas, Gerald Hensley and Prof Gary Hawke provided relevant insights, moderated by hindsight. (Clark (ed.), 2005)

anniversary of the fourth Labour Government. In the paper entitled “One adviser’s view of the economics and politics of economic policy” Scott summarised the 1984 situation which was faced by the incoming Labour Government:

- A fiscal deficit that was too large to be removed by incremental changes in taxes and expenditures under existing policies;
- Public debt and overseas borrowing that were getting to uncomfortable levels and were structured wrongly in terms of risk management;
- Monetary and exchange-rate policy that was technically eccentric and lacked credibility in the markets;
- A highly distortionary freeze on prices, wages and interest rates that was falling apart politically;
- A looming fiscal problem in social policy due to the unaffordability of National Superannuation and pressing priorities in other social areas;
- A system of public management that was bound up in pointless regulations, inward looking, self sustaining and not sufficiently motivated to increase efficiency and effectiveness;
- A state sector that was deeply engaged in activities for which it was ill-suited and created large demands for fiscal support in many different ways that were inefficient, ineffective and inequitable;
- Feeble mechanisms for accountability and a serious lack of transparency about the activities of government and especially, their financial implications;
- A mendicant private sector accustomed to maximising its income by lobbying as by efficient business practices (Scott, 2005: 60).

While Treasury was identifying the changes needed to reform public sector management, the employing agency, the State Services Commission, continued much as before – until 1986.

Dr Roderick Deane took up the position of Chairman of the State Services Commission on 1 April 1986. His appointment caused concern in some quarters as he had not come through the ranks of the public service and had been recommended by the Minister of Finance, Hon Roger Douglas. Initially he was most interested in the State’s trading organisations where he was concerned at the lack of basic information, no control on spending and overstaffing (Bassett & Bassett, 2006: 146). One of his early tasks was to address the Public Service Manual which, with around 2000 instructions, needed drastic revision to make it accessible and relevant. By 1987 attention was being given to reforming the 1962 State Services

Act which had covered the whole of the state services sector. In a memo from Deane to Hon Stan Roger the Minister of State Services, in February 1987, the four principles (from the State Owned Enterprise exercise) which he considered should be observed in the State Sector Act reforms were set out: clearer objectives and delivery systems; better accountability mechanisms; greater flexibility in personnel policies; and a reduction in the centralisation process which had been a trend over the past century (Bassett & Bassett, 2006: 170).

Further comments on the situation in 1984, and the impetus for change, were supplied by two former chief executives.

- There was a combination of circumstances and conventions, depending on who the people are and their philosophical framework and preferences – their own ‘religious beliefs’. It was a combination of circumstances at the time – of the prevailing conventions in political and economic theory – the people in positions of authority/leadership, who happen to be there at the time. And a political system at the time which enabled radical change to take place – for good and for bad. (36)
- The ‘drivers’ could be summed up as (a) the fiscal crisis leading to change – the principal driver and (b) the realisation that by putting everything onto a proper commercial footing would solve much of the fiscal problem and efficiency dilemmas and getting these enterprises profitable so that they pay taxes and dividends. So the economic drivers alongside the intellectual drivers that were occurring at the time drove the changes. (35)

A parallel to the New Zealand situation, and indeed it came first, was the situation in Britain under Prime Minister Thatcher from 1979. Peters and Savoie consider that Thatcher led the way in public sector reforms in Anglo-American democracies with others following suit. But, Thatcher had no grand design – she knew what was wrong but did not have an overall strategy to fix it (Peters and Savoie, 1998: 5). However, Thatcher was a strong leader and her ‘rolling back the State’ mantra was certainly used by New Zealand bureaucrats in the work following the State Owned Enterprises Act (1986) to assess what further activities then undertaken by government should remain in the core public sector. Here the project team<sup>38</sup> addressed the question “What is the business of government?” to clarify what activities should remain in the public sector and which further activities would be more appropriately contracted out or put on a commercial footing.

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<sup>38</sup> The project team was based in the State Services Commission and included members from Treasury.

### **4.3 Policy decisions and the legislative platform**

The incoming Cabinet of the fourth Labour Government was faced with a plethora of policy decisions to take. They were clear what they wanted to achieve and needed to formulate the policy framework to achieve their aims. Much of the policy work was undertaken by small groups working with key Ministers. The process was often initiated by the three Finance Ministers (Roger Douglas, Richard Prebble and David Caygill) who would obtain approval from the Cabinet Policy Committee and then take the policy to Cabinet – where that approval became a formality.

The sequencing of the policy decisions taken has been well covered in the literature (see Boston et al. 1991, 1996; Scott, 2001). The programme of reforms followed two main strands: first, the removal of the main trading operations from the public service and the creation of State-Owned Enterprises, and later, the reform of the remaining public service with the passage of the State Sector Act (1988) and the financial management reform based on the Public Finance Act (1989).

The three major pieces of legislation which had governed the management of the public service prior to 1984 were the 1962 State Services Act, the 1977 State Services Conditions of Employment Act and the 1977 Public Finance Act. The first two were administered by the State Services Commission, with the Commission as the employing authority for the public service and the Public Service Manual providing the operational guidelines. The Public Finance Act was administered by the Treasury with Treasury Instructions as the guidelines reference document.

The key pieces of legislation, which were enacted under the fourth Labour Government, provided the platform for the public sector reforms which subsequently took place. The legislation was developed and enacted in a sequence which reflected the Government's priorities:

- The State Owned Enterprises Act 1986
- State Sector Act 1988 and State Sector Amendment Act 1989
- Public Finance Act 1989.

There was also the Environment Act 1986, which established the Ministry for the Environment together with the position of Parliamentary Commissioner for the Environment. However, though the literature does not cite this as a major piece of

legislation, it did produce a significant piece of departmental restructuring. The Fiscal Responsibility Act followed later in 1994.

### State-owned Enterprises Act 1986

On the basis of Treasury's advice, the principles on which public enterprises were set out by the Government in December 1985. They were:

- a. Responsibility for non-commercial functions to be separated from major trading SOEs;
- b. Managers of SOEs to be the principal objective of running them as successful businesses;
- c. Managers to be responsible for input decisions but within performance objective agreed with ministers;
- d. Advantages enjoyed by SOEs (unnecessary barriers to competition) to be removed and commercial criteria applied to management performance;
- e. Individual SOEs to be reconstituted on a case-by-case basis, under the guidance of boards – generally appointed from the private sector (Boston et al., 1991: 34).

The State-owned Enterprises Act which came into force on 19 December 1986, and 1 April 1987, was:

An Act to promote improved performance in respect of Government trading activities and, to this end, to--

- (a) Specify principles governing the operation of State enterprises; and
- (b) Authorise the formation of companies to carry on certain Government activities and control the ownership thereof; and
- (c) Establish requirements about the accountability of State enterprises, and the responsibility of Ministers (SOE Act, 1986).

The principal objective of a State Owned Enterprise was to operate as a successful business – to be profitable and efficient, a good employer, and “an organisation that exhibits a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so” (SOE Act, 1986 Part I, section 4). How the SOE was to achieve the latter objective was to be spelled out in the annual Statement of Intent.

There were fourteen state enterprises created in 1986.<sup>39</sup>

- Air New Zealand Limited
- Airways Corporation of New Zealand Limited

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<sup>39</sup> State Owned Enterprises Act (1986) First Schedule

- Coal Corporation of New Zealand Limited
- Electricity Corporation of New Zealand Limited
- Government Property Services Limited
- Land Corporation Limited
- New Zealand Forestry Corporation Limited
- New Zealand Railways Corporation
- Petroleum Corporation of New Zealand Limited
- New Zealand Post Limited
- Post Office Bank Limited
- Telecom Corporation of New Zealand Limited
- Tourist Hotel Corporation of New Zealand
- The Shipping Corporation of New Zealand Limited

### State Sector Act 1988

In 1988 Deputy Prime Minister Rt. Hon. Geoffrey Palmer commented on the reasons for the State Owned Enterprises Act (1986) and the State Sector Act (1988). The State Sector Act was based on much the same concept of public administration and the State Owned Enterprises Act - the relative lack of responsiveness of large bureaucracies and the:

very considerable difficulties in ensuring that those bureaucracies used resources in a way which was efficient, responsive and flexible and also the need to reduce the rigidities in the public sector so that there could be greater responsiveness and greater flexibility (Martin and Harper, 1988: 2).

Scott places the origins of the State Sector Act legislation at October 1987 when four concerned ministers and some officials came together to seek ways to improve the effectiveness of government departments (Scott, 2001: 1). Earlier, in 1986, Hon Stan Rodger had released a document, known as the 'buff paper' which advocated major changes in pay fixing arrangements in the state services. The state unions had rejected these proposals and believed that the changes proposed would not proceed. However, after the 1987 election, where the government increased its majority, the State Sector Bill emerged (Scott, 2001:5). The timing of the introduction of the legislation, December 1987, left little time for organised comment as the country was embarking upon its holiday period. The Act took effect from 1 April 1988.

The aims of the Act were twofold. The first was to redefine the relationship between Ministers and heads of departments – who became chief executives under the Act –



and the second to provide similar labour-market regulations for both the state and private sectors (Scott, Bushnell and Sallee, 1990:153).

The agency relationship between chief executives and ministers in the New Zealand public service was codified in the State Sector Act (1988). Prior to the State Sector Act, while ministers had always been accountable to Parliament for their portfolios, they had delegated the day-to-day administration of their department to the (then) permanent head. The new relationship was to be based on a set of agreements. Scott and Gorringer outlined the thinking behind the new accountability arrangements in their 1988 paper to the Conference of the Royal Australian Institute of Public Administration (see Scott and Gorringer, 1989). Under the State Sector Act, the chief executive is responsible to the appropriate minister for the management of the department and, in turn, delegates responsibility downward to other managers.

The new agreements were to cover the outputs that the department was to supply, efficiency measures, the requirements for financial management, and the rewards and sanctions which would apply. These changes focussed on the incentives for the key agent (the chief executive) who would then have contractual arrangements with other agents in the organisation. Another key requirement was the monitoring of performance.

The State Sector Act was intended to improve efficiency in the public sector but it also sought to give the government greater control. Agency theory, by assuming that the minister is the principal in the principal/agent relationship, has provided the framework for the chief executive to deliver what the government wants by way of departmental outputs. The Act assumed that the incentive of performance pay (a radically new departure for the public service) would encourage good performance, as would the converse – the ultimate sanction of dismissal. However, chief executives interviewed in 1990 stated that intrinsic motivation (the public service ethic of serving the community) was their prime motivation and not remuneration gains (Whitcombe, 1990). The agency relationship between chief executive and minister has added a dimension to the separation of policy ministries from operational departments, where each could have a different minister although operating in the same sector.

The passing of the State Sector Act resulted in the creation of autonomous agencies of government headed by a chief executive. The list in the first schedule of the State

Sector Act (1988) contained 37 departments of the public service and the State Sector Amendment Act (1989) showed 41 departments. The increase reflected the dismantling of larger departments into policy ministries and operational departments or agencies focused on service delivery. Although, as Bushnell and Scott noted in their 1988 paper, the impact of the State Sector Act was not seen as providing all the solutions sought. "It formalises the relationship between the departmental head and the minister, and enables more explicit accountability for performance. However, by itself, the Act is not sufficient to ensure better performance" (Bushnell and Scott, 1988: 25).

After the passing of the State Sector Act, the State Services Commission issued a booklet *An Explanatory Guide for Public Servants* to promote the Act and explain the key sections that were particularly relevant to employees in the public sector.

#### Public Finance Act 1989

Problems with the government's financial management system had been long signalled by Treasury and these included the short-term horizon for financial planning, cash accounting, year-end spending sprees, and little encouragement to review expenditure to fund new initiatives. However, it was not until the change of government in 1984 that the issues of accountability and sound financial management were given urgency and new legislation to replace the 1977 Public Finance Act was developed.

A Statement on Government Expenditure Reform was released by the Minister of Finance, Hon R. O. Douglas, in May 1986. This explained the reasons for the expenditure review which was to be carried out: "the tangled mess of economic policies we inherited had inhibited economic initiative and growth" (Douglas, 1986: 5). The expenditure review was one of a wide range of initiatives taken by the Government to examine government spending and achieve savings. At that time government expenditure had risen to an all time high of 41 percent of gross domestic product.

The Public Finance Act, which came into force in July 1989, aimed to link financial appropriation to performance so that while parliamentary control could be exercised to the level of resource use, and the purpose for which the resources were used, it was administratively simple (Scott, Bushnell and Sallee, 1990: 159). Departments were required to supply adequate information and meet standards of proof that the

funding had been spent for the purpose for which it had been appropriated. Another change brought in by the Act was the move to shift the financial year end to 30 June. This enabled managers to know their budget at the beginning of the year and result in more efficient financial planning and performance.

New terms “outputs” and “outcomes” appeared in the Act and were defined as:

“Outputs” means the goods and services that are produced by a department, Crown agency, Office of Parliament, or other person or body;

“Outcomes” means the impacts on, or the consequences for, the community of the outputs and activities of Government (Public Finance Act 1989: 6).

Later, in June 1994, and under a National Government, the Fiscal Responsibility Act was passed. This Act provides the legislative framework for the conduct of fiscal policy in New Zealand and established the reporting requirements by the Minister of Finance to Parliament in respect of fiscal management. Better decision-making by government, strengthened accountability, and more informed public debate about fiscal policy were the desired outcomes on the legislation.

The Act was designed to do five things:

- (i) increase the transparency of policy interventions and the economic and fiscal consequences of policy;
- (ii) bring a long term (as well as annual) focus to budgeting;
- (iii) disclose the aggregate impact of a Budget in advance of the detailed annual allocations;
- (iv) ensure independent assessment and reporting of fiscal policy; and
- (v) facilitate parliamentary and public scrutiny.<sup>40</sup>

The Act requires a series of accrual-based financial reports including: the budget policy statement setting out long term objectives for fiscal policy; economic and fiscal updates for the current year and the two following financial years; and the Fiscal Strategy Report containing projections of total revenue, expenditure, debt and net worth over the next ten years (Pallott, 1998). The Fiscal Responsibility Act 1994 completed the suite of legislation which had been designed to re-define the role and responsibilities of the State, and establish an environment for business-like and longer term public management.

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<sup>40</sup> Fiscal Responsibility Act 1994: An Explanation. (<http://www.treasury.govt.nz/legislation>)

In 2003 the Public Finance (State Sector Management) Bill was introduced to update the State Sector Act (1988) and the Public Finance Act (1989). The legislation, which came into law in 2004, included repeal of the Fiscal Responsibility Act, which was incorporated into the new Public Finance legislation, and new legislation for Crown Entities. This new legislation and its impact is discussed in chapters seven and nine.

#### **4.4 The New Zealand variant of NPM – context and drivers – theories and doctrines**

##### **4.4.1 Context and drivers**

The drivers of the reforms which took place in the New Zealand public sector in the 1980s and 1990s have been identified in the literature as the state of the economy, the lack of accountability and the perceived need for improved efficiency and effectiveness in the public sector (see Boston et al. 1991, 1996; Boston and Eichbaum, 2005; Scott, 2001; Scott, Bushnell and Sallee, 1990).

In 2001 Schick noted that “In contrast to some other countries that have embraced the new public management, the New Zealand model is not a shopping list of reforms from which government can choose the ones it likes. Rather, it is a coherent, disciplined strategy for dismantling the control structures and compliance mentality that stand in the way of effective management, and for building in their place novel arrangements based on the freedom of managers to exercise professional judgement in carrying out assigned responsibilities” (Scott, 2001:xv).

Pollitt and Bouckaert (2004) in their country case file, describe the New Zealand reforms as ‘unusual’. This explanation rests on their comprehensiveness and the theoretical ideas about management on which they were based. The shared background of a small group of key ministers in the incoming government in 1984 together with a group of senior civil servants and businessmen is also commented on (Pollitt and Bouckaert. 2004:278). Goldfinch maintains that economic policy-making was “dominated by a small group of institutionally based elites from four key institutions: the Cabinet, the Treasury, the Reserve Bank and the Business Roundtable” (Goldfinch, 2000:199). While this exact combination is not referred to by other writers, the alliance of politicians and senior public servants was commented on by one respondent:

- There was the amazing coincidence of interest between a small group of highly intelligent, reforming politicians the senior players in the public service, who had

been planning for change and awaiting a willing government who might implement them. A coincidence that you're only going to get once in fifty years in a country – leading politicians and mandarins on intellectual common ground – to pass major changes in such a short space of time. (35) Former chief executive

A succinct summary of the drivers was provided by one respondent who had a Treasury background:

- - Intellectual ideas (eg New Public Management, Public Choice theory)
- Concern to get better performance from the public sector
- Practical experience of Ministers and officials in dealing with poor departmental performance and conflicts of interest
- Changes in the rest of the economy – why wouldn't you expect the public sector to go through something similar? (15) Senior public servant

Although there were two major political parties on the New Zealand Treasury benches over the period 1984 - 1999, switching roles to be government and opposition, the policies followed were similar with National-led Governments from 1990 continuing the direction of the reforms of the fourth Labour Government. Over the period a series of major policy decisions were made, key legislation to provide the platform for the changes was enacted and the resulting changes to institutional arrangements were implemented.

Scott summarises the six characteristics that a well managed government should have, which were outlined in the brief from the Treasury to the incoming Government in 1987:

- Clear objectives that inform managers what is expected of them and enable their performance to be monitored;
- Transparency in setting out those performance objectives and the means by which they are to be pursued;
- A structure that minimizes the potential for 'capture' of policy by the people and organizations who are providing services;
- Incentives for managers and staff to achieve the goals of the government rather than their own goals;
- Effective use of relevant information to promote effective performance; and
- Contestability of both policy advice and service delivery (Scott, 2001: 4).

Under “Suggestions for Reform,” the importance of greater clarity of objectives is stressed as a key principle to underlie reform if improved management is to result. One such structural reform “would be the separation, in different agencies, of responsibility for the provision of policy advice, regulatory and funding activities and operational activity” (Treasury, 1987: 76). Structural reforms continued throughout the 1990s with the separation of policy from operations proceeding through the social sector departments.

The early writing in the period of the fourth Labour Government was generally from those who had done the thinking behind the reforms which were being progressively implemented. Their purpose was to share their insights and the theoretical framework which underpinned the changes that were being advocated. They also sought to prepare the public sector for the changes which the new legislation would bring about.

The 1986 Convention of the New Zealand Institute of Public Administration<sup>41</sup> (NZIPA) brought together a range of speakers who were key players in the changes that were unfolding. In his paper Public Sector Reform: A review of the Issues, Dr Roderick Deane, then Chairman of the State Services Commission, reviewed the major issues associated with the reforms and outlined the elements to a new approach to the public sector. The essential principles underpinning this approach were:

- Determination of an appropriate overall framework of relationships, especially those between Ministers and heads of departments;
- Clarification of objectives, especially between commercial and non-commercial functions;
- Enhancement of the adaptability and responsiveness of the public sector to change;
- Decentralisation of controls, in order to encourage managers to manage;
- Improved accountability mechanisms and the need to review the mix of incentives and sanctions for public sector managers;
- In summary, these considerations imply a shift in emphasis from input controls to output assessment within the public sector, and an accompanying need to review the associated organisational issues (Deane, 1986:15).

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<sup>41</sup> The New Zealand Institute of Public Administration became the Institute of Public Administration in New Zealand (IPANZ) in 2004

The new policy initiatives which Dr Deane covered in his paper were extensive and (as this author observed at the time) quite stunned some of those attending. Indeed some of the discussants expressed reservations or sought more detail. Dr Deane outlined the following: the range of new state owned enterprises and the development of legislation for these; the commercialisation of appropriate parts of the Public Service and the reorganisation of the environmental area; modifications to the wage fixing machinery; additional delegated authority to government departments; rewriting the Public Service manual; extensive improvements to the accountability processes within the public sector; and a changed role for the central control agencies (the State Services Commission and the Treasury). This was the most comprehensive list of the initiatives which were to be progressively rolled out over succeeding years, but not under Dr Deane's stewardship as he left the Commission to join a state-owned enterprise in May 1987, when it became clear that the Government would not proceed with further reform until after the 1987 election.

Other papers from the 1986 NZIPA Convention, which dealt with key aspects of the reforms, were those from Geoffrey Palmer (then Deputy Prime Minister) who spoke on the directions for state enterprises; Brian Tyler (then Controller and Auditor General) on Accountability in the Public Sector; and Simon Upton (then Opposition spokesperson for science and technology) who addressed the implications of privatisation. The importance of this Convention was to open up for discussion the likely changes to be implemented and to create awareness among the largely public sector audience that major changes were still to be unveiled.

The 1988 Annual Conference of NZIPA, was also held in Wellington with the Conference proceedings subsequently published as *Devolution and Accountability* (Martin and Harper eds.). In the acknowledgements section the then National President of NZIPA made the observation that the theme of the Conference came from the concerns of NZIPA members "that the relationships between devolution and accountability at all levels of government were not clearly understood by many who were expected to address the current reforms."

The contribution of Dr Peter Bushnell, then an Economic Adviser in the Treasury and Dr Graham Scott, then Secretary to the Treasury, was to provide an economic perspective on devolution and their paper "relates devolution to insights from modern economic analysis of agency theory and organisational design" (Bushnell

and Scott, 1988:19). The economic perspective is covered in terms of transaction costs, contractual relationships, principal/agent behaviour, and opportunistic tendencies. Bushnell and Scott acknowledge that while the initial focus in the economic literature<sup>42</sup> has been on private sector firms, there is a direct relevance for other types of organisation such as government agencies (Bushnell and Scott, 1988:21).

Under 'Key Points' they cover three messages relating to agency relationships, agency costs, and the use of incentives inherent in the market processes for the supply of goods and services. Another main message related to the separation of policy from operations which had been advocated in *Government Management* in 1987:

that a presumption would be expected to be in favour of the separation of policy control from operational functions. In each case the presumption would need to be tested against a possible need for a high degree of involvement in operations for informed advice. Adoption of this separation however, would not prevent policy initiation by an operating agency, nor would it exclude advice from an agency based on its experience, but would ensure that independent advice was obtained before proposals were accepted, and that monitoring was the concern of an outside agency (Bushnell and Scott, 1988:24).

It is important to note that a blanket take-up of separation of policy from operations was not advocated by Bushnell and Scott. In the interviews undertaken for this research, both authors were to repeat this view.

In a paper to the National Conference of the Royal Institute of Public Administration, held in Melbourne in October 1988, Graham Scott and Peter Gorringer<sup>43</sup> outlined some of the theoretical and other influences which had shaped the reforms in the core public sector. Particular mention was made of public choice and agency theories and their relevance to the reform direction, which was the enhancement of incentives for performance within the public sector. They did offer a caution concerning agency theory pointing out that, while a focus on the relationship between politicians as principals and bureaucrats is insightful, it does have some limitations and may be considered too simplistic, as the executive and bureaucracy

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<sup>42</sup> Farma and Jensen, 1984; and Williamson, 1985 are quoted

<sup>43</sup> The paper "Reform of the Core Public Sector: The New Zealand Experience" was published in the *Australian Journal of Public Administration*, 1989, Vol. 48, No. 1



act as a team and it is the team performance that matters (Scott and Gorringe, 1989: 82).

The reforms were said to be characterised by four central features: greater responsibility for departmental heads – coupled with greater rewards and penalties, relaxation of input controls, emphasis on specification of outputs, information systems to help assess performance, and to have arisen from a common source – concern with the poor performance of the New Zealand economy over a long period, in terms of both economic efficiency and social equity.

The New Zealand approach had four key aspects. The first is a change in relationship between ministers of the Crown and the heads or chief executives of their departments; the second is that chief executives will have greater discretion in the management of their departments; third is to make a distinction between the outputs of services a department produces and their outcomes, or success in achieving social goals; and the fourth change “is a system of financial accountability that is based on accrual accounting of inputs and on outcome measures” (Scott and Gorringe, 1989: 82).

The elements of contestability, contracting out and avoidance of capture were discussed as policies to control and monitor departmental activities. In the case of capture avoidance, ways to lessen the impact of capture were identified as increased transparency, the separation of policy and regulatory functions and the centralisation of policy advice. They considered that “separation of policy from regulatory functions, together with centralisation of policy advice would reduce the lobbying of special interest groups” (Scott and Gorringe, 1989: 88).

Their conclusion was optimistic. Although acknowledging that the reforms outlined in the paper had not been fully implemented and that it was too early to permit an evaluation of whether the results matched expectations, they concluded that the early signs were positive.

A further paper “Reform of the Core Public Sector: New Zealand Experience” by Scott, Bushnell and Sallee was published in the April 1990 issue of *Governance* and provided a concise summary of the reform events since 1984 from the Treasury perspective. This paper reached a wide audience and provided a handy reference for overseas observers as it covered the two strands of the New Zealand Reforms -

separating out the state's commercial activities and the later reform of the remaining public service.

The authors point out that the role of policy advice is clarified under the new financial management regime. The first task is to identify the connection between outputs and outcomes. If a connection cannot be made then there is no demonstrable justification for that spending. Again the issue of the provision of high quality policy advice was raised, with policy advice the output of advisory agencies, and the danger of bias commented on. The potential loss of institutional knowledge because of the turnover of chief executives in limited tenure positions was another cause for concern. "A knowledge of past policy successes and failures is an important dimension of good policy advice" (Scott, Bushnell and Sallee, 1990: 164).

The change of government in 1990 did little to change the direction of the reforms. The programme of corporatisation and privatisation continued, there were changes to tertiary education funding, accident compensation insurance, purchasing of health services, and changes to the delivery of employment services. (For a detailed summary of the changes see Boston and Eichbaum, 2005). In 1994 financial management was further strengthened by the passing of the Fiscal Responsibility Act.

Throughout the 1990s further decoupling proceeded under the National-led government. This is discussed in chapter six.

### Reform Drivers

The 36 people interviewed for this research were asked for their views on the drivers of the reforms which took place from 1984. Reviewing the perceptions of the drivers of the changes which occurred has provided a rich picture of the environment at the time and the situations experienced. The responses were classified under the headings shown in Table 2 below. This analysis is based on the common themes which emerged from the responses to the question. Many gave at least two reasons and some provided three. From the responses supplied by the interviewees, three main categories were identified.

While the research findings were what could be expected from an elite sample who had been involved at the time, each had a personal viewpoint to offer depending upon their experiences over the period. Treasury was seen as either the leader of

necessary reforms, or the villain in the piece. There were also differences in the perception of the role of economic theories in the reforms. Those with a Cabinet, Treasury or State Services Commission background saw the wider picture of the state of the New Zealand economy as the driver, whereas those from public sector departments saw the changes as being theory driven and this was often communicated as a negative.

**Table 2 Summary of the identified drivers of the reforms.**

Driver	% of points mentioned	Background of Respondents <sup>44</sup>
<u>New Zealand's financial position in 1984</u> <ul style="list-style-type: none"> <li>• State of the New Zealand economy and the financial crisis</li> <li>• Need to improve accountability and financial management</li> </ul>	32%	<ul style="list-style-type: none"> <li>• Cabinet Ministers 1984-90</li> <li>• Senior Public Service Managers – SSC or ex-Treasury</li> <li>• Academics</li> </ul>
<u>Economic theories and structural frameworks</u> <ul style="list-style-type: none"> <li>• Current economic theories (at the time of the reforms)</li> <li>• Avoidance of capture by provider and professional interests</li> <li>• Copying private sector management practices</li> </ul>	48%	<ul style="list-style-type: none"> <li>• Current and former Senior public servants (non-Treasury and SSC) and Academics</li> </ul>
<u>What needed to be achieved</u> <ul style="list-style-type: none"> <li>• Need to improve the efficiency and effectiveness of the public sector</li> <li>• Better outcomes for clients and consumers</li> </ul>	20%	<ul style="list-style-type: none"> <li>• Mix – including Community Sector</li> </ul>

#### New Zealand's financial position in 1984

Almost a third of the mentions referred to the conditions when the fourth Labour Government came to power in 1984 and the need to improve accountability and financial management, with many focussing on the poor financial management practised at the time by departments. Ministers in the incoming Labour Government could not find out the costs of the activities carried out and who was accountable for the expenditure of public funds.

<sup>44</sup> The full list of respondents is shown in Appendix One.

- The main driver was that the country had got itself into a mess. Those reforms were all about putting the country's administration on a footing which would enable other things to then happen. Could improve efficiency if the organisations had been given the managerial and financial tools. The Public Finance and State Sector Acts were the tools and provided the rules for the reforms. (31) Former Cabinet Minister
- The state of the economy at the time impacted of the government sector, and with budgets being cut, departments were forced to manage. Departments did not understand the economic crisis – the 1980s and 1990s were a difficult time for the country. (27) Former chief executive
- Biggest driver of reform was the state of the NZ economy and the long period of stagnation after the Second World War - 20 year period where politicians were not taking hard decisions. The situation was exacerbated by Muldoon and projects such as "Think Big". Politicians and the country failed to face reality. That situation was the main 'driver'. (2) Former senior public servant
- The long standing desire of Treasury was to have better financial controls – back then effective fiscal controls were non-existent. But there was a hidden agenda – and this was sold as "accountability" – but it was control! (11) Former senior public servant

#### Economic theories and structural frameworks

The structural solutions, linked to the economic theories which were being promoted at the time, were mentioned in almost half the responses. Also noted was the need to avoid capture by provider and professional interests, and the copying of private sector management practices. One observer noted that "other drivers were a group of consultants who made a lot of money." (17)

- The 'driver' of the decoupling model was the philosophical underpinnings of the SOE Act 1986 (which separated out the business functions from government) and the State Sector Act which created autonomous departments. Agency theory – gains in efficiency – separation of roles – clear accountability – all the theory behind performance efficiency – were all reasons for the changes. (25) Former senior public servant
- But predominately it was ideology – several politicians and officials within, in particular Treasury, believed in the economic and social theories and wanted to put them into practice. Treasury was a strong driver – it had been publishing papers for years under Muldoon and not getting anywhere, but had influenced a group of younger politicians (Labour and National). Treasury had a well thought

out policy platform and this was attractive when the government needed a programme of action quickly. (24) Community sector

- Public administration was deemed not relevant at this time. Economic theories were paramount – Agency Theory, Public Choice Theory, Transaction Cost Analysis, New Public Management – and would provide the answers. This was nothing short of stupid and showed tunnel vision. Reformers were not interested in talking to people who were not buying into the paradigm - only interested in talking to the cheer leaders. There was not much communication with those who were a bit critical of the changes. The theories behind the reforms became the dogma – a form of ideology and were very powerful in the way they shaped the thinking and the actions of people in Government. It was difficult to break through that ideological framework. New Public Management comes from the ideological right – rational choice theory and neo-classical economics – they were presented as scientific – but they were ideological and not scientific. (19) Academic observer
- A much more managerial culture was introduced into the public service – a business focus. However now managerial jargon has taken over – the distinction between outputs and outcomes remains elusive. Management speak is practised now. What is a worry is that senior managers know nothing about the substance – they only deal in management and they speak management speak. The people who used to be high level officials and manage important material like legislation don't do that now – its down at the fourth level now and that's degraded the system. There are a lot of fashions in public service management – they come and go. (29) Former Cabinet Minister

#### What needed to be achieved

A fifth of the responses focussed on what could be done to improve the way the public sector had operated. The joint aims of efficiency and effectiveness received mention as being the way to address the improvement required.

- Efficiency and effectiveness were needed – more focus on what we were trying to achieve – but not just about efficiency – by making it efficient we got better outcomes for the consumer. (16) Former Cabinet Minister
- The efficiency objective – to get more performance per dollar was needed from the various state organisations. This could be achieved by: reducing the size of the state (paying less for a quantum of services); selling things off (without risk to the government); and some restructuring to reduce some of the barriers to efficiency. Difficult to form a view about the effectiveness of the policy/operations split as difficult to separate out that impact from a whole lot of other things that were going on at the same time. (36) Former chief executive

Only two respondents made mention of clients and consumers. Changes in the Department of Social Welfare were made, according to one person, to provide a better service to clients as the regional structure was not providing optimal service.

Further examination of the changes which have occurred in the social services sector is covered in chapter six and chapter eight.

#### **4.4.2 Theories and doctrines**

In New Zealand, the timing of public sector reforms was brought about by the country's economic situation and the relative stagnation which had occurred in the latter years of the National Government's tenure. The New Zealand reforms, which commenced after the change of government in 1984, need to be examined in the contexts of time (in terms of the knowledge available), environment (in terms of the existing political situation) and the governance structures, which required change or modification.

The New Zealanders, writing in the 1980s and early 1990s, and largely based in the Treasury, sought to describe the situation at the time, the changes that were required and the reasons for these (Bushnell and Scott, 1988; Scott and Gorringer, 1988; Scott, Bushnell and Sallee, 1990). Subsequent analysis, carried out by University-based scholars in New Zealand, sought to place the reforms in a coherent theoretical framework and label the overall result "the New Zealand Model" (Boston et al., 1991, 1996; Boston and Eichbaum, 2005; Goldfinch, 2000; Gregory, 1998, 2000, 2001, 2003, 2006; Kelsey, 1995).

The importance of the economics-based theories which underpinned the reforms in the New Zealand context has been highlighted by Boston (1991a) who pointed out that the officials who guided the reforms, mainly located in the Treasury, based much of their advice on economic theories. The new institutional economics, as it came to be known, provided the analytical framework for what Hood (1990) called the New Zealand Treasury's "NPM manifesto" *Government Management* (1987). Public choice theory and, to a lesser extent agency theory, have provided the theoretical base for the departmental restructuring which proceeded.

Boston also noted that the strong interest in theory evident among the New Zealand reformers was in marked contrast to the more pragmatic approach to reform taken in

other parliamentary systems such as Australia, Britain and Canada (Boston et al., 1996:116).

A coherent account of the influence of the new institutional economics (NIE) on reshaping the state in New Zealand, between 1984 and 1991, is provided in the chapter by Scott in Davis et al. *The New Contractualism?* (Scott, 1997:154-163). Scott makes the point that NIE is well known, particularly agency theory:

...but the way the elements can be integrated and the common roots of transaction costs theory are less well known outside the economics literature. This has led occasionally to rather fragmented and unsatisfactory debate about the merits and weaknesses of agency theory when applied to public institutions (Scott 1997:154).

Scott states that institutional analysis of the public sector is concerned with much the same issues as the private sector: “selecting governance structures which minimise the costs between parties with different objectives which must be harmonised within effective relationships or contracts” (Scott, 1997:156). However, although similar, the public sector differences relate to the governance by legislators, who can change on the vote of citizens. In his conclusion Scott made several key points which are relevant to this discussion. Firstly, that New Institutional Economics was influential in the thinking behind the New Zealand reforms. However, Agency theory is but one facet of transaction cost analysis and the New Institutional Economics, while influential in the state enterprise reforms, is not a complete theory of governance. Most of the advice given to the government was a practical response to identified problems (Scott, 1997:162, 3). It is important to note that the last point relates to the problems at that time. Their universal application was never advocated. Indeed there were caveats in the earlier writing by Scott and his team.

Writing in 1995 Jane Kelsey of Auckland University remarked on the endorsement and praise of the reforms by overseas agencies under the heading “International success story” (Kelsey, 1995:5–9). However, she herself was less than enthusiastic labelling the process as “The New Zealand Experiment”, and pointing out the lack of improvement to the lives of average New Zealanders and of socially acceptable outcomes being achieved.

*Reshaping the State*, published in 1991 and in press at the time of the change of government in October 1990, represented the first comprehensive attempt to

analyse the changes to the New Zealand public sector which had occurred under the aegis of the fourth Labour Government from 1984 to 1990. The editors<sup>45</sup>, based at Victoria University, were uniquely placed to observe and describe the changes taking place. This was the first major reference to NPM in the New Zealand context and has since been quoted extensively by overseas writers. The theoretical influences which had underpinned the New Zealand reforms in the 1980s were reviewed as was the influence of managerialism. The importance of managerialism, “a closely related set of ideas variously referred to as corporate management, the new managerialism and the managerialist revolution,” to the reform programme in New Zealand was stressed, and the comment that it was driven primarily by practitioners and private sector consultants rather than academics or theoreticians (Boston, 1991a:9). In his opening chapter Boston cautioned policy makers against following the economics and managerialist path and ignoring the insights of earlier administrative doctrines and administrative traditions, and ignoring “the way public agencies have been shaped by the forces of culture and history” (Boston, 1991a: 23).

In their conclusion the authors commented on the problems trying to assess the extent to which the Labour government achieved its objectives, and the lack of empirical data. The failure of the government to establish a monitoring unit to evaluate the success of the implementation of the changes was also commented upon (Boston et al., 1991: 389).

However, by 1996 Boston et al. had had a further five years to view the impact of the reforms and reflect on the development of the numerous studies which had been written in the intervening period. Here they repeat that the earlier reforms were shaped by economic and administrative theory and most influential were: public choice theory, organisational economics – agency theory and transaction cost analysis. By now NPM was firmly entrenched in the literature and often became synonymous with managerialism. Another defining point made was that the New Zealand reforms have “conceptual rigour and intellectual coherence” which has distinguished them from other more ad hoc approaches made in other jurisdictions (Boston et al., 1996:3)<sup>46</sup>. Thus the unique mix of theories and the speed with which

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<sup>45</sup> Jonathan Boston, John Martin, June Pallott, Pat Walsh

<sup>46</sup> Later writers used NPM alone with the link to ‘managerialism’ implicit. (see Barzelay, 2001; Christensen and Lægreid, 2006,2007; Hood, 1998; Peters and Savoie, 1998; Pollitt, 2001)



the reforms were enacted, differentiated the New Zealand experience from other jurisdictions – hence the ‘the New Zealand Model’.

The literature dealing with NPM and its take-up around the world, has been descriptive and generally positive as writers sought to examine the new phenomenon as applied in different settings. However, by 2001 the collection of writers assembled by Christensen and Lægveid (eds.) advanced some more critical views of the impact of NPM on New Zealand, with Gregory providing a ‘sceptical view’ in chapter 10.

The changes were driven not by political bargaining and negotiation among interested stakeholders, but by reference to a body of economic theory. The intellectual authority of this body of theory was accepted almost unquestioningly by a cohesive policy-making elite that was able to use the concentration of power afforded by the New Zealand political system to impose reform from the centre, in the face of any effective opposition (Gregory, 2001: 253).

Writing in 2001 Barzelay, provided a succinct account of the New Zealand experience with NPM and of its distinctiveness. First, the policy changes took place across a wide range of areas: expenditure planning, financial management, organization, civil service and labour relations within a single three-year parliamentary mandate.<sup>47</sup> He considered that the New Zealand case demonstrated, more clearly than Britain under Margaret Thatcher, that public management had become a policy domain. His second point is that the New Zealand Treasury’s deliberations and policy arguments were framed in terms of economic theories of organisation and government, and that this style of argument was highly unconventional in public policy making. The rapid and comprehensive changes in public policy making and the unconventional line of reasoning, made the New Zealand case NPM<sub>1</sub> especially noteworthy. The numerous scholars who commented (NPM<sub>3</sub>) contended that the “economic theories of organization and government (New Institutional Economics) constituted the intellectual foundations of New Public Management” (Barzelay, 2001: 160).

A Working Paper from the State Services Commission in 2003 took a detailed look at NPM in the New Zealand public sector context at that time and put forward views (not necessarily those of the Commission) regarding the conceptual framework of

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<sup>47</sup> This is incorrect as, the State Sector Act (1988) and the Public Finance Act (1989) were passed in the second term of the fourth Labour Government. (Barzelay cites Boston et al., 1991 as his source)

what had emerged out of NPM. The writer considered that the post-NPM public sector environment had crystallised around three emerging themes: (a) re-emphasis on public sector standards and ethics; (b) a fresh look at how the centre of government could be strengthened (away from the vertical silo which was created by the separation of policy from service delivery); and (c) the application of the principles of good corporate governance to the state sector (Bhatta, 2003: 4). On the longer-term usefulness of the NPM concept the paper concluded that there is a role for the 'centre' in the changing environment of post-NPM reforms in developed countries, while much of the developing world continues to do things in the traditional way, and that the key to further development of NPM reforms will depend upon political will (Bhatta, 2003:13). Since the paper was written, work from the Commission has focussed on these themes with the subsequent passing of the State Sector Amendment Act (No 2) 2004 and the promotion of the Standards of Integrity and Conduct for the wider State Sector<sup>48</sup> in June 2007.

The New Zealand State sector had been changed forever by the theories and doctrines followed in the NPM environment. However, in the early years of the twenty-first century, post-NPM thinking was emerging and the subsequent changes will be addressed in later chapters.

#### **4.4.3 The matter of 'capture'**

The danger of 'capture' was first raised by the Treasury in its briefing to the Incoming Government in 1987. 'Producer capture' is introduced to explain the process whereby an agency which has responsibility for the provision of services is likely to be biased in favour of that existing provision (Treasury, 1987: 75). Self-serving bureaucrats are seen to promote policy advice which privileges their own department and to be seeking budget increases to support their expanding operations. Government should have access to a range of views – including from professionals outside the public sector.

Starting from the position that the Government would need to decide what type of public service it wants to meet its objectives, the provision of high quality and unbiased policy advice was stated as an imperative (Treasury, 1987: 49). The influence of self-interested lobby groups was noted, as was the conflict that an

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<sup>48</sup> The State Sector Act (1988) had limited the activities of the State Services Commission to the public service.

agency faces to provide not only quality advice to reflect its sectoral responsibilities, but also for the implementation of decisions through its operating function. Managers were seen to be unclear about the perspective of their advice – should it reflect the interests of the electorate at large, or is it advice which reflects the narrower interests of their sectoral clients (Treasury, 1987: 75).

The notion of ‘capture’ by producers was raised in the context of policy advice, with the danger of advice reflecting the narrower interests of sectoral clients and possible conflicts of interest, thus the need for transparency. Government requires advice to enable it to assess the most appropriate intervention and there were doubts that the agency involved in the public provision of services would be totally impartial. Contestability was another issue raised in the document. Government requires high quality advice that should be contestable – both internally and externally. Advice from professional experts outside the public sector was also advocated.

Under ‘Suggestions for Reform,’ the foundation for the subsequent structural changes was articulated. In order to achieve greater clarity of objectives “the separation, in different agencies, of responsibility for the provision of policy advice, regulatory and funding activities, and operational activity” was required (Treasury, 1987: 76). Such a separation would reduce the tendency for ‘producer capture’, give Government greater control over the standard of policy advice and provide a clearer means of establishing efficiency. However, there was a caution that too rigorous a separation would be likely to impose costs for very little gain and “the problem of ivory tower or inappropriate policy resulting from the separation of policy and operations should not be overstated. Policy advice divorced from considerations of reality, is bad advice” (Treasury, 1987:77).

While the notion of ‘capture’ was first raised in *Government Management* in 1987, there are no direct references to public choice theory (or agency theory) in that publication. The theoretical underpinnings were explicitly articulated later in published papers by key Treasury managers, where the linkages between the theoretical influences are discussed. One important influence on the reforms was public choice literature (Niskanen 1971), which included the application of economic analysis to the behaviour of legislators, bureaucrats and special interest groups (Scott and Gorringer, 1988: 82). Contestability of advice and in the provision of services is discussed, as is avoiding capture. Here, it is suggested, that the separation of policy from regulatory functions would have the aim of reducing

returns to lobbying by special interest groups. The problem of capture can be lessened by increased transparency, the separation of policy and regulatory functions and the centralisation of policy advice (Scott and Gorringer, 1988:87).

Although the relevance of the capture argument, as a rationale for the separation of policy from operational functions, was first introduced to the New Zealand situation in *Government Management*, the Treasury architects of the reforms did not specify total separation. Indeed they urged a case-by-case testing of the applicability of the separation presumption (Bushnell and Scott, 1988: 24). Treasury did offer a compromise solution to the total separation of policy and operations, which would involve the creation of policy ministries that would control, but not monopolise the policy advisory process, and that managers from operational agencies would not be precluded from initiating advice in their areas of expertise. However, in view of the structural changes which took place in the 1990s, it would appear that these cautions were not heeded. It was not until the late 1990s that concerns about the quality of policy advice they were receiving, as a result of the separation of policy ministries, were raised by Cabinet Ministers (see Shipley, 1997; Upton, 1998).

In his description of the central 'doctrines' of the reforms, Boston placed the separation of policy advice from policy implementation as one of the characteristics of the New Public Management (Boston, 1991a:9). In addition, the Treasury rationale that departments should not both advise their ministers and implement policy, otherwise bureaucratic capture may occur, is quoted under the section on Public Choice Theory (Boston, 1991a:4). However, Boston goes on to challenge the extent to which public choice theory is useful in explaining capture and wealth maximising behaviour by bureaucrats, and concludes "once we abandon the assumption that politicians, bureaucrats and voters are entirely self-interested, the problem of capture need no longer occupy centre stage (though, of course, it should not be ignored)" (Boston, 1991a:15). (The self-interest assumption was a driving force of new institutional economics and has been discussed in chapter 3.4.)

In a wide-ranging review of restructuring carried out by a number of western governments through the 1980s and 1990s, Aucoin discussed the notion of capture but only in the context of the British and New Zealand situations. He stated that the experiences in these jurisdictions suggest that the likelihood of ministers being captured by their departmental bureaucracies has been diminished and that reports in each system have proposed organizational mechanisms to link policy ministries

and operational agencies. He also noted that “in neither of these systems has it been proposed that the organizational regime revert to integrated departmental structures” – but that this had occurred in Canada and Denmark (Aucoin, 1998: 330). It appears that, for Aucoin, the application of capture was limited and short-lived.

Cabinet Ministers from the fourth Labour Government, interviewed for this research, recalled their concerns about capture, but now expressed doubts about the wholesale separation which later took place and noted specific instances where separation had not worked.

- There used to be talk a lot about provider capture or professional capture – and that’s a real problem in a number of departments – but its far from clear that separation is the way to fix it. And we have seen a departure and retreat from that since then. The Work and Income example is the best – and a pretty important one. (29) Former Cabinet Minister
- Although policy ministries or departments were separated from operational departments I do not believe that it was inevitable, or automatic, or a fundamentally necessary situation, in all cases. It was convenient or appropriate to make the separation in a number of instances. But you could have made a case for co-locating those functions if it turns out that its more convenient. I do not believe that there is an inherent conflict between the two – they are just different. Sometimes you will want to separate them to achieve a greater focus on both – and sometimes its efficient to co-locate. (31) Former Cabinet Minister

Another recollection was put forward by a former senior public servant

- The policy people were determined that the operational people should not continue to capture the system as they had done – one of the conclusions that they reached in the early 1980s were that: teachers had captured the education system; doctors had captured the health system and the social services had probably been captured by social workers. And so to break that dominance of the provider – one of the changes in public administration was to reinforce the role of the politician – agency theory – the agent should not be the dominant player. So splitting policy from operations was one of the changes that they brought about.(20)

Former senior public servants, who had spent some time in Treasury, added to the capture story.

- Treasury Vote analysts were moved every two years to avoid capture by the departments. Government is the principal client – not an advocacy group or delivery agency. (18)
- Agencies were giving advice from their own perspectives, not a country-wide perspective. Hence the driver to consider the separation of policy from operations. The quality of policy debate was poorly informed – it had been captured. Decisions were being made that were not informed by policy. (32)

In the more recent reviews (Logan, 1991 and Schick, 1996 and later the Review of the Centre, 2001) the dysfunctional aspects of separation such as fragmentation and siloisation have been advanced as a reason for looking again at the structure of the public sector. However, as Gregory (2003) points out, the Review of the Centre Report does not refer to formal theoretical knowledge in its suggestions for overcoming excessive fragmentation. He posits the proposition that “this omission implies that the theoretical underpinnings of New Zealand’s state sector reforms are not to be revisited in the light of subsequent experience, at least by those who are now advocating the changes” (Gregory, 2003: 44).

Comments from a senior public servant involved in the reforms, provide a considered view of the situation regarding the separation of policy from operations.

- The policy/operations separation issue was very much a second order issue that fitted within a range of questions like ‘how do you design institutions and give the best possible reasons for people to perform.’ The difficulty with what has happened since then is that the wider understanding and the complexity of thinking about organisational design that was behind some of the advice that led to separation, has been lost. Instead people have used a caricature that you should always separate operation and policy functions and this recipe was applied regardless of circumstances. On reflection – if we had known enough to focus on change management to a greater extent – we could have achieved the same results without across the board decoupling. Some of the results we ended up with were pretty bizarre. (15)

#### **4.5 Institutional design – policy/operations split during phase one and its Impact**

The passing of the State Sector Act (1988) resulted in the creation of 37<sup>49</sup> autonomous agencies of government headed by a chief executive. The list in the

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<sup>49</sup> State Sector Act 1988, First Schedule

First Schedule of the State Sector Amendment Act (No 2), 1989, contained 41 departments of the public service. In July 1984 there had been 34<sup>50</sup> departments of state. The increase reflected the dismantling of larger departments into policy ministries and operational departments or agencies focused on service delivery.

Table 3 below shows a summary of the various structural changes which have taken place in New Zealand over the period from 1984. The movements on and off the lists of departments and ministries is shown to indicate the movement and constant changes which have taken place over the period. Using movements provides a more descriptive picture than the net overall number of agencies. Further detail of the structural changes in phase one is covered in chapter six.

**Table 3 Changing structure of New Zealand Agencies from 1984 to 2007**

<b>Movement of NZ government departments and ministries from 1984 to 2007</b>						
	<b>1988</b>	<b>1989</b>	<b>1995</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>At start of the period</b>						
<b>Number of departments and Ministries</b>	<b>34</b>	<b>37</b>	<b>41</b>	<b>38</b>	<b>35</b>	<b>34</b>
<b>During the year</b>						
New	9	9	3	5	none	1
Out	6	5	6	8	1	none
Name change - but basically same, or some additional, functions	4	5	5	8	none	none
<b>End of the period</b>	<b>37</b>	<b>41</b>	<b>38</b>	<b>35</b>	<b>34</b>	<b>35</b>

(Sources: 1984, Boston et al. (1991); State Sector Act 1988, 1989; and the State Services Commission website)

The first step in the New Zealand public management reforms was the separation of commercial from non-commercial functions brought about through the creation of State Owned Enterprises (SOEs) through the SOE Act 1986. Departments which became SOEs included the Post Office, Forest Service, and Government Printing Office (see Boston, 1991b). Clarification of the environment sector followed in 1986. The disaggregation of large bureaucratic structures and the clarification of their roles, with the separation of policy advice from policy implementation, was the final step in the structural changes carried out in phase one of the New Zealand reforms.

<sup>50</sup> Boston, 1991: page 237

The best example of the upheaval which took place in New Zealand was in the environmental reorganisation, which commenced in 1986. The Ministry for the Environment was established under the Environment Act of 1986 together with the position of Parliamentary Commissioner for the Environment. The Ministry has an advisory function to advise the Government and the minister on environmental administration and environmental impacts.

The Department of Conservation was created on the first of April 1987 from the operational sections of the NZ Forest Service, the Department of Lands and Survey, and the Wildlife Service and the Historic Places Trust (both from the Department of Internal Affairs). The move towards a single “conservation” agency started in November 1984, and gained force after a national conference in 1985. To the Cabinet of the day, the public service was burdened with mixed objectives, and there was no coherent approach to biodiversity conservation. It made sense to gather the “green dots” around the country into one agency. The purpose of the new Department of Conservation was set out in the Conservation Act 1987 which required the Department to protect natural and historic heritage, and provide recreational opportunities on land entrusted to its care. Nature was to be protected for its own sake and the benefits to New Zealanders protected for future generations to enjoy.

Once the environment sector had been reorganised and the State Sector and Public Finance Acts were in place, attention was turned to the matter of capture and the government’s need for contestable policy advice. The restructuring of departments continued to separate policy ministries from operational departments. The term ‘restructuring’ is mentioned by Scott, who states that it became almost synonymous with public sector reform in New Zealand as most departments went through some form of structural change (Scott, 2001: 85).

The following reasons were given by Scott for the need to reorganise the administration in the public sector: separation of conflicting functions; address the overload on top management in huge conglomerate departments; clarify goals and delegate responsibility to achieve them; and increase the transparency of information about performance and improving incentives. Scott considered that in



separation of large conglomerate ministries the Department of Social Welfare<sup>51</sup> was an example of the successful reallocation of functions (Scott, 2001: 22).

Individuals interviewed in the course of this research, and who were key ministers in the fourth Labour government or heads of departments and senior public servants actively involved at the time, have provided their views of the changes and their impact. The period covered in phase one of the reforms, some fifteen years, has meant that the experiences of the in the later stages of the 1990s were different from those who experienced structural change the 1980s where the reforms were new and revolutionary.

The recollections of their personal experiences ranged from passive recipient of change through the uncertainties of the times, to those who had major roles in implementing the changes – from enthusiastic supporter to reluctant participant. Those working for The Treasury or who were Ministers in the fourth Labour Government were enthusiastic about the changes required and happy to see them implemented. They were focussing on the longer term goals and the benefits that the changes would deliver, although there was some acknowledgement that the changes would impact on staff at lower levels.

Another factor which affected the responses, especially for those who had moved around the public sector over the period, was the timing of the initial restructuring that they participated in. Those who had observed the earlier changes with the creation of the State Owned Enterprises and were aware of the direction which Government was taking in the 1980s, were involved in the reorganisation of their departments into business units (in the case of the Department of Social Welfare) or business groups (in the case of the Justice Department) prior to the eventual separation. Sixteen of those who responded to the question had an active role in planning and implementing the changes in their departments and six had their own positions disestablished.

The impact of the changes on the social sector departments left casualties. One respondent mentioned the “Wellington view of change” being different from that in

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<sup>51</sup> Subsequently the Department of Work and Income rejoined the Ministry of Social Development in 2001 and the Department of Child, Youth and Family Services merged with the enhanced Ministry in 2006. Chapter nine will examine whether “focus, synergy and transparency” has been lost in the re-coupling.

the regions who were less affected. While there were changes in the location and organisation of regional and district offices, this did not appear to have the same impact on operational staff. The move to reduce the number of levels in national/head offices resulted in major staff cuts and a reduction in middle management positions. Some respondents, while not directly employed in the public sector, did have involvement with the sector and could comment from a personal perspective. As one academic remarked “it generated a lot of interesting work”.

Comments were classified into generally positive and overall negative. While some respondents associated the period with negative processes and outcomes, particularly those whose positions were disestablished, for others it was an exciting time and the activity was stimulating. The excitement of the time was captured by three public sector respondents.

- Tremendously exciting time. Some quite significant changes were made. (2) Former senior public servant
- The modernisation of financial management was a huge step forward which was liberating, as was the implementation of Information Technology which accompanied the policy/operations split. (10) Middle level manager
- The first stage of the reforms was stimulating and exhilarating. (18) Former senior public servant

Those making positive comments were often from central agency and had a broader perspective on the reforms.

- Staff in the Treasury were enthusiastic about their work on the broad range of policy reforms and worked enormous hours for long periods. In all areas they saw the reforms as at last dealing with deep seated problems they and their predecessors had grappled with for years. (26) Former chief executive

However, the constant change was upsetting for some.

- There were changes throughout the 1980s in the Health Sector – and then, when the Upton reforms came in the 1990s, people were still bruised and groggy. (1) Former senior public servant
- There was collateral damage to the department and to the public sector as capability was lost through the rounds of restructuring. People got tired of constant change and took up contracting where their skills were of use. (14) Former senior public servant

Comments ranged from accounts of the structural changes which were taking place to the more personal focus of the impact on staff. The changes were difficult for staff and the constant changes made for uncertainty. The stressful climate was commented on by several former senior public servants, and in one case the person linked the stress to the stroke suffered by the then Director-General of Social Welfare, Andy Kirkland in 1992.

- There was a climate of perpetual change at the centre and the periphery. (1) Former senior public servant
- The economic changes caused stress among the social departments – the social departments had had a soft run until then. Social Welfare was under stress as it had to cope with the volumes and changing numbers. (11) Former senior public servant

One former chief executive pointed out that public servants needed to understand the environment in which the changes were taking place.

- A major impact on departments was trying to make sure that everyone understood the legislative changes that had occurred and just what they meant – and the direction the government was taking. They didn't understand the economic crisis that the country was in. It was a very difficult time for the country through to the mid 1990s and public servants needed to understand the difficulties that the government was facing. (27) Former chief executive

Some departments took steps to alleviate the conditions for staff:

- Throughout the changes that were taking place in the public sector, emphasis within the department was placed on staff management and development. The Management Skills programme went through the department and Interpersonal Skills courses. These provided an opportunity for mixing and matching people and kept the staff in touch with the changes that were taking place. (3) Former senior public servant

The opinions of respondents have been quoted extensively here, as for those actually working in Wellington in government departments through the period, the changes represented a move into a brave new world which, depending upon their position and responsibilities, was an experience they considered unlikely to be repeated in their lifetime.

## 4.6 Conclusion

- The overarching view of the reforms is that the non-social reforms worked better than the social reforms. Reform in the public sector began with the floating the currency and reducing tariffs – which wasn't exactly radical new policy – it was just new for us. But by the time we got into mucking about with the incentives and structures in the public service and attacking welfare and health and education – we were in areas where no one had any very clear ideas of what worked and what didn't. (11) Former senior public servant

The New Zealand public service had remained relatively unchanged since the 1962 State Services Act. The principle of a unified and uniform public service was maintained throughout the period from 1962, with the career public service providing a career for life – it was the Ministers who changed according to the party which triumphed at the three-yearly elections. However, in 1984 with the change of government the world began to change for public servants.

The period covered in phase one of the New Zealand reforms, extended from 1984 to 1999 over a period of both Labour and National led governments. However, the major reform impetus took place in the term of the fourth Labour Government from 1984 to 1990, in terms of the legislative base and the separation of commercial activities. The further structural changes to departments in the social sector, to separate policy and operational functions, took place under the stewardship of the National government during the 1990s.

A study of the writing from Treasury-based economists from 1980s demonstrates the Treasury officials' concerns about the parlous state of the New Zealand economy, which appeared to have been ignored by the Muldoon government. They were able to articulate a course of action for the incoming government to follow. As described by one respondent, 1984 brought together a group of reforming politicians and senior players in the public service who were able to make major changes in a relatively short space of time, with the legislative platform passed by 1989.

The concept of capture, by service providers, professionals, or bureaucrats, introduced in the Treasury's 1987 briefing to the incoming Government, and the underlying theory of public choice, has driven the ensuing separation of policy advice from operational departments throughout the structural changes. However, it should not be forgotten that those who had advocated separation, did so on a case-

by-case basis. They did not promote the wholesale separation which subsequently ensued.

The speed of the New Zealand reforms is often commented on in the literature (see Christensen and Lægheid, 2001; Pollitt and Bouckaert, 2004). Goldfinch uses the term 'crashing through' to describe the New Zealand approach to economic liberalisation, and contrasts this approach with the 'bargained consensus' approach taken to reform in Australia (Goldfinch, 2000:199). Writing in 1993, Roger Douglas who, as Minister of Finance from 1984 to 1988, was one of the promoters of the New Zealand reforms, emphasised the importance of speed in his ten key principles of successful structural reform. These principles included: implement reforms in quantum leaps using large packages; speed is essential, it is almost impossible to go too fast; and once you build momentum, don't let it stop rolling. However, he noted that, after the 1987 election, the government lost momentum, vested interests were able to marshal a counter-attack, and Prime Minister Lange sought time for people to catch up with the changes that had already been made. The result was a change of government in 1990 (Douglas, 1993:237).

The identification of the drivers of the reforms by those interviewed could be classified according to the positions they held at the time. Those who were involved in the design and implementation and who saw the reforms in a wider context were convinced of the need for change and positive in their comments. Those respondents who were located in departments where major restructuring took place spoke of casualties and the loss of institutional memory.

Over the period from the late 1980s the changes which were adopted and the theoretical underpinnings behind the reforms have been well documented – both by New Zealand writers and overseas academics and observers who were interested in the approach taken by New Zealand.

Reviews of the reforms, which took place in the 1980s and 1990s, both government initiated, and from observers, are discussed in chapter five.

## Chapter 5: Reviewing the reforms

It would be inaccurate to imply that administrative reforms have been introduced in a manner that suggests a universal adoption of a well developed and coherent strategy (Aucoin, 1990: 119).

### 5.1 Introduction

Following the general election in 1990, the incoming government sought to establish whether the reforms were soundly based and instigated reviews. During the 1990s two important independent studies were carried out to review the New Zealand reforms. The first was a review, requested by the Prime Minister and carried out by a team led by Basil Logan, which reported in 1991. The second review, by Professor Allen Schick in 1996, was commissioned by Treasury and the State Services Commission. These evaluations had been sought to assess whether the progress to date had been soundly based and whether any further 'adjustments' were required. The State Services Commission later produced reports in 1998, which looked at the State sector ten years on and reviewed progress.

By the 1990s the news of the New Zealand reforms had spread and observers, politicians and academics from countries with Westminster systems and beyond were visiting New Zealand to see for themselves what had been taking place and to form an opinion of the success, or otherwise, of the changes which had occurred. Boston et al., (1996) noted that delegations of public sector managers from around the world had visited New Zealand to investigate the reforms and assess their applicability to other jurisdictions with 28 foreign delegations having visited Treasury in 1993 (Boston et al., 1996: 107). The literature generated by overseas writers, who reviewed the New Zealand experience, produced a range of views depending upon their timing and background. While there was admiration for the speed of the changes (see Osborne and Gaebler, 1992; Pollitt and Bouckaert, 2004; Savoie, 1998), some caution was expressed about the potential outcomes (see Aucoin, 1990; Peters, 1998, 2001; Schick, 2001). New Zealand observers and commentators also produced views on the reforms.

The issue of policy capture as the rationale for the separation of policy from service delivery, was addressed in the preceding chapter. By the end of the 1990s all the major decoupling had been effected and separate policy ministries and operational departments had been established. The National Government, in the 1990s, had pursued the structural 'solution' with vigour. However, by the late 1990s, the logic behind the separation of policy from operational functions was starting to be questioned by some New Zealand Ministers and both domestic and overseas observers.

## **5.2 Reviewing the reforms – Official New Zealand reviews**

The first review of the reforms took place in 1991 when the Cabinet State Sector Committee appointed Basil Logan to lead a review the reforms which had been put in place by the State Sector Act (1988) and the Public Finance Act (1989). The Review personnel comprised a Steering Group of seven members, a Project Management Group of eight members and a project team of nine. The Steering Group members came mainly from public sector chief executives, together with 'outsiders' Basil Logan (a former Chief Executive of IBM New Zealand) and Susan Glazebrook, a partner in a major legal firm.

The Report, which was released in November 1991, acknowledged that the changes to public administration and financial management, which had been put in place over the previous three years, "have been fairly described as the most far-reaching and ambitious of any of their kind in the world" (Logan, 1991:1). However, the Report did make the point that the system resulting from the legislative changes was still evolving and added that further consolidation was required before further modifications were undertaken.

The focus of the Report is on the working of the existing system and covered the areas of accountability to parliament, government decision-making processes and managing risks from devolved decision-making. Human resource management and financial management issues were investigated to establish how the changed processes were working. The Report did not query the way that departments were organised or how services were delivered – but then that was not their brief. While it could be argued that the review was somewhat narrowly focussed, the Review Team was given only five months to complete the review and report so there was little time to venture beyond their immediate terms of reference. These had directed

the review to address “the key issues of decision-making, asset management, human resource management and the role of central government agencies” (Logan, 1991: 122).

While forming a view that the legislation framework was sound, the review did make some 40 recommendations concerning major issues to be addressed. These related mainly to the political intent of the Executive and the outcomes which were sought by the government, against the institutional role and authority of Parliament. Ministers had expressed concern about the quality and adequacy of the policy advice that they were given and the Report noted that there was “inadequate consultation between departments in formulating policy advice” (Logan, 1991: 48). There were other organisational matters raised in the section on ‘Policy advice to Ministers’. These included that the overall quality of policy advice had been affected by the number of policy ministries all competing for a limited supply of quality policy analysts and the uneven distribution of these analysts. Chief executives were chided for not building up their policy units to provide contestable policy advice. Some chief executives had claimed that they lacked the resources to do so. It was also noted that central agencies were affected by the distribution of policy analysts and that the State Services Commission and the Department of Prime Minister and Cabinet did not have sufficient analytical expertise to act as counterweights to Treasury.

Another area covered in the Review was related to the importance of the Budget process and the need for overall strategic direction. Implementation issues were commented on. “An associated need is to develop implementation plans which are sufficiently detailed to enable Cabinet to assess priorities, identify risks and assign responsibilities before announcing Budget decisions” (Logan, 1991: 50).

Since that time, problems with implementation have been cited as an argument for re-coupling policy and operational agencies in order to incorporate a better understanding of operational and implementation issues to enable programmes developed by policy agencies to be delivered more effectively. The reasons for re-coupling are discussed in chapter seven.

Of the 40 recommendations, with many having multiple clauses, those most relevant to this research related to:



- Cabinet ensuring that issues of strategic importance are adequately addressed through more effective consultation between Ministers and chief executives - recommendation 4;
- Deciding on the appropriate organisational forms for delivering outputs – recommendation 5 (under Cabinet’s direct interest in risk management was the central management of policy and of the Government’s ownership interest and for Cabinet to ensure that a capability is maintained for effective policy advice and departmental management);
- Central agencies reporting on the best organisational arrangements to enable the central agencies to carry out their tasks in the most cost-effective way – recommendation 9.

The overall conclusions reached by the Review Team, who had interviewed widely to arrive at their conclusions, were that the framework of the reforms was sound and that substantial benefits were being realised, and that performance had improved in key activities. However, their concern that “there is no common view on what will constitute the endpoint of the reforms and how far away that is” (Logan, 1991:11) indicates a lack of appreciation that public sector reform is an ongoing and evolutionary process. Certainly those interviewed in this research study viewed reforms as continuing when they were asked what would happen in the future.

In 1995 the State Services Commission and Treasury commissioned an American academic, Professor Allen Schick, to review the State sector management framework. The subsequent report, *The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change* was published in August 1996. Unlike the earlier Logan review where a team approach was adopted, Professor Schick worked alone, with the assistance of State Services Commission and Treasury staff at various stages of the study. The Schick methodology involved a review of documentation, interviews with departmental chief executives, two surveys (one of chief executives and one of managers) and group discussions.

The report considers the major management innovations which had taken place since the late 1980s. However, Schick thought that “not every aspect of reform has worked out as expected, although its reforms have been more comprehensive and rigorous than those introduced in other countries, they have been neither complete nor perfect” (Schick, 1996: 3).

When discussing the structure of the State sector, Professor Schick noted that “New Zealand has a pantheon of departments and Ministers with an array of non-departmental bodies”. While not advocating major restructuring, he does suggest some adjustments including: the government should explore means of consolidating some departments or converting them into non-departmental bodies while maintaining accountability for their performance; central agencies should be more clearly focussed on government-wide tasks; and the purchase and ownership roles of the responsible minister pull departments in opposite directions. A realignment of Ministerial portfolios and departmental jurisdiction was required (Schick, 1996).

Schick concluded that, in 1996, the New Zealand State sector was now more efficient, productive and responsive, and that there has been significant improvement in the quality of services provided to New Zealanders. While he made no recommendations, he did highlight some areas where improvements were required – strategic management, the resource base and accountability. He commented on the policy/operations decoupling and the number of small departments and used homogeneity of functions as the ideal rationale for departmental structure. He noted that the large coupled departments appeared to be well managed (Schick, 1996: 29-31). However, he did caution that the next steps in reform should address the larger agenda, by moving from management issues to policy objectives, to fostering outcomes such as social cohesion. He suggested that the Government would need to do for outcomes what had been accomplished for outputs (Schick, 1996:87).

Writing in 2001, Barzelay pays tribute to Schick’s study of the New Zealand reforms, stressing that it “serves as an exemplar of policy oriented, academically rigorous analysis within New Public Management” (Barzelay, 2001:162). Schick’s ideas, drawn from the schools of strategic management and management accounting and control, were deemed to provide a more rigorous framework for analysis than the theories of the new institutional economics.

A review paper *New Zealand’s State Sector Reform: A Decade of Change*, was produced by the State Services Commission in March 1998. This placed the reforms in an historical context and as a phase of the country’s development. The changes in the state sector between 1984 and 1998 were highlighted. Over the period the number of departments in the core public service was seen to have remained the

same in number but massive changes in structure and especially capability where the number of public servants had decreased from 88,000 in 1984 to fewer than 35,000 in 1995. The overall object of the reform activity was to significantly improve the performance of the State sector, through separating out the commercial activities and focussing on the remaining agencies to ensure that they were structured to deliver their services as efficiently and effectively as possible (SSC, 1998a: 24).

The separation of policy and service delivery in the remaining core departments was attributed to the need to reduce conflict between those functions. Providing services on one hand and providing policy advice on those services on the other, were seen to be activities “intrinsically at odds – the performance of one cannot help but compromise the performance of the other” (SSC, 1998a: 24). While the paper provides factual coverage of everything that took place over the reform period from 1984 to the time of publication, and points out the changes that have occurred, it does not proffer an opinion of the results achieved over the period – other than to point out the obvious - that the State sector had significantly changed.

In 1998 the State Services Commission also released a paper *The State Ten Years on from the Reforms* prepared by Colin James as a guest contributor to the State Services Commission’s Occasional Paper series. James, an experienced political journalist, considered that the ‘New Zealand model’ was a primer, not a textbook. “It has become disturbingly clear that organisational improvement is a continuous process, not a once-and-for-all repair, like the reform of 1912” (SSC, 1998b: 3). He considered that there had been a preference for intermediate ‘solutions’.

James is critical of the reforms in that they failed to deliver a vehicle for overall strategic analysis. He considered that chief executives sat in ‘silos’, there was too little evaluation of programmes and too little creative thinking was stimulated. He did note that the establishment of strategic result areas (SRAs) was a first step to link outputs with outcomes and that the move to establish ministerial teams with major areas of coordinated activity under the oversight of a single minister was a promising start (SSC, 1998b: 6). Better cross-portfolio coordination was advocated as an area where major change was needed.

Cross-portfolio coordination was addressed in September 1998 when Prime Minister Jenny Shipley created six teams of ministers with “umbrella” ministerial portfolios.

This team approach was designed to better coordinate the work of the associated departments and ministries.<sup>52</sup> However, the government changed in 1999 and a 'team' approach was not adopted again until 2005 when three policy Themes were introduced by the Labour-led Government and Ministers were grouped around the Themes for the purposes of budget strategising and decision-making (see chapter nine).

### **5.3 Evaluations and commentaries**

The interest in the New Zealand reforms extended to various leading academics from fields such as public policy and public administration, who were coming to New Zealand to obtain a first-hand view of the reforms (Boston et al., 1996: 119). Other indications of interest from overseas were manifested in requests for background papers from the State Services Commission and the Treasury. There were also invitations for experts on the New Zealand model to speak at overseas conferences. Boston also notes that while the New Zealand model "has been scrutinised in many countries, there are few examples of direct emulation of any specific reforms" (Boston et al., 1996: 120). It is also noted that the strong theory background to the NZ reforms was in marked contrast to the more pragmatic approach taken by other similar parliamentary systems in Australia, Britain and Canada (Boston et al., 1996: 116).

The April 1990 issue of *Governance* featured a series of papers on public sector reform in Britain, Australia and New Zealand by key participants and observers from Canada, Britain and New Zealand. The emphasis of the papers, all covering public sector reform, was on describing what had taken place, the situations that the reforms were supposed to be addressing, and to offer an opinion on the approach taken and its likely impact.

Peter Aucoin offered a comparative overview of the reforms in the three jurisdictions entitled *Paradigms, Principles Paradoxes and Pendulums*. The two major sets of ideas which had influenced management and governance in the three countries' reforms were public choice theory and the "managerialist" school (Aucoin, 1990: 115). These two prevailing paradigms – governance and management – generate a measure of tension, even contradiction between them. His opinion of public choice

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<sup>52</sup> The information on the Cabinet reshuffle and the new Umbrella Ministerial Portfolios was conveyed by the Prime Minister in a letter to the State Services Commissioner, who passed it on to the all Chief Executives on 29 September 1998.

theory was that in the new organisational design, political leaders have “lost too much power to the bureaucracies, which are meant to serve them in the governing of their political systems” (Aucoin, 1990: 119).

Also represented in the 1990 *Governance* publication were Scott, Bushnell and Sallee whose paper *Reform of the Core Public Sector: New Zealand Experience* provided a concise summary of the reform events since 1984 from a Treasury perspective. The paper covered the two strands of the New Zealand Reforms - separating out the state’s commercial activities and the later reform of the remaining public service. The role of policy advice is seen to be clarified under the new financial management regime by identifying the connection between outputs and outcomes, with spending needing to contribute to specified outcomes. Policy advice is seen as an output of advisory agencies. The importance of high quality policy advice is stressed as is the potential for bias if the agencies providing the advice are also providing the services. By that time (1990) there had been major reviews of the Ministries of Health, Education, Maori Affairs and Environment. In each case major operational functions separated from policy functions and were placed with relevant operational agencies (Scott, Bushnell and Sallee, 1990: 166).

In their review of the government reforms which were then sweeping the world, Osborne and Gaebler considered that New Zealand had gone farthest along the entrepreneurial path. They seemed stunned by the speed of the changes from the separation of commercial functions to the separation of the remaining government services according to roles - policy management role, regulatory, and those with a social welfare role (Osborne and Gaebler, 1992: 330).

When reviewing the movement to market and corporate government in the 1980s and 1990s Hill and Hupe note that while there have been many attempts to explain the way the public administration has changed over this period and that while the development acquired a more or less global character, “some of its most extreme manifestations” were observed in New Zealand (Hill and Hupe, 2002: 91).

New Zealand was included in the major review of the civil service reform initiatives undertaken in the past 15 years in six western democracies assembled by Peters and Savoie in *Taking Stock: assessing public sector reforms* (1998). In summing up the lessons of the reforms in the final chapter, Savoie concludes on the positive side that: government managers have more freedom to manage both human and

financial resources; NPM has taken root and public servants everywhere are conscious of the need to improve performance management and service quality; Government departments have learned to establish a split between their 'purchaser' and 'provider' roles; and that Governments now distinguish between policy and operations roles – with Britain and New Zealand being named as first off the mark (Peters and Savoie, 1998: 403).

Among the concerns discussed, which are relevant to New Zealand, are: the role of the central agencies in the new structures, although the changed role for New Zealand central agencies is noted; officials are now expected to produce the policy options which the Minister favours; and that the civil service institution is demoralized and has lost its way. The reforms – through contracting out, privatisation, the establishment of autonomous agencies, and downsizing – are seen to have compromised the corporate memory of the public service (Peters and Savoie, 1998: 406). They caution that the growing body of public choice literature, which poses fundamental questions about the growth in government spending and growth in government operations, should not be ignored.

In a comprehensive review of twelve OECD countries, the New Zealand reforms were shown to have positives and "less positives". The achievement was assessed as "the most comprehensive and radical set of public management reforms of any OECD country" (Pollitt and Bouckaert, 2004). The decline of public service employees, from 88,000 to 37,000<sup>53</sup>, was cited as an example of the radical changes. The reviews/evaluations carried out by Schick (1996) and Logan (1991) were said to yield positive conclusions, while identifying some areas of concern. The positives included: productivity and quality improvements, range of policy advice to ministers broadened, greater flexibility of employment, and decentralised powers to operational managers. The "less positive" results included: high costs of the reforms in terms of disruption and loss of continuity and institutional memory, greater focus on outputs but some loss of attention to outcomes, and gradual erosion of both financial and human resources (Pollitt and Bouckaert, 2004: 280/1). In terms of reforms actually achieved, the New Zealand government was seen to have achieved "probably the most comprehensive and radical set of public management reforms of any OECD country (Pollitt and Bouckaert, 2004:280).

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<sup>53</sup> The 1998 report from the State Services Commission quoted a lower figure of "fewer than 35,000".

While overseas commentators were visiting New Zealand to see first hand what was taking place, local writers were also undertaking reviews. Analysis of the New Zealand reforms was undertaken by Jane Kelsey, Associate Professor of Law at Auckland University. She was critical of the 'disciples of economic fundamentalism' who had been proclaiming the reforms as a success story and her book, *The New Zealand Experiment* published in 1995, sought to put both sides of the story in the public domain by highlighting some of the negative aspects of the reforms. The economic, democratic, cultural and social deficits identified by Kelsey were discussed in separate chapters and included: low economic growth, income inequality, fall in investment, benefit dependency, increase in poverty, and Maori rights. In a scathing summing up, Kelsey considered that "in this decade of greed, talk of 'short-term pain for long-term gain' had meant pain for the poor to achieve gain for the rich, poverty, alienation and stratification along the lines of class, gender and race were intrinsic, and apparently acceptable, features of the new order" (Kelsey, 1995: 296).

Shaw (2000) was also critical of the impact of public choice theory on the public sector reform in New Zealand reforms. His comprehensive analysis, which covered the period from 1990 to 2000, and addressed spending on the core public sector, employment patterns within departments and the size of agencies budgets, concluded that while the application of public choice theory had made the public sector more efficient, the capacity of the sector to carry out the tasks expected by both government and citizens had been weakened.

Writing in 2001, Scott looked back over the reviews of the system which had taken place. He considered that "like many governments, the New Zealand government has not undertaken large-scale empirical evaluations across the entire government to assess changes in performance over time" (Scott, 2001:42.). Among the reviews noted were a World Bank study of 1996, which concluded that there had been a contribution to macro-economic fiscal and efficiency objectives, and the shifting of priorities. Reviews by the New Zealand Audit Office (1998) and the State Services Commission (1998) showed that the former indicated general satisfaction with the financial and service performance information, while the latter placed five departments and ministers on the 'watch list' (Scott, 2001:44). Scott also noted that virtually every department had conducted at least one major review since 1988. The Logan (1991) and Schick (1996) reviews were also included. Scott's assessment of these focussed on the benefits and warnings which the reviews had sounded, with

the Schick Report providing strong support, but with some qualifications concerning strategic management, the resource base and accountability (Scott, 2001:51).

Professor Schick revisited New Zealand in 2001. He considered that in the five years since *The Spirit of Reform* was published he had “become more critical and less ambivalent, more admiring of the remarkable managerial edifice erected in this country, but less convinced that it is the right way to go” (Schick, 2001:2). Schick observed that few countries had emulated New Zealand and that none of the most developed ones had had modelled their public sectors along New Zealand lines. While some countries had embraced NPM, they had taken alternative routes to get similar results to New Zealand. In view of the coherence of the New Zealand model he saw little prospect for abandonment but a need for improvement. The improvement was needed in the areas of fiscal discipline, allocative efficiency and operational efficiency.

A report was commissioned by the New Zealand Treasury to provide a summary of the research material on the outcomes of the public sector management regime, with a focus on the period 1995 to 1999. (Although the review was carried by Treasury officers it contained a disclaimer by the Treasury.) The purpose of the report was to identify the main strengths and weaknesses of the reformed public sector management regime and support the conclusions with evidence. The comprehensive review of the available material led to the conclusion:

There is a wide range of views about the success or otherwise of the reforms. There also seems to be some shift in perceptions over time, as the disadvantages of the previous regime fade and the weak points of the new regime become more apparent (Petrie and Webber, 2001:2).

This shift in perceptions, noted by Petrie and Webber, has been a consistent thread through the current research, with many of the people interviewed for this study modified their views in the light of subsequent experience.

Unforeseen consequences of the new regime which were identified included: the scale of impact on individuals may have had a longer-term effect than was anticipated; and there had been a loss of institutional memory and a corrosion of public service loyalty and ethics. The restructuring process had continued much longer than anticipated and, while decentralisation had enabled decision-making at



lower levels, it could be at the expense of central awareness of cumulative impacts (Petrie and Webber, 2001: 24/5).

While the strengths identified were efficiency gains, better service delivery, improved accountability and overall fiscal control, the main weaknesses related to the effectiveness of the new regime to deliver outcomes. The uneven performance across departments was attributed to the proliferation of small departments and the inadequate supply of capable senior managers. Many of the issues identified by Petrie and Webber were still apparent in 2006, when the respondents for this research voiced similar views.

Over the period of the reforms, the New Zealand economist Brian Easton had been a trenchant critic. In *The Whimpering of the State* (1999), he draws on Schick's work to emphasize the two overlapping but distinctive ideas of managerialism versus contractualism and personal responsibility versus accountability. This public sector management dichotomy is taken up again by Easton<sup>54</sup> in a 2007 paper which expanded on the contrast between the business sector approach (New Institutional Economics) and the public sector approach (Public Sector management) (Easton, 2007: 3). Earlier work from Easton, often in his regular column in the *New Zealand Listener*, had been critical of the reforms and the lack of any rigorous evaluation. He considered that there had been no pre-testing of the Treasury theories in the 1980s and that trying to commercialise the public service had not worked and that it was time to put 'public service' back into the public service (Easton, 1999).

Towards the end of the 1990s concerns were being raised by Ministers and the State Services Commissioner regarding the effectiveness of, and the institutional changes, which had taken place under the reforms of the late 1980s and 1990s.

In March 1997 Hon Jenny Shipley, then Minister of State Services, noted that "a major object in separating policy functions from service delivery and in setting up specialist sectoral policy ministries was to sharpen the focus, quality and impact of advisory work. I would say, judging from what I have observed both at the Cabinet table and out in the front lines, that to date this has not been an overwhelming success. Policy and outcomes are connected" (Shipley, 1997).

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<sup>54</sup> Easton (2007) *The Relevance of Commercialism to Government Agencies*. Paper for "Corporate Governance in the Public Sector, 2007 Conference" 19 February, Wellington.

The next year, when addressing the Public Service Senior Management Conference, Hon Simon Upton, also as Minister of State Services, expressed some doubts about the structural changes. “A funder/provider split with contestable contracting for example, is not the blueprint solution for every problem in government. The motto, have theory will travel, is no longer good enough” (Upton, 1998).

In his Annual Report on the State Services (1998), the State Services Commissioner, chose to reflect on the last 15 years of unprecedented change in the State sector. In terms of the criteria of efficiency and responsiveness – the objectives of the reforms – he acknowledged that most commentators regarded the reforms as successful. However, his concerns were addressed as to the future direction and he feared that New Zealand had slipped into a ‘restructuring culture’ and that there were risks when “we attempt to apply structural solutions to policy problems” (Wintringham, 1998).

#### **5.4 Respondents’ evaluations**

While the question specifically addressed the social sector, responses aimed at eliciting positive and negative views on the impact of the separation of policy ministries from operational departments often provided views on the totality of the reforms. Those responding in this way often referred to the successful creation of the State Owned Enterprises as an example of separation to establish a clearer focus.

- Generally in the market sector separation worked well. There is no logic in policy advice being retained in a public sector commercial operation when the latter has private sector competitors. (26) Former chief executive

Downstream benefits from the reforms which were mentioned by respondents included:

- Clearer goals and focus for organizations.
- Sharper focus on results
- Better management systems
- Fresh thinking and innovation
- Departments became more service oriented
- Delivery agencies more accountable
- More transparency at a regional level

- Benefits of specialization.

Respondents commented on the principal legislation changes of the State Sector Act (1988) and the Public Finance Act (1989).

- Recruitment was better and the old appeal system (where people inside the service had priority over outsiders) was axed which allowed a range of experienced people in. (11) Former senior public servant
- The removal of the appeals procedure and the Service wide set of controls which used to exist were removed – and they are not missed. (29) Former Cabinet Minister
- There was a big reduction in the core public service numbers and that was a step in the right direction – and a reduction in the Government's expenditure to GDP. (35) Former chief executive
- The Public Finance Act modernised the way financial accounts were kept and gave politicians better tools to manage the country's economy. The changes from inputs to output funding and cash to accrual accounting also focussed on the need to better align the Government's financial year. Thus the year was changed to 1 July to 30 June and the tax year left at April to March. This meant that the tax revenue could be assessed well before the end of the financial year – and prior to the Budget (usually in May) (31) Former Cabinet Minister
- Accrual accounting and the new accounting standards were the main benefits - you get good information. (36) Former chief executive
- The Public Finance Act brought in major changes which were necessary – it went stunningly well – probably the most important thing. (11) Former senior public servant

The questions seeking opinions of the separation of policy from operations were deliberately ordered to focus on the positives first to encourage thinking about the benefits of the changes. However, all respondents were able to identify problems – and in most cases, many problems. A number of senior public servants at the time of the reforms, who saw first hand the problems arising from the separation, voiced concerns that separation had depleted the human resource capability of their agencies, and that their organisation's ability to deliver was compromised.

- The policy/operations split did bring about improvements in places where there were problems - but there were some unintended side effects. It never was a complete solution to the capability and quality of policy analysis - just one tool in a toolkit. The 'one size fits all' approach was taken. (28) Former chief executive

- Problems with policy in isolation. A policy ministry lacks critical mass, it becomes the advocate rather than the analyst. Small policy ministries don't possess the analytical capability. Policy and research need a professional environment. Policy work requires real professional depth and a small agency can't provide that. (2) Former senior public servant
- Policy was not informed by practical experience. You needed the experience of people at the 'front end' to make good policy. Key people with institutional knowledge left. (20) Former chief executive
- Policy was thought up by people without practical experience and this resulted in some bad policy. It was important to engage with the professionals to obtain more efficient delivery. In Education abstract theories were promoted – there were young people coming in with new ideas. A whole new world was created. (34) Cabinet Minister

While the majority of the comments from interviewees were negative, two former chief executives, from policy ministries, gave positive outcomes from the separation.

- Very exciting time for policy ministries – they had freedom to focus on policy and develop as policy practitioners. The country had some marvellous policy work done over that time. (27)
- They became good at policy analysis – their work became more rigorous. The art of policy making improved. (7)

The 'human' costs of the changes were mentioned by over a quarter of the respondents, often by those whose departments had been affected most.

- The human costs were enormous and poorly managed. Consultants came in, advocated changes, and left. They didn't have to pick up the pieces. (3) Former chief executive
- There were very real consequences of restructuring as people couldn't put up with continual change and took up contracting. This did not require the same level of commitment - all care and no responsibility. They could undertake the development of an initiative and move on - with no responsibility for implementation. This had long term effects as these people didn't develop themselves as much as they used to. (14) Former senior public servant

The matter of fragmentation and the creation of silos, which had been identified in the Logan and Schick reviews, were also identified by respondents, as was the lack of an integrated view across departments.

- Across the public sector the CEs had no allegiance to the notion of a collective public service - from the SSC perspective, the CE independence was palpable. In the 1990s the CEs realized that they needed to work together and there was a sea-change in attitude. (30) Former senior public servant
- Separation gave operational independence to departments which brought about the silo issue. For example, mental health was not thought through – who was going to look after the people released from mental institutions. There was no integrated view across all departments. Things fell through the cracks – truancy was a classic example. (12) Academic observer
- The multiplicity of agencies – this weakened the management capacity of the public service. And despite the mass inflation of the salaries of the public service since the mid 1990s we have not seen the anticipated large scale flood of private sector people into the public sector – for whatever reasons. (34) Cabinet Minister

The comments from those who had worked in the community sector at the time of the changes, related to the difficulties that NGOs faced over the period and their experiences with managing contracts and dealing with departments.<sup>55</sup>

- Policy people don't have contact with the community. Formerly the Department of Social Welfare had offices in local areas and knew what was going on. Departments lost staff and lost the collective memory and that was incredibly important. New people were appointed who didn't have the background – they seem to have been brought in for another purpose. Mrs Bazley came in from 'outside' – she told people about the better new way of operating setting up the business units – but people didn't believe her when she said what would happen. Some people moved out of government departments and became consultants – doing the same work and charging twice as much – and made lots of money. Others just walked away. There were contracts for everything. One of the problems with contracting for service was that many of the community organisations didn't exist as properly constituted legal entities. New requirements had to be complied with – accountability was the "in" word. Trying to get the "deliverables" tied down to words on paper was not easy for community organisations. (23) Community sector

A number of respondents sought to place the momentous changes which took place in the 1980s and 1990s in an overall context and review the position, as they saw it, when interviewed in 2006.

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<sup>55</sup> The moves to improve accountability and the impact of agency theory and the emphasis on 'contractualism' are well documented in Cribb (2006) *"Being Accountable"*.

- Separation was a bit of theory which, in practical terms, had very little value at all. New Zealand is a small country - and size is crucial here - having lots of agencies eventually diluted very significantly the managerial competence at the top end. (36) Former chief executive
- The other problem – which wasn't thought about at the time – the more different agencies you've got, the more time is devoted to them communicating with each other - resulting in frustration and delays. And you get the theory colliding with the State Sector Act – and the increased siloisation of the state sector. A collaborative approach within the public sector was needed – all the cross-departmental committees and meetings and bodies were a major use of resources. (34) Cabinet Minister
- The dogma of its application right across the board was not sensible. Policy became separated from operations – from the people who were working at the coalface and you always needed a conversation between the two – a connected conversation – when you put them in separate organisations you jeopardise that. Can't figure out what the advantages were – especially if you consider *provider capture*, which was the argument used initially to justify the changes. There is some truth in provider capture – but it was exaggerated. Now you are seeing a more pragmatic, incremental approach to rejoining these agencies. That seems to be the general trend. (19) Academic observer

The view quoted below, from a former chief executive, sums up that respondent's experience of the reforms. It highlights the approach taken in the 1990s when the separation of policy and operation continued under a new government and with another generation of bureaucrats. The notion of 'fashion' in reforms was often mentioned by respondents.

- The 'one size fits all' approach was taken – it comes about from 'careerism' in government organisations – fashions get loose and the people who started something may have had a sophisticated discussion about it all and knew its strength and its weaknesses – but once its been 'wholesaled' it becomes doctrine. An idea got loose without sufficient depth and clarity. There was a second generation of Treasury officers that were there in the 90s that hadn't been there in the 80s and received it as doctrine - an idea got loose without sufficient depth and clarity. But that's the nature of government – fashions get overdone. (28) Former chief executive

## 5.5 Conclusion

Reviews of the New Zealand reforms were instituted by the incoming Government following the 1990 election. The reviews, carried out by the Logan Group (1991) and Professor Schick (1996), gave the government confidence that the changes in public administration and financial management, made under the Public Finance Act (1989) and State Sector Act (1988), were in the right track and should continue without major modification. However, Logan did note that there appeared to be no common view on the endpoint to the reforms. He also commented on the overall loss of capability and that the quality of policy advice had been affected by the number of policy ministries and shortage of experienced policy analysts. Schick suggested adjustments to consolidate departments and advocated moving from management issues to policy objectives, to foster outcomes such as social cohesion. He considered that improvements were required in the areas of strategic management and advocated a 'responsibility model' of accountability which would not distinguish so sharply between producers and purchasers (Schick, 1996: 87).

The concerns regarding the need for consolidation of departments do not appear to have been picked up by the Government in the 1990s with further decoupling in the social sector taking place in 1992 with the separation of the Department of Social Welfare into business units, and then stand alone departments in 1998 and 1999. There was separation of Justice into three departments in 1995, and in Housing in 1992 (with further changes in 1994 and 1998). The Department of Education was restructured in 1989 into three departments (including a Ministry of Education) and eight agencies and Crown Entities in 1989 and 1990. In the Department of Labour changes took place in 1988 (service units), 1992 and 1998. These changes, and the reasons given for them, are addressed in chapter six.

Other reviews and reports undertaken by and on behalf of the State Services Commission, emerging in 1998, took a 'ten years on' perspective. While the comments on the policy/operations decoupling had been touched on in passing by Logan and Schick, it had been more in the context of the separation of commercial activities. It was James, in his 1998 report for the State Services Commission, who made critical reference to the silos and lack of coordination between departments. These concerns, regarding the fragmentation of the sector and the quality of policy advice, were also echoed in the late 1990s in speeches by Cabinet Ministers and the State Services Commissioner in his Annual Report. However, they were not to

be addressed in any coherent way until the Review of the Centre which was initiated in 2001.

By 1990 overseas academics and observers had journeyed to New Zealand to study for themselves the changes which had taken place and by this time the title of the 'New Zealand model' had been ascribed to the reforms. The exact nature of the model varied according to the describer. However, there was generally overall enthusiasm for the changes recorded in the literature (see Aucoin, 1990; Barzelay, 2001; Hood, 1990; Osborne and Gaebler, 1992; Savoie, 1998).

The 36 people interviewed for this research had all experienced the first wave of reforms and, in the period since, had had the opportunity to reflect on what had been achieved and where there were problems. Overall the responses were mixed with positive and negative views identified.

The winds of change blew stronger with the arrival of a Labour led government in 1999. The Manifesto of the New Zealand Labour Party, issued prior to the 1999 election, reviewed the past fifteen years in the central government sector and noted that it was showing signs of stress from the constant restructuring. One of the consequences of this was the fragmentation of the sector in terms of output delivery and in terms of the number of agencies with responsibilities which were formerly under one department. The isolation of departments and ministries was seen to have resulted in inefficiencies, duplication and a lack of policy co-ordination. The machinery of government changes which took place under the incoming Labour government, characterised as phase two of the reforms, are discussed in chapter seven.



## **Chapter 6: Decoupling: Machinery of Government Issues – generic and social sector**

Public management reform consists of deliberate changes to the structures and processes of public sector organizations with the objective of getting them (in some sense) to run better (Pollitt and Bouckaert, 2004: 8).

### **6.1 Introduction**

Previous chapters have focussed on the processes of the reforms over the period from 1984 through to 1999, the theoretical underpinnings of the changes, and the reviews which were carried out to assess whether the changes made were indeed resulting in improved outcomes. This chapter will revisit the structural changes which took place through that period and the results of those changes and discuss some of the implementation deficits which were becoming apparent in the social services sector.

Structural change can include merging or splitting public sector organisations to either, create a smaller number of big departments to improve coordination, or a larger number of small departments to sharpen focus and encourage specialization (Pollitt and Bouckaert, 2004: 8). In the New Zealand situation the latter proposition took place in phase one of the reforms with an increase in the number of departments from 34 in 1984 through to a high of 41 in 1989<sup>56</sup>. Although there was movement in and out as new departments were created and the commercial operations were separated out. Over that period 18 new departments of state were created. Table 4 shows the movement in the number of departments as the reforms progressed.

The restructuring of the machinery of government, in various countries over the period of the major reforms, has been extensively studied (see Aucoin, 1998; Christensen and Lægreid, 2007; Pollitt and Bouckaert, 2004). Aucoin considers that the most significant structural changes have been in Westminster systems where there has been a marked departure from the traditional ministerial department model. The changes which have been made have been in response to perceived

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<sup>56</sup> State Sector Amendment Act (No.2) 1989, First Schedule

deficiencies in the model. Governments are seen to be seeking to improve the management and delivery of public services by way of structural change, and to break down centralised control mechanisms by locating decision-making nearer to the customer. The most significant structural changes, certainly in Westminster systems, were seen to be the separation of organisational responsibilities for policy and operations. According to Aucoin the structures which were established “were predicated on the assumption that the most effective way to secure economy, efficiency and service quality in public sector management was to ensure that those primarily involved in the operational tasks of government were assigned explicit responsibilities in these regards and given the necessary authority to fulfil them” (Aucoin, 1998: 316).

The New Zealand and British models were the first of the Westminster systems to depart from the traditional ministerial department model and accept the need to institute designs to separate organisational responsibilities for policy and operations. Ministers assumed a contractual, rather than a hierarchical relationship to delegate authority for financial and administrative practices. Adopting this model has resulted in ministers (or their departmental policy advisors) keeping out of operations and the heads of operational units (obliged by their contracts) adhering to the corporate policies contained in their contracts. Thus, the separation of policy from operational activity is explained through contractual arrangements. Separation is seen as the way of organising ministers and departments. New Zealand writers, such as Boston (1991); Boston et al. (1996); Gregory (1998), also attribute the separation of policy and operations to the aim of minimizing capture, establishing clarity of objectives, and the provision of contestable policy advice and delivery of services.<sup>57</sup>

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<sup>57</sup> Those interviewed in the course of this research were uniform in their attribution of the separation of policy from operations to the economics-based theory of public choice and to the new public management, rather than the contractual relationship between chief executive and minister, which was based on agency theory and enshrined in the State Sector Act 1998.

**Table 4 Departments of the Core Public Service 1984 – 1989**

<b>July 1984 (34)</b>	<b>State Sector Act 1988 (37)</b>	<b>S S Amendment (No 2) 1989 (41)</b>
Ministry of Agriculture and Fisheries	Ministry of Agriculture and Fisheries	Ministry of Agriculture and Fisheries
Audit Department	Audit Department	Audit Department
	Cabinet Office	
Commission for Environment		
	Dept. of Conservation	Dept. of Conservation
		Ministry of Commerce
	Ministry for the Environment	Ministry for the Environment
Crown Law Office	Crown Law Office	Crown Law Office
Customs Department	Customs Department	Customs Department
Defence Department	Ministry of Defence	Ministry of Defence
Dept of Education	Dept. of Education	Ministry of Education
		Education Review Office
Ministry of Energy	Ministry of Energy	Ministry of Energy
Ministry of Foreign Affairs	Ministry of Foreign Affairs	Ministry of External Relations & Trade
NZ Forest Service	Ministry of Forestry	Ministry of Forestry
Government Printing Office	Government Printing Office	Government Printing Office
		Government Superannuation Fund
Department of Health	Department of Health	Department of Health
Housing Corporation	Housing Corporation of NZ	Housing Corporation of NZ
Inland Revenue Dept.	Inland Revenue Dept.	Inland Revenue Dept.
Dept. of Internal Affairs	Dept. of Internal Affairs	Dept. of Internal Affairs
		Iwi Transition Agency
Dept. of Justice	Dept. of Justice	Dept. of Justice
Dept. of Labour	Dept. of Labour	Dept. of Labour
	Dept. of Lands	

July 1984 (34)	State Sector Act 1988 (37)	S S Amendment (No 2) 1989 (41)
Maori Affairs Dept.	Dept. of Maori Affairs	Ministry of Maori Affairs
Legislative Dept.		National Library Department
Post Office		National Provident Fund Department
	Police Department	
Prime Minister's Department	Prime Minister's Office	Dept. of Prime Minister and Cabinet
Public Trust Office	Public Trust Office	Public Trust Office
	Rural Banking and Finance Corp. of NZ	
		Ministry of Research Science & Technology
Dept. of Scientific & Industrial Research (DSIR)	DSIR	DSIR
		Serious Fraud Office
Dept. of Social Welfare	Dept. of Social Welfare	Dept. of Social Welfare
State Insurance Office	State Insurance Office	State Insurance Office
	Office of State Services Commission	
State Services Commission		State Services Commission
Department of Statistics	Department of Statistics	Department of Statistics
Lands and Survey Department	Dept. of Survey and Land Information	Dept. of Survey and Land Information
Tourist and Publicity Dept.	Tourist and Publicity Dept.	Tourist and Publicity Dept.
Dept. of Trade and Industry	Dept. of Trade and Industry	
Ministry of Transport	Ministry of Transport	Ministry of Transport
The Treasury	The Treasury	The Treasury
Valuation Department	Valuation Department	Valuation Department
	Ministry of Women's Affairs	Ministry of Women's Affairs
Ministry of Works & Development		Office of Youth Affairs

**Key:**

Out
New
Name change

6 out, 9 New, 3 name change

5 out, 9 new, 5 name change

The process of machinery of government changes in the initial stages of the New Zealand reforms from 1984 to 1990 is reviewed by Boston who observes that no consensus had emerged on the issues of government structure, with both functional and sectoral models having strengths and weaknesses (Boston, 1991b: 234). The sectoral model, where policy advice and implementation are together in departments, was used in Australia. In New Zealand the functional approach was adopted. A 1988 Cabinet paper from the State Services Commission outlined the Government's aim which was to organize the bureaucracy in order that: departments have clear and consistent objectives; there is a high standard of accountability; bureaucratic capture is minimised; trade-offs between objectives are explicit and transparent; the provision of advice and the provision of services are contestable; functions which complement each other are placed together; and resources are used economically and efficiently (Boston, 1991b: 239).

The major legislative changes, with the creation of the State Sector Act (1988) and the Public Finance Act (1989), affected the role of the former 'control agencies' the Treasury and the State Services Commission, who, together with the newly established Department of Prime Minister and Cabinet, became known as the 'central agencies'. However, while the role and functions of the Treasury were clear, the State Services Commission appeared unsure of its mandate and the Annual Reports over the period often expressed negative views on the changes to public service management which were unfolding.

In addition to outlining the major structural changes which took place from 1986, the more detailed study of the changes in the social services sector shows that the moves which were taken by the National government from 1990 were justified by the perceived need to achieve efficiency gains and obtain greater accountability for the increasing expenditure in the social sector. Later some deficiencies in the model became apparent.

## **6.2 The sequence of restructuring in the public sector**

The overall changes for the period 1984 to 1989 are shown in Table 4 above. The movements in (of new departments and ministries) and out, reflect the changes which were taking place with the establishment of the State Owned Enterprises and the creation of policy ministries in line with the Government's intention to separate

policy from service delivery. However the rate of change varied once the initial burst of State Owned Enterprise creation had been accomplished.

The classification system adopted for the table shows new agencies as those which were newly created – such as the Cabinet Office and the Education Review Office or those which were created specifically as policy ministries as distinct from departments – such as the Ministry of Forestry, the Ministry of Education and the Ministry of Maori Affairs. The Defence Department became the Ministry of Defence and the armed forces became the New Zealand Defence Force which is classified as a non-Public Service Department though still in the State Services sector. In the case of the Police Department, its role as a government department was short-lived as one year after creation it was reclassified as a non Public Service Department, for constitutional reasons, as it remains in 2007.

The changes which took place in the year between the State Sector Act in 1988 and the Amendment Act (No 2) in 1989 reflect the period of intense restructuring as the Government sought to implement its policy decisions and rationalise some of the 1988 changes. New agencies such as the Ministry of Commerce and the Ministry of Research, Science and Technology (MORST) were established to provide a dedicated policy focus for commerce and science. The establishment of the Ministry of Women's Affairs had been a Manifesto commitment and the Office for Youth Affairs was created a year later. The Department of Lands and the Department of Survey and Land Information (DOSLI) were created in 1988 but the former had a short life. The Cabinet Office and the Prime Minister's Office were combined to form the Department of Prime Minister and Cabinet (DPMC) which remains in 2007 and has assumed a major role as one of the central agencies. The changing role of the central agencies in the context of the reforms is discussed in 6.4.

It should also be noted that ten Crown Research Institutes<sup>58</sup> were established on 1 July 1992 out of former government departments, including the Department of Scientific and Industrial Research, and elements of the Ministry of Agriculture and Fisheries, and the Ministries of Forestry, Transport and Health. Public sector

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<sup>58</sup> AgResearch Ltd, Industrial Research Ltd, Institute of Environmental Science and Research Ltd, Institute of Geological and Nuclear Sciences Ltd, Landcare Research New Zealand Ltd, National Institute of Water and Atmospheric Research Ltd, New Zealand Forest Research Institute Ltd, New Zealand Institute for Crop and Food Research Ltd, Horticulture and Food Research Institute of New Zealand Ltd. The remaining member of the original ten, the Institute for Social Research and Development Ltd was closed in August 1995 due to its failure to establish commercial viability.

science was reformed following studies which noted the comparatively poor state of investment in science and technology. The creation of Crown Research Institutes was intended to encourage private sector investment in research, promote improved efficiency and better prioritisation of funding and enhanced management accountability.

Major movements or changes are outlined sequentially in Table 5 below. Those involving a change of name or focus have not been included. The subsequent re-coupling which has taken place in the social services sector is discussed in chapter eight.

**Table 5 Major sequential changes to the structure of the core public service**

<b>Year</b>	<b>New Agency</b>	<b>Previous structures</b>
<b>1986</b>	<ul style="list-style-type: none"> <li>• <b>Ministry for the Environment</b></li> </ul>	<ul style="list-style-type: none"> <li>• New staffing (Ministry established under the Environment Act 1986)</li> </ul>
<b>1987</b>	<ul style="list-style-type: none"> <li>• <b>Department of Conservation</b></li> </ul>	NZ Forest Service (operations) Dept. of Lands and Survey Wildlife Service Historic Places Trust
<b>1989</b>	<ul style="list-style-type: none"> <li>• <b>Ministry of Research, Science and Technology</b></li> </ul>	From the Department of Scientific and Industrial Research
<b>1989</b>	<ul style="list-style-type: none"> <li>• <b>Ministry of Education</b></li> <li>• Education Review Office</li> <li>• National Library Department</li> <li>• Special Education Service</li> <li>• Early Childhood Development</li> </ul>	<ul style="list-style-type: none"> <li>• Department of Education - separated out into component parts</li> </ul>
<b>1990</b>	<ul style="list-style-type: none"> <li>• NZ Qualifications Authority</li> <li>• Careers Service (Quest Rapuara)</li> <li>• Education and Training Support Agency (ETSA)</li> </ul>	<ul style="list-style-type: none"> <li>• Department of Education - separated out into component parts</li> </ul> Section of the Department of Labour
<b>1990</b>	<ul style="list-style-type: none"> <li>• <b>Department of Prime Minister and Cabinet (DPMC)</b></li> </ul>	Cabinet Office Prime Minister's Department
<b>1992</b>	<b>Department of Social Welfare (DSW)</b> Separated into 5 Business Units	Department of Social Welfare
<b>1992</b>	<ul style="list-style-type: none"> <li>• <b>Ministry of Housing</b></li> <li>• Housing NZ Ltd</li> <li>• Housing Corporation of NZ</li> </ul>	From Housing Corporation of NZ
<b>1992</b>	<ul style="list-style-type: none"> <li>• <b>Ministry of Maori Development – Te Puni Kokiri</b></li> </ul>	<ul style="list-style-type: none"> <li>• Department of Maori Affairs</li> <li>• Iwi Transition Agency</li> </ul>
<b>1993</b>	<ul style="list-style-type: none"> <li>• <b>Ministry of Health</b></li> </ul>	From Department of Health
<b>1995</b>	<ul style="list-style-type: none"> <li>• <b>Ministry of Justice</b></li> <li>• <b>Department for Courts</b></li> <li>• <b>Department of Corrections</b></li> </ul>	From Department of Justice

<b>Year</b>	<b>New Agency</b>	<b>Previous structures</b>
<b>1998</b>	<ul style="list-style-type: none"> <li>• <b>Department of Work and Income</b></li> </ul>	<ul style="list-style-type: none"> <li>• NZ Income Support Business unit of Department of Social Welfare</li> <li>• NZ Employment Service</li> <li>• Community Employment Group from Dept. of Labour</li> </ul>
<b>1999</b>	<ul style="list-style-type: none"> <li>• <b>Ministry of Social Policy</b></li> </ul>	<ul style="list-style-type: none"> <li>• Social Policy Agency</li> <li>• Corporate Office</li> </ul> Business units of Dept. of Social Welfare
<b>1999</b>	<ul style="list-style-type: none"> <li>• <b>Department of Child, Youth and Family Services</b></li> </ul>	<ul style="list-style-type: none"> <li>• Children, Young Persons and their Families Service</li> <li>• New Zealand Community Funding Agency</li> </ul> Business units of Dept. of Social Welfare

<b>Phase two from 1999 – Re-coupling in the Social Sector</b>		
<b>Year</b>	<b>New or existing Agency</b>	<b>Previous structures</b>
<b>2001</b>	<b>Ministry of Social Development</b>	<b>Ministry of Social Policy</b> <b>Dept. of Work and Income</b>
<b>2003</b>	<b>Ministry of Social Development</b>	<b>Ministry of Youth Development</b> <b>Office for the Community and Voluntary Sector</b> <b>Office for Disability Issues</b>
<b>2003</b>	<b>Ministry of Justice</b>	<b>Department of Courts merged</b>
<b>2006</b>	<b>Ministry of Social Development</b>	<b>Department of Child, Youth and Family Services merged</b>

One of the impacts of the creation of the many new agencies, and the exodus of experienced people from the public sector in the period of major change, was on the standard of policy advice being received by government. This was identified in the Logan Report (1991) where concerns about the quality of policy advice were noted. Also in 1991, the new Government was so concerned about the cost and quality of the policy advice that it was receiving, that the Minister of State Services (Rt Hon W.F. Birch) directed the State Services Commission to review the purchase of policy advice in order to identify options for improving the cost effectiveness of the policy advice provided by government.

One result of this review was a booklet which contained guidelines and information to assist policy managers to improve the performance of their policy teams. The language is encouraging and the message in the Minister's Foreword stresses the need to raise the performance of policy units to "better meet the Government's



needs for relevant, high quality advice which is efficiently produced” (State Services Commission, 1992). However, later in the 1990s, successive Ministers of State Services in the National Government would still be expressing unease about the policy advice that they were receiving (Shipley, 1997; Upton, 1998).

### 6.3 The Social Sector experience

The succession of structural changes which had been progressing through the 1980s and early 1990s had, with the exception of health and the education changes in 1989, left the social sector largely untouched. However, the Chief Executives of Social Welfare, Justice and Labour knew that changes for them would be only a matter of time and took steps to position their departments for potential change by establishing business groups or service units. The formal decoupling of the operational and policy functions within these departments finally took place in the late 1990s.

The structural changes which took place in the late 1980s and 1990s in the social<sup>59</sup> sector involved initially the Departments of Social Welfare, Justice and Education, with the areas of Housing and Labour/Employment also affected. The initial separation is summarised below:

#### Social Services Sector

Situation up to 1991	Business groups set up in 1992	Separation in 1998 and 1999	
<b>DEPARTMENT OF SOCIAL WELFARE</b>  Some restructuring done in 1986 – 2 Director General positions established and regional structure set up	<b>New Zealand Income Support Service</b>	<b>1998 Dept. of Work and Income –</b> (Plus NZ Employment Service and Community Employment Group)	
	<b>Social Policy Agency</b>	<b>1998 Housing Policy</b> transferred from Ministry of Housing	<b>1999 Ministry of Social Policy</b> (Purchase and monitoring Group added )
	<b>Corporate Office</b>	<b>Corporate Office</b>	
	<b>New Zealand Children and Young Persons Service (CYPS)</b>	<b>1999 Department of Child, Youth and Family Services</b> (previously Children, Young Persons and their Families Agency)	
	<b>New Zealand Community Funding Agency (NZCFA)</b>		

<sup>59</sup> The Health sector has been excluded from this analysis as continuous changes were taking place throughout the period.

## Justice Sector

Situation up to 1995	Department separated 1995
<b>DEPARTMENT OF JUSTICE</b> <ul style="list-style-type: none"> <li>• Courts and Tribunals</li> <li>• Public Registries</li> <li>• Corrections – Operations</li> <li>• Constitutional and Social Policy                             <ul style="list-style-type: none"> <li>○ Law Reform Division</li> <li>○ Policy and Research</li> <li>○ Treaty of Waitangi Issues</li> </ul> </li> <li>• Criminal Justice Development</li> <li>• Planning and Resources</li> <li>• Human Resources</li> </ul>	<b>Ministry of Justice</b> 1 October <ul style="list-style-type: none"> <li>• Policy</li> <li>• Other purchase advice</li> <li>• Criminal Justice strategy</li> </ul>
	<b>Department for Courts</b> 1 July
	<b>Department of Corrections</b> - 1 October National Systems Management Corrections Delivery
	<ul style="list-style-type: none"> <li>• Commercial Affairs to Ministry of Commerce</li> <li>• Births, Deaths &amp; Marriages to Dept. of Internal Affairs</li> <li>• Land Titles Office to Dept. of Survey and Land Information</li> <li>• Registries – Crown Entity</li> </ul>

## Education Sector

Situation up to 1989	Department separated 1989 - 1 October
<b>DEPARTMENT OF EDUCATION</b>  The Education Act 1989 abolished the Department of Education, Education Boards and Secondary Schools Boards of Governors.	<b>Ministry of Education</b>
	<b>Education Review Office</b>
	<b>Early Childhood Development Unit</b> – Crown Entity
	<b>Special Education Service</b> – Crown Entity
	<b>Teacher Registration Board</b>
	<b>Parent Advocacy Council</b>
	<b>Education Service Centres</b>
	<b>National Library Department</b>
	<b>Education Amendment Act 1990 – 1 July</b>
	<b>New Zealand Qualifications Authority (NZQA)</b> – Crown Entity 1990
	<b>Careers Service</b> (Quest Rapuara) - Crown Entity
	<b>Education and Training Support Agency (ETSA)</b> – Crown Entity

## Housing Sector

Situation up to 1992	Structure changed in July 1992	1994	1998
<b>HOUSING CORPORATION OF NEW ZEALAND</b>	<b>Ministry of Housing</b> (Policy and Tenancy Services)		(Portions of Housing Policy to Ministry of Social Policy)
	Housing Corporation of New Zealand Crown Entity August 1992 (Rental Housing Portfolio)	Community Housing Ltd Formed as a subsidiary of Housing Corporation of New Zealand	
	Housing New Zealand Ltd		

## Labour and Employment

Situation up to 1988 (Martin, 1996: 373)	Service units 1988	Services 1992 (Martin, 1996:374)	1998
<b>DEPARTMENT OF LABOUR</b>			
<ul style="list-style-type: none"> <li>• Employment and Training</li> <li>• Industrial Relations</li> <li>• Safety, Health and Welfare</li> <li>• Immigration</li> <li>• Corporate Services</li> <li>• Labour Market Information</li> </ul>	NZ Employment Service	NZ Employment Service	To Work and Income
	Training Support*	Community Employment Group** From Internal Affairs (1991)	
	Industrial Relations Service	Industrial Relations Service*** (Changed to Employment Relations Service)	
	NZ Immigration Service	NZ Immigration Service	
	Occupational Safety and Health Service	Occupational Safety and Health Service	
	Corporate Services	Corporate Services	
	Labour Market Analysis	Labour Market Analysis (Became Labour Market Policy Group in 1994)	

\*Training Support separated to join the Education, Training and Support Agency (ETSA) in 1990.

\*\* The Community Employment Group returned to the Department of Labour in July 2000

\*\*\*Changed to Employment Relations Service from the time of the Employment Relations Act

The period from 1990, described above, involved a succession of restructurings and the new Government sought to continue the reform process and focus on efficient financial management and accountability.

## **Department of Social Welfare Separation 1992**

The Minister of Social Welfare, Hon Jenny Shipley<sup>60</sup> sought to bring change in her portfolio responsibility. The formal separation of the Department of Social Welfare into business units took place in March 1992. While the restructuring was an internal organisational matter, it did require a slight change to the legislation. The Social Security Amendment Bill (No. 6) had a fast passage being introduced into the House on 17 March, with second and third readings on 24 and 31 March respectively. The legislation came into force on 1 April 1992. The changes required under Clause 4 of the Act were consequential to the restructuring of the Department of Social Welfare.<sup>61</sup> (The other clauses related to changes in stand-down provisions for unemployment benefits.)

While the restructuring of the Department of Social Welfare was a minor component of the Bill, and was not mentioned by any opposition speakers, the Minister responsible Hon Jenny Shipley did take the opportunity in the debate on the Report of the Social Services Committee, to comment on the restructuring:

In my view, one of the provisions of the legislation that has been overlooked in the debate is the importance of the business units of the Department of Social Welfare. That department is an organization that spends \$11 billion annually on behalf of taxpayers, and it is very important that it is run in such a way as at least to be able to account for the systems that deliver it. I have to say that one of the things that stunned me on becoming Minister was how inadequately the financial planning of such a huge organization such as the Department of Social Welfare was being managed. The Government has put an enormous effort into actually looking at the structures and the systems of accountability, and the staffing levels, and I am pleased to say that the announcements that will come into force on 1 April that are captured in part in the Bill are very important and will bring a new detail to the performance of the Public Service - which is much needed, might I say.<sup>62</sup>

In the second and third reading debates, the government speakers stressed the significant changes to the department's focus in the delivery of its services and that the new structures "will have positive benefits for the Government, for the

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<sup>60</sup> Jenny Shipley became Prime Minister in 1997.

<sup>61</sup> As the Department was being restructured into three separate business units, the terms 'district' and 'director of social welfare' disappeared in the process and amendments were required to provide authority for the equivalent positions or bodies in the new structure to perform their functions and powers.

<sup>62</sup> Report of Select Committee 19 March 1992, Social Security Amendment Bill (No. 6) Report of Social Services Committee. <http://gphansard.knowledge-basket.co.nz/hansard>

department's staff, and for all clients in the community", but again there was no comment on clause 4 from any opposition speakers. However, there was a question in the House, from a Government member, concerning how many jobs could be expected to be lost after the restructuring, to which the reply was:

The process of restructuring began in 1991 and as a result of the district restructuring the number of positions was reduced by 600, with about 40 redundancies. The department will be attempting to reassign existing staff but it is too early to predict whether further redundancies will occur (Hon Roger McClay, Hansard, 1 April 1992).

A study of the Hansard records indicates that the major focus of the debates on the Amendment Bill in 1992 related to the changes to stand-down periods on the unemployment benefit, which the opposition considered important. The only coverage of the department restructuring was from government speakers who were wanting to promote this as a more efficient operation – and a cost-saving one.

### **Establishment of the Department of Work and Income 1998**

A decision was taken by Cabinet on 15 December 1997 to integrate the New Zealand Employment Service (NZES), Income Support (IS), Community Employment Group (CEG) and the Education Training and Support Agency (ETSA) services to job seeker beneficiaries (or communities) seeking access to employment assistance, income maintenance, and education and training assistance, with the objective of delivering seamless assistance to all clients [CAB (97) M 47/20 refers]. The key outcome sought was the reduction in the long term unemployed with a complementary outcome of maximising the involvement of job seekers in community work or training. The aim was to achieve full structural integration by 30 September 1998 by bringing NZES, IS and CEG together into a single stand alone organisation under one Minister. This integrated service would support the Government's Welfare to Wellbeing and Strengthening Families initiatives. One of the strategies to manage the risks associated with such a major restructuring was to appoint a senior person as a Transition Unit Manager. Further work was required to establish whether ETSA should be integrated into the new organisation or maintain a separate identity.

Cabinet also "noted that the goal of these proposals is to integrate service delivery, not policy advice, and that policy advice on employment-related issues will continue to be provided by the Labour Market Policy Group of the Department of Labour, with policy advice on income support-related issues continuing to be provided by the Social Policy Agency of the Department of Social Welfare" [CAB (97) M 47/20,

clause p refers]. It was also noted that a decision had yet to be made on the name of the new department. In December 1997 it was Cabinet's clear intention that the new department would have a service delivery function only and that policy advice would be provided by the Department of Labour and the Social Policy Agency. It was not until 2001 that the lack of policy expertise in the new Department was acted upon.

At this time (December 1997) Cabinet considered a position description for the Chief Executive of the new department – referred to then as the Integrated Employment and Income Service. Broad specifications for the position were agreed including that “successful performance in the position will require the chief executive to demonstrate at the most senior levels strategic leadership, intellectual capability and relationship competencies.” It was not intended to advertise the position overseas [CAB (97) M 47/21 refers]. In the draft position description the name of the new department was stated as the Integrated Employment Service. The agreed name for the new department was not resolved until 1998.

A suite of papers was considered at the Cabinet meeting on 28 September 1998. These established the operating environment of the new Department of Work and Income and included the funding arrangements (through Vote adjustments from the contributing departments) and the new output class structure and baseline funding. Another paper dealt with the residual funding of the Department of Social Welfare while a further paper specified fiscally neutral adjustments to take into account the policy delivery split [CAB (98) M 37/6(3) refers]. The new Department of Work and Income was established on 1 October 1998 with Christine Rankin as the Chief Executive.

An earlier briefing paper dated 1 September 1998, from the State Services Commissioner to the Minister of State Services, addressed Improving Public Sector Performance. A three-phase process was outlined to improve the social machinery of government.

- Phase 1: Establishment of the Department of Work and Income – on track for 1 October 1998.
- Phase 2: Establishment of a Department of Child and Family. This was to be formed by merging the Community Funding Agency and the Children, Young Persons and Their Families Service. This phase was to be completed by 31 December 1998.

- Phase 3: Establish a Strategic Social Policy capability

### **Establishment of the Ministry of Social Policy in 1999**

The Department of Social Welfare's Annual Report for the year ending June 1999 highlights the fact that this was to be the last annual report of that Department. The structural changes which had been enacted would result in the "transformation of the Department into a standalone Ministry of Social Policy from 1 October 1999". The report points out that the changes represent a ten year evolution in the formulation and delivery of social services in New Zealand. The rationale for change is stated as:

the need for strong, standalone, social service delivery agencies, supported by an independent, equally strong, highly focussed policy organisation has been apparent for some time (Department of Social Welfare, Annual Report 1999:2).

The establishment of Work and Income (WINZ) and Child, Youth and Family Services (CYFS) as separate departments is also noted. However, another important addition is included in the Director-General's Overview. This is the establishment of the new Purchase and Monitoring Group to be located within the Ministry. Its role was to provide the Minister with independent advice on services purchased and on the performance of the delivery agencies. Monitoring and purchase advice was to be provided on WINZ, CYFS, Housing Corporation New Zealand, Community Housing Ltd, the Retirement Commissioner and the Commissioner for Children. Thus, while the Chief Executive, Dame Margaret Bazley, was losing overall responsibility for WINZ and CYFS and responsible for only a relatively small Ministry, she was retaining an oversight role – on the Minister's behalf.

### **Establishment of the Department of Child Youth and Family Services 1999**

Agreement on the establishment of a Department of Child and Family was noted by Cabinet on 28 September 1998 when the Cabinet Strategy Committee's 9 September 1998 report was considered. The intention of the Director-General of Social Welfare to integrate the Children, Young Persons and their Families Service with the New Zealand Community Funding Agency "as a first step in the creation of a Department of Child and Family" was noted [CAB (98) M 37/8 refers].

The functions of the new department were seen to be: purchase or provide targeted services to families at risk; ensure that appropriate services are provided; continue

to provide remedial care and protection and youth justice services. These services were already being provided so the restatement simply endorsed the existing situation. It was noted that the new department would be central to the Government's Strengthening Families Strategy and to achieving the objectives of the Social Responsibility and Strengthening Families Team of Ministers.

The service delivery benefits of the new department were stated as:

- (i) Bringing fresh energy, fresh management, and new work approaches to the sector;
- (ii) Applying the strengthening families philosophy to all services – by targeting families at risk;
- (iii) Improving collaboration with other social sectors, with NGO service providers and iwi, Maori and local communities;
- (iv) Focus on securing greater operational efficiencies over the longer term.

As the existing business units were already operating in this fashion the only benefits of the changes proposed would be the impact of the "new" organisation.

The rationale for the creation of a new department was given as "will create a more distinct separation of policy and delivery". The benefits listed were:

- (i) Separation of conflicting interests;
- (ii) Clarification of objectives and functions;
- (iii) Introduction of a degree of contestability;
- (iv) Independent monitoring and evaluation (recommendation f).

Officials were to report back by 18 November 1998 on the establishment tasks and timeframe. It was also agreed that "if the Department of Child and Family is established it will be a service delivery department only." At that stage, September 1998, the policy/operations separation was still being emphasised in Cabinet papers [CAB (98) M 37/8 refers].

As the first step to achieving the new department, from 1 January 1999 the Children, Young Persons and their Families Service joined with the New Zealand Community Funding Agency to form a transition agency called Children, Young Persons and their Families Agency, which was to get the two groups working together while the final shape of the new department was being finalised for a 1 October commencement.



The 12 April 1999 Cabinet paper (CAB (99) M 10/19) was headed Establishment of the Department of Child, Youth and Whanau Services. It had been thought by the Minister that the inclusion of Whanau, rather than Family, would provide a more culturally inclusive name for the new department. However, in the course of the Select Committee process, Maori groups made their views known that mixing languages was not appropriate in the naming of a department. The Department came into being on 1 October 1999 as the Department of Child, Youth and Family Services or Te Tari Awhina i te Tamaiti Rangatahi, tae atu ki te Whanau.

The six benefits of establishing a stand-alone department, and the consequent emergence of the residual Department of Social Welfare as a policy ministry providing policy and purchase advice were listed. The first mentioned was “a more distinct policy/delivery split”. Also mentioned in the benefits identified was “a focus on securing operational efficiencies.” This focus on efficiency gains had been identified in the aims of the separation into business units back in 1992. It was further agreed that the new department “will be a service delivery department only” (CAB (99) M 10/19). The Vote structure for the new Department then comprised five output classes – all service related. However, by the 2001/02 year<sup>63</sup>, a new output class Policy Advice and Ministerial Services was added as the department was undertaking an increasing amount of policy work with a policy team of some twenty people. The residual Ministry of Social Policy, through Vote Social Services, had responsibility for only two output classes – Policy and Purchase advice, and Information Technology Services provided to other Departments.

One former chief executive commented on the situation of the Department of Social Welfare:

- Social welfare was an enigma. The Department (DSW) remained integrated for some years, although policy and delivery functions were separated internally. Later, Income Support and Child, Youth and Family were split off to form separate departments, the former taking over the employment functions of the Department of Labour to form WINZ. Neither of the new departments took a significant policy capability with it. That showed in their performance, and was exacerbated by the fact that their chief executives were the former general managers of the delivery operations within DSW who had not been able to develop a good understanding of policy because of that internal separation. The residual DSW retained the policy function without knowledge or understanding of delivery considerations and tended to operate in a command and control role. (26)

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<sup>63</sup> Annual Report of the Department for Child, Youth and Family Services for the year ended 30 June 2002.

By the end of 1999, the social services sector had undergone significant decoupling, which commenced in 1992 with the creation of business units, and continued through 1998 and 1999 with the establishment of the standalone departments of Work and Income and the Children, Young Persons and their Families Service. Further developments in the sector are discussed in chapter eight.

### **Some impacts of the changes**

It is appropriate here to review the period and to test whether there were any signs that the separation of policy from operations in the social sector had resulted in any negative consequences, and militated against seamless (effective and efficient) implementation of new social policy initiatives. The examples cited here are indicative of the operational difficulties encountered when implementing social policy initiatives (see Whitcombe, 2004).

As the social policy initiatives and programmes which were developed by the Social Policy Ministry could not be delivered by that Ministry, the funding considered necessary for these programmes was located in the Vote of an operational department or agency. This has resulted in, often lengthy, delays to the start-up of the programmes as the implementation details were worked through. Each year when the Budget was announced, usually in the third week of May, the operating agency would receive several million dollars to implement specific projects for delivery to targeted groups. The availability of funding from 1 July (the commencement of the Government's financial year) meant a short lead time for implementation. Because of the extensive lead time required for working with community providers, gearing up for delivery, and employing suitably qualified staff, the available funding was often unable to be spent in the financial year for which it was appropriated and consequently carry forwards of unspent appropriated funds to the next financial year often occurred.

The following initiatives were developed by the Ministry of Social Policy and initially delivered by the then New Zealand Community Funding Agency (NZCFA) which merged with the Children, Young Persons and their Families Service and became the Department of Child, Youth and Family Service in October 1999.

- Family Service Centres – initially funded in Budget 1993
- Family Start – pilot programmes began service delivery in 1998

- Social Workers in Schools (SWIS) – pilot introduced 1999

These programmes have all been evaluated and the evaluation reports provide some evidence of the initial delivery difficulties which occurred. Each programme is discussed briefly.

#### Family Service Centres

The six pilot Family Service Centres (Mangere, Otara, Huntly, Opotiki, Porirua and Motueka) were based on the model operating at Kelvin Road School in Papakura. Their function was to provide well integrated, culturally appropriate services to families with children under six years of age who are in need of support. The Centres were to provide family and parent support services, health services, an early childhood education centre, and HIPPY (Home-based Instruction Programme for Preschool Youngsters).

The initial expectation by Government was that the six pilot Centres would be fully operational by February 1994. This meant that buildings would be constructed and the core services in place by that date. But at the end of 1994 only one building had been constructed, and another was nearing completion. Full family support services were underway in only one centre at year's end.

The First Year Evaluation Report<sup>64</sup> notes that relationships between the Centres themselves and the primary funding agency NZCFA were often tense, as a model centrally determined did not readily accommodate local variances. NZCFA were responsible for arranging for the delivery of the programmes according to the model specified by the policy agency. There were also tensions between the centres and the Ministry of Education. In the light of the slow establishment, evaluators thought it questionable whether such a timeframe for the establishment of the Centres was ever possible.

In the second half of 1996, the broad model of four core services operating from one building was apparent in only two of the six pilot centres – although most centres were moving closer to the intended model.

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<sup>64</sup> Family Service Centre Evaluation. Report on 1994 – The First Year, Health Research and Analytical services, The New Zealand Council for Educational Research, May 1995.

The Final Evaluation Report<sup>65</sup> appeared in November 1997, and noted the following factors which affected delays in implementation:

- The timeframe available for implementation after the announcement of the initiative;
- The extremely limited consultation with purchasers, potential providers and communities prior to the announcement due to budget secrecy;
- Slow development of operational policies;
- Tensions inherent in the implementation of a centrally-determined and highly prescribed model which was to be delivered by community-based providers and to have community support;
- Unrealistic timeframe;
- Some Centres contesting the parameters of the model; and
- Variation across centres (Department of Social Welfare, 1997:223-5).

### Family Start

Family Start is an intersectoral policy initiative jointly sponsored by the Ministers of Health, Education and Welfare and part of the Government's Strengthening Families Strategy. The funding responsibility rested with the Health Funding Authority (HFA), Child, Youth and Family (CYF) and Early Childhood Development (ECD). Programmes at three sites were introduced in the 1998/99 year and an additional 13 sites were developed in the 1999/2000 year.

The programme provides a home visiting initiative with the aim of providing early intervention to the highest need families to improve the longer term outcomes for their children. The support provided includes parenting advice, advocacy and referrals to appropriate social services such as health services, budgeting advice, counselling, and early childhood education services.

The Family Start Process Evaluation<sup>66</sup> noted that commentary from the sites suggested that insufficient time had been allowed to get the service up and running, given the work that is required to develop a service from scratch (Evaluation Management Group, 2003:6).

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<sup>65</sup> Final Report: Family Service Centres Evaluation, Department of Social Welfare, November 1997.

<sup>66</sup> Family Start Process Evaluation Final Report: a summary and integration of components of the process evaluation phase. Produced by the Evaluation Management Group of the Ministry of Education, Ministry of Health and the Ministry of Social Development. June 2003.

The report states that discussion of the outcome/impact methodology highlighted the tensions arising in trying to meet the expectations and requirements of the multiple stakeholders. There was an expectation of timeliness from government officials, yet service providers were clear about the need to take time for informed participation to occur.

Issues for future consideration should there be a future roll-out of the programme were highlighted. These issues related to:

- Timing – the establishment phase can take much longer than planned for. It is likely to take two to three years before a programme is fully operational. This has implications for any associated evaluation (see below).
- Community consultation versus competitive tendering
- Existing/available governance infrastructures within a community
- Relationships between the proposed Family Start service and existing services in a given location.

Other issues raised related to the operating guidelines; the fit between the programme and the target group; the staff skill mix and training; the staff turnover within the policy agencies meant that continuity was not always maintained; and the co-funder challenges of tight timeframes which prevented planning and relationship building.

Cultural issues were highlighted in the Report (Evaluation Management Group, 2003:56). While the Guidelines had specified that the Treaty required Māori involvement in the development of Family Start, a number of stakeholders were nonetheless concerned about the:

- lack of involvement of Māori in the original policy group and the changing composition of the co-funders group, which came to have very limited Māori representation;
- minimal consultation with Māori communities (papakainga iwi) in the setting up of the sites;
- failure to draw on important cultural expertise in the processes of establishing service boundaries; and
- degree of Pākehā influence on the programme.

Overall the Family Start programme has been successful and the evaluation has drawn attention to the community and provider relationship issues to be addressed.

Family Start receiving additional funding of \$31.9 million over four years in the 2004 Budget. (This funding went to Family and Community Services (FACS) which had been established within the Ministry of Social Development in 2004 as a provider and funder of services.)

### Social Workers in Schools

The programme was announced in May 1999 and the pilot programme began in schools at the commencement of the third term in July 1999 with the initial contracts with providers running to December 2000. The SWIS model was developed by interdepartmental team. Based on overseas (US particularly) and New Zealand models.

The pilot is an interagency initiative led and financed by Child, Youth and Family. The delivery of social services to schools and their families/whanau was piloted in three geographical areas: East Coast NI, Northland, and Porirua/Hutt Valley. Clusters of schools were funded to provide services themselves or through a third party provider. The 56 participating schools were largely decile 1, although decile 2 and 3 schools were eligible.

The Pilot Evaluation was published in December 2000. In the schools where the Pilot was working well there was enthusiasm and the social workers and principals developed relationships of trust. The social worker was based in, or a regular visitor to, the school and the children knew the worker by name. The model of practice that the social worker practiced was appropriate to the needs of the school community

However, in the schools where the programme was not working there was a lack of clarity about the role of social worker; the social worker did not spend sufficient time at the school to establish a working relationship with the principal and other teachers; and there were logistical problems of distance. Some schools were not fully committed to the programme from the beginning and changes in personnel – especially with principals going on leave or transferring, undermined the continuity of service. There was suspicion at Kura Kaupapa Maori that SWIS was a mainstream service and was seen as an external agency (Ministry of Social Policy, 2000:86).

The programme has continued to run successfully and has been expanded twice since the pilot in 1999/2000. The recommendations of the evaluation have contributed to its continuation.

Evaluation recommendations:

- Reduce isolation of social workers working alone where possible;
- SWIS should be provided through external and experienced social service providers;
- Special advantages of Maori and Pacific providers be recognized;
- Problems of providing services to rural schools;
- Stakeholders to develop stronger partnering relationships at provider and social worker levels; and
- SWIS needs to develop flexibly to meet local needs (Ministry of Social Policy, 2000:104).

The evaluations of these three initiatives indicate that problems occurred as the programmes were implemented. These problems could be attributed to the development of the initiatives by the policy agency which did not take into account the implementation requirements. Involving those with 'front line' experience could have raised awareness of the practicalities of service delivery to targeted groups in the community. Policies were being developed without consultation with the operating agency until the time of the Budget. Some of the difficulties encountered occurred through a lack of understanding of the conditions in the communities where the programmes were to be implemented. The lack of consultation with communities was a common theme identified in the various evaluations.

### **Other changes**

The Government announced its decision to review the organisation of the Department of Justice, including courts administration in early July 1994. With the retirement in July 1994 of the Secretary for Justice, David Oughton, who had held the position from May 1986, it was felt time to consider the agenda for change. A review committee, chaired by Basil Logan (who had earlier chaired the 1991 Review of the Reforms) was established to undertake a two stage review. The first was to report to the Cabinet State Sector Committee by 30 September with recommendations. The stage one Terms of Reference were to:

- (a) undertake a broad assessment of how the various policy, regulatory, purchase and service delivery functions currently within the Department inter-relate. The review is to consider the activities of the whole department (excluding the Treaty of Waitangi Policy Unit which has been addressed separately); and, to be co-

ordinated with, and take into account the concurrent Review of the Courts and Tribunals Group<sup>67</sup>;

- (b) to investigate the strengths and weaknesses of the current arrangement of functions within the organisation compared with alternative arrangements, which includes discussion with relevant departments; and
- (c) to consider and provide recommendations on the appropriate organisational forms, including the option of private sector provision, for the functions currently undertaken by the Department, identifying areas of possible efficiency gains (Review of the Department of Justice, Stage One Report, 30.9.94: 13).

Stage two involved reporting on how the accepted recommendations from stage one could be implemented.

The Stage One report contained recommendations concerning Management Change and Organisational Form. In the former category it was considered that improvement in the management capability of the Department could be best achieved by:

- (i) extending the separation of purchaser and provider;
- (ii) establishing appropriate layers of management and empowering those managers responsible for service delivery;
- (iii) strengthening the strategic policy capability of the Department;
- (iv) establishing a clear Ministerial mandate for change, and, within the organisation, clear processes and targets for that change;
- (v) introducing key management skills to facilitate change; and
- (vi) utilising organisational change to facilitate that management change and to achieve greater efficiency and effectiveness in operational and policy business (Review of the Department of Justice, Stage One Report, 30.9.94: 7).

The Organisational Form series of recommendations included:

Policy Ministry - It was also recommended that the Department be established as a policy ministry through a significant upgrading of its policy capability and the progressive separation of its service delivery activities. The extensive policy areas that the Department would like to have a role in were specified.

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<sup>67</sup> The concurrent Review of Court Services was also led by Basil Logan and with some members drawn from the Judiciary. The Report of this committee was dated 5 October 1994.



- Courts and Tribunals – the proposals of the Court Services Review Committee that there be a separate department for these functions was supported.
- Corrections – A further separation of the delivery of corrections should occur, leading to the effective contracting of the delivery of services.

The Stage Two Report was dated 5 December 1994 and endorsed the Stage One recommendations with the exception that responsibility for corrections system management and the management of specific contracts with delivery agencies belonged with the separated corrections agency. The coverage of the Department's electoral responsibilities was to be transferred to the Electoral Commission with the transfer taking place after the first election after the introduction of proportional representation<sup>68</sup>.

The change management plan was accepted with target dates for the establishment of the new Department of Courts, and the Registries Crown Entity on 1 July 1995, and the Department of Corrections and the Ministry of Justice on 1 October 1995. Separate Ministerial portfolios would be required for the new Departments of Courts and Corrections with the Minister of Justice retaining responsibility for that Ministry.

By the end of phase one of the reforms, the decoupling in the social services and justice sectors had been completed. The language used in the official papers reinforced the perceived benefits of the separation of policy from operations – anticipated cost savings, integrated service delivery, improved links with the community sector, and strengthened policy capability. However, this logic was subsequently re-examined as the impact of the changes was experienced.

### **Respondents' views**

Those interviewed for this research were asked for their views on the impact of the restructuring in the social sector. One respondent, with experience spanning from the 1980s to the present, was able to take a longer term focus on the impact of the separation of policy from operations in the social sector. In doing so several key issues were identified such as the distancing of policy advice from operational reality, the spread of policy experience over many agencies, and the need to balance professional viewpoints against feasible policy realities. These issues are

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<sup>68</sup> The changes to Electoral responsibilities affected the 1999 election, and were later used by Prime Minister Clark, as an example of the failure of separation ( see Clark, 2004).

revisited in later chapters when respondents' views on re-coupling and what future changes could be anticipated are discussed.

- There were two effects. Firstly the policy ministry tends to become more abstracted from the practicalities of the job – in the end you needed that practical experience running through as well. You can pick up those theories that don't work in practice. Another thing that happens is that a Ministry which deals with only policy – almost – by definition, because its only job is policy, has to keep on thinking up new policy to justify its existence – policy generation and policy change for its own sake rather than directed towards specific ends. On the other hand you get an operational agency 'growing a new head' and setting up its own policy capability. Separation was a bit of theory which, in practical terms, had very little value at all. New Zealand is a small country – and size is also crucial here – having lots of agencies eventually diluted very significantly the managerial competence at the top end.

Provider and professional capture is an issue – education policy shouldn't be driven entirely by educationalists, nor health policy by health professionals. Provider capture did occur with health policy which had been captured by the professionals – the doctors. But, equally, the notion that you can deliver good quality care based on policy and governance arrangements, thought up by people with no direct practical experience in the area, has proved quite a bad mistake. One of the jobs still to be done over the next 5 – 10 years is to try to re-engage with professionals and others if we are serious about seeking more efficient delivery. (34) Cabinet Minister

Respondents from the community sector people had all rather negative experiences of the separation with regard to the contracting relationship with government agencies. Previously, Non-Government Organisations (NGOs) had received funding on the basis of services delivered or, in the case of the large NGOs such as Presbyterian Support Services or the Salvation Army, funding had also been provided for their national coordination. Under the new contractual arrangements NGOs were to provide specified services and meet performance targets. The Government was "purchasing" a specified number of counselling sessions or number of families housed in emergency housing.

- For NGOs the classic dilemma in the social sector was in the separation and the difference between the organisations they had to deal with. The separation of the Children, Young Persons and their Families Service and the New Zealand

Community Funding Agency resulted in two quite different approaches. They had different styles and a different conceptual understanding. (21) Community sector

- The Government didn't have any idea of the impact of change on the community sector. Community organisations should not have to meet normal business practices – to maintain solvency a community organisation would cut wages – otherwise you would go out of business. The aim was not to make a profit. (23) Community sector

The experiences of people involved in the social sector over phase one of the reforms provided a variety of views. Most were able to recall some positive aspects of structural separation. However, there was also danger in isolating policy from the operational realities of service delivery. In the community sector, the 'commercial' focus of the contractual arrangements and accountability requirements was a massive shock for which voluntary organisations were unprepared (see Cribb, 2006).

The separation of policy from operations was put into a broader perspective by one respondent with many years of public sector experience:

- There is a natural cycle for policy and operations shops over time – When policy is separated from an operational unit you will free up the policy people from operational constraints – keeping the branch system running, maintaining payroll etc. If you split policy and operations and if you set objectives, devolve management responsibilities, and provide some space for them to get on and do it, you can create a positive environment - then, other things being equal, there is probably a lift in performance. However, over time policy folks can get further and further away from the reality of the operation on the ground. The efficiency gains that you have bring diminishing returns, and there is probably an argument for bringing them back together. Then further down the track it may be necessary to split them up again. There isn't a 'right' answer. It all depends on the state of the organisation and the circumstances at the time. (36) Former chief executive

#### **6.4 The Changing role of the central agencies**

The establishment of the Department of Prime Minister and Cabinet (discussed in 6.2) represented a major shift of emphasis and an alternative source of advice to support the Prime Minister and the Cabinet. This Department formally came into existence on 1 January 1990, as a result of a report which recommended establishing structures to provide two separate streams of advice to the Prime Minister. One, a new government department, was to supply impartial, high quality

advice and support to the Prime Minister and Cabinet, and another, a Prime Minister's Private Office (which is not part of the Department of Prime Minister and Cabinet) to provide personal support and media services, and advice of a party political nature. (Government House was included in the scope of the department in August 1990, after a review of the Governor-General's support requirements. The External Assessments Bureau joined the department on 1 July 1991.)<sup>69</sup>

Prior to 1988 the Treasury and the State Services Commission were known as the 'control agencies'. The Public Finance Act was administered by The Treasury and the State Services Commission was the employing authority for the public service. However, following the legislative changes in 1988 and 1989 (see chapter 4.4), 'control' was no longer appropriate nomenclature and the title of 'central agencies' was adopted (see Boston et al., 1991, 1996).

The introduction of the State Sector Act on 1 April 1988 (a cruel irony for some) specified a changed role for the State Services Commission (the Commission).

The State Sector Act 1988 changed the role of the Commission from the employer of public servants and permanent heads to a monitoring and advisory function.

The eight functions of the legislation are outlined in the purpose of the Act:

- a) Ensure that employees in the state services are imbued with the spirit of service to the community;
- b) Promote efficiency ensure responsible management;
- c) Ensure responsible management of the State services;
- d) Maintain standards of integrity and conduct among employees in the State services;
- e) Ensure that every employer in the State services is a good employer;
- f) Promote equal employment opportunities in the State services;
- g) Provide for the negotiation of conditions of employment in the State Services;
- h) Repeal the State Services Act 1962, the State Services Conditions of Employment Act 1977, and the Health Service Personnel Act 1983 (State Sector Act, 1988:2-3).

The revised functions of the State Services Commission were set out in section 6 of the Act:

- (a) To review the machinery of government including –

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<sup>69</sup> Department of the Prime Minister and Cabinet <http://www.dPMC.govt.nz/> [Accessed 25 July 2007]

- (i) the allocation of functions to and between departments; and
- (ii) the desirability of or need for the creation of new Departments and the amalgamation or abolition of existing Departments; and
- (iii) the co-ordination of the activities of Departments:
- (b) To review the efficiency, effectiveness and economy of each Department, including the discharge by the chief executive of his or her functions:
- (c) To negotiate conditions of employment of employees in the Public Service:
- (d) To promote, develop and monitor in each Department personnel policies, and standards of personnel administration:
- (e) To promote, develop and monitor in each Department equal employment opportunities policies and programmes:
- (f) To furnish to each department advice on and assistance with, the training and career development of staff:
- (g) To provide advice to each department on management systems, structures and organisations:
- (h) To exercise such other functions with respect to the administration and management of the Public Service as the Prime Minister from time to time directs (not being functions conferred by this Act or any other Act on a chief executive).

The Act also gave powers to the Commission to conduct inspections and investigations, obtain information from Departments and power to enter premises. However, the major area of Commission responsibility was in the appointment of chief executives and the provision of advice to the Minister of State Services on chief executives' employment contracts, it also carried out performance reviews of chief executives and departments. Commission staff numbers reduced from 700 prior to the State Sector Act, to around 130 once the Act was fully in force.

Although the purpose of the Act was generous and broad ranging, the powers and responsibilities set out in the purpose of the Act were largely used by departmental chief executives, though not by the Commission itself. In 1991 Logan noted that there had been "confusion about both the direction of the reforms and the roles and responsibilities of the central agencies facilitating them" (Logan, 1991:11).

The views of many of those interviewed for this research indicated that they thought that the State Services Commission did not undertake all the functions that it was

given under the Act, especially the machinery of government responsibilities<sup>70</sup> set out in section 6(a). Several mentioned that the SSC had acquired a 'fix-it' role as governments of the day had used the SSC undertake reviews and enquiries.

- Apart from the chief executives' performance agreements, the SSC was largely peripheral. There was no sign of a cross-agency shared outcomes approach. (14)  
Senior public servant

One experienced chief executive noted that:

- In the 1980s the Commission managed the decoupling initially – forestry and the environment. The SSC did the policy papers and managed the implementation. Then responsibility shifted to the departments to manage their restructuring. The swing back to the SSC took place following the 1999 change of government. (27)

The State Services Commission's Annual Reports over the period from 1988 cover its change of fortunes. The Report for the year ending 31 March 1988 mentioned that under the State Sector Act (which came into force on 1 April) the State Services Commission will "continue to advise Government on the allocation of functions in and between departments and provide advice on management systems, structures and organisations." (SSC, 1988:15) However, few of these activities subsequently took place. The 1989 report is noteworthy for its negative language. The Chief Commissioner's report commenced "A revolution without barricades, bullets and bastilles" to quote an unnamed public servant and that "the year has seemed one of continuous turmoil and upheaval." The parallel is made with the events in Paris two hundred years ago (SSC, 1989:6). The report lists the machinery of government changes which had been made and sums these up as "the visible portents of a wholly new approach to public administration in New Zealand." It noted that "some reservations have been expressed and mentioned the effects of commercialisation and 'user pays', the loss of unity and consistency, the potential for politicisation, and the derogation from past standards of ethics" (SSC, 1989:7). The loss of staff is also commented on with the Office of the Commission to be reduced to 160 which was about half its (then) current size.

By the 1990 Annual Report (the year now ending at 30 June) the Chief Executive's overview had noted a change of structure to the Commission and its Office. Now there was a single Commissioner and a Deputy. These changes required an

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<sup>70</sup> In 2007 the State Services Commission reasserted its responsibilities under the State Sector Act and reminded the public sector of its machinery of government functions. (State Services Commission, 2007)

amendment to the State Sector Act and the restructuring took effect from July 1989. By 1991 there had been a change of government. The report noted the commissioning of the Logan Review, that a 'Code of Conduct' had been produced by the SSC in response to concerns that the reforms had created an environment "which is inimical to the Public Service ethic," and that the Commission had funded, together with Victoria University's Public Policy Group, the publication *Reshaping the State* (1991).

Subsequent Annual Reports provided information on the work which the Commission was undertaking, its goals and its structure. The 1993 report noted that while contracting out was likely to reduce the core public service further, "the possibility nevertheless exists that popular support might re-emerge for a state role in service delivery, and possibly in commercial activities where market failure is evident" (SSC, 1993:8). The 1994 report noted that the Commissioner, Don Hunn, had given a presentation to the Public Management Committee of the OECD on his impressions of the last decade of the reform, and quotes from his presentation. Several interesting observations were made. The way the two basic concepts of transparency and consistency translated into organising principles for the reform process included the statement that "departments would operate best with clearly specified and non-conflicting functions – particularly with policy and service delivery separated" (SSC, 1994:7). Yet Hunn later suggested that a number of questions needed to be considered including: "Is the separation of policy and delivery achieving the intended results?" Other points of interest in the report included the comment that the dust of restructuring was not quite settled, and that "the Australians, interestingly, have, in their reforms inclined towards a smaller number of larger agencies, where we have moved the other way." The concluding paragraph on the 1994 Report stated that "This year we have come to the end of phase one of the reforms" (SSC, 1994:15).

However, by the next year's report (1995), the comment was made that the restructuring of Justice during 1994/95 was the final major act in the first phase of the reforms, although it was acknowledged that the second phase of the reforms would continue to involve some structural changes – but these were likely to be more in the nature of re-tunings, rather than the wholesale restructurings that characterised the first phase (SSC 1995:13).

Clearly, from the perspective of the State Services Commissioner, the events at that time constituted phase one. However, subsequent structural changes highlighted by further decoupling in 1998 and 1999, and a change of government later in 1999, indicated a later horizon for the conclusion of the first phase of the reforms (see Boston and Eichbaum, 2005).

Respondents were asked their views on the impact of separation on the central agencies. Many had comments to make which addressed the diminished role of the Commission and longer-term public servants considered that its loss of authority was unfortunate. Looking back, a chief executive thought that:

- The SSC should have been more involved in machinery of government issues. Changing structures is hardly ever the solution to the problem. (32)

A Cabinet Minister interviewed considered that the impact of the State Sector Act had been to reduce coordination across the state sector, and thus reduce the Commission's role.

- The result was that you ended up with an incoherent State – the SSC people had no power to play a positive coordinating role. Professor Schick had wanted a new model of the state which was more joined up. The changes had disaggregated the state and left it no practical way of ensuring good, joined up, whole of government coordination. (22)

More guidance from the centre was needed according to a former Cabinet Minister, who asked:

- Who is educating public servants? Public servants don't understand how the public sector operates. There needs to be education on legislation and the legislative process and the Official Information Act. Who is organising the training? The SSC used to have responsibility for that but not now. (29)

Several considered that it was a pity that the Senior Executive Service<sup>71</sup> (SES) had not worked out. One former Cabinet minister noted that:

- It was a good idea and a career builder of immense proportions – but the Departmental chief executives wouldn't back it. (13)

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<sup>71</sup> The Senior Executive Service was created in the State Sector Act (1988) Part IV as a group of senior executives to “constitute a unifying force at the most senior levels of the Public Service”. (S.46) It was modelled on the Australian SES. However, in that country the Public Service Commission was the employer for the public service whereas in New Zealand under the State Sector Act (1988) the chief executives became the employers and did not see any merit in the establishment of a cadre of senior executives to serve the wider public sector. The 2004 State Sector Amendment Act repealed those sections of the 1988 Act which related to the SES.



The responsibilities of the State Services Commission throughout the 1990s continued under the State Sector Act (1988). It was not until the twenty-first century that serious changes were considered, and then brought in under the 2004 State Services Amendment Act.

The Treasury, on the other hand, continued to play a major role. Its powers were expanded under the Public Finance Act (1989) and in addition, its senior economists had contributed to the design of the reforms and remained key advisers to the Ministers of Finance in the fourth Labour Government. In the words of one senior public servant:

- Treasury continued its vital role – and spread its people and its thinking to other departments. It had a huge impact. (9)

The Treasury's Annual Reports over the period indicate that its roles did not change much although the wording reflected changes in style. The 1994 Annual Report provided a summary of its functions which included the provision of economic, financial and commercial advice and information; implementation of specific economic and financial policies; provision of financial information on the operation of government and to contribute to public understanding of economic and financial matters in a manner consistent with the current constitutional conventions. Treasury also had responsibility for the Crown Company Monitoring Advisory Unit (CCMAU) which was established in 1993 to provide high quality advice to share-holding Ministers on company performance and to recommend qualified persons to sit on the boards of these companies, and with the passing of the Fiscal Responsibility Act in 1994 assumed responsibility for that too.

Central agencies were mentioned in the reviews undertaken in the 1990s. Logan (1991) looked specifically at the role of the central agencies and considered that much of the analysis that was needed to manage risk in Government, related to the appropriate role for the central agencies. Examples of the problems identified were: lack of responsibility for risk identification and management, gaps and overlaps in the current responsibilities, lack of systematic reporting to Government, and shortcomings in the skill levels within the central agencies. Central agencies were affected by the distribution of policy analysts. The State Services Commission and the Department of Prime Minister and Cabinet did not have sufficient analytical expertise to act as counterweights to Treasury. Also noted was the mistrust between central agencies and departments. Recommendation 9 addressed the need for a

review of the role of central agencies in relation to their role to support the Government's management of its purchase and ownership risks, and work was required on the best organisational arrangement to enable the tasks at the centre to be specified and carried out in the most cost effective way (Logan, 1991: 73). Professor Schick (1996) thought that the central agencies should be more clearly focussed on government-wide tasks and noted that the central controls that they had previously exercised had been divested. One experienced chief executive recalled that:

- The SSC and Treasury had to make major shifts in their approach in the 1990s. They had to get out of the "we'll tell you what's best for you" mode. Joint involvement was a help, as was working collaboratively with departments. (7)

The nature and impact of the changes to the responsibilities of the Treasury and the State Services Commission, under the new legislation which came into effect in 2004, is discussed in chapter seven.

## **6.5 Conclusion**

What did the reforms of the 1980s and 1990s achieve? The attempt by Boston to evaluate the changes which took place under the 'New Order' was hampered by a relatively short time frame (his chapter was written in 1990). However, the gains from the separation of commercial activities were seen to have produced improvements in efficiency. Evaluating the success, or otherwise of the 'new' ministries was not possible as there were no benchmarks. The gains are seen as the separation of the commercial activities, and perhaps improved policy advice in some areas. The losses identified include: the economic costs – of reorganization, of consultants, of redundancy pay, and the disruption and social costs. Other points raised include the merits of the small policy ministries, and the new configuration of departments. Here the inconsistencies are identified with sectoral differences noted. For example there was a new Ministry for the Environment but no Ministry to focus on social policy – at that point in time (Boston, 1991b:254-5).

The structural changes which proceeded from 1986 have been well documented in the literature with a New Zealand emphasis provided by local writers. (see Boston et al., 1991, 1996; Boston and Eichbaum, 2005, Gregory, 2006) However, while the sequence of machinery of government changes proceeded, there appeared to be no set sequence followed. Indeed, several of those interviewed remarked that

decoupling had been resisted by the chief executives in Justice and Social Welfare and was only achieved when new chief executives were appointed.

The separation of policy ministries from operational agencies had both positive and negative impacts as the literature, interview data, and reviews undertaken revealed. The inhibiting effects of capture have been discussed in chapter four and certainly, for the incoming Labour Government in 1984, it was perceived as a very real problem to be addressed. The National-led Governments of the 1990s, having received information from the major reviews (Logan and Schick), decided to proceed with further decoupling. However, there were negative consequences, associated with the implementation of some social policy initiatives.

A study of the relevant Cabinet papers and reports through the period of restructuring in the 1990s reveals a commitment of the National-led Governments to proceed with social sector decoupling. However, the analysis of the papers reveals that the reasons provided for proceeding with separation were more to do with improving effectiveness and addressing accountability – to achieve cost savings, than any theoretical propositions relating to the capture of policy advice.

The major legislation the State Sector Act (1988) and the Public Finance Act (1989), paved the way for the changes which were to follow throughout the period. However, while the Treasury retained much the same responsibilities, but with a stronger mandate, the State Services Commission lost its major responsibilities as the employer of the public service, and did not appear to engage in the machinery of government reviews and coordination of departmental activities which were specified in the legislation.

For the purposes of this dissertation, phase one of the New Zealand public sector reforms ended with the change of government at the end of 1999. The impact of this change and the subsequent machinery of government changes which followed are discussed in chapter seven.

## **Chapter 7: Re-integration – Machinery of Government Issues: Phase two 1999 - 2007**

Why do governments continue to reform even in the face of minimal success and the need to invest significant amounts of political capital in the process? This behaviour represents a triumph of hope over experience (Peters, 2001:vii).

### **7.1 Introduction**

The impact of the New Public Management reforms on the New Zealand public sector and the identification of a 'New Zealand Model' (Boston et al. 1996) have been discussed in earlier chapters which have sought to describe and assess the benefits of the changes which had been made progressively from the 1980s. In terms of a progression, it is a central contention of this thesis that New Zealand could now be experiencing a 'fourth age' of NPM (see chapter three) which is involving a reconsideration of earlier administrative practices and of the function of the public sector.

This chapter will address the changes which have taken place since 1999 and their impact on the administrative doctrines and practices over the period. It will explore the rationale behind the changes and the consequences for the machinery of government arrangements from 1999 to 2007. The influence of the environment and the perceptions of the incoming Government have left their mark on public administration in New Zealand. It is the resulting changes which have been identified and progressed sequentially in this chapter in order to examine the extent of the modifications deemed necessary to meet the Government's requirements.

Phase two of the public sector reforms in New Zealand is seen to commence with the change of government in November 1999 (Boston and Eichbaum, 2005). After nine years of National-led governments, changes were to be expected. Indeed, some causes for concern had been identified earlier by members of the National Cabinet who had expressed some doubts about the structural changes which had been made in the 1990s (see Shipley, 1997; Upton, 1998). In 1998 the State Services Commissioner had also cautioned that there were risks in applying

structural solutions to policy problems (Wintringham, 1998). The two major reviews of the reforms, undertaken in the 1990s, had raised issues to be addressed such as consideration of appropriate organisation forms and the consolidation of some departments (Logan, 1991; Schick, 1996).

The arrival of a Labour-led government in 1999 brought changes which were signalled in the Party's Manifesto, issued prior to the 1999 election. Here the past fifteen years in the central government sector were reviewed and the observation made that it was showing signs of stress from constant restructuring. One of the consequences of this was the fragmentation of the sector. The isolation of departments and ministries was seen to have resulted in inefficiencies, duplication and a lack of policy co-ordination.

Once in power, successive Labour Governments (coalition and minority) from 1999 set out to address the problems identified and a series of reports, ministerial statements and reviews followed (see Mallard, 2001, 2003; State Services Commission, 2002, 2004). Initially, in November 2000, a State Sector Standards Board was established<sup>72</sup> to work on Government's expectations of the State Sector and identify problems which required attention. The Board operated for two years and produced several reports (see section 7.3).

In order to address a number of weaknesses in public administration and management, the Government established an Advisory Group in 2001 to review the public management system (Advisory Group on the Review of the Centre). In a series of Reports from 2001 onwards, the Advisory Group identified coordination problems and suggested solutions to combat siloisation and achieve the goal of departments working together in a constructive way with improved service delivery to client groups and a continuing emphasis on managing for shared outcomes.

From the work undertaken it became apparent that the core legislation of the State Sector Act (1988) and the Public Finance Act (1989) needed review. In August 2003 the Ministers of Finance and State Services issued a Pre-Introduction Parliamentary Briefing on the Public Finance (State Sector Management) Bill to provide details of the legislation proposed and obtain cross-party support (Cullen and Mallard, 2003).

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<sup>72</sup> The Standards Board was established as a result of the recommendations in the Report into the Department of Work and Income (known as the Hunn Report after the author) and reflected the Government's wish to set out what it expects from State servants. Statement from the Minister of State Services, Hon Trevor Mallard, 3 July 2000.

The Bill was introduced in December 2003, and was promoted as the culmination of legislative work arising from the Review of the Centre. Its purpose was to maintain and strengthen the public service and the wider state sector. The legislation, passed in 2004, brought new responsibilities to the State Services Commission and the Commissioner and updated the public finance operations.

Modifications to the machinery of government arrangements took place through the period from 2000 onwards. These were signalled in chapter six and are further explored in this chapter with the changes and rationale examined, together with the views of those interviewed for this research. An in-depth analysis of the transition from the Department of Social Welfare to the Ministry of Social Development, which was established in 2001, is provided in chapter eight.

## **7.2 The Political Agenda**

It was obvious that the change of government in 1999, after nine years of a National-led government, would bring about adjustments to the management and organisation of the public sector. The nature of the changes was signalled in the Labour Party's November 1999 Manifesto. The section 'Labour and the State Sector' commenced:

The past fifteen years has seen a massive restructuring of the central government sector. The legislative framework has changed as has the operating environment. It is now showing considerable signs of stress. That stress has become obvious with service reductions and a series of scandalous wastages (New Zealand Labour Party Manifesto: Labour and the State Sector, 1999: 2).

There is an assertion that the State Services Commission has not been an effective guardian, but the major point of the five page analysis of the central government sector is the fragmentation of the sector – both in terms of the number of agencies and the different types of agencies all with responsibility for aspects of output delivery.

Other concerns identified were:

- Departments and Ministries exist in isolation resulting in duplication and inefficiencies;
- A focus on narrow technical contracts rather than the provision of service;
- Agencies regarding themselves as businesses;
- Service departments spending “fortunes on branding exercises”;

- The National-led government reducing the size of the State;
- Loss of long-term operational capacity;
- Emphasis on the political interests of the Minister rather than the needs of citizens;
- The narrow focus on “efficiency and financial performance rather than effectiveness, quality and service” (New Zealand Labour Party Manifesto, Labour and the State Sector, 1999: 2).

Moreover, a commitment was made to engage in consultation with those employed in the sector before making changes to the shape of the sector or to legislation. The outcome of the consultation process would be to determine what changes, if any, to the State Sector Act and the Public Finance Act needed to be considered. The Manifesto also discussed the state’s role as a ‘good employer’ and affirmed its commitment to a strong public service, with fair pay and conditions, providing career opportunities for public servants, and recognising the importance of experience.

The subsequent election of a Labour Government in November 1999 resulted in a sequence of changes in the organisation of the State sector.

In August 2001, the Minister of State Services, Hon Trevor Mallard, in a major speech to the Public Service Senior Managers Forum, summarised the three things that the new government proposed to address in order to improve the system – fragmentation, the role of the centre, and style and culture. He considered that progress had been made. The Public Service Association had been brought into the system with the Partnership for Quality<sup>73</sup> agreement which would enable the public service union to work more strategically with Ministers and department chief executives. Work to review the role of the centre had been announced and this would proceed as the ‘Review of the Centre’. (The Review of the Centre is discussed in 7.3). Mallard was critical of the KRA/SRA<sup>74</sup> system, which had been

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<sup>73</sup> The New Zealand Public Service Association (PSA) signed the first Partnership for Quality Agreement with the Minister of State Services in 2000. The Agreement represents a joint commitment to better quality public services and to enable employees to collectively participate in the management of their workplaces to the extent possible. A second agreement to broaden the application of partnership was signed three years later, with the third agreement “Fairness and Public Value” signed with the Prime Minister in 2007. <http://www.psa.org.nz/partnership>

<sup>74</sup> Key Result Areas and Strategic Result Areas (KRA/SRA) were outlined in 1993, with the publication of the government’s Vision Statement, *Path to 2010*. The next stage was the formulation of strategic result areas, to indicate government’s medium term ambitions, with the third stage the formulation of departmental KRAs that are linked to the SRAs and form the basis of performance

introduced in the 1990s by the previous government, and considered it to be too focussed on the role of departments delivering to Ministers. A better reflection of what New Zealanders wanted was needed, and for strategy setting to be looking outwards and acknowledging the needs of citizens and the community. The Minister saw the role of the centre being to ensure that short and medium-term deliverables would line up with longer-term aims. A centre which could be more fluid and respond to new information and ideas was needed. (A “Knowledge Wave” Conference had just been held and the Minister was seeking to reflect the speed of change in the information sector). The proliferation of departments was acknowledged, and the Minister commented:

“I want to assure you that my intention is now not to swing in the other direction and compulsively merge departments and agencies. Nevertheless the Government does want a system that works practically rather than one that works theoretically” (Mallard, 2001).

The Minister was making the point that, in the government’s assessment, the theoretical basis for the initial reforms was faulty and that practical realities outweighed theoretical purity. The example of the merger between the Ministry of Social Policy and the Department of Work and Income, a department without a policy capability, was used to justify the focus on re-coupling, albeit on a case-by-case basis.

The 2002 Labour Party Manifesto reaffirmed Labour’s commitment to having an effective public service and again stressed the problem of fragmentation which had, in the view of the Party, resulted from years of public sector restructuring. The policy statement listed the achievements over the past three years, including the establishment of the Review of the Centre in 2001, which had among other things, addressed the need to improve the coordination in the public sector. The aim to reduce fragmentation between and within government departments and agencies, and integrate service delivery across departments was again rehearsed. The policy also included a commitment to review the Vote structure for funding to public services with a view to ensuring that departments and agencies could be more responsive to cross-department initiatives.

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agreements. Schick wrote that the SRAs have been effectively incorporated into government decision making (Schick, 1996: 55).



A comprehensive summary of the public sector situation, as perceived by the incoming government in 1999, was outlined by Prime Minister Clark in 2004. The radical changes made in the New Zealand reforms were seen to have worked well in some aspects, but not in others where the state's capacity to perform critical functions had been limited. Consequently the new government was faced with the need to rebuild the public sector. While in opposition, a range of problems had been identified. These included the extent of fragmentation which had made it difficult to co-ordinate activities across agencies and which resulted in reduced levels of effectiveness (Clark, 2004).<sup>75</sup>

In Labour's 2005 Manifesto, plans for the State Sector were outlined. Under 'Labour's Priorities' the first undertaking was to:

“maintain a strong public sector while ensuring that state sector structures and practices are flexible” (New Zealand Labour Party, Manifesto, 2005:188).

While this statement could be interpreted as seeking to maintain the sector structures in the present form, it leaves the way open for further structural adjustments, and indeed further organisational re-coupling did take place in 2006.

The period from 1999 onwards was characterised by a number of reviews and reports on the state of the public service, with a focus on the changes required to improve the situation which had been identified by the Government of the period, and which were reflected in its Manifesto commitments.

### **7.3 The State Sector Standards Board**

Following the 1999 election, the incoming Government sought to address the issues that it had signalled pre-election, and the need to address some of the deficits which had been identified from the previous regime.

The State Sector Standards Board was established<sup>76</sup> by the Minister of State Services, on 19 November 2000. The six-member Board comprised a mix of people

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<sup>75</sup> Clark used the poor organisation of the 1999 general election as example of the impact of separation, where the Ministry of Justice was left to run the election without access to personnel and support from the Department of Courts. Previously, before separation, there had been an “all hands to the wheel” approach where the administrative staff in the Courts system were mobilised to help at election times.

<sup>76</sup> The Standards Board was the result of a pre-election commitment, according to the Media release from Hon Trevor Mallard 11/3/2001. However this differs from his 3 July 2000 statement which gave the establishment of the Standards Board as a result of the recommendations from the Hunn Report.

with both private and public sector backgrounds<sup>77</sup> and was assisted by a senior State Services Commission official. Their terms of reference stated that “the Government wishes to assure an ethical, public serving State Sector” and sought the advice of the Board on the content of appropriate expectations of standards for the State Sector. The Board was to provide an ‘outside’ view of the ethos of the State Sector which would assess whether the Government’s expectations had been implemented and would advise on trends and issues to be addressed. The Board noted the existing information on guidance<sup>78</sup> in its first report, dated January 2001, and recommended that a draft statement of the Government’s Expectations of the State Sector be considered. The Report also identified six impediments to meeting the Government’s expectations for standards and performance. The areas requiring attention were: a stronger role for the Centre; governance (and clarification of the role of Ministers); a whole-of-government approach to address fragmentation; more emphasis on performance management and accountability rather than economic efficiency; employee development and morale; and improvements in the relationship between the Government and Parliament and the State Sector, to achieve mutual respect.

The Board’s second report (State Sector Standards Board, 2001) conveyed to the Minister in June 2001, noted that the draft Statement of Government Expectations of the State Sector and the draft Statement of Commitment, proposed in the first report, had both been accepted. This Report, derived from the Board’s own experience and knowledge, identified a number of trends which affected the ethos of the State Sector. The trends included positive and negative impacts. On the positive side were increased efficiency and productivity, increase in capacity and more active role of the ministerial private offices, and increased awareness of the need to be responsive to the diversity of citizens and clients. However, the list of negatives identified was very long and included: Balkanisation of the State sector, causing difficulty in getting consistent, whole-of government sentiment or approach; increased mobility of the work force, with erosion of the State sector career patterns and of ‘public service ethos’; loss of institutional knowledge; declining influence of the State Services Commission (but with some signs that this was reversing);

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<sup>77</sup> Membership comprised: Kerry McDonald (Chairman), Angela Foulkes, John Martin, Rangimarie Parata Takurua, Elmar Toime and Jim Turner.

<sup>78</sup> Statutes (including the State Sector Act 1988, the Public Finance Act 1989, Official Information Act 1982, Protected Disclosures Act, 2000) the Code of Conduct issued by the State Services Commissioner, Public Service Principles, Conventions and Practice, 1995, the Cabinet Office Manual, and various departmental codes of conduct and values statements.

greater uncertainty and complexity in policy making with coalition and minority governments; and public perceptions of erosion of relations between the Government and State sector employees (State Sector Standards Board, 2001: 3-4).

Two further reports from the Board appeared in 2002. The first, "Parliament and the State Sector" (April) focussed on the interface between officials and Parliament through Parliamentary Questions, Consideration of Bills, the Estimates process and Select Committee inquiries. This report notes the impact of MMP and the need for all State servants to be aware of the procedures. A follow-up Ethos Report (June 2002) notes that there did not appear to have been any significant developments in the ethos of the State Sector since the first report the year before. The Board was disbanded by the State Services Commission at the completion of its two year term in November 2002. It was felt that it had achieved the main goal of achieving a statement of expectations and that any further exploration of the issues it had raised in its reports would need research capacity, which it did not have. Also at that time the next big initiative the Review of the Centre was gathering momentum.

The Standards Board was established in 2000, following the release of the Hunn Report on the Department of Work and Income which had commented on the need for a culture change to the department reflect its responsibilities as a core Public Service Department, and could be seen as a reaction to the criticism contained in that Report. Certainly the initial work undertaken by the Standards Board met the needs of the Government at that time. The mix of members, with commercial and public sector backgrounds could be thought to ensure that a 'balanced' approach was taken. However, while the first report endorsed a whole-of-government approach to the fragmentation problem, and identified other areas where performance standards required improvement, the second report on the Ethos of the State Sector ranged rather more broadly. It could be said that the Board had strayed beyond its original brief, and the Government saw the need for a more expansive review to be conducted by those actually working in the public sector. In October 2002 Minister Mallard issued a very brief statement releasing further reports from the Standards Board. However, a later statement from the Minister<sup>79</sup> provided a summary of the key finding of the 2002 Ethos Report and placed it in a context of ongoing work such as the promulgation of a revised Public Service Code of

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<sup>79</sup> State Sector Standards Board: The Ethos of the State Sector report, as at 30 June 2002. <http://www.beehive.govt.nz/Print/PrintDocument.aspx?DocumentID=15301>

Conduct. The further work required to address the trends which had been identified in the 2001 Board Report, was to be taken up by the Review of the Centre.

#### **7.4 The Review of the Centre**

The most wide-ranging review of public sector administration and management undertaken by the new government was the Review of the Centre (2001) which was concerned with the fragmentation of policy and delivery mechanisms and a lack of coordination which had earlier been identified. The Review was established by the Prime Minister and the Ministers of State Services and Finance in July 2001. A representative Advisory Group, convened by the State Services Commissioner, Michael Wintringham, was assembled to review the public management system and how well it was responding to the needs and expectations of Ministers and citizens.

The actions which unfolded under the Review of the Centre (ROC) were wide-ranging and involved Advisory Committees, change implementation teams, circuit breaker teams, and the production of resources for officials and staff who were involved in the implementation. Those who were undertaking the management of the Review projects were also involved in promoting their work to a wider audience<sup>80</sup>.

The Terms of Reference contained eight perceptions which were to be tested. These included:

Whether the division of the State sector into a large number of departments and agencies, including the division between policy and delivery, is leading to an excessively narrow focus by managers and a loss of coordination across the public sector (Report of the Advisory Group on the Review of the Centre, 2001:39).

While the major finding was that the public management system, as it stood, provided a reasonable platform to work from, some significant shifts in emphasis were required to better respond to the needs of the future. There were nine major recommendations, and three main areas identified for attention. These were: achieving better integrated, citizen focused, service delivery; addressing fragmentation/Improving alignment; and enhancing the people and culture of the State sector.

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<sup>80</sup> Seminars held under the auspices of the New Zealand Institute of Public Administration (IPANZ) included: Between a ROC and a new place – Improving Public Management, on 20 November 2002; and The Review of the Centre: An update on circuit breaker teams, on 16 April 2003.

The recommendations of particular relevance to this study were:

- Establishing cross-agency “circuit breaker” teams to solve problems in service delivery by drawing on front-line knowledge and creativity and central technical support.
- Reviewing relationships between policy and operational units within the state sector, and identifying ways to improve the sector’s ability to provide well-informed and practical policy advice and implement policy decisions through an understanding of them.
- Establishing networks of related agencies to better integrate policy, delivery and capacity-building in the State sector.
- Reducing structural fragmentation in the state sector through structural consolidation – with particular emphasis on the effectiveness of policy/operations splits (Review of the Centre, 2001: 4–7).

The Committee’s Report was received by Cabinet, which agreed on 17 December 2001 to a series of initiatives to better integrate service delivery. These included establishing cross-agency “circuit breaker” teams to solve the previous “intractable” problems in service delivery by drawing on front-line knowledge together with central technical support; enhancing regional coordination of State sector agencies; and renewing relationships between policy and operational units within the State sector [CAB Min (01) 39/14 refers]. This latter point concerning the policy/operations interface deserves particular mention as it acknowledges the problems, caused by the previous separation of policy and operational functions, which had become apparent. The essence of the case put forward to address these issues was to achieve a stronger emphasis on outcomes, better use of technology, and to reduce the large number of agencies and votes which emphasised vertical accountabilities rather than the whole-of-government interests. The government wanted a system that met the needs of citizens and would enable them to have easier access to government services.

Other elements in this Cabinet paper reflected the Government’s desire to move further on addressing fragmentation and improving alignment. Ministers agreed to address the reduction in structural fragmentation in the State sector by looking in particular at the effectiveness of policy/operations splits, and at small agencies and sectors where there were Ministerial concerns about performance or alignment. The decision to bring together the Department of Work and Income and the Ministry of Social Policy had been announced in April 2001 and took effect from October 2001.

This subsequent Cabinet agreement, In December 2001, to a reduction in structural fragmentation, indicated that further structural changes could be anticipated.<sup>81</sup>

The paper also set out a timetable for the Minister of State Services and the Minister of Finance to report to the Cabinet Committee on Government Expenditure and Administration (EXG) through 2002 on a progressive review of structural arrangements. Other matters included in this comprehensive paper were: a request for proposals for changes to the Public Finance Act (1989); and a recommendation to replace Purchase Agreements with Output Plans.

While the Review of the Centre Report recommendations (released in December 2001) were strong and focused, the subsequent report “Review of the Centre – One Year On” (State Services Commission, 2002) indicated only that some action was underway. Specific examples of this work included: circuit breaker teams’ work on funding for reducing family violence; Crown entity governance proposals; a new Vote structure for Immigration Services; the Executive Leadership Programme; and the Department of Conservation’s pest eradication programme (State Services Commission, 2002: 13).

The Report reveals that, while central agencies and departments had put significant effort into the work, not a great deal had actually been achieved. In terms of the three major areas for attention, the action taken included: work in progress for the circuit-breaker teams which were examining truancy, funding for reducing domestic violence, and settlement of migrants; consideration of a range of initiatives to address fragmentation; and that departments were planning longer term results by developing “Statements of Intent” (State Services Commission, 2002: 13 – 19). One achievement of note was the business case for the development of an Executive

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<sup>81</sup> At the end of December 2001, political journalist Colin James wrote that the public service was headed for sweeping changes in the wake of the Review of the Centre, which he considered to be “high-powered” in the light of the composition of the review group. James repeats the points deemed to be newsworthy: widespread change but carried out incrementally; strong leadership from Ministers to ensure that momentum is maintained; structural consolidation to address fragmentation; and formal networks of related agencies. The comment that the Review of the Centre was set up in the wake of the “rushed merger” of Work and Income and the Ministry of Social Policy which ensured the departure of Chief Executive Rankin, reflected popular opinion at that time (James, 2001).

Leadership Programme<sup>82</sup> to cater for at least 300 senior managers, which had been forwarded to Ministers and would be considered in the next budget round.

The report was optimistic that all the activity would achieve results and a five year scenario was proposed for Ministers, citizens and staff. Under the heading 'Where to from here?' it was suggested that Ministers would see things happening more quickly at the frontline and that there would be "less clutter, less paper and better information" (State Services Commission, 2002: 29). Staff would be working more with other agencies and working under different management or in a different organisation. Five years later, in 2007, further re-coupling had taken place and there has been high mobility between departments. But there has been no assessment of the quality of the information available to Ministers.

Accompanying the release of the "One Year On" Report was a Media Statement from the Minister of State Services which provided a detailed summary of achievements to date and indicated considerable progress over the year. The Minister seemed keen to allay fears of any major change.

"This Government is committed to rebuilding a strong public service and encouraging a more cohesive state sector. The review is not about radical change. Rather we are seeking a plan for significant improvement that can be developed and put in place over a number of years" (Mallard, 2002).

The promotion of the 'One Year On' Report, with the Minister's positive endorsement, was intended to demonstrate that good progress was being achieved. However, behind the scenes a more realistic view was being conveyed, as an earlier briefing paper to the Minister of State Services from the State Services Commissioner entitled 'Current Problems in Public Management'<sup>83</sup> indicated that much needed to be done. The paper reviewed the development of the public management system over the past two decades. The reform period from 1986 had strengths - listed as transparency, greater focus on efficiency and improved financial management and accountability. However, the changes that had been made were seen to be driven from the economic basis of public choice and agency theory, and to have brought a series of changes which have had a negative impact.

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<sup>82</sup> The Australia-New Zealand School of Government, which involved the governments of the Commonwealth of Australia, Victoria, Queensland and New Zealand in capital city universities, was in the process of being formed (State Services Commission, 2002: 19).

<sup>83</sup> The Cabinet Committee on Government Expenditure and Administration (EXG) had received a suite of papers in 2002 which addressed problems in the public sector and the improvements required and these were summarised in the paper 'Current Problems in Public Management'.

The results which were considered to have not helped subsequent development were: breaking the public sector up into smaller units – “called decoupling or fragmentation”; the output-based management system under emphasised outcomes and capability; and a culture of Wellington-based policy making “de-emphasised evidence-based, citizen and community-centred policy making, service design and delivery” (State Services Commission, 2002). This analysis aligns with the earlier Schick Report which also criticised the limitations of focussing on outputs and suggested consolidation of some departments (Schick, 1996).

This 2002 Briefing Paper concluded that while the 2001 Review of the Centre was considered to have provided an overview of the current state of the public management system, it had not offered any new conceptual underpinnings for the public management system and had only pulled together a number of ideas about improving the existing system. The solutions proposed addressed four areas:

1. Focusing more on results – managing for outcomes
2. Getting more citizen and community centred processes – moving from Wellington-centred to community-centred
3. Building public sector capability from two angles
  - a. Strengthening people, culture and leadership
  - b. Strengthening structures and processes – breaking down silos and improving coordination.

This direction was to guide the previously established circuit breaker teams.

A further focus on areas which required attention was contained in a Literature Review undertaken in 2002 (Grey, 2003) as part of the Regional Coordination Workstream. This review notes that representatives of both the public and community sectors believed that interagency collaboration and coordination reduced over the late 1980s and early 1990s, largely due to the state sector reforms. The conclusion notes that in New Zealand regional coordination and planning were more developed in the economic and environmental sectors than in the social sector, and that the potential for regional coordination in the social sector was complicated by the lack of alignment of regional boundaries between central government agencies, local government and other service agencies. The literature on regional coordination was assessed to be poorly developed.



Three Circuit Breaker multi-agency teams had been established in 2002 to try to resolve the long-running problems which had seemed incapable of resolution by normal departmental structures and approaches.<sup>84</sup> A glowing account of the progress achieved by the circuit-breaker team pilots was given by the Minister of State Services in April 2003 where he stated that “positive results are already emerging in the pilots of three ‘circuit breaker’ teams dealing with complex and intractable issues.” The statement continued that the pilots would enter a new phase and that national roll-outs of the pilots were to be explored (Mallard, 2003). However, it appears that while there was a launch of the report on the Rotorua pilot in 2006<sup>85</sup> national roll-outs did not proceed.

The emphasis on the circuit breaker work continued, with the State Services Commission producing a Circuit Breaker Workbook to help managers establish and support multi-perspective frontline teams dedicated to resolving problems of long-standing. “Intractable” problems are defined as “something that has gone on for a long time or hasn’t gone away despite our best efforts” (State Services Commission, 2004: 2). However, while the Workbook provides helpful advice on how to facilitate a circuit breaker team, no further work has been undertaken on circuit breakers since the Workbook material was posted on the State Services Commission’s website. The State Services Commission continues to be involved with agencies working on cross-agency issues through the work on the Development Goals<sup>86</sup>. (The Development Goals are discussed later in this section.)

A joint State Services Commission-Ministry of Social Development report on the Integrated Service Delivery programme was released in April 2003<sup>87</sup>. The Minister of State Services announced that the circuit-breaker team pilots, which had been established under the Review of the Centre, would be entering a new phase involving the continuation of monitoring and evaluation and the initiation of another set of circuit breaker teams with emphasis on economic and environmental problems.

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<sup>84</sup> The three issues chosen to trial the circuit breaker approach were: truancy in Rotorua, skilled migrant settlement services in Auckland and funding for the reduction of family violence in Hamilton.

<sup>85</sup> One of the people interviewed for this research had attended the 2006 launch of the Report on the Rotorua research pilot and considered it to be “not of much substance.” (29)

<sup>86</sup> Advice from State Services Commission, 18 September 2007, in response to a submitted question.

<sup>87</sup> An update on the Integrated Services Delivery Programme was provided to the Minister of State Services in May 2004. This briefing paper covered updates on the three work streams and noted that Circuit Breaker Workbook was available on-line.

The published Report highlighted the issues which would require a policy response from Ministers. These included: the removal of “structural barriers to collaboration eg by addressing service boundaries and funding mechanisms”;<sup>88</sup> emphasis on ways to ensure that government systems and processes support and incentivise collaboration; undertaking further policy work to support collaborative working with stakeholder groups; and developing better monitoring and evaluation mechanisms (State Services Commission-Ministry of Social Development, 2003: 4). However, the Report acknowledges that while there is evidence that collaboration can improve services and improve relationships, there was currently little clear evidence that collaboration improves outcomes. This is attributed to the lack of evaluation of collaborative initiatives.

Also identified in the Report were the barriers to collaboration, including those which impeded effective coordination between government agencies and other stakeholders. These included the number of government agencies with which ministers and citizens have to interact, and the diversity of regional boundaries. The centralisation of services by some agencies, and a public service culture which is risk-averse rather than fostering innovation and progress, were also seen as barriers to collaboration. However, from the perspective of this study, a key point identified was “the frequency of structural change, including the separation of policy from operations, which has led to a devaluing of service delivery” (State Services Commission-Ministry of Social Development, 2003: 13).

Further work to bring the State sector together included a focus on shared outcomes. In August 2004 the Shared Outcomes Development Group for the Managing for Outcomes Programme Office produced a resource for Agency Leaders. The focus on shared outcomes acknowledged that the objectives of government cannot be delivered by a single agency and that agencies should be considering how their activities could contribute to the outcomes of other agencies. Managing for shared outcomes is a form of inter-agency collaboration where agencies work towards achieving a common outcome (State Services Commission et al, 2004). In 2005 the Commission undertook further work to assist departments with outcomes management when “Getting Better at Managing for Outcomes” which was billed as a tool to help organisations consider their progress in results-based management and identify development objectives, was produced.

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<sup>88</sup> The shifting of service funding for Family Start programmes from the (then) Department of Child, Youth and Family Services to the Ministry of Social Development in 2005 would be an example.

In the Paterson Oration in 2004, the Prime Minister also referred to the Review of the Centre, as this had identified weaknesses and recommended a reduction of disincentives for collaboration and co-ordination, a reinvestment in skills and a focus on outcomes. The way forward involved rebuilding capacity and addressing excessive fragmentation. The breaking up of departments had caused the dispersal of skills from within departments and policy ministries had been losing touch with operational agencies. The converse also applied in that operational agencies were not always sufficiently informed by policy. The re-coupling which was taking place to deal with these deficiencies involved Social Welfare, Education, Transport and now Housing.

Other areas which needed to be addressed included the need for baseline reviews to establish proper funding for departments. The Prime Minister indicated that she was prepared to grow the size of the public service as too much reliance had been placed on consultants and too little on building core expertise and corporate memory. Further changes advocated involved forming partnerships beyond government with local and regional government and voluntary agencies, investing in public sector leadership, building networks and using technology. The Public Finance (State Sector Management) Bill, which was to strengthen the role of the State Services Commission and allow more flexibility under the Public Finance Act, would also contribute (Clark 2004).

### Legislative Changes

By 2003 it was apparent that the backbone legislation contained in the two key Acts was not meeting the needs of the public sector in the twenty-first century. Earlier, in November 2002, Cabinet had received a Review of the Centre paper concerning Departmental Accountability and Reporting Arrangements, which directed Treasury to report on the amendments required to the Public Finance Act to retain clear lines of accountability while reducing the barriers to joint or shared decision making over resource allocations [CAB Min (02) 30/2B refers]. The paper also noted the need for legislative provision for Statements of Intent and the Introduction of Output Plans. The latter would better reflect the relationship between Ministers and their departments.

In August 2003 a joint statement from the Ministers of Finance and State Services issued a Pre-Introduction Parliamentary Briefing on the Public Finance (State Sector Management) Bill. This pre-introduction briefing for parliamentary parties was

designed to obtain cross-party support and share the main policy intentions prior to the Bill's introduction (Cullen and Mallard, 2003). The Bill was promoted as the culmination of legislative work arising from the Review of the Centre. The Bill would encompass amendments to the Public Finance Act, The Fiscal Responsibility Act and the State Sector Acts and create a new Crown Entities Act. Its purpose was "to strengthen the public service, make it more transparent and flexible, allow a more integrated response to complex social problems involving a number of state agencies and invigorate the culture of the state sector" (Cullen, 2003).

The Bill covered 3 main aspects: amendments to the Public Finance Act and the Fiscal Responsibility Act to improve the flexibility of the Executive in managing public finances and improving accountability; amendments to the State Sector Act to extend the State Services Commissioner's mandate and strengthen integration and build capacity; and the creation of a new Crown Entities Act to improve crown entity governance. The suite of legislation finally enacted incorporated:

- The State Sector Amendment Act (No. 2) 2004
- The Public Finance Amendment Act 2004<sup>89</sup>
- The Crown Entities Act 2004
- State-Owned Enterprises Amendment Act 2004

The Treasury produced a guide to the Public Finance Act, in August 2005. The major amendments contained in the Act involved changes to appropriation to allow for a department to deliver services on behalf of another without further appropriation, and more flexible Vote structures. In the Treasury presentations to departmental staff, emphasis was placed on the support for Review of the Centre themes, such as more flexible appropriation options, expanding non-financial reporting requirements, and new power to set non-departmental reporting standards.

While there was extensive promotion of the changes to the Public Finance Act to various constituent groups<sup>90</sup>, the impact of changes to the State Sector Act attracted less attention. The major amendments to the State Sector Act involved the extension of the State Services Commissioner's mandate to strengthen integration,

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<sup>89</sup> The Public Finance Amendment Act 2004 also repealed the Fiscal Responsibility Act 1994, section 37(2) and incorporated it into the body of the Amendment Act.

<sup>90</sup> For example, the changes were explained to the accounting profession by the Secretary to the Treasury, who addressed the Institute of Chartered Accountants in November 2004.

build capability and provide stronger leadership on values and standards in the State sector. There was also provision for developing the future leaders of the State sector.<sup>91</sup>

With the passing of the legislation, a more productive future was seen for the State Services Commission by one academic observer:

- The 2004 State Services Amendment Act has given the State Services Commission more responsibility – to rebuild a cadre of executive and managerial talent which will serve the public service and the wider state sector and revive the concept of the SES which had collapsed under the strain of fragmentation and the preoccupation of chief executives with their own departments. (19)

The changes to the legislative platform provided by the reforms of phase one, was completed with the passing of the suite of Amendment Acts in 2004 and their introduction in 2005. That they resulted from the Review of the Centre work is a point continually made in speeches, papers, reports and media releases. The Review of the Centre has left a very large footprint on the New Zealand public sector.

Following the implementation of the new legislation, the Government sought further work to improve performance and value for money within and across Votes and the Cabinet Policy Committee, in February 2006, established a programme of expenditure reviews to address improving performance issues.

The subsequent Expenditure Reviews included one on the Central Agencies' role in the continuous improvement of the State Services, with a particular focus on their role in managing State Services performance. The resulting report in November 2006<sup>92</sup> identified opportunities for improvement in the performance of the central agencies. The main messages were that the central agencies must:

- Adopt a stronger leadership role by taking responsibility for making the performance system work;

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<sup>91</sup> This replaced Part IV of the original Act which had established a Senior Executive Service (SES). Those interviewed for this research had expressed opinions on the SES and its demise (see chapter six).

<sup>92</sup> EXG Reviews December 2006 Information Release: Memorandum to Cabinet Business Committee, 21 November 2006. <http://www.treasury.govt.nz/>

- Focus on the things that matter, making sure that their joint efforts are targeted, and provide Ministers with the assurance that improvements in performance are taking place (Treasury, 2006:1).

In the period since the passing of the State Sector Amendment Act (2004), the State Services Commission has developed a number of guidance documents to support the Commissioner's extended mandate. The State Services Development Goals were launched in 2005. Transforming the State Services (State Services Commission, 2007) placed the six development goals (with one change from 2005) in a framework to provide transformed State Services. The framework sets out goals and milestones to measure the achievement of the goals with review dates in 2010 and 2010. Goal 4, Coordinated State Agencies, is intended to ensure that government agencies continue to work together to achieve results for New Zealanders. The State Services Commission has a dedicated team that champions this goal, is working with government agencies to progress all the development goals; and it also monitors and reports on progress. Standards of Integrity and Conduct for the whole public sector were issued in 2007 and a new Code of Conduct for the State Services, which will replace the Public Service Code of Conduct, came into effect on 30 November 2007. These standards of integrity and conduct now include Crown Entities alongside the Public Service departments.<sup>93</sup>

.A further paper 'Reviewing the Machinery of Government' was produced by the State Services Commission in 2007 to set out the Commission's thinking and to inform high quality policy advice. The State Sector Act (1988) had given the State Services Commission the responsibility, under section 6 (a), to Review the machinery of government including (i) the allocation of functions to and between Departments; and (ii) the desirability of or need for the creation of new departments and the amalgamation or abolition of existing departments, and (iii) the coordination of the activities of departments. However, these functions have tended to be exercised reactively, in responding to government directives, rather than initiate machinery of government reviews. The extension of the State Services Commissioner's mandate, under the 2004 Amendment, has broadened the coverage to include, under section 6 (a), reviewing the machinery of government "across all areas of government" and adding "and other agencies" to the coverage of departments in clauses i, ii, and iii. The paper will provide guidance to current and

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<sup>93</sup> Media Statement from Mark Prebble, State Services Commissioner, 19 June 2007.

future public servants and other employees in the State sector who deal with machinery of government issues, and reflects the processes which were followed in the structural changes which proceeded from 2001 to 2006. The process followed in the structural changes which took place from 2001 are analysed in chapter nine.

### **7.5 Machinery of government changes and their impact**

While the Review of the Centre (2001) had identified the problems which were becoming apparent, and advocated reducing structural fragmentation through consolidation, the pace of change varied according to the particular circumstances and the degree of political risk involved. All the changes noted below fall within a machinery of government<sup>94</sup> context (see State Services Commission, 2007).

The changes and reviews which took place from 2001 onwards are listed sequentially below. A summary of the changes is shown in chapter 9.3, Table 8. Many of the structural changes are in line with the Government's 'whole of government' approach to give priority to a horizontal integration across the government sector. The changes from 2001 have been tracked through departmental websites, the various reviews which have been undertaken and Ministerial releases. While, on the surface, the re-coupling and mergers which took place largely sought to reduce fragmentation, an underlying imperative to address perceived performance deficiencies was also apparent. Most of the movement took place while the Hon Trevor Mallard was Minister of State Services from December 1999 to October 2005.

- **2001** The Housing Corporation of New Zealand merged with Housing New Zealand Ltd and Community Housing Ltd together with housing policy staff from the Ministry of Social Policy to form Housing New Zealand Corporation. The move was designed to bring all those agencies under one roof and provide a one-stop-shop for housing services. Because the Housing Corporation was established under the 1974 Housing Corporation Act, a change to the legislation was required. The Housing Corporation Amendment Bill (2001) became law on 1 July 2001 and established the Housing New Zealand Corporation.

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<sup>94</sup> The term 'machinery of government' refers to: the allocation of functions to and between departments and other government agencies; the creation of a new department or other government agency and the amalgamation or abolition of existing departments and other government agencies; the co-ordination of the activities of departments and other government agencies. (State Services Commission, 2007)

- **2001** The Ministry of Social Policy and the Department of Work and Income were re-coupled to form the Ministry of Social Development. The Government had decided on the merger to provide a better organisational basis for implementing a social development approach to deliver more effective solutions to social issues.<sup>95</sup> (This merger is discussed in detail in chapter eight)
- **2002** (February) The Special Education Service (SES) (a Crown Entity) returned to the Ministry of Education. Earlier, a review of the Special Education Service<sup>96</sup> was undertaken in 2000 at the request of the Minister of Education. The Review, which was completed in August 2000, found that the Service was “ineffectual, fragmented and distanced from schools and parents”. A new National Network of Support and Resources was advocated, to be under the aegis of the Ministry of Education. These centres would include specialist support, therapy, resource materials, equipment, professional development, advice and support for parents, and co-ordination with related services (health, welfare, social services). These district centres would act as fund holders, and perform the administrative work associated with that role. This would mean the disestablishment of the SES as an organisation, and the retention and transfer of most of its specialists to the new centres. The decision to for the SES to become part of the Ministry of Education took place on 19 February 2001 [CAB Min (01) 5/1 refers].
- **2002** The Office for Disability Issues was added to the Ministry of Social Development. In March 2002 a Cabinet paper proposed the establishment of an Office for Disability Issues within Ministry of Social Development and the Office was established on 1 July 2002 as a separate policy group within the Ministry. The Office serves the Minister for Disability Issues, a position created in 2000. The Minister is responsible under the NZ Public Health and Disability Act 2000 for developing a health and disability strategy and reporting each year on progress towards its implementation.
- **2003** Capability reviews of the Ministry of Youth Affairs and the Ministry of Women’s Affairs were undertaken in 2003. The decision was taken in August to retain the Ministry of Women’s Affairs as a separate department. The rationale

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<sup>95</sup> Ministry of Social Development and State Services Commission, 2004. Lessons Learned from Leading Organisational Change: Establishing the Ministry of Social Development.

<sup>96</sup> Ministry of Education (2000) Picking up the Pieces: Review of Special Education 2000, Cathy Wylie.



being that Women's Affairs has an over-arching cross-governmental focus<sup>97</sup> whereas Youth Affairs sits closely with the social development interests of the Ministry of Social Development.

- **2003** (September) The Office for the Community and Voluntary Sector was added to the Ministry of Social Development<sup>98</sup>. The Office was established to address the overarching issues affecting the sector and to raise the profile of the sector within government. The Office works across government with the aim of achieving excellent relationships between government agencies and the community, voluntary and Maori organisations, and serves the Minister for the Community and Voluntary Sector. (There is no separate Vote.)
- **2003** (October) The Ministry of Youth Affairs became the Ministry of Youth Development located in the Ministry of Social Development, with a separate Vote (Youth Development) and with separate Ministerial responsibility (Minister of Youth Affairs). The Ministry of Youth Development reflects the merger between the former Ministry of Youth Affairs and the youth policy functions of the Ministry of Social Development.
- **2003** (October) Early Childhood Development (a Crown Entity) returned to the Ministry of Education.<sup>99</sup> The decision to integrate came from the Government's policy document, "Pathways to the Future", the ten-year strategic plan for early childhood education which was released in 2002. The integration of Early Childhood Development and its functions with the Ministry was seen to help progress the plan's goals by combining the strengths of each organisation to build greater support for the sector. The functions of Early Childhood were incorporated into the Ministry's matrix structure thus building a focus on early childhood education throughout the Ministry.

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<sup>97</sup> Capability Reviews of the Ministry of Youth Affairs and the Ministry of Women's Affairs Presented to the Cabinet Policy Committee 6 August 2003.  
[http://www.ssc.govt.nz/capability\\_reviews\\_my\\_a\\_mwa](http://www.ssc.govt.nz/capability_reviews_my_a_mwa)

<sup>98</sup> The Office was launched on 15 September 2003 by Hon Tariana Turia, then Minister for the Community and Voluntary Sector., who stated that the commitment to setting up the Office was made in the 2002 Manifesto of the Labour Party. <http://www.beehive.govt.nz>

<sup>99</sup> Integration of Early Childhood Development and the Ministry of Education.  
<http://www.ecd.govt.nz/about/integration>

- **2003** (October) The Department for Courts merged with the Ministry of Justice. The former functions which had been provided by the Department for Courts were integrated into the Ministry's new structure. The Minister of State Services had requested a review of the Justice sector. (The Review of the Centre is cited as recommending a reduction in fragmentation.) The result of the review, announced 16 May 2003, was that Courts and Justice merge.<sup>100</sup> The supporting paper to the Cabinet Policy committee notes that Treasury did not support the merger. As at 2007 the Deputy Secretary Operations/Chief Operating Officer had responsibility for the divisions of Collections, District Courts, Higher Courts, and Special Jurisdictions – each division under a General Manager. The Chief Electoral Office, under the Chief Electoral Officer, reports directly to the Secretary for Justice. The portfolio responsibility for Minister for Courts was retained.
- **2004** The Transport Sector was reorganised following a comprehensive review in 2003. It was one of the four sectors for improvement identified by the Review of the Centre.<sup>101</sup> In December 2004 the recommendations from the review were implemented with the aim of better aligning the sector and the legislation with the New Zealand Transport Strategy. Structural changes included transferring the policy functions of the Land Transport Safety Authority and Transfund to the Ministry of Transport to support its role of leading the sector. Transfund New Zealand and the Land Transport Safety Authority were merged to form a new entity – Land Transport New Zealand. The Ministry of Transport has two key functions: policy development and advice to the Government, and contracting and monitoring government transport agencies' performance. These Crown Entities are: Land Transport Safety Authority (LTSA), Civil Aviation Authority (CAA), Transport Accident Investigation Commission (TAIC), Transfund New Zealand, Transit New Zealand, and the Maritime Safety Authority. (A further development, proposed in 2007 following the Next Steps Land Transport Sector Review, would create a single Crown Entity<sup>102</sup> through the merger of Land Transport New Zealand and Transit New Zealand.)

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<sup>100</sup> Mallard (2003) Dept for Courts and Ministry of Justice to merge. [www.beehive.govt.nz/mallard/justice/Q-A.cfm](http://www.beehive.govt.nz/mallard/justice/Q-A.cfm)

<sup>101</sup> Hodgson, Hon Pete (2004) Sustainable growth and safety for transport sector. Press statement 17/06/2004. (For full report see [www.beehive.govt.nz/transport](http://www.beehive.govt.nz/transport) - accessed 19 December 2007)

<sup>102</sup> The new Crown Entity, Land Transport Agency has been agreed and becomes operational in 2008.

- **2004** The Ministry of Housing was expanded and renamed as the Department of Building and Housing. The change was aimed at improving and streamlining building and housing services for the public to provide a ‘one-stop-shop’.<sup>103</sup> A review of agencies with housing and building related responsibilities was undertaken in 2003 resulting in the announcement on 30 June 2004 that the Ministry of Housing would be expanded through the transfer of relevant functions from the Ministry of Economic Development, the Department of Internal Affairs and the Ministry of Social Development.<sup>104</sup> Fragmentation had been the main problem with seven agencies providing regulatory and dispute resolution services. The changes would bring all the groups together as the Department of Building and Housing. “A more integrated approach to policy development and advice to Government was wanted.”<sup>105</sup>
- **2004** (July) The Family and Community Services Group (FACS) was established in the Ministry of Social Development to lead and coordinate government and non-government actions to support families and communities. Funding for community-based programmes was transferred from Child, Youth and Family Services to FACS in the 2004 Budget. FACS has two roles within the sector: first as a provider and funder of services including information and advice for families and for communities; second as a leader and coordinator of services for families at a general, as well as a case work level.
- **2004** The Department of Labour was the subject of a major restructuring<sup>106</sup> to realign key functions and improve responsiveness and organizational adaptability to the labour market now and in the future. Service delivery and policy advice capabilities were brought together under deputy secretaries in two key work groups – Workforce and Workplace. Community employment activities were repositioned with the Ministry of Social Development, consistent with that Ministry’s focus on social outcomes.

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<sup>103</sup> Media Statement Hon Trevor Mallard Minister of State Services and Hon Rick Barker Acting Minister of Housing, 30 June 2004. The one-stop-shop terminology was also used with the establishment of the Housing New Zealand Corporation in 2001.

<sup>104</sup> Cabinet paper released by State Services Commission, 30 June 2004. Consolidation of regulatory and dispute resolution services concerned with housing and building. <http://www.ssc.govt.nz/services-consolidation>

<sup>105</sup> Hon Steve Maharey, Speech Notes to Porirua Housing Forum, 19 August 2004.

<sup>106</sup> The restructuring was undertaken by the new Chief Executive who was appointed in July 2003.

- **2005** A review of the Education sector<sup>107</sup> on the effectiveness of machinery of government and governance arrangements for education sector agencies (Ministry of Education, New Zealand Qualifications Authority and the Tertiary Education Commission) found that the three agencies should work together more closely, their policies and activities should be better aligned, and that the Ministry of Education should exercise leadership, with support from the central education Crown entities. The review concluded that, at this time, there should be no major structural change.
- **2005 and 2006** Further operational funding for social service programmes was transferred from the Department of Child, Youth and Family Services to the Ministry of Social Development (Family and Community Services).
- **2006** (July) The Department of Child, Youth and Family Services merged with the Ministry of Social Development. In light of the departure of the Chief Executive, and after reviewing four options, the State Services Commission recommended the merger option. This was confirmed in a joint Ministerial statement on 6 March 2006. The ministerial portfolio responsibility – Associate Minister for Social Development and Employment (Child, Youth and Family), was retained. The merger is discussed in detail in chapter eight.

The changes cited above took place between 2001 and 2006, in social sector-related agencies which had some policy responsibilities. In the Justice and Social Services sectors, departments were returned to their former configuration prior to the decoupling which took effect in the 1990s, with the exception of the Department of Corrections which, at the time of writing, remains a stand-alone department. In the case of the Ministry of Social Development, in 2001 two existing departments were merged to form a new agency. From its establishment in 2001, the Ministry of Social Development ‘acquired’ a collection of new agencies and responsibilities, which have expanded its functions beyond that of the original Department of Social Welfare. The new responsibilities came with a new Ministerial portfolio, for example: Disability Issues, and Community and Voluntary Sector. Both Youth Affairs and Child, Youth and Family Services retained their Ministers when they joined with the Ministry of Social Development. In terms of the types of structural changes which took place, only one new agency was created – the Department of Building and

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<sup>107</sup> Cabinet paper – Education Sector Review. <http://www.ssc.govt.nz/education-sector-review-cab-paper>

Housing. Other changes involved agencies returning to their former 'homes' as happened in the Education sector, or internal reorganisation as in Labour and Transport.

### **Respondents' views**

The impact of the restructuring which took place in phase two was explored with the people interviewed for this research. Respondents were asked to comment on the re-coupling taking place in the social sector and their perceptions of the drivers of the changes. All those who responded to the question were generally in favour of the structural changes which had taken place.

Almost a third of those responding thought that better coordination and cooperation were needed to combat the silo approach, with some adding that this could also be achieved through fewer departments and fewer Ministers. For these people 'joined-up-government' involved more than just putting departments back together again.

- It is a problem of size – in NZ there are too many small departments – now there are 35 - 20 would be the ideal number. The Ministry of Social Development is not a mega-ministry (with 6,000 staff) internationally its boutique. A lot of government departments are below critical mass. Child Youth and Family lost critical mass and capability. (6) Chief executive
- Could have fewer departments such as along the Australian line (18 or so) – but with separate Ministers eg Youth Affairs (now part of MSD but with their own Minister) In our system we can have Ministers without departments – eg Minister of Racing, though ideally we would see a large cut in the number of Ministerial portfolios, even if the Cabinet was kept the same size. (15) Senior public servant
- A practical debate is needed rather than a theoretical debate. There is a theoretical debate – but the governance dimensions are separate from that. The value of thinking through the difference between policy and delivery should never have been automatically translated into structure. That was excessive and unthinking. There were other considerations which were more important. Most countries went bigger rather than smaller. NZ had cross-sectoral problems. (2) Former senior public servant

One issue which emerged in the interviews was the shortage of possible chief executives and lack of suitable leaders. This arose when the number of small agencies was being discussed:

- What is wanted is a smaller number of agencies and this will provide better management opportunities – and produce stronger leaders. The dynamics are important. (32) Chief Executive
- There are still a large number of agencies and there is difficulty in recruiting people to lead them – this stands out. As a consequence far too many organisations exist which are not making a positive contribution to decision-making. (15) Senior public servant

In terms of the specific requirements for a position, several noted that with the return to Canada of the Chief Executive of the Department of Child, Youth and Family Services, the merger with the Ministry of Social Development was inevitable as it was believed that there was no suitable person in New Zealand qualified to take the position.

In the course of the interviews many respondents made reference to changing times and the inevitability of change. Two main themes emerged from comments relating to the time for change. One was the notion of ‘fashion’ in that there are cyclical changes according to the particular intellectual or theoretical flavour of the time. The other was the reversion to the former position if the changes had not worked out as intended. The dance imagery used by one experienced former chief executive was particularly striking.

- It is inevitable. It’s really a political decision. There had been a proliferation of agencies and like a dance – they move out and come back together, but each time it’s a different pattern. (27) Former chief executive

Another used the pendulum swing metaphor of doing things one way for a while and then swinging back to the former position.

- There is a mix of all these behind the changes that have taken place recently. There is a transition in the change cycle – things are done one way for a period and then changed again. (36) Former chief executive

Another theme which came through strongly in the responses was the need for a case-by-case approach with more analysis of problems and how they could be solved rather than simply reverting to the former structure. The fact that these views were expressed by people from differing backgrounds and experience adds weight to the points they make.

- Any big change runs the risk that more will be read into it than is appropriate. The authors of the State Sector Act and the Public Finance Act did not think that they

would bring in perfection in their time. The set of changes were seen as appropriate in the course of ongoing evolution. The model is episodic – particularly with structural change. The choice of whether we should have policy and operations together, or separate, is much more individual. What is the right structure depends on the functions and what is the best disposition of them. What makes sense for Youth Affairs – a separate agency or part of something else doesn't tell you what you should do with the Inland Revenue Department. It has to be done on a case-by-case approach. (31) Former Cabinet Minister

- There are other mechanisms, when a department or ministry is creating political problems, other than putting them back together again. Each situation has to be looked at independently. You need to ask 'what are the core problems and what are the mechanisms that we have to fix these problems?' other than folding it back into the (original) department. (7) Former chief executive
- Re-coupling seems a case-by-case thing – driven as much by public sector management issues as it is by Government thinking or management philosophy. This often boils down to recruitment of chief executives as much as anything else – who is there capable of running a large department? Finding top-level capable people who want to do the jobs is a real problem. Dealing with Ministers has proved difficult for some. Now the issues of a particular sector or delivery areas are considered and the question asked – what is the best way to address these issues – rather than being driven – as we were in the 1990s – by a philosophy that was somewhat naïve. (25) Former senior public servant

A timely reminder that re-coupling doesn't always provide the answer to fragmentation was given by one former chief executive:

- Consistency of policy and operation to some kind of overall broad objective is easier to achieve in one organisation. However, Simon Upton's complaint with Health in the early 1990s was that advice would come from the section of Health dealing with disability services, and another from clinical services and the policy group - all had ideas but based on different assumptions, different models, and different views of the world. So that having it all in one shop doesn't automatically mean that there is a consistent framework. But, in theory, it helps. (36) Former chief executive

Re-coupling was another issue on which respondents had views and several spoke from experience and provided examples. It would seem, from those who experienced mergers or re-coupling that the views held depend on where you are positioned in the agency at the time of merger.

- Re-coupling is more difficult than separation in the first place. Gradual change would have been better – not huge changes – eg the Courts and Justice – the Judiciary – more difficult to re-couple - cooperation was needed. It was sensible to put Courts back with the Ministry as there were synergies there that needed to be taken into account (which were not taken into account with the separation). Reunification was not that easy – it's a difficult process. (4) Former senior public servant

The current situation was summed up by respondents who contrasted the structural changes which had taken place in phase two, where a more pragmatic approach is being adopted, with the earlier approach which had been based on theoretical constructs.

- Now the issues of a particular sector or delivery area are considered and the question asked – what is the best way to address these issues – rather than being driven, as we were in the 1990s, by a philosophy that was somewhat naïve. (25) Former senior public servant

Another acknowledged the departure from the phase one drivers which were theory-based, but cautioned against an unquestioning swing back to the former arrangements.

- Reshaping the state is proceeding – however, not always with a theoretical base that says clearly why it's being done. The idea that 'it didn't work, therefore put it back together again' is wrong. There needs to be reasons for bringing departments and ministries back together – a whole of government approach. (22) Cabinet Minister

From the range of comments, some of which have been quoted directly here, it is clear that, in the eyes of those interviewed, the public sector administrative structure that made the transition to the twenty-first century required some attention. The problems of fragmentation and too many small agencies were widely acknowledged. Achieving improved coordination and cooperation could be achieved by fewer and also fewer ministerial portfolios. However, the approach suggested was essentially pragmatic – take a case-by-case approach and consider the specific situation of the agency concerned and the policy area that it has responsibility for, rather than rush in with a reflexive response to re-locate in the former configuration.



## **7.6 Conclusion**

The change of government in 1999 was a major turning point and phase two of the New Zealand public sector reforms can be attributed to this change. Boston and Eichbaum suggest that “the point of departure for structural reorganization in phase two has been less to do with theory, and much more to do with addressing the problem of fragmentation” (Boston and Eichbaum, 2005: 25). They note that phase two has been marked by evolutionary change rather than the revolutionary change which took place in the 1980s and 1990s.

The Labour Party had signalled in its 1999 Manifesto that changes would follow and subsequent Manifestos, issued at three-yearly intervals pre-election, continued to advocate further changes. These were largely addressed at the lack of coordination in the state sector and the need to reverse the fragmentation which had resulted from the decoupling of major departments in phase one. Further statements from Ministers, and papers from the State Services Commission over the period from 1999, provided the rationale for the ensuing structural reorganisation which took place.

A first initiative, in 2000, was the establishment of a State Sector Standards Board to draft a statement of the Government’s expectations for the State Sector and to identify impediments to achieving these. Following on from this work was the Review of the Centre in 2001. Subsequent reports identified problems with the public management system. Areas where change was needed were identified as: achieving better integrated service delivery, addressing fragmentation and improving alignment, and enhancing the people and culture of the State sector. Circuit breaker teams were developed to bring services together at a local level. The evils of capture, which were an initial rationale for decoupling, were not mentioned in the various reports from the Review teams. With the introduction of the State Services Development Goals in 2005 the emphasis moved to the wider operation of the State sector, with the State Services Commission working on sector coordination, managing for shared outcomes, and wider engagement with citizens.

While the various reports and reviews over the period have been described in some detail in section 7.4 (see Report of the Advisory Group on the Review of the Centre, 2001, 2002; State Services Commission 2002; State Services Commission-Ministry of Social Development, 2003) they seem to be traversing the same ground and

providing further evidence, if this was needed, to support the Government's stated position. The media statements from the Minister of State Services (Mallard, 2001, 2002, 2003) were designed to allay fears of major changes and provide assurances that the Government was active in addressing the identified 'problems'.

Although the Minister of State Services stated that it was not the Government's intention to reverse the decoupling, which had taken place in phase one of the reforms, on a system-wide basis (Mallard, 2001), the succession of changes aimed at consolidating departmental functions. While some of the changes were internal restructuring within departments or sectors, the major re-coupling took place in the social sector where the Ministry of Social Policy was merged with the Department of Work and Income to form the Ministry of Social Development in 2001 which later merged with Child, Youth and Family Services, in 2006. The Department for Courts was merged with the Ministry of Justice in 2003.

Another area for change, highlighted by the Review of the Centre work, involved a review of the legislation, which had been the foundation of the public sector.<sup>108</sup> The subsequent legislation produced the State Sector Amendment Act 2004 and the Public Finance Amendment Act 2004, together with the Crown Entities Act 2004 and provided a coherent focus for the public and wider state sectors to meet the challenges ahead.

In the 2004 Paterson Oration, the Prime Minister summarised the problems identified while in opposition and what the Labour-led Government found when it came to power in November 1999. The issues which needed to be addressed included: a need to rebuild capacity so that central government can give strategic leadership in economic and social policy; a rejection of the hands-off neo-liberal approach; the need to address baseline funding to enable agencies to carry out the functions that government required and the issue of the fragmentation of the public sector (Clark, 2004). It is this issue of fragmentation, and the structural options to address it, that are the prime concern of this research. From the evidence provided in this chapter, which will be further analysed in chapter nine, it appears that the changes made were not part of any coherent, system-wide strategic plan to be systematically implemented. Many occurred in the context of particular situations at that time, such as difficulties with a chief executive (see chapter eight).

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<sup>108</sup> State Sector Act (1988) and Public Finance Act (1989),

The various reports and statements issued by Ministers in the period post 1999 indicate that the concerns regarding fragmentation and siloisation have been addressed in a pragmatic way and on a case-by-case basis. The structural changes were aimed at providing a more coherent focus for improved coordination of policy advice and operational efficiency. However, those interviewed for this study, while expressing generally positive views on the re-coupling which had taken place, did comment on the still high number of departments when compared with other Westminster countries, and that a high number of Ministerial portfolios<sup>109</sup> remained. In their view, for fragmentation to be addressed comprehensively, still fewer departments were needed and matched by a correspondingly fewer number of ministers.

The notion of a fourth age in the development of NPM reforms, which was emerging in the twenty-first century, was first explored in chapter three. It was noted there that the more recent literature suggests that the present age of NPM is more one of review and refocus rather than a total reversal to the earlier form of public administration. Elements of a fourth age have been further tested in this chapter where the emphasis since 1999 has been on the efficient administration of the public sector. The evidence gathered here from the New Zealand experience, would indicate that a new government arrived in late 1999 with a list of issues to be addressed and had set about tackling them (see Clark, 2004; New Zealand Labour Party Manifesto, 1999). The result, from the perspective of the social sector, has been to reshape the sector through a pragmatic approach the process of review and to build upon the configuration inherited. Across the wider public sector the activity, described in this chapter, has been to re-establish the State Services Commission as a powerful central agency, with responsibility for developing capability and promoting public service leadership development.

Chapter nine will examine the changes which have taken place in phase two of the New Zealand reforms and distil any common features in order to concentrate on the research question - is there a coherent set of administrative doctrines and practices that has informed machinery of government changes in phase two of the public sector reforms?

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<sup>109</sup> The Ministerial List as at 3 May 2006 showed 64 portfolios, with a further 54 “other responsibilities” which had been allocated by the Prime Minister and included Ministers and Associate Ministers positions.

## **Chapter 8: The Case for a Ministry of Social Development**

### **8.1 Introduction**

This chapter focuses on the social welfare/social development sector, in order to explore in greater depth the rationale behind the machinery of government changes which have taken place through the New Zealand reforms. The two phase distinction of extensive structural change based on the theoretical foundations of the NPM being phase one, with the second phase being a step-by-step approach, articulated by the incoming government in 1999, and characterised by a pragmatic response to the problems which had been identified. This approach has been essentially reactive and has responded to particular situations on a case-by-case basis. While the major reviews (Review of the Centre, 2001, 2002) undertaken in the second phase (see chapter seven) covered the whole core State sector, this chapter will specifically address one agency and its development over the two phases.

The metamorphosis of the Department of Social Welfare into the Ministry of Social Development traversed both phases of the New Zealand reforms and extends from 1992 when the initial decoupling into business units took place through to the current situation in 2007 when a 'snapshot' is taken. However, in order to place the agency in a social sector context it has been deemed necessary to adopt a longer-term perspective and explore the development of the department from its establishment back in 1972. The Department of Social Welfare was set up to deliver income support to families and individuals, take responsibility for child welfare, and to develop related social policy.

The most appropriate environment for the development of robust social policy has exercised governments, ministers, academics and government agencies over the years. These issues were considered by the New Zealand Planning Council in their 1982 report "Who Makes Social Policy?" The Report sought to address four questions: where do the major influences on social policy come from? which bodies or persons are active in this area? how do they operate? and how effective are they?

At the time of its 1982 report, the Cabinet Committee on Family and Social Affairs was seen by the Planning Council, to have the function of shaping social policy at the highest level. While the Report reviews the other participants in the development of social policy, it is the comments on the overall organization of policy development which resonate with the situation in the twenty-first century. The Report notes a “compartmentalised approach” to social policy and that “competition between departments and defensive attitudes underlie the very fragmented approach to social planning in New Zealand” (New Zealand Planning Council, 1982: 23). Greater interdepartmental co-operation in the exchange of information and in research efforts, which would recognize the interrelationships and interdependence, is suggested. The Report addresses structural issues and notes that attempts in the past to improve co-ordination between departments have gone as far as amalgamating departments or parts of departments and asks “would any improvement be gained from creating a joint Health-Education-Social Welfare department?” A more coordinated approach is seen as essential for the development of social policy over the longer term. All these issues relating to the compartmentalised approach and need for better coordination, raised by the Planning Council in the 1982 report, have continued to surface over subsequent years and are addressed in this dissertation. It would appear that in the reform surge of the 1980s the messages from the Planning Council were not heeded and the issues did not surface again until the Review of the Centre in 2001.<sup>110</sup>

The social welfare sector was by-passed in the reforms of the 1980s and saw little change until the 1990s when the new National Government continued with the separation of policy from operations, which had commenced earlier under the Labour Government’s reforms. The changes, which took place in 1992, saw the Department of Social Welfare separated into business units. The moves to create stand-alone departments commenced in 1998, with the establishment of the Department of Work and Income and continued in 1999 when the Department of Child, Youth and Family Services and the Ministry of Social Policy were created.

The changes which have taken place, to move from a department to a Ministry of some 8,317 FTE<sup>111</sup> staff and responsible for a Government vote of over \$17

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<sup>110</sup> The Planning Council was disbanded by a National Government in 1991.

<sup>111</sup> In 2007 a total of 8,317 FTE full time staff are employed by MSD plus 693 part time FTEs. (FTE = full time equivalent) Information provided to the Social Services Select Committee in the 2007/08 Estimates Examination.

billion<sup>112</sup>, represent a story of structural change where the composition of the department has reflected the administrative doctrines of the day. While earlier chapters have covered the changes, this chapter takes a more deconstructive view to address the logic which underlined the changes and the impact on both internal and external groups on whom the changes have impacted.

While the logic for the separation of policy and operational activities is clear from the literature and the secondary data sources consulted, the rationale for re-coupling has been rather more difficult to identify. Here secondary data – Annual Reports, Working Papers, Cabinet papers, Ministerial speeches and press releases, Reviews and other documented sources, have provided material from which an understanding of the rationale for the mergers can be gleaned. In the case of the merger of the Department of Work and Income with the Ministry of Social Policy, there is a rich source of material as the Department's Chief Executive, whose position disappeared in the merger, took legal action and the previous activities of that Department had aroused high media interest. The merger of the Department of Child, Youth and Family Services was a much lower profile affair, but accompanied by a much more detailed paper trail and a clearer policy rationale. However, it has not been without some problems as there was a separate Vote structure and Minister involved.

The structural changes covering the transition from the Department of Social Welfare to the Ministry of Social Development, as summarised in Table 6 below, are discussed in detail in this chapter. The documented evidence obtained explores the rationale behind the changes which have taken place.

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<sup>112</sup> Estimates of Appropriation for the year ending 30 June 2008. The Ministry of Social Development is responsible for Votes: Social Development; Child, Youth and Family Services; Senior Citizens; Veterans Affairs; Youth Development.

**Table 6 Summary of structural change in the social services<sup>113</sup> sector 1972 – 2006**

<b>Date</b>	<b>Agency</b>	<b>How formed</b>
<b>1972</b>	<b>Dept of Social Welfare formed</b>	from the Social Security Department and the Child Welfare Division of the Department of Education
<b>1992</b>	<b>Department of Social Welfare moved to establish business units</b>	<ul style="list-style-type: none"> <li>• NZ Income Support</li> <li>• Children and Young Persons Service (CYPS)</li> <li>• New Zealand Community Funding Agency (NZCFA)</li> <li>• Social Policy Agency (SPA)</li> <li>• Corporate Office</li> </ul>
<b>1998</b>	<b>Department of Work and Income (WINZ) established</b>	From Income Support + NZ Employment Service + Community Employment Group + Local Employment co-ordination
<b>1998</b>	<b>Social Policy Agency expanded</b>	Housing Policy function of the Ministry of Housing transferred to the Social Policy Agency (moved to Housing New Zealand Corporation July 2001)
<b>1999</b>	<b>Ministry of Social Policy established</b>	From Social Policy Agency + Corporate Office + Purchase and Monitoring Group (PMG established May 1999 to monitor the new departments)
<b>1999</b>	<b>Department of Child, Youth and Family Services established</b>	<ul style="list-style-type: none"> <li>• January - Children, Young Persons and their Families Agency (CYPFS + NZCFA)</li> <li>• October - Department of Child Youth and Family Services</li> </ul>
<b>2001</b>	<b>Ministry of Social Development (MSD ) established</b>	From Ministry of Social Policy + Work and Income
<b>2002</b>	<b>Ministry of Social Development expanded</b>	New Offices for Senior Citizens <sup>114</sup> and Disability Issues <sup>115</sup> established

<sup>113</sup> Social services is defined in this context as the Department of Social Welfare and those departments and agencies which have arisen from the original department, or have joined the Ministry of Social Development from 2001.

<sup>114</sup> The Office was formerly the Senior Citizens Unit of the Ministry of Social Policy which provided services for the Minister for Senior Citizens.

<sup>115</sup> The Office was established within the Ministry to provide advice to the Minister for Disability Issues. Prior to this the Ministry of Health, through its Disability Issues Directorate had provided services to the Minister.

<b>2003</b>	<b>Ministry of Social Development expanded</b>	To include Ministry of Youth Affairs <sup>116</sup> ; Office for the Community and Voluntary Sector <sup>117</sup>
<b>2004</b>	<b>Ministry of Social Development further expanded</b>	<ul style="list-style-type: none"> <li>• Families Commission added</li> <li>• Family and Community Services<sup>118</sup> (FACS) established within MSD – as a provider or funder of services</li> </ul>
<b>2005</b>	<b>Operational funding for social services transferred to MSD</b>	From the Department of Child, Youth and Family Services
<b>2005</b>	<b>Regional Commissioners for Social Development</b>	Regional Commissioners for Work and Income became Regional Commissioners for Social Development, with a mandate to lead social development at regional and local levels.
<b>2006</b>	<b>Ministry of Social Development further expanded</b>	Department of Child, Youth and Family Services merged with MSD from 1 July

This chapter concludes with a picture of the Ministry of Social Development in 2007 and speculates on future possibilities for the development of the Ministry.

## **8.2 Department of Social Welfare 1972 - 1998**

The Department of Social Welfare was formed on 1 April 1972 through the amalgamation of the Social Security Department and the Child Welfare Division of the Department of Education. This arrangement continued, under several long-serving Directors General (Messrs Mackay, Callahan and Grant), until 1991 with the appointment of Andrew Kirkland<sup>119</sup> from the New Zealand Forest Service, whose task was to prepare the Department for separation into functioning Business Units.

The accomplishment of the separation into four business units and a Corporate Office has been described in chapter six. The business units were set up in March

<sup>116</sup> The review of Youth Affairs found that it sat closely with the social development interests of the Ministry of Social Development (see chapter seven)

<sup>117</sup> The Office was established to support the Minister for Community and Voluntary Services and be a contact point for community, voluntary and tangata whenua organisations.

<sup>118</sup> Family and Community Services was launched by the Minister of Social Development and Employment, Hon Steve Maharey, in August 2004.

<sup>119</sup> Mr Kirkland's tenure was relatively short as he suffered a stroke and had to resign. A respondent noted that this was one of the human costs of the pressures encountered in the course of the restructuring.



1992 and operational from May. Margaret Bazley, later Dame Margaret, was appointed Director General in 1993 and continued in that role until 1999 when she became the Chief Executive of the Ministry of Social Policy.

A legislative change was required to accommodate the changes in terminology used in the principal Act<sup>120</sup> in reference to the Department of Social Welfare. The Social Security Amendment Bill (No. 6) was passed in March 1992. The discussion which took place in Parliament at that time, where little attention was paid to the restructuring<sup>121</sup>, is noted in chapter six.

The Department's 1992 Annual Report outlined the process which had been followed to implement the changes. Submissions had been presented to the Minister of Social Welfare in October 1991. The rationale given for restructuring the three main operating functions was to provide tighter lines of accountability for each. The Chief Executive's overview, in the name of Andrew Kirkland, noted that "a major feature of the change was the consolidation of policy advice in a single policy unit and the computer-based information systems into a bureau" (Department of Social Welfare, 1992:4). Previously policy functions had been spread throughout the groups. The new General Managers took up their positions early in 1992, and the new structure was operational from 1 May. The change was the most far reaching, since the 1972 merger to form the Department of Social Welfare, and represented the first stage of decoupling the operational functions.

The Department of Social Welfare continued to operate as one department, for reporting and accountability purposes, through the period from 1992 to 1998. One initiative, worthy of note in this period, was the Strengthening Families strategy which had been established "to ensure that seamless service delivery was not just a priority for Social Welfare business units but for the whole of the public sector's social service agencies" (Department of Social Welfare, 1998: 2). The Chief Executive, then Margaret Bazley, had worked with her colleagues in Health and Education to present a united face to launch the Strengthening Families concept to communities. Indeed the personal efforts of Mrs Bazley to promote the concept resulted in a major effort to focus on the coordination of services from government

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<sup>120</sup> Social Security Act (1964)

<sup>121</sup> It is apparent from a study of the Hansard records that the only speaker to mention the restructuring was the Minister responsible for the legislation – the Minister of Social Welfare. As there was no comment from the Opposition speakers, it can only be assumed that they had no concerns about the restructuring.

agencies. While the programme has received less prominence in the Ministry's more recent Annual Reports, Strengthening Families is still operating at the time of writing. The 2006/07 Report provides an update on the key activities and is signed out by eleven departmental chief executives who state their commitment to their respective agencies' ongoing involvement and active participation in the Strengthening Families initiative (Ministry of Social Development, 2006). In a period of massive change, and where changes of Government can result in the discontinuation of programmes, the Strengthening Families initiative has continued to maintain cross-department support over a long period and reflects ongoing commitment to a joined-up approach.

The final Annual Report of the Department of Social Welfare was for the year ended June 1999. At that time the department comprised: the Corporate Office and the business units of the Social Policy Agency, Income Support Services<sup>122</sup>, the New Zealand Community Funding Agency and the Children, Young Persons and their Families Service. The Chief Executive's overview stated "The completion of approximately a 10-year evolution in the formulation and delivery of social services in New Zealand" (Department of Social Welfare, 1999: 2). The rationale for the changes is also specified as the need for strong, standalone, social service delivery agencies supported by an independent, equally strong, highly focused policy organisation. However, in the light of subsequent developments, the independent, strong, and highly focused policy organisation had a relatively short life. The restructuring, which had taken ten years to evolve, produced a dedicated stand-alone policy agency which lasted only two years.

Another development noted in the 1999 Annual Report was the creation, in May 1999 of a Purchase and Monitoring Group attached to the Ministry. While, on the one hand, the powerful Department of Social Welfare was losing its operational functions and the corresponding staffing, the Chief Executive of the remaining Social Policy Agency was able to retain some control levers through the provision of purchase advice to the Minister. According to one interviewee, with a Treasury background, the Purchase and Monitoring Group was set up to have an audit function. With the devolved models of autonomous separate agencies, there had been concern about management accountability and it was essential to retain that purchase and monitoring oversight when major departments, such as Work and

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<sup>122</sup> Income Support Services became the Department of Work and Income from 1 October 1988

Income, were cut adrift. Earlier experience had indicated that there was little understanding of the Public Finance Act, and their responsibilities for budget management, among the senior managers of the business units.

### **8.3 Decoupling and expansion**

The first step to de-couple the Department of Social Welfare and its business units, and establish standalone agencies, took place in 1998 with the creation of the Department of Work and Income, and was followed by the establishment of the Ministry of Social Policy and the Department of Child, Youth and Family Services from 1 October 1999. These developments have been discussed in chapter six and are summarised below, together with evidence to clarify the rationale behind the moves. The decoupling of the Department of Social Welfare into three departments was the last step in the separation of a number of social sector agencies. The Department of Justice had been separated into a Ministry and two operating departments – Courts and Corrections - in 1995.

#### **8.3.1 Department of Work and Income established in 1998**

The process of the establishment of the Department of Work and Income was confirmed at the Cabinet meeting on 15 December 1997. (The composition of the new department was outlined in chapter six.) The selection of a chief executive was to be a two-step process with the initial appointment of a Chief Executive Designate to be made early in the new year (1998). This would speed up the process and allow time for the search for a Chief Executive to take the new Department forward. The papers considered by Cabinet in September 1998 established the Vote and output class structure for the new department and the Baseline funding. The newly appointed Chief Executive, Christine Rankin, assumed command of the new department from 1 October 1998.

The legislation required to set up the new department, the Employment Services and Income Support (Integrated Administration) Bill 1998, progressed through the house in August 1998. The Bill spent four days in the Committee stages as there was clause by clause debate and many amendments proposed. The Bill was opposed by the Labour and Alliance parties in opposition. The Minister of Employment, Hon Peter McCardle, had promoted the legislation which was to:

- (a) provide for the integration of employment services and income support services; and

- (b) to facilitate the transfer of the administration of the Social Security Act 1964 and of functions under certain other enactments.<sup>123</sup>

At the third reading the main speaker (Mr McCardle) noted that the Bill was part of a major employment and welfare restructuring and followed on from the economic restructuring of the 1980s. The major parts of the Bill were to: focus employment intervention for the most disadvantaged; integrate the separate departments that help job seekers into a “one-stop shop”; divide New Zealand into thirteen regions; and implement a community wage<sup>124</sup>, to replace the negative unemployment benefits.<sup>125</sup>

The 3,500 Income Support staff and 1,000 staff from the Employment Service would combine in the new department. Other speakers in support of the Bill referred to the “one-stop shop” however, that concept was questioned by the opposition speakers. At the Third Reading debate, Steve Maharey, the Labour opposition welfare spokesman, stated that a Labour Government would not implement the Bill and that “we believe that a one-stop-shop dealing with 900,000 beneficiaries, students and superannuitants will prove to be unsustainable” (Maharey, Hansard 27 August, 1998, Third Reading:1) . The Bill became Law on 31 August 1998, and was not immediately changed when Mr Maharey became Minister of Social Services and Employment in the 1999 Labour Government, although the unsustainable nature of the operations of the Department of Work and Income (known as WINZ) would soon become apparent.

Although the Department of Work and Income came into being on 1 October 1998, its operations were not without controversy. The incoming Government in 1999 had concerns about the way the Department was operating and Cabinet agreed on 20 December 1999 to conduct a Ministerial Inquiry that would (i) examine the reasons for the establishment of the Department (ii) look into whether the objectives set for it by the previous government had been achieved and (iii) what further changes may be necessary. In the 14 February 2000 media release announcing the inquiry,

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<sup>123</sup> Employment Services and Income Support (Integrated Administration) Act 1998, Short title and commencement.

<sup>124</sup> The community wage is the income support payment a job seeker receives when they apply for income support. Job seekers are required to take part in community work, training or ‘other organised activity’ in return for the income they receive from the State.

<sup>125</sup> Hansard Third Reading 27 August 1998, Employment Services and Income Support (Integrated Administration) Act 1998 Main speaker – Hon Peter McCardle.

Minister Mallard stated: “The Government is driving a culture change in the public sector. It is guided by the principles of moderation, thrift and service to the public. WINZ has a reputation for wastage and extravagance that the public find unacceptable from a government agency.” The Review team was led by Don Hunn, a former State Services Commissioner, and six others including a former Deputy Secretary of Justice. The Review commenced in February 2000 and was completed on 8 May 2000<sup>126</sup>.

The Review Team found that it was confronted with a paradox, in that the Department had achieved a lot in a very short time, but had been subject to severe criticism and ridicule around the country including the leadership style, corporate activities and management of student loans (Ministerial Review: 4). The Department had adopted a corporate business culture and the corporate style was not appropriate in public sector management. External relationships had also been a cause for concern. These were seen to stem from the inexperience of senior managers in the “Wellington game”, the poor relationships with Ministers and the public perception of extravagance. The Review found that “there is less emphasis on collegiality, the collective interest, and a shared set of values across many organisations, which are essential to the running of the public service” (Ministerial Review: 6).

The establishment of the Department had been part of the employment strategy of the National/New Zealand First Coalition Government and was designed to achieve two outcomes: the reduction in the percentage of long term unemployment among all working age beneficiary groups by job seekers obtaining unsubsidised employment; and the complementary outcome of maximising the involvement of job seekers in community work or training (Ministerial Review: Annex I).

While progress had been achieved, mistakes had been made in trying to do too much too soon. The previous Government's wish had been to have Work and Income as a service delivery department and divorce it from a policy role, other than operational policy. Separate policy and purchase advice was to come from the Ministry of Social Policy and the Department of Labour. However, the review found that there was some confusion around the policy boundaries between the Department, the Ministry of Social Policy and the Department of Labour. People

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<sup>126</sup> Ministerial Review into the Department of Work and Income (2000), Wellington: New Zealand Government, 8 May (known as the “Hunn Report” after the Review leader).

interviewed by the Review Team had suggested that the department would benefit from having a strategic policy capability, as well as an operational policy capability (Ministerial Review: 20).

Section Four of the Report addressed conclusions and suggestions. While it was acknowledged that some organisational goals had been achieved, the policy outcomes still remained uncertain. The speed of final phase of the establishment of the Department (July to 1 October 1998) had compressed the normal change processes which had already been complicated in the transition from design to implementation by the consultants who had had little public service experience. The fact that the chief executive and the majority of senior managers had been drawn from one of the agencies, resulted in not a merger but a takeover by Income Support. The Review Team considered that further major restructuring would be inadvisable, but that “there remain serious problems of public credibility and Parliamentary confidence to be fixed.” It was also noted that the change of government had brought in a new government with its own new welfare and employment policies that it wished to implement (Ministerial Review: 30).

The Review Team had refrained from making specific recommendations<sup>127</sup> because political decisions needed to be made on the essential framework for the Department’s operations. However the revised report pointed out the changes which were required. These included: the development of a clear and effective policy framework; finalisation of welfare and employment outcomes to which the department is to contribute; increasing the employment focus of the department; and bringing about a culture change to reflect its responsibilities as a core Public Service Department and encourage collaboration with other departments (Ministerial Review: 30/1).

The media coverage, following the release of the Report, indicated the great interest that had been aroused in the operations of the Department. On 10 May 2000 the Minister of State Services, Hon Trevor Mallard announced that the Report would be released in full and, in a separate release, praised the Hunn Report (as it came to be known). Mr Mallard’s release also indicated that a draft copy of the Report had gone to the chief executive of the Department of Work and Income and that, Mrs Rankin, with her lawyers, had made submissions to seek changes to the Report.

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<sup>127</sup> The original report did contain recommendations, but these were removed as a result of negotiations with the Department.

The released version had reflected these changes. An earlier copy had been leaked to the Media, hence the headlines prior to the official release.<sup>128</sup>

The problems of first years of the Department's operation were highlighted by one respondent.

- It faltered when everyone got into patch protection. Work and Income needed to cooperate with the policy people - but they didn't. There was departmental in-fighting with WINZ which would surface in at meetings in the Minister's office. Instead of working together they would scuttle proposals. There was a gap between the front-line operational people and policy people. The policy and national office people tried to get out and managers would visit the regions and speak with people there and get quite a different view from the front-line people from what the policy people said. (27) Former chief executive

The events of 2000 and early 2001 which led to the establishment of the Ministry of Social Development are described in section 8.4.

### **8.3.2. Ministry of Social Policy 1999 - 2001**

The Social Policy Agency together with the Corporate Office functions of the former Department of Social Welfare and the recently established Purchase and Monitoring Group became the Ministry of Social Policy on 1 October 1999. The first Annual Report for the 1999/2000 year was enthusiastic about the challenges of developing a social policy work programme to fit the goals of the new Government. The Ministry was promoting its new vision of "social well-being for all New Zealanders," and sought to move from the welfare focus of the former department to a more proactive role in working with individuals, families and communities. In addition to promoting new initiatives such as 'Closing the Gaps',<sup>129</sup> greater engagement with the community and voluntary sector was planned.

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<sup>128</sup> It was this latter point that was seized on by the news media and resulted in headlines such as:  
"Winz scrambles to sanitise report" – Evening Post 2 May 2000  
"Winz Style skewered in uncut report" – Evening Post 9 May 2000  
"Winz report watered down" – The Dominion 10 May 2000  
"Rankin objected to draft details" – New Zealand Herald 11 May 2000  
"Winz loses again" – The Press 12 May 2000. Reference is made in this article to the organisation being "without a brain". While the media made much of this assertion, those words did not appear in the published report.

<sup>129</sup> Closing the Gaps was a series of initiatives focussed on addressing Maori inequalities. After negative publicity the programmes were renamed "Reducing Inequalities" and a broader focus was adopted.

The last Annual Report of the Ministry, in the name of the Acting Chief Executive, Mel Smith, was for the year ending 30 June 2001. Dame Margaret had left the Ministry at the end of June to become Acting Chief Executive of the Department of Work and Income pending the appointment of the new chief executive and the merger on 1 October 2001. Major achievements highlighted in the report included: strengthening the strategic social policy advice function; support for the Review of the Department of Child, Youth and Family Services by Judge Brown; the Heartland Services programme; and the creation of a Knowledge Management Group within the Ministry. However, this Ministry had a short life as the events relating to the Department of Work and Income unfolded.

### ***8.3.3 Department of Child, Youth and Family Services established on 1 October 1999***

Following the establishment of the Department of Work and Income in 1998, thought had been given to creating a Child and Family Department. The proposal is outlined in a Report to the Minister and Associate Minister of Social Welfare in August 1998. The integration of the Children, Young Persons and their Families Service (CYPFS) and the New Zealand Community Funding Agency (NZCFA) was seen as a first step in creating a Child and Family Department. The key benefits of such a move were seen to be: improving social service delivery by better coordinating directly delivered and purchased social services; promoting an enhanced role for the not-for profit sector; and achieving efficiencies by combining the two agencies (Bazley, 1998: 1). Integration before the end of 1998 was recommended, as a 'necessary' first step in the creation of a Child and Family Department in 1999. This new department was to be responsible to the Minister of Social Welfare and funded through Vote: Social Welfare (Bazley, 1998).

The essence of this report was conveyed in a paper to the Cabinet Committee on Strategy and Priorities in September 1998, and was agreed in principle, but not actioned until December 1998 [STR (98) 306 refers]. At this stage the department was referred to as the Department of Child and Family Services – this title was agreed by the Committee. Recommended starting dates for the new department, bearing in mind that legislation changes were required, were either 1 July 1999 or 1 July 2000.

The process to establish the new department was a two-step one. In September 1998 the Director General of Social Welfare had announced the intention to



amalgamate CYPFS and NZCFA as the first step in forming a new department of State. The amalgamation became the Children, Young Persons and their Families Agency, which operated from 1 January 1999, until the department came into being on 1 October 1999. The process of forming the new department involved some changes of focus as the concept of a Child and Family Department, initially proposed by the Director General of Social Welfare and being resourced through Vote: Social Welfare, became a standalone department with its own Vote and a separate Minister.<sup>130</sup>

A study of the reports to Cabinet at this time shows a range of titles for the new department. A December 1998 paper outlined a Vote structure for the new department (with its own Vote now), and in the Appendix was named – the Department of Child, Youth and Family Services. Legislation changes were required to establish the new department<sup>131</sup> and change the responsibility for the statutory responsibilities under the Children, Young Persons and their Families Act (1989). By 12 April 1999 it was named the Department of Child, Youth and Whanau Services and was to commence from 1 October 1999 [CAB (99) M 10/19 refers]. The Bill was introduced as the Department of Child, Youth and Whanau Services Bill on 18 May 1999, received its second reading on 1 June 1999, with the Select Committee report back on 12 July 1999. The Bill was re-titled following acceptance of the Select Committee's report (see chapter 6.3) and the third reading took place on 20 July 1999.

There had been some concerns expressed concerning the processes adopted by the former Children, Young Persons and their Families Service and its capability to carry out its statutory functions under the Children, Young Persons and their Families Act (1989). In 2000, the former Principal Youth Court Judge Michael (Mick) Brown was asked by the Minister of Social Services and Employment to conduct a Ministerial Review of the new department. The Report<sup>132</sup> delivered in December 2000 and embargoed until 1 March 2001, acknowledged that the Department was operating in a difficult area, that most of the problems encountered have been due to external factors beyond the department's control but that factors which were

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<sup>130</sup> Under the Public Finance Act 1989, as Child, Youth and Family Services was a new department and the responsibility of a designated Minister, it required a separate Vote.

<sup>131</sup> Amendment to the State Sector Act 1988 was required to include the new Department.

<sup>132</sup> Brown, Michael J.A. (2000) Care and Protection is about Adult Behaviour. The Ministerial Review of the Department of Child, Youth and Family Services

under its control needed to be addressed. These would include the organisation's culture, its relationships with the sector and the quality of the social work practised (Brown, 2000: 97).

The Media Statement from Minister Maharey<sup>133</sup> pledged immediate action from the Government. Of the 57 recommendations five were seen to require immediate action to improve the Department's performance. These related to: the development of a blueprint for the whole care and protection sector; care management; organisational performance and capability; organisational change to support the Department's performance; and staff training and development.

Resourcing the new Department was always going to be a problem. Some additional funding had been transferred in the wrap-up process related to the creation of the Department of Work and Income. A further review of the Child, Youth and Family Services funding process was undertaken by a contractor for the Ministry of Social Policy in 2001<sup>134</sup>. The Report addressed the rising concern that the external pressures, arising from the increased volumes of notifications of abuse and neglect which the Department was required to investigate, were placing an impossible strain on the department's baseline. A demand-linked funding system was proposed.

An earlier assessment of the policy capability of Child, Youth and Family was contained in the letter from the State Services Commissioner to the Prime Minister in December 2000. While written in the context of the future of the Ministry of Social Policy and the amalgamation possibility with Work and Income, the Commissioner noted that Child Youth and Family had operational policy but very thin analytical capability and that it relied, to a large extent, on the Ministry of Social Policy for policy advice, research, and information about the effectiveness of interventions.

The February 2001 paper from the Minister of State Services to the Cabinet Policy Committee, which proposed the establishment of a Ministry of Social Development, also stated that it was not proposed to integrate Child, Youth and Family into the proposed Ministry of Social Development but saw the Ministry working in close

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<sup>133</sup> Hon Steve Maharey, Minister of Social Services and Employment , 1 March 2001. Government to act immediately on Mick Brown review of Child, Youth and Family.

<sup>134</sup> Ministry of Social Policy (2001) Report 01/228 to the Minister of Social Services and Employment "Review of CYF Funding process to factor in external pressures".

collaboration with the department on the development of strategic and cross-sectoral policy advice. It also proposed that the Ministry's role to provide purchase advice in relation to Child, Youth and Family should be transferred to that department. This did not happen and the Ministry's Purchase and Monitoring Group continued to provide advice to the Minister on the Department's Quarterly Reports and accountability documents<sup>135</sup>. The recommendations also proposed that further operational policy advice responsibilities could be transferred from the Ministry to the Department with effect from 1 July 2002. While the Department had inherited policy analysts from the former agencies when it was established, the establishment of a Policy and Ministerial Services output expense class did not take place until the 2001 Budget. By the time of the merger with the Ministry of Social Development the policy team had developed both strategic and operational policy capability.

The ongoing fortunes of the Department are discussed in section 8.5 which covers events leading to the re-coupling with the Ministry of Social Development in 2006.

#### **8.4 Establishing the Ministry of Social Development 2001**

The Ministry of Social Development came into existence on 1 October 2001 as the result of the merger between the Ministry of Social Policy (around 180 staff based in Wellington) and the Department of Work and Income with staff of over 5,000 located in 143 offices around the country.

In announcing the new Ministry on 11 April 2001 the Minister of State Services<sup>136</sup> said that Cabinet had agreed that a new Ministry based on the Department of Work and Income and the Ministry of Social Policy would be the Government's primary adviser on strategic and cross-sectoral social policy, as well as continuing to deliver income support and other social services to the community. "We will not be re-advertising everyone's jobs and spending millions on re-branding<sup>137</sup>. What we are chasing is quality advice, both cross-sectoral and strategic, and an approach to service delivery informed by social development" (Mallard, 2001). The position of chief executive of the new Ministry was to be announced shortly. The Minister of State Services also used his April press statement to announce that the

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<sup>135</sup> Output Plan, Statement of Intent and Annual Report.

<sup>136</sup> Press statement from Hon Trevor Mallard, 11 April 2001.  
<http://www.beehive.govt.nz/Print/PrintDocument.aspx?DocumentID=10241>

<sup>137</sup> This comment is in reference to the extensive branding (new logo and stationery) which was carried out when the Department of Work and income was established.

Government did not want to reform or restructure the public service but was looking for improvements, and that terms of reference for a Review of the Centre<sup>138</sup> were being developed.

Earlier discussion on the future of the Ministry of Social Policy included a letter from the State Services Commissioner to the Prime Minister (dated 18 December 2000) which was responding to a request from her to set out the situation regarding the future of the Ministry of Social Policy. It noted that earlier, in August 2000, the Ministers of State Services and Social Services and Employment had agreed on a leadership role for the Ministry to build the foundations for sound social policy advice with a longer-term focus on New Zealand's "intractable social problems and disparities". The aim of improving cross-sectoral collaboration was also included in the list of requirements of Ministry of Social Policy.

The State Services Commissioner's letter also made reference to the difficult relationships that existed between the Ministry of Social Policy, the Department of Work and Income and the Department of Child, Youth and Family Services. In the Commissioner's view silos existed and these needed to be addressed. Also noted was the tendency for operationally urgent policy to crowd-out the longer-term strategic policy (Wintringham, 2000:3).

A later, January 2001, paper from the State Services Commission to their Minister, discussed options for the delivery of strategic social policy advice. It noted that the chief executive of the Ministry of Social Policy would retire in on 30 June that year, and the contract of the chief executive of the Department of Work and Income would expire at that time. This provided an opportunity to look at the best configuration for the provision of comprehensive and long-term social policy advice.

However, by 19 February 2001 it appears that a decision had been taken. A draft paper from the Minister of State Services to the Cabinet Policy Committee proposed the establishment of a Ministry of Social Development and refers to a decision taken by the Prime Minister, the Minister of Finance, the Minister of Social Services and Employment and himself to fold the functions of the Department of Work and Income into the Ministry of Social Policy with effect from 1 October 2001. Again the point is made that the new Ministry would be the Government's primary social

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<sup>138</sup> The Review of the Centre and its findings are discussed in chapter seven.

development agency and would have responsibility for a number of functions including “providing over-arching, cross-sectoral policy advice” (Mallard, 2001:3). Some six advantages were listed including that such a merger would reduce by one the number of government departments and thus reduce transaction costs. While this rationale was always the case, previous Governments had considered that the benefits of separation outweighed the increased transaction costs from the high number of departments. It appears that the transaction cost argument was not considered when the initial decoupling was taking place.

It is apparent that a variety of manoeuvres were taking place at this time, when the relevant reports and papers are studied, and that the problems with the Department of Work and Income were driving some re-thinking on the most appropriate way forward. Legal advice from the State Services Commission to the Minister of State Services on 1 March 2001 indicated that his proposal to appoint a chief executive to the existing Department of Work and Income and then carry that position forward to a later merger with the Ministry of Social Policy would breach the State Sector Act. The way around this predicament was announced in a 4 May 2001 media statement from the State Services Commissioner. Dame Margaret Bazley would be the acting chief executive of the Department of Work and Income from 6 July until the appointment of a chief executive to the Ministry of Social Development. (The term of the current chief executive, Christine Rankin, expired on 5 July.) A long-term public servant Mel Smith was to be acting chief executive of the Ministry of Social Policy from 1 July 2001 until the merger.

The departure of Christine Rankin from the Department of Work and Income was not without drama as she took a case to the Employment Court to attempt to overturn the decision not to reappoint her on the expiry of the initial contract. The Court’s judgement not to uphold her case was announced by the State Services Commissioner on 2 August 2001. The way was now clear for the appointment of a new chief executive of the new Ministry.

By April 2001, political journalist Colin James<sup>139</sup> was commenting on the merger and pointing out that it had been done “without – or at the most minimal – advice from officials. This is major policymaking by amateurs, namely politicians.” The earlier paper from the Minister of State Services, to the Cabinet Policy Committee, had

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<sup>139</sup> New Zealand Herald News Review, 24 April 2001. “Beyond Rankin: two huge policy changes”. (The “superministry” proposal raised by James in this article is discussed further in 8.6.)

referred to the decision taken by the Prime Minister, the Minister of Finance, that the Minister of Social Services and Employment and himself to establish a Ministry of Social Development by folding the functions of the Department of Work and Income into the Ministry of Social Policy, supports James' contention that the policy decision had been taken by the four senior Ministers. Although at this time they could hardly be called 'amateurs'.

Evidence of the scope of the policy role is contained in a Cabinet Minute dated 11 June 2001 to effect changes to the State Sector Act to provide for the new ministry. The paper notes that the Ministry of Social Development will have:

- 2.1 responsibility for delivering a range of income support, employment and other social services in the community;
- 2.2 a major operational policy role; and
- 2.3 a central strategic social policy role [CAB Min (01) 18/13 refers].

An earlier paper from the Minister of State Services to the Cabinet Appointment and Honours Committee contained a position description for the Chief Executive of the Ministry, and a recommendation that the Department of Work and Income be refocused to become "the Government's primary adviser on strategic and cross-sectoral social policy, as well as continuing to deliver income support and other social services to the community." Cabinet agreed to the recommendations [CAB (01) 121 refers].

The announcement of the appointment of the new chief executive of the Ministry of Social Development, Peter Hughes, was made in a media statement<sup>140</sup> on 14 August 2001. The Commissioner stated that the Ministry would have two main roles, "to deliver employment and income support service nationwide, and to provide the Government with advice on service delivery and on social policy, including strategic social policy." The statement continued that the Government intended that the Ministry will become the primary advisor on cross-sectoral strategic social policy, and of the effectiveness of all policy from a social perspective. The statement also included comments about Mr Hughes' experience and capabilities, including his "intellectual ability and acumen to lead an agency providing strategic policy advice to Ministers."

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<sup>140</sup> State Services Commissioner Media Statement 14 August 2001.

An interview with Peter Hughes<sup>141</sup>, who took up the position of chief executive of the 1 October 2001, provides useful insights into his approach with the joined up department. While admitting that bringing the two agencies together in an integrated unit would be a challenge, he acknowledged that both organisations had a lot to be proud of and that the challenge would be to take the best of both and create something new. On the need to bring together policy and operations and service delivery, he stated “I think we need to be a lot cleverer than simply just slamming them together. Can we join them up in ways that actually reinforce what each other does?” (Carson, 2001:15). He also emphasised the importance of leadership and teamwork to involve staff in the changes.

The first Annual Report of the new Ministry, at 30 June 2002, traced the first nine months under the leadership of the new chief executive. Achievements noted were the bringing together of the two agencies (Work and Income and the Ministry of Social Policy) and the improved performance, as measured in outputs, of the merged organisation. The first Social Report<sup>142</sup> was released and new offices for Senior Citizens and Disability Issues had been established. Plans for expansion in the next year included the establishment of a significant policy presence in the regions and expanding strategic policy capability (by a third) to provide advice to Government and to produce an updated Social Report in 2003.

It is clear from the first Annual Report that the new Ministry had a forward course of action planned and was working in tune with the direction set by the Government. Subsequent Annual Reports covered the further expansion of the Ministry with the 2003 Report stated that the Ministry was New Zealand’s largest government department with almost 5,500 staff and more than 150 local offices, giving it a presence in most communities. The organisation structure had expanded into four major areas as outlined in the chart below. Work and Income has continued to operate as a discrete service line, with some of its previous functions under Specialist Services.

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<sup>141</sup> PSA Journal, October 2001.

<sup>142</sup> The Social Report has been published annually since 2001. It aims to report on the social state of the nation and covers: economic performance, health, environmental sustainability, social connectedness, the knowledge and skills of the population, the freedom from violence and crime and other aspects of the quality of life.

## Organisational Structure of the Ministry of Social Development in 2003<sup>143</sup>

<b>Policy, Research and Evaluation</b>	Strategic Social Policy
	Sector Policy - Offices for <ul style="list-style-type: none"> <li>• Disability Issues</li> <li>• Senior Citizens</li> <li>• Community and Voluntary Sector</li> </ul>
	Centre for Social Research and Evaluation
<b>Service Delivery</b>	Work and Income
	Specialist Services <ul style="list-style-type: none"> <li>• Study Link</li> <li>• Community Services Card</li> <li>• International Services</li> <li>• War Pension Services</li> <li>• Benefit Control</li> <li>• Debt management</li> </ul>
<b>Governance</b>	Corporate and Governance
	Risk and Assurance
<b>Corporate and Support</b>	Human Resources
	Information Technology
	Finance

In 2002 Peter Hughes, as Chief Executive of the Ministry of Social Development, reported to the Six Nations Conference on the intersectoral collaboration which had resulted from the Review of the Centre. The paper considered the organizational changes taking place from the 1990s through to the establishment of the Ministry of Social Development in 2001 and traced the splitting up of the old Department of Social Welfare and commented on the internal policy/delivery split – that it was seen as necessary to allow policy issues to be considered without delivery interference and also to avoid “delivery capture”.

The paper noted that the Labour-led government, which came to power in 1999, had concerns that the organizational arrangements were not appropriate for the direction that they wanted to pursue. Areas highlighted were: Government agencies still working within their silos and there needed to be greater levels of collaboration; too many social sector agencies which made it difficult for Ministers to develop

<sup>143</sup> Ministry of Social Development, Annual Report for the year ending 30 June 2003, page 49.



consistent strategic direction; the policy/delivery split inhibited communication and alignment between policy and delivery; and Government needed an agency with a broad enough platform to lead the social sector (Hughes, 2002).

A review, jointly sponsored by the Ministry of Social Development and the State Services Commission, was undertaken in 2004. The Review “Lessons Learned from Leading Organisational Change: Establishing the Ministry of Social Development” drew on the experiences of Hughes in establishing the Ministry of Social Development and also on the change experience of five other public sector chief executives, to provide a broader perspective. Key points emerging from the Review as “Lessons Learned” can be summarised as:

- Analyse the context of change – restructuring or merger, financial savings, how much time is available, political demands;
- Tackle people issues – understand people’s attitudes to change, deal with resistance, get senior management buy-in;
- Maintain open lines of communication – communicate all stages of the change process, adapt messages to suit the audience;
- Set a clear vision for people to follow;
- Recognise cultural issues – acknowledge the past but do not make judgements about it, recognise different outlooks and do not favour one over the other;
- Manage stakeholder relationships;
- Maintain the momentum of change – progressive change is preferable to “big-bang” restructurings, provide positive feedback when progress is made, empower staff to make them responsible for their future (State Services Commission, 2004: 3 - 5).

Hughes is quoted on his impressions when taking up his new role. He had received few direct instructions and needed to take into account the context in which the merger was taking place. No fiscal savings had been required of the merger. The Minister had been keen to see progress on his major policy priorities, and increased co-ordination of policy and operational functions and with stakeholders was required.

With the above imperatives in mind Hughes had adopted the following principles<sup>144</sup> to lead the merger. There would be no redundancies and restructuring was to be initially restricted to the national office, bringing together complementary functions and putting in place a new senior management team. There would be strong centralised corporate functions with as few direct reports to the chief executive as possible; and service lines (operational groups) were to be left alone so that service delivery would not be compromised (State Services Commission, 2004:7).

Under Hughes' guidance the Ministry continued to develop and expand as outlined in Table 7. The re-coupled Ministry and the coverage of strategic social policy is addressed in section 8.6.

### **8.5 Child, Youth and Family Merger 2006**

The fortunes of the Department of Child, Youth and Family Services had taken several turns before the merger announcement was made in March 2006. The Department came into being in October 1999 but almost immediately its activities and practices were put under review from Retired Judge Michael Brown.<sup>145</sup> The New Directions programme was designed to act on the Brown recommendations and chart the way forward. A large team of consultants was brought in and twenty-four projects were established. However, they did little to improve the way that the department operated.

The position of Child, Youth and Family was summed up by one of the people interviewed.

- CYF was a tragedy – not so much the policy/operations split – but an organisation like that was bereft of sufficient leaders to be able to do its job. It was being asked to do a job a government department can't do – caring for children and families is something beyond what a government department can do – the law was changed in 1985 – institutions and homes were taken away - yet CYF was still expected to do the same job – the problem was not a policy/operations split. If you define the responsibility of government, it was impossible to ask a department to accept that responsibility. The first reaction of the media is to blame CYF. It happens every

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<sup>144</sup> The principles listed in the 2004 Report are shown here in order to check them against the subsequent merger with the Department of Child, Youth and Family Services which took place in July 2006. (see section 8.5)

<sup>145</sup> Brown, Michael J.A. (2000) Care and Protection is about Adult Behaviour. Report to the Minister of Social Services and Employment, Hon Steve Maharey.

time – it is impossible for an organisation to accept this responsibility. (20) Former chief executive

A First Principles Baseline Review was announced in March 2003 and reported six months later in September<sup>146</sup>. The Review found the Department struggling to manage a complex set of services within its appropriations and that the problems identified were deep and systemic. Despite funding increases of over \$90 million the additional resources appeared to have had little sustained impact on overall performance. In the face of a damning review the Chief Executive's resignation was announced in November 2003. A month later the appointment of an Acting Chief Executive was announced by the State Services Commissioner.

The appointment of a new Chief Executive was announced in May 2004 and the appointee, Paula Tyler a Deputy Minister of the Children's Services Department from Alberta, Canada, took up the position in August 2004. Under Ms Tyler the Department made progress and systems were established. It was with regret that she relinquished the position late in 2005, to return to Canada.

Before her departure Ms Tyler was interviewed<sup>147</sup> for this study and asked for her views on the operation of Child, Youth and Family and on the separation of policy from service delivery functions. Her comments were based on her Alberta and New Zealand experiences. From a chief executive's perspective she considered that it made sense to have the functions together and that separation is not workable. In her opinion the changes had happened in an odd way in New Zealand and the effects of the separation of policy and delivery were now apparent. While the Baseline Review recommendations were the right prescription for Child Youth and Family at the time, as the organisation was not coping with the volume of work that it was faced with, she considered that they were not in the best interests of children and families in the longer term. As the Ministry of Social Development is involved in policy and delivery and Child Youth and Family has the delivery capacity, she identified tension between the two agencies. The Child Youth and Family separation philosophy was all right in theory, but impossible to implement. Comparisons were made with the Canadian situation where reforms had taken place, but the Canadian

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<sup>146</sup> <http://www.beehive.govt.nz/ViewDocument.aspx?DocumentID=18176>. Report of the First principles Baseline Review of the Department of Child, Youth and Family Services and Associated reports on Blueprint for Care and protection Investment Strategy and Family Support Services

<sup>147</sup> The Interview with Ms Tyler was conducted in her office on 15 November 2005.

Constitution had provided a framework. Criticism was expressed of the ad hoc way that changes had been made in New Zealand.

A media statement from the State Services Commissioner dated 13 November 2005<sup>148</sup> announced the departure of Paula Tyler in December 2005 and that the State Services Commission had only just begun the process of appointing a new chief executive. As subsequent events showed this process was not pursued. The machinery of government arrangements for the delivery of child, youth and family services were set out in a Cabinet paper released on 9 March 2006.<sup>149</sup> Ministers had been asked to either approve a job description for a new Chief Executive or to agree to the merger of Child Youth and Family and the Ministry of Social Development and took the latter option.

The merger of the Department of Child, Youth and Family Services with the Ministry of Social Development was announced on 6 March 2006. The reason provided in the Media Statement by Hon David Benson-Pope, then Minister for Social Development and Employment, was that “we need to bring all the levers together around Child Youth and Family – policy, services and other social agencies – and bring them back with the Ministry of Social Development’s organization and support” (Benson-Pope, 2006). Also quoted in the media statement were the Minister of State Services, Hon Annette King (who said that the departure of the Chief Executive had provided an opportunity to consider merger options), and the Associate Minister of Social Development and Employment (CYF) Ruth Dyson, who made supportive comments about the work of Child, Youth and Family staff. The State Services Commissioner would appoint the Chief Executive of the Ministry of Social Development to be acting Chief Executive to manage transitional issues. However, there appears to be some inconsistency in the Government’s approach as the Prime Minister is quoted in the Dominion Post on March 7 2006 as saying that the difficulty of recruiting a new chief executive was a key factor in the decision.

In response to the announcements, the Child Youth and Family staff took a ‘wait and see’ response. A March 6 press release from the Chief Executive of the Ministry of Social Development promised a minimum disruption for staff and services. Staff changes would be limited, and the areas where there would be no changes to any

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<sup>148</sup> Comment on CYF chief executive recruitment, Media statement from the State Services Commissioner, 13 November 2005.

<sup>149</sup> [http://www.ssc.govt.nz/upload/downloadable\\_files/cabinet-paper-cyf-services.pdf](http://www.ssc.govt.nz/upload/downloadable_files/cabinet-paper-cyf-services.pdf)

jobs were specified: Chief Social Worker, Service Development and Operations Groups. A commitment was made to make the merger as seamless as possible. Peter Hughes, Chief Executive of the Ministry of Social Development, took over responsibility for the management of the Department through to the merger date and encouraged feedback from staff to the document "Improving Outcomes" which set out the changes needed to effect the merger.

The merger was effective on 1 July 2006 and Ray Smith, took the position of Acting Deputy Chief Executive (DCE)<sup>150</sup> of Child Youth and Family. However, as the year progressed beyond the 1 July official merger date, there remained teams which appeared to have no direct responsibilities and the occupants were left to consider their future options. A 'Decisions Document'<sup>151</sup> distributed in April 2007 contained a summary of the decisions which covered the location and re-location of the teams, and itemised changes to roles.

The timeframe of the merger had extended from March 2006 to the effective date 1 July 2006, with a further wave of changes to be effective from 29 June 2007. The long duration taken for the merger to be fully effective was attributed by Ray Smith<sup>152</sup> to wanting to take time to understand the Child Youth and Family operation, and what was required to take it into the future. It was not intended to disenfranchise the Child Youth and Family people, but rather to let them find their feet in the new organisation. Smith considered that the components of the 'joiners' were important - Child Youth and Family was joining a stable organisation. It was a 'soft' merger. There were no savings imperatives and the merger could be worked through at a more leisurely pace.

The principles followed for the Work and Income merger, articulated by Peter Hughes in 2004 (State Services Commission, 2004:7) were largely followed for the Child, Youth and Family merger. There were officially no redundancies, the restructuring was largely restricted to the national office, a new Deputy Chief Executive (DCE), Child, Youth and Family position was established, corporate

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<sup>150</sup> Mr Smith was confirmed in the position in March 2007.

<sup>151</sup> The Document also contained a 10 page "confirmed change protocol" which defined the changed positions and responsibilities. (There had been no protocol for the 2006 changes.)

<sup>152</sup> Mr Smith was interviewed by the author in May 2007 and asked why there had been a sixteen month period from the initial merger, announcement in March 2006 until the completion at 29 June 2007.

functions were centralised, and Child, Youth and Family was established as a service line within the Ministry. However, by centralising some functions within the Ministry, the Strategy and Systems Group was left without meaningful work and those disenfranchised sought positions in other departments.

In the course of the examination by the Social Services Select Committee concerning the 2007/2008 Vote: Social Development Estimates of Appropriation<sup>153</sup> the following question was asked:

Question 2

Does the Department/Ministry plan any restructuring in the near future? If so, what restructuring is planned in 2007/08 and when will this occur? What evaluations have been carried out prior to any proposed restructuring and provide these to the committee? What restructuring occurred during the past financial year - provide details of structural change, the objective of the restructuring, staffing increases or reductions as a result, and all costs associated with the change including costs of redundancy?

The Ministry responded:

The Ministry is not planning any restructuring in the near future. The Ministry's general approach is continuous improvement and refinement; strengthening management and staff capabilities, seeking efficiencies; and driving performance. In 2006/07 the merger of Child, Youth and Family with the Ministry involved the reorganisation of national office teams. The Ministry has been committed to ensuring that there are as few redundancies as possible and that staff have been engaged throughout the process. This means that, because of the very low number of redundancies, the Ministry is unable to provide any details relating to these, as doing so could materially impact the privacy of those concerned. In each case staff were paid as per their contract.

The Ministry's 2006/2007 Annual Report notes the positive achievements which have resulted in the twelve months following the merger. Child, Youth and Family has been able to leverage off the Ministry's policy and research and evaluation strengths; the Children, Young Persons and their Families Act 1989 is being reviewed in order to strengthen the fulfilment of the principles of family decision-making with a view to presenting proposals to government later in 2007. Multi-disciplinary youth-justice teams have been created to hold young offenders to account and address what contributes to offending. Response times to reported

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<sup>153</sup> A similar question to Vote Child, Youth and Family Services resulted in a similar response.

incidents of abuse have been improved and the differential response model has been expanded to provide appropriate responses to suit the particular situation. Also noted is that Work and Income is working with Child, Youth and Family to increase the range of services and supports that are available to clients. This support can also cover attendance at family group conferences and young people involved in the youth justice system who are transitioning from care to get into work or training (Ministry of Social Development, 2007: 7-12).

## **8.6 The re-coupled Ministry of Social Development**

As at July 2006, fourteen years after the initial separation into business units, the provision of government funded social services had travelled full circle. Along the way the business units were upgraded to departments before being re-coupled to form a unified department. However, the 2006 circle was much larger than that of 1992 as additional functions and responsibilities had been added to the Ministry since 2001. The many changes necessitated consequential amendments to the legislation. The purpose of the State Sector Amendment Act 2003 was to “reflect and provide for reorganisations within and into the Public Service”. It covered the required amendments to the principal Act, the State Sector Act (1988) to establish the Ministry of Social Development and the disestablishment of the Ministry of Social Policy, the Department of Work and Income and the Department for Courts.

The incoming Minister of Social Development and Employment, Hon David Benson-Pope in a March 2006 interview<sup>154</sup>, considered that the Ministry had been extraordinarily successful in terms of the reintegration of the policy and delivery arms. He also thought that the biggest challenge for the Ministry would not be in employment matters, but the issue around the reintegration of Child, Youth and Family which would take place as of 1 July that year.

The Ministry saw itself having a leadership role in the social sector and the provider of integrated policy advice to Government from across the social sector. Successive Annual Reports have described the work of the Ministry and its expanding role of “leading social development”<sup>155</sup> with an emphasis on focusing on outcomes. By 2005/06 the Annual Report was subtitled “Helping New Zealanders lead successful lives”.

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<sup>154</sup> The Jobs Letter No. 249, 31 March 2006. “The New Minister” Interview.

<sup>155</sup> Ministry of Social Development, Annual Report 2004/2005

### **8.6.1 Strategic Social Policy**

The development of a strategic social policy capability to provide high level advice to Government has been considered in the context of this research over the period from 1999. The State Services Commission commissioned work on improving strategic social policy advice from Dr Jan Wright. The paper, released by the Commission in May 2000<sup>156</sup> proposed steps to improve the information base for strategic social policy. However, it appears that the State Services Commission did not follow up on this work. Later that year the Minister of Social Services and Employment and the Minister of State Services agreed to a review of the Ministry's strategic social policy capability.

This Review was completed in February 2001.<sup>157</sup> The basic questions which the Review sought to address were: has the Ministry performed adequately in developing its social policy capability and how should the capability be developed further? The findings indicated that the Ministry had improved its capability in that it had established a Strategic Social Policy Group, developed priority frameworks and outcome measures, and is involved in cross-sector forums. However, for the capacity to be further developed additional skilled staff would be required.

Of the sixteen recommendations, several warrant special mention. Recommendation 6 looked at the overall coordination and noted that a considerable number of different and potentially overlapping strategies and frameworks were being developed within the different government agencies. Long-term alignment and coordination of the strategies, policies and programmes was advocated. Recommendation 10 stated that the issue of leadership needed to be addressed urgently. A major criterion for the new chief executive of the Ministry<sup>158</sup> should be "leadership in, and knowledge of, and commitment to strategic social policy" and that a senior manager, skilled in strategic social policy, should be appointed to lead the Strategic Social Policy Group. Recommendation 16 advocated a review of strategic social policy capability be undertaken in twelve months. This never eventuated as the creation of the new Ministry and the appointment of a new chief executive were the main focus.

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<sup>156</sup> State Services Commission, 2000, Working Paper No. 8. Strategic Social Policy Advice: Improving the Information Base. <http://www.ssc.govt.nz> accessed 15/6/2006

<sup>157</sup> Duignan and Stephens, 2001, Review of the Ministry of Social Policy's Strategic Social Policy Capability.

<sup>158</sup> It has been suggested that this finding was used to argue for a changed position description for the new chief executive to be appointed to head the newly created Ministry of Social Development.



The crucial factor in the successful development of integrated strategic social policy was seen to be collaboration and co-ordination of social policy objectives and initiatives by the relevant Ministers. The Reviewers conclude that if social policy is to be aligned in the long term there needs to be a clear locus of responsibility and that it would be wise to build on the capacity building foundation that has been developed by the Ministry of Social Policy.

The Strategic Social Policy Group (SSPG) was established in 2001 as part of the Ministry of Social Policy. The key driver in establishing the group was the perceived lack of coordination across social sector agencies. Later the Group became part of the new Ministry of Social Development, with its leader reporting directly to the Chief Executive. With the growth of the Ministry the strategic social policy capability has expanded and the Group is now part of the Ministry's Policy Cluster. The General Manager reports through the Deputy Chief Executive Social Development Policy and Knowledge, who is also responsible for the Centre for Social Research and Evaluation, the Regional Social Policy Group, and the Social Participation and Inclusion Group. Achievements of the SSPG include the production of an annual Social Report to monitor social wellbeing in New Zealand over time; Social Policy Research and Evaluation Conferences; and leadership of the major government initiative Families – young and old.

From the Ministry of Social Policy to the establishment of the Ministry of Social Development there was emphasis on the development of strategic social policy. The capability was clearly on the agenda of the incoming Labour-led Government in 1999 and the term appeared in all the papers putting the case for the Ministry of Social Development (see 8.4). A Strategic Policy Reference Group was established in 2001. It is chaired by the Ministry's chief executive and comprises up to twelve members drawn from the wider social research community.<sup>159</sup> The Reference Group meets approximately six times a year and comments on the strategic policy papers developed within the Ministry.

The Ministry's leadership role in social sector coordination includes the Social Sector Forum, comprising the Chief Executives of Health, Education and Justice, and chaired by Social Development.

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<sup>159</sup> The Ministry's Annual Reports show that the frequency of meetings and the cost involved.

### **8.6.2 Integrating Social Policy**

The Lessons Learned from Organisational Change Report (State Services Commission, 2004) includes a section on integrating policy and operational functions. This draws attention to the cultural difference between the policy and operational roles of the two organisations at the time of the 2001 merger, and acknowledges the natural tension between the two. The Report states that Peter Hughes had challenged this dynamic and promoted a collaborative approach to policy development. Separation was seen to limit the breadth of views of both policy and operational functions. Solving the problem of accommodation costs was provided as an example of successful policy/operations collaboration to address the problem (State Services Commission, 2004:14). Further accounts of how multi-disciplinary teams worked together provided examples of the success of this approach. However, a word of caution was sounded by one manager who doubted that this collaboration would last and that delivery imperatives would take precedence.

Over the period from 1972 the policy/operations balance has shifted (see Table 7 below).

**Table 7 Organisation of policy and operations functions in the social services sector from 1972**

	<b>Base Department</b>	<b>Policy</b>	<b>Operations</b>
1972 - 92	Department of Social Welfare	Combined in one department	
1992 - 98	Department of Social Welfare	<ul style="list-style-type: none"> <li>• Social Policy Agency</li> </ul>	<u>Business Units</u> <ul style="list-style-type: none"> <li>• Income Support Service</li> <li>• Children &amp; Young persons Service</li> <li>• Community Funding Agency</li> </ul>
1999 - 2000	Ministry of Social Policy	<ul style="list-style-type: none"> <li>• Ministry of Social Policy (Policy and Purchase Advice output class)</li> </ul>	<u>Departments</u> <ul style="list-style-type: none"> <li>• Work and Income (1998)</li> <li>• Child, Youth and Family Services (1999)</li> </ul>
2001 - 2005	Ministry of Social Development	Policy Groups within the Ministry <ul style="list-style-type: none"> <li>- Strategic Social Policy</li> <li>- Sector Policy</li> <li>- Knowledge Management</li> </ul>	Service Delivery <ul style="list-style-type: none"> <li>- Work and Income</li> <li>- Family and Community Services</li> <li>- Specialist Services</li> </ul>
2001 - 2006	Department of Child, Youth and Family Services	Policy Advice and Ministerial Services (Output expense class from Budget 2001)	<ul style="list-style-type: none"> <li>- Care and Protections services</li> <li>- Youth Justice services</li> <li>- Development and funding of Community Services</li> <li>- Adoption Services</li> </ul>
2006 - 2008	Ministry of Social Development <sup>160</sup>	2 Groups <ul style="list-style-type: none"> <li>- Social Development Policy and Knowledge</li> <li>- Social Services Policy (includes policy advice funded through Vote CYFS)</li> </ul>	4 Groups – Service Delivery <ul style="list-style-type: none"> <li>- Work and Income</li> <li>- Child, Youth and Family</li> <li>- Family and Community Services</li> <li>- Specialist Services</li> </ul>

Note: A search of Annual reports showed that Work and Income had no policy output class for the years that it operated. However the Department of Child, Youth and Family Services did have an acknowledged policy function from Budget 2001 onwards.

<sup>160</sup> Ministry of Social Development Statement of Intent 2007/2008

The range and scope of the coverage of the Ministry is outlined in the Statement of Intent for 2007/08 (see below). This is a considerable expansion from the original Department of Social Welfare which operated from 1972 to 1992.

Throughout the country we have around 200 frontline sites that serve more than 1,000,000 clients. The support we provide includes:

- statutory care and protection of children and young people, youth justice services, adoption services and funding to community service providers through Child, Youth and Family
- income support, employment services and New Zealand Superannuation through Work and Income
- administering New Zealand's international welfare portability arrangements through Senior Services
- student allowances and student loans, through StudyLink
- access to affordable health care for older people, families and lower income New Zealanders through the Community Services Card
- a benefit system that has integrity and that minimises the debt of our clients
- services to rural clients through Heartland Services
- leadership and co-ordination of services, through Family and Community Services.

We provide services to the following Ministers:

- Minister for Social Development and Employment
- Associate Minister for Social Development and Employment (Child, Youth and Family)
- other Associate Ministers for Social Development and Employment <sup>161</sup>
- Minister for Senior Citizens
- Associate Minister for Senior Citizens
- Minister for Disability Issues
- Minister for the Community and Voluntary Sector
- Minister of Youth Affairs
- Minister of Veterans' Affairs.

We will be administering the following Votes in 2007/2008:

- Vote Child, Youth and Family Services
- Vote Senior Citizens
- Vote Social Development
- Vote Veterans' Affairs – Social Development
- Vote Youth Development.

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<sup>161</sup> The Ministerial List has 3 Associate Ministers for Social Development and Employment

We provide purchase, governance and ownership advice for the following Crown entities:

- Children's Commissioner
- Retirement Commissioner
- Families Commission
- Social Workers Registration Board
- New Zealand Artificial Limb Board.

We provide advice on appointments to the following statutory tribunals:

- Social Security Appeal Authority
- Student Allowance Appeal Authority
- Social Workers Complaints and Disciplinary Tribunal.

In addition there are 16 key pieces of legislation which are managed and administered by the Ministry.

The Ministry of Social Development's 2007/2008 Statement of Intent outlines the purpose and vision of the integrated Ministry and the five high-level social development outcomes framework that it is working to achieve.

One of the people interviewed for this research summed up the Ministry of Social Development:

- Significant gains have been made – the Ministry of Social Development is a stunning example of good governance, leadership and size does matter - a bigger department can do things that smaller agencies couldn't – as long as there are good people at the helm. (9) Senior public servant

## **8.7 Conclusion**

It is clear from the evidence noted in this chapter that the rationale for the changing institutional arrangements, which the social services sector faced from the 1990s, reflected several imperatives. The initial decoupling was in line with the received wisdom of that time. It was based on public choice theory that policy and operational functions required separation in order to militate against the influence of capture exercised by operational and service delivery interests. However, once the impact of separation had been experienced, the negative consequences of separation became apparent. The policy advice which the government was receiving was deemed to be ill-informed and often lacking in terms of operational relevance.

In the case of the Ministry of Social Development, its current structure can be attributed to several causes. While the secondary data provided in evidence demonstrates the rhetoric and the rationale which accompanied the various major changes, the specific influences in the re-coupling have been largely people-related. Machinery of government changes appear to have been made with often only minimal consultation (see James, 2001; Mallard, 2001). It is also important to note that the high media profile of the social sector<sup>162</sup> has meant that it has been subject to intense scrutiny over the period. Indeed, as one respondent noted, “these days keeping your department off the front pages can be an achievement in itself.”

The establishment of the Department of Work and Income initially went well, as the Hunn Report noted it filled its integration goals before time and within budget (Ministerial Review, 2000:4). However, in that period it had also had major performance issues related to the delivery of student loans and allowances, the public experienced difficulties in contacting the department, and the attitude of staff towards clients and other government agencies caused concern (Ministerial Review, Annex C). Leading a government agency involves managing the Ministerial interface and managing risk. On both these counts the Chief Executive was found wanting and was not reappointed. The evidence from the Hunn Report revealed a highly dysfunctional situation and poor performance in a number of areas. Whether this could have been addressed over time is open to conjecture. However, the change of Government in 1999 set in train the actions required to bring policy and operational functions back together.

The Department of Child, Youth and Family Services had struggled from its inception in 1999. Its lurches from review to review have been noted here. It was under resourced and ill-equipped to cope with the huge growth in demand for its services that the increased community awareness of child abuse and neglect generated. With the appointment in 2004 of an experienced senior Canadian public servant to lead the department, the situation appeared to have achieved some balance, but her return to Canada at the end of 2005 left the Government with little choice but to consider a merger with the policy Ministry. While the Prime Minister had commented to the media that the lack of a suitable chief executive in New Zealand had meant that a merger was inevitable, other reasons advanced by

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<sup>162</sup> Initially there were concerns about the Work and Income processing of student allowances, which was followed by the Work and Income Chief Executive’s non-reappointment and subsequent court case. Child, Youth and Family can be in the news when children in its care are harmed.

Ministers related to the need to bring child, youth and family policy and the delivery of services closer together.

In his Overview to the 2007/08 Statement of Intent, the Chief Executive Peter Hughes referred to the past six years as a process of evolution. The Ministry now contributes to the Government's Theme of 'Families – Young and Old' through an impressive range of activities which have been possible through the two major mergers of Work and Income in 2001 and Child, Youth and Family Services in 2006.

The Ministry's 2006/2007 Annual Report, sub-titled "Every Day We Make a Difference," reflects the 'from social welfare to social development' emphasis over the period, where a more positive and forward looking approach has been applied to the work of the department. Social Development was, and is, a key plank of the Labour-led government. In his paper to the Six Nations Conference Peter Hughes described the broad concept of co-ordinated social change to promote the wellbeing of the population as a whole, which aims to improve health, education, housing, employment, living standards and safety. The concept of social development represented an extension of policy and delivery directions (Hughes, 2002:6). The traditional model has been largely supplanted by a social development approach and social development<sup>163</sup> has emerged as the dominant policy theme since 2000 (Shaw and Eichbaum, 2005: 243).

In 2007, at the time of writing, the Ministry of Social Development has now almost 10,000 staff working within the Ministry in over 200 locations around New Zealand.<sup>164</sup>

The sheer size raises several questions:

- Will the current configuration result in siloisation within the Ministry as groups become isolated?
- Will the policy staff continue to work effectively with the operational staff?
- Will the management structure encourage interchange of views and approaches?

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<sup>163</sup> Social Development was launched in New Zealand in June 2001 with the publication of the Government Statement *Pathways to Opportunity* (subtitled 'From Social Welfare to Social Development'). This new approach invests in people so that they can respond to the opportunities offered by the new knowledge economy (Shaw and Eichbaum, 2005: 244).

<sup>164</sup> Annual Report 2006/2007, Ministry of Social Development, page 4.

In 2001 a 'superministry' concept was mooted (see section 8.6). Certainly, in terms of size, the Ministry of Social Development is by far the largest department. However, what does not appear to have been discussed is whether a superministry requires a 'superminister'. The 2007/08 Statement of Intent lists eleven Ministers or Associate Ministers and five Votes. Although, as the Minister for Social Development and Employment led the Families Young and Old Theme for Budget 2007, it could be assumed that this Minister would have the major role in providing leadership for the whole social sector.

The Ministry sees itself as "Leading Social Development – an all-of-government approach to achieving the Government's social vision." The strategic aims include: cross-sectoral approaches in the development of policy advice; social sector responses to regional social needs to maximise the wellbeing of individuals and the community; and policy development across the social sector aligns social outcomes (Statement of Intent, 2007/2008:12).

In the Lessons Learned from Organisational Change Report (State Services Commission, 2004) the Chief Executive of the Ministry of Social Development was confident that the collaborative approach to policy development that he was promoting would achieve the integration of policy and operational functions. It is to be hoped that this approach can be maintained and that the cross-fertilisation and interaction which produces social programmes, which both reflect the community needs and the Government's policy directions, will be ongoing.

This chapter has traced the structural changes which have taken place in the social services sector to move from a social welfare focus to one of social development. Along the way changing administrative doctrines have influenced those changes. The initial separation into business units in 1992, and the subsequent separation into stand-alone departments in 1998 and 1999, was based upon the tenets of public choice theory which advocated the separation of policy development from operational and service delivery activity. However, the structural changes in the period since 2000 have been in line with the views of the incoming Labour-led Government, as outlined in their 1999 Manifesto and have resulted in more practical efforts to rejoin what had previously been separated to achieve better informed policy. The following chapter will explore the extent to which these changes appear to be ad hoc and reactive rather than based on any accepted theoretical construct or administrative doctrine.



## Chapter 9: The logic of re-integration

Terms like 'joined-up government', 'whole-of-government', 'reassertion of the centre' and 'horizontal management', are often used to describe moves towards greater coherence. But what do these terms mean? Often they are used interchangeably, and different terms are used in different geographical settings.

(Christensen and Lægveid, 2007: 25)

### 9.1 Introduction

This chapter reviews the machinery of government changes in the State sector which followed from 2000, and seeks to establish whether there was any coherent plan or doctrinal foundation for the subsequent re-coupling which has taken place. The issues raised in the review of the literature (chapter three) are revisited in the context of the post-2000 situation, where the evidence presented will further inform the notion of a fourth age in the sequence of public sector reforms in New Zealand. The perceived need to revisit machinery of government arrangements was articulated prior to the 1999 Election (New Zealand Labour Party, 1999) and in 2004 the problems and the steps taken to address them were recalled by the Prime Minister (Clark, 2004). The findings from the major review exercise, the Review of the Centre, which was initiated in 2001, exposed the negative impact of fragmentation and the siloisation which had developed in the State sector and advocated a more joined-up approach.

Several factors identified in chapter seven are further explored in this chapter. A 2001 speech by the Minister of State Services raised two key points. The government wanted to make changes, but those would be based on assessment and practical remedies. There was no intention to rush into departmental or agency mergers. The other point made was that a system that works practically was wanted, rather than one which was based on theories (Mallard, 2001)<sup>165</sup>. From a scan of the official papers which recommended structural changes, no consistent rationale was explicitly articulated and the emphasis was on practical case-by-case

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<sup>165</sup> Hon Trevor Mallard was Minister of State Services from 1999 to 2005 and the major changes which are reviewed in this chapter, took place under his watch. Over this period Mr Mallard has also held the portfolio of Associate Minister of Finance. In the report of the EXG Reviews released in December 2006 he stated that the Labour-led government has always been committed to rebuilding the public service after the severe cutbacks by National in the 1990s (EXG Reviews release Dec 2006).

solutions to identified problems. What has been apparent from the primary and secondary data sources, quoted in chapters seven and eight, is that the rationale given for a specific change, relating to a particular entity or entities, can depend upon the source and timing of the report, cabinet paper or media statement. Indeed, media quotes from different Government representatives are not necessarily consistent<sup>166</sup>.

In 2001 political journalist Colin James ventured the observation that: “The public service could be in for its biggest shake-up since the late 1980s reforms – though ministers emphasise no ‘big bang’ is proposed and cabinet thinking is at a very early stage” (James, 2001). He also reported that the Prime Minister had told State Services Minister Trevor Mallard to develop a process for the Cabinet to rethink the whole public service structure and that Mr Mallard feared that a fast major restructuring could lead to a loss of direction, morale and people.

The recent literature reviewed for this research has looked at the theories and practices of public management and addressed cross-country comparisons and, together with the New Zealand experience, has provided a focus for exploring possible future directions in public sector organisation and management.

## **9.2 Review of the reintegration events from 1999**

Secondary data sources and the academic literature provide insights into the rationale for the re-integration of agencies in the social sector. Speeches given by the State Services Commissioner to audiences ranging from the Wellington Chamber of Commerce (2000) to the Public Sector Senior Managers’ Conference (2001 and 2002) indicate the thinking which was developing following the change of government. The Commissioner noted that structural solutions would not be able to be the primary method applied, as the problems faced were too complicated and other peoples’ solutions could not be imported as the problems were unique to New Zealand (Wintringham, 2000). The need for departments to be more connected with what the Government of the day is trying to achieve, and the involvement of Ministers in refining the outcomes which departments are contributing to, was discussed in 2001. In 2002 the Commissioner had shifted his emphasis from structures and systems to values and addressing fragmentation and improving

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<sup>166</sup> The example of differing statements from the Prime Minister and Minister for Social Development is given in chapter 1.4.

alignment. He notes that “although in the last decade or more we have created plenty of organisational units, which have been very effective in their own spheres of operations, we have struggled with overall coordination and strategy” (Wintringham, 2002: 3).

The actions taken to address particular problems identified by the incoming Government in the social sector are summarised in Table 8 below, which uses the examples cited in chapter seven. Some fifteen machinery of government changes have been identified as taking place from 2001 to 2006. The reasons given for changing, or in two cases not altering the existing structures are provided.

**Table 8 Summary of structural changes in the social sector from 2001**

(see chapter 7.5)

Year	Change	Reason(s) given for the change
2001	Merger of Housing Corporation with Housing New Zealand together with housing policy staff from the Ministry of Social Policy to form Housing NZ Corporation	The move was designed to bring all those agencies under one roof and provide a one-stop-shop for housing services and better service for customers
2001	Ministry of Social Policy and the Department of Work and Income were re-coupled to form the Ministry of Social Development.	The Government had decided on the merger to provide a better organisational basis for implementing a social development approach to deliver more effective solutions to social issues. Better coordination between policy and operations was wanted.
2002	Special Education Service (Crown Entity) returned to the Ministry of Education.	Review ordered by Minister of Education – found Service was “ineffectual, fragmented and distanced from schools and parents”. Better coordination could be achieved under the Ministry
2002	Office for Disability Issues was added to the Ministry of Social Development.	Office established to support the Minister for Disability Issues. The portfolio was established in 2000, and policy capability was wanted following the passing of the new Disability Act (2000), new Ministerial portfolio.
2003	Capability reviews of the Ministries of Women’s Affairs and Youth Affairs	Decision after the review that the Ministry of Women’s Affairs remain as a stand-alone department as it has an over-arching cross-governmental focus.
2003	Ministry of Youth Affairs to the Ministry of Social Development.	Review found that Youth Affairs sits closely with the social development interests of the Ministry of Social Development.  Move to house small Ministries under a bigger department

<b>Year</b>	<b>Change</b>	<b>Reason(s) given for the change</b>
2003	Office for the Community and Voluntary Sector was added to the Ministry of Social Development	Office established to support the Minister for the Community and Voluntary Sector. The portfolio was established in 2000, new Ministerial portfolio.
2003	Early Childhood Development (Crown Entity) returned to the Ministry of Education.	The integration followed a review of Early Childhood Education and was to help progress the goals of the ten-year strategic plan by combining the strengths of each organisation to build greater support for the sector.
2003	Department for Courts merged with the Ministry of Justice	Minister of State Services directed the State Services Commission to review the "fit for purpose" of the 1995/6 Justice restructuring and to achieve better sector and policy/operations coordination <sup>167</sup> .  Problems in handling the 1999 election were identified by Clark (2004)
2004	Transport Sector was reorganised following a comprehensive review in 2003	The recommendations from the review were implemented with the aim of better aligning the sector and the legislation with the New Zealand Transport Strategy. Structural changes included transferring the policy functions of the Land Transport Safety Authority and Transfund to the Ministry of Transport to support its role of leading the sector.
2004	Ministry of Housing was expanded and renamed, the Dept. of Building and Housing.	The change was aimed at improving and streamlining building and housing services for the public to provide a 'one-stop-shop'.
2004	Family and Community Services Group (FACS) was established in the Ministry of Social Development	To lead and coordinate government and non-government actions to support families and communities and to contract out operational funding transferred from the Department of Child, Youth and Family Services
2004	Department of Labour restructured	To realign key functions and improve responsiveness and organizational adaptability to the labour market now and in the future. Service delivery and policy advice capabilities were brought together
2005	Review of Education Sector on the effectiveness of machinery of government and governance arrangements for education sector agencies (Ministry of Education, New Zealand Qualifications Authority and the Tertiary Education Commission)	Review found that the three agencies should work together more closely, their policies and activities should be better aligned, and that the Ministry of Education should exercise leadership.  The Review concluded that, at this time, there should be no major structural change.
2006	Department of Child, Youth and Family Services merged with the Ministry of Social Development.	In light of the departure of the Chief Executive, and after reviewing four options, the State Services Commission recommended the merger option to achieve better alignment in the social services sector.

<sup>167</sup> The supporting Cabinet paper notes that Treasury did not support the merger proposal.

The variety of actions taken over the period indicates that a case-by-case approach was taken within the overall parameters of determining the best way to achieve cohesion in a whole-of-government context. Analysis of the information contained in Table 8 indicates that, of the fifteen actions identified, five agencies (departments or Crown Entities) returned or merged with their previous departments. Some of the changes were a result of the Government creating new portfolios and ministries, and needing an organisational office location for them. Six of the structural changes resulted from a review – usually ordered by the Minister of State Services, Hon Trevor Mallard. These reviews produced results ranging from mergers, through restructuring, to the status quo with the agencies remaining independent.

A current Cabinet Minister provided the following assessment of the situation in 2006

- Reshaping the state is proceeding – however, not always with a theoretical base that says clearly why its being done. The idea that ‘it didn’t work – therefore put it back together again’ is wrong. To contrast the Ministry of Social Development with Courts – there was a theoretical base to bring social service delivery back with social policy (and possibly Child, Youth and Family and potentially housing) to have a whole of government social policy framework and give it a range of coordinated departments to work with – this would have given massive reach into the community. Housing, families and jobs and working with communities and paying a benefit would have given enormous clout. That could have all been devolved down to a community level. There need to be reasons for bringing departments and ministries back together – a whole of government approach. A social policy framework is needed – a housing/families/jobs association would have enormous influence at community level. But there was none of that with Courts. Courts came back with Justice but that was of limited value – just joining up for the sake of joining up has limited value. (22) Cabinet Minister

Others also considered the Justice and Social Development parallels:

- Putting Courts back with Justice – Justice has never fully succeeded as a policy operation – at times some of their work has been floundering – although in some areas such as advice on the quality of interventions was increasingly useful and made good use of available evidence. Justice had a competent chief executive. On the Courts side – the difficulty of finding someone to run it – a recruitment problem, along with a department that had underperformed for quite a time. The Ministry of Social Development was a practical solution – competent chief executive running the organisation has allowed more flexibility to scale the department up or scale down. (15) Senior public servant

- It was inevitable that Courts would move back with Justice and Work and Income with Social Policy. As stand-alone departments they were not a law unto themselves. It was of vital interest to the Government to have them operating in a more coherent way. (3) Former chief executive

Following the merger to establish the Ministry of Social Development, the State Services Commission instigated a study to capture the lessons learned from conducting organisational change and identify common themes which could guide future public sector change leaders. The State Services Commission and the Ministry of Social Development jointly produced the case study “Lessons Learned from Leading Organisational Change: Establishing the Ministry of Social Development” (State Services Commission, 2004). The Ministry of Social Development experience was examined by a group of chief executives who had also experienced change in the structures of their departments. The information contained in the paper was based on information gained from interviews with chief executives and senior managers. Chief executives were asked “to what extent their thinking had been influenced by organizational change theories. They said that while they would occasionally refer to them, they predominantly trusted the intuition they had developed through experience” (State Services Commission, 2004: 15).

On integrating policy and operational functions, it was felt that “separation limits the breadth of views of both policy and operational functions” (State Services Commission, 2004:10). Views on integration related to the tension between policy and operations roles and the need for integration from policy development to implementation. “Another benefit from the joined-up approach was that the policy development process could be completed in a shorter timeframe, enabling earlier implementation” (State Services Commission, 2004:11). The “Lessons Learned” proved a useful exercise at the time to clarify key areas to be addressed when changes were being implemented. It also demonstrated that the State Services Commission was working productively with departments on machinery of government issues.

Another example of efforts to achieve a more joined-up approach to the operations of the public sector warrants a mention in this context. The State Services Commission had been asked by the Government, in connection with Treasury and the Department of the Prime Minister and Cabinet, to investigate greater use of shared services in the public sector. Shared services opportunities included:

sharing good practices and processes; to review shared services in machinery of government reviews and at point of major system upgrade or replacement; and shared back office services for small agencies. While the overseas and New Zealand research undertaken concluded that the ability of shared services to deliver savings was variable, the paper concluded that work should continue to develop and promote opportunities for shared services (State Services Commission, 2007).

The Commission's 2007 report "Reviewing the Machinery of Government" contained guidelines which set out the main lines of thought for machinery of government analysis and determining the best organisational form for carrying out government functions. The report makes the point that reviewing the machinery of government is one of the State Services Commissioner's principal functions<sup>168</sup> and also quotes the Cabinet Office Guide<sup>169</sup> to reinforce the point that departments dealing with policy issues that have machinery of government implications are required to consult the State Services Commission. It remains to be seen whether the production of the guidelines will make any impact on future machinery of government activity. This will be a productive line of inquiry for future research.

There is acknowledgement in the paper that the context is crucial and that political drivers can dictate the course of action. This has indeed been the case with many of the changes which have taken place over the period. While the Guidelines are useful in intent, and helpful in content, the recommended process to be followed has not always taken place to achieve the changes which are summarised in Table 8 above. It is to be hoped that when further structural change is contemplated, the Guidelines will provide a useful process model.

One inconsistency observed in the reorganisation which has taken place has been the proliferation of ministerial portfolios which continues to expand. Boston (1991b) made the point that political factors are involved, and the way bureaucracies are organised in Westminster systems into departments, is related to the structure of Cabinet and the Ministerial Portfolios. While this generalisation holds in 2007, there

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<sup>168</sup> The Commission's responsibilities for reviewing the machinery of government including the allocation of functions and the desirability of, or need for, creating new departments under the State Sector Act (1988) section 6(a) were discussed in chapter six. The State Sector Amendment Act (2004) reinforced this responsibility and extended it to include "across all areas of government" and to add "other agencies" to departments.

<sup>169</sup> Cabinet Office, Step by Step Guide 11.6.

are differences between countries in Westminster systems.<sup>170</sup> New Zealand, in 2007, has 58 Ministerial portfolios<sup>171</sup> and 35 Departments<sup>172</sup>. The number of Departments had risen to 41 in 1989<sup>173</sup> but declined subsequently as re-coupling progressed post 1999, although some additional new entities have been established but are housed within a larger department, such as the Ministry of Social Development. Another factor in the high number of Ministerial portfolios has been the need to accommodate the political parties which have Confidence and Supply Agreements with the Government.

However, the converse of this argument could be applied. Would interacting with several ministers become difficult and onerous for chief executives? The Budget 2008 process, which is under development at the time of writing, seeks to bring departments and Ministers together into sector groups to work together on the development of the information required to support the Estimates of Appropriations.

### **9.3 The Post-NPM Literature: A New Framework?**

The literature emerging post 2000 took a more critical look at the proclaimed achievements of the first 'generation'<sup>174</sup> of NPM reforms. The findings from cross-country studies caused academic observers from European countries to query whether the impact of NPM reforms on Western democracies had delivered any significant gains (see Christensen and Lægreid, 2006, 2007; Hood and Peters, 2004; OECD, 2005; Peters, 2001; Pollitt, 2001; Pollitt and Bouckaert, 2004).

European-based observers were questioning the thesis of a global convergence of the new style of public management (Pollitt, 2001). A later twelve-country study observed that the ideas expressed in Anglophone literature were not necessarily the only, or the best, ideas around and that gaps between words and deeds and between pronouncements from the top and grassroots experience was extremely

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<sup>170</sup> The Australian Federal Government has 18 Cabinet Ministers and 18 departments of state Australian Government website, <http://www.australia.gov.au/> accessed 20 November 2007. However the systems are not directly comparable.

<sup>171</sup> Department of Prime Minister and Cabinet website, <http://www.dpmc.govt.nz/> accessed 31 October 2007.

<sup>172</sup> State Services Commission website, <http://www.ssc.govt.nz/> accessed 2 July 2007.

<sup>173</sup> State Sector Amendment Act 1989, First schedule.

<sup>174</sup> Christensen and Lægreid (2006, 2007) use 'generation' to classify the periods of the NPM reforms. The second generation is characterised by the movement away from the excesses of the 1980s and 1990s with structural devolution, towards a whole-of-government approach. Contributing authors also use the term 'generation' to differentiate between the periods.



wide. The apparent ability of leaders to forget the lessons and limitations of previous administrative reforms was also noted (Pollitt and Bouckaert, 2004:199). A further concern had been noted by Peters (2001) who observed that “academics and practitioners alike were advocating a series of ideas about reform and they were being adopted willy-nilly” and “without careful examination of the contradictions inherent in the disparate approaches” (Peters, 2001: 195).

The speed of change is taken up by Christensen and Lægreid in their study of the changes in regulatory reforms. Using examples from European and Westminster systems, they consider that a “second generation” of reforms has arrived and conclude that there is no easy solution or one ideal type of public management system (Christensen and Lægreid, 2006: 378). The same authors subsequently noted that the structural devolution of the initial NPM reforms has now been replaced by a reassertion of the centre. Co-ordination and coherence is being sought as the antidote to fragmentation and siloisation. Terms such as “whole-of-government” and “joined-up government” are being used to describe the moves to greater coherence and, while the terms are new, they have been adopted to address the old problems concerning coordination and control (Christensen and Lægreid, 2007: 25).

The contributions of New Zealand writers have been included in the cross-country studies (see Boston and Eichbaum, 2005; Chapman and Duncan, 2007; Gregory, 2003, 2006, 2007; Norman and Gregory, 2003). Their analysis of the changing New Zealand situation has brought into focus the unique path of the New Zealand reforms and the current moves to achieve greater coordination between, and within, departments to combat problems of fragmentation and siloisation.

The major examination of the operation of the State sector in New Zealand, instigated by the incoming government, commenced in 2001 with the Review of the Centre. Writing in 2003, Gregory reviews the effect of the Review of the Centre and notes the enhanced coordination among government agencies. The ‘circuit breaker teams’<sup>175</sup> and ‘super networks’<sup>176</sup> are examples of the ‘whole-of -government’ approach which had been adopted. (However it appeared that their existence was

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<sup>175</sup> It appears that no further work on circuit breaker teams was undertaken since the Workbook material was posted on the State Services Commission’s website in 2004. (Advice from the State Services Commission, September 2007) See chapter seven.

<sup>176</sup> Gregory notes that “the idea of ‘super networks’ seems to have withered on the vine” (Gregory, 2006:144).

short-lived as emphasis switched to the Development Goals – see chapter 7.4.) In his analysis Gregory notes that theoretical knowledge had not been referred to in the Review and considers that this omission implies that the theoretical underpinnings of the earlier reforms are not to be revisited – at least by those undertaking the reviews and promoting changes. He suggests that any revisiting of the earlier theoretical underpinnings may be left to academics (Gregory, 2003: 44). However, while the Review of the Centre did not specifically refer to theoretical knowledge, implicit in the Review report are the principles underpinning the model of an integrated and unified State sector.

A pendulum swing from phase one of the reforms to phase two<sup>177</sup> was observed by Norman and Gregory (2003) who considered the changes in the organisation of the State sector and focussed on the administrative doctrines which had been guiding the changes. They noted a new set of doctrines emerging in the trends evident in 2002, which were different from those that had gone before. Aspects directly relevant to this study are the changes from smaller organisations with flatter structures in phase one, to concerns about fragmentation of service delivery, leading to proposals for amalgamating small agencies and establishing networks of similar agencies which is taking place in phase two. A pendulum swing also occurred with the separation of policy and service delivery in phase one to concerns that policy advice has become too distant from service delivery in phase two (Norman and Gregory, 2003: 45).

A similar comparison between the phases was carried out by Boston and Eichbaum (2005) who defined the distinction between the phases on the dimension of organisational design where phase one was typified by the separation of funding, purchasing and provision, and of policy from operational delivery which revealed problems associated with fragmentation and a lack of horizontal integration. Phase two saw some re-coupling of policy and operational functions and a focus on inter-agency collaboration and integrated service delivery (Boston and Eichbaum, 2005: 31). The disjunction between theory and practice is also discussed as the complexity of constitutional arrangements in Westminster systems do not sit comfortably with the economic theories which underpinned the phase one reforms. The writers use the example of the challenges to the pivotal assumptions

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<sup>177</sup> Norman and Gregory differentiate their pendulum swings from pre-1984, through 1986-99, to trends evident in 2002 (Norman and Gregory, 2003:45).

underpinning the reforms which were addressed in 1999 by the Hon Simon Upton<sup>178</sup> (see Boston and Eichbaum, 2005:15).

Responding to their question “Is there now a new New Zealand Model?” Chapman and Duncan (2007) conclude that enough has changed to suggest that public management is now evolving in new directions that are not always consistent with the blueprint adopted in the 1980s, and that the new wave of reforms is much more incremental and pragmatic - a rebalancing rather than a revolution. They provide six examples of where the Labour-led government has revised, or even resiled from, the so-called NZ model of public management reform. These include the abandonment of a ‘slavish’ adherence to the policy-operations and purchaser-provider splits, and development of a model to determine most appropriate organisational structures for delivery of government services. They suggest that the government is wary of instigating radical across-the-board reorganisation, as this is now believed to be unproductive (Chapman and Duncan, 2007: 13-15).

For Gregory (2006) the ‘second generation’ of State sector reform is typified by the changes to two of the three statutory pillars of New Zealand central government. The changes to the State Sector Act (1988) and the Public Finance Act (1989) have resulted in increased powers and responsibilities for the State Services Commission, and the Commissioner, and for government finances there are more flexible Vote structures and appropriation options and expanded non-financial reporting requirements. (The scope of the changes has been discussed in chapter seven.) In his summary of the periods of New Zealand government administration and management, Gregory typifies the new form of organisation as “networked bureaucracy” and again the whole-of-government approach is noted. The new moves, which cover structural and legislation changes, “suggest that while fragmentation and siloisation are problems, they are not overwhelming problems, and that the chosen remedy is proportionate to the size of the problem” (Gregory, 2006:143). Gregory considers that the action has fallen short of the rhetoric in the second phase of the New Zealand reforms and concludes that “the original reforms were theoretically informed, comprehensive in scope, and authorised quickly by the opportunistic dominance of the political executive. By comparison, the latest changes are pragmatic, incremental, and much more slowly put together” (Gregory, 2006:153).

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<sup>178</sup> Hon Simon Upton was Minister of State Services in the National-led government in 1999.

The record of structural change in the social sector over the period from 2001 to 2006 (see section 9.2) supports this point. The changes have been pragmatic (in response to particular situations, such as the departure of a chief executive); incremental (certainly in the case of the Ministry of Social Development where Offices and responsibilities have been added); and they have been more slowly put together as they have extended over a six year period. However, overall the process has been essentially evolutionary, in that what has developed has been based on what went before. The re-coupling which has taken place has not been a total return to the former structure, but has built on the earlier configuration and enhanced it.

The theoretical underpinnings of NPM have been further examined against the subsequent evidence produced by later writers who examine the 'second generation' results. The unintended consequences of the NPM reforms were noted by Hood and Peters (2004) and the downside of the 'one-size-fits-all' forms of bureaucracy exposed (see chapter 3.3). The unintended consequences identified by Gregory included the creation of single-purpose agencies whose performance was assessed against specified outputs with attendant problems for inter-agency collaboration. The resulting siloisation and fragmentation of the public sector necessitated moves to re-join the isolated agencies and reunite the policy and operational arms. The subsequent changes which have been made in New Zealand have been aimed at "enhancing the central government's capacity to engage in meaningful 'steering' right across the public sector, in the face of individual organisations to 'row' in non-strategic directions" (Gregory, 2007b:228).

Now that twenty years have passed since the initial NPM reforms, there are opportunities to take a critical look at the period and assess the impact of the changes. The more recent literature referred to here indicates general agreement on the distinct phases or generations of the overall reforms.

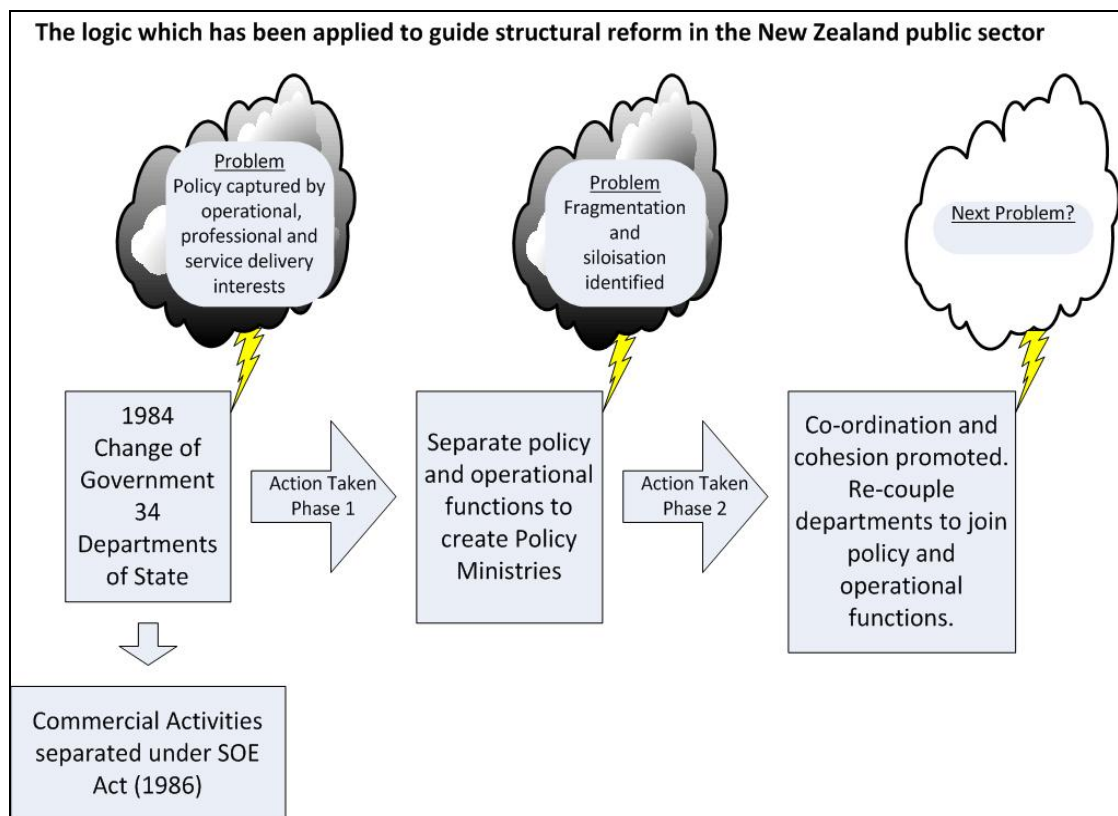
#### **9.4 The Logic of Reform – principles and doctrines informing the machinery of government and institutional design**

The machinery of government practices which followed throughout the first phase of the New Zealand reforms have focussed on structural change. The perceived

influence of capture<sup>179</sup> - by professionals, bureaucrats and providers - as a driver of change in phase one has been outlined in chapter 4.4.3.

Since 2000 there have been more practical efforts to rejoin what had previously been separated. These efforts have resulted from the problems of fragmentation and siloisation which had been identified (see Christensen and Læg Reid, 2001, 2006, 2007; Review of the Centre, 2001). The sequence of change in New Zealand is summarised in Figure 1. The question is also posed that problems may arise with the current configuration.

**Figure 1 The structural reform process followed in New Zealand**



The reasons provided for the emergence of a ‘whole-of-government’ approach are the fragmentation and siloisation. This had developed where there were many smaller agencies and structural devolution occurred through decentralization and the transfer of authority to regulatory agencies. In the countries studied there was also a perceived undermining of political and central control, where the central

<sup>179</sup> The capture of policy advice by sector and service delivery interests was outlined in *Government Management*, 1987.

government apparatus is characterized by problems of inter-sectoral and inter-ministerial co-ordination and executives tend to focus on their own sectors, thus contributing to the horizontal fragmentation between the policy areas observed in the countries studied (Christensen and Lægreid, 2007:11). There was a need to achieve horizontal and vertical co-ordination to eliminate situations where policies undermine each other, to make better use of resources and offer citizens seamless delivery of services.

It is important to distinguish between fragmentation and siloisation when considering administrative practices. For the purpose of this discussion, fragmentation is used to indicate the situation identified in the Review of the Centre where functions have been spread around several agencies and departments. On the one hand this situation makes it difficult for Ministers to obtain a complete picture of a situation and, at the other end the citizenry have difficulty in engaging with the relevant organisations to meet their needs. Hence the 'one-stop-shop' has been used as a rationale for re-coupling in Ministerial media statements (see Table 8).

Siloisation has been used in two ways. Firstly, a department can isolate itself from other agencies and focus only on its own business. The former Department of Work and Income has been often quoted as adopting a silo mentality (see Wintringham, 2000). However, silos can also occur within departments when groups or sections are isolated from other parts of the organisation. This can occur where policy groups seek to, or are established to, function independently. The Labour Market Policy Group (LMPG), located in the Department of Labour, was an example quoted by one former senior public servant who had observed the tensions between LMPG and the Employment Policy Group. LMPG had been set up as a macro policy unit as the chief executive considered that a high level policy group was needed for strategic thinking.

The overall organisation of the public sector to address issues of alignment and fragmentation has proceeded at a number of levels since 1999. Initially the Government announced its goals to Guide the Public Sector in Achieving Sustainable Development 2002<sup>180</sup>. The Government was providing guidance for departments to follow in order to achieve greater coherence in the focus of departments' activities. The six goals covered National identity; Growing an inclusive

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<sup>180</sup> DPMC website [http://www.dPMC.govt.nz/dPMC/publications/key\\_goals](http://www.dPMC.govt.nz/dPMC/publications/key_goals) Accessed 19/11/2007

economy; Maintain trust in Government and provide strong social services; Improve New Zealanders' skills; Reduce inequalities in Health, Education, Employment and Housing; and Protect and enhance the environment. These goals provided some consistency for the agencies' strategic planning and Statements of Intent.

In 2006 the Government announced Government Priorities<sup>181</sup> to replace the Government Goals of 2002. The three priority Themes: Families – Young and Old, National Identity and Economic Transformation, were used as the focus for Budgets in 2006 and 2007. Each Theme has an overarching goal, sub themes and priority issues and has brought together the group of departments covered by each theme to collaborate, under a lead Minister, for the purpose of planning and budgeting. By organising departments to work together in this way to develop the standard accountability documents, joined-up government is being achieved to a far greater extent than before.

While fragmentation has been addressed, to some extent, at departmental level through re-coupling, there has also been a move towards greater coherence in the government's approach to cross-sectoral administration through the introduction of the Priority Themes in 2006. The Themes organisation has brought together groups of departments and Ministers to address problems and develop initiatives for Budget funding. However, further study will be required to establish whether this configuration will be successful in achieving joined-up government in practice.

## **9.5 Reasons for Reintegration**

While New Zealand was seen to be a 'world leader' in public sector reform, based on the principles of the new public management (see Boston et al, 1996; Gregory, 2006; Hood, 1990; Jones, Schedler, Wade, 1997; Newberry, 2002; Osborne and Gaebler, 1992; Scott, 2001) subsequent experience in western countries has seen movement beyond NPM in the public policy and governance literature. Thus reforms have been tracked on a time continuum with terms used such as: phases (Boston and Eichbaum, 2005); periods<sup>182</sup> (Gregory, 2006); and generations (Christensen and Lægveid, 2006, 2007). For the analysis undertaken in this thesis the Hood and

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<sup>181</sup> DPMC website <http://www.dPMC.govt.nz/dPMC/publications/government-priorities> Accessed 19/11/2007

<sup>182</sup> Although Gregory's first period pre-dates the NPM reforms (Gregory, 2006: 143).

Peters' (2004) three ages of NPM have been used to provide a focus and a fourth age has been added to the discussion.

This fourth age, which reflects developments in New Zealand, evokes some of the elements, qualities and attributes associated with the discipline of public administration, typified, among other things, by a public service which is more integrated than fragmented, politically neutral, and where the central agencies have a coordination and oversight role for the State sector.

As was noted in chapter three, the move to a fourth age in the New Zealand context is also typified by moves to achieve a more unified public service with common codes of ethics and conduct. Competition, the essential driving force for private sector enterprise, is misplaced in the public sector where cooperation between departments is needed to pursue the strategic outcomes required by the government of the day. As noted earlier, the fourth age is suggested not as a blanket return to the pre-1984 situation for the core public sector, but rather acknowledging that public administration is distinctive and that constitutional relationships are complex. Structural change to improve coordination has been essential and operational systems to deliver services required by the citizenry of the twenty-first century need to be informed by robust policy decisions.

The most comprehensive comparative study undertaken in recent years has been the 2005 OECD review of 30 member countries *Modernising Government: The Way Forward*. This extensive review, extending over two years, considered that, from the evidence assembled, the early reformers underestimated the complexity of the public sector when trying to introduce private sector management arrangements. The Report comments that governments must adapt to constantly changing societies and reform is not a 'one-off'. A whole-of-government public management policy capability is needed to enable governments to make adjustments with the total system in mind (OECD, 2005:13).

Recently Briggs and Fisher<sup>183</sup> have suggested that with increasing complexity of the modern world and as governments have expended their reach and scope, the problems that the public sector has to deal with have become more complicated.

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<sup>183</sup> Paper entitled "Fashions and Fads in Public Sector Reform" given at 2006 Commonwealth Association for Public Administration and Management (CAPAM) Biennial Conference.



Their comment that “fads and fashions in public sector reform are seductive because they offer an illusion of certainty in a complex world” (Briggs and Fisher, 2006:2) resonates in the New Zealand situation where the challenge of finding ways of managing more complex problems resulted in appropriating theoretical constructs to support the changes perceived to be required.

The problems identified in the 1999 New Zealand Labour Party Manifesto have been summarised in Table 9 below. The remedies which have been applied to address each situation have all been covered in the literature post 2000 which is discussed in section 9.2. The focus here has been the efforts to address the unintended consequences of the structural reforms through the re-coupling of policy and operations and through improved inter-agency collaboration. The changes to the legislative platform, to better reflect the Government’s requirements of the public sector and strengthen the role of the State Services Commission, have also contributed to strengthening the whole-of-government approach.

While the main administrative doctrine for organising government departments was probably the split between policy advice and service delivery (Rones, 2007) the literature post 2000 has focussed on a ‘joined-up government’ and ‘whole-of-government’. This doctrine has involved addressing the problems caused by fragmentation and charting a way forward, which involves consideration of the State sector as a coherent entity rather than a group of independent agencies. This method represents a rejection of the theories which influenced the first phase of the reforms and a revisiting (in the case of New Zealand) of the earlier key components of public administration. The range of responses shown in Table 8 indicates a case-by-case approach has been taken to addressing the particular problems identified in each agency area. The remedies adopted by the Government to address the perceived problems, as summarised in Table 9, can only be seen as a pragmatic response to identified problems, as distinct from the earlier adherence to NPM doctrines.

**Table 9 Problems identified in the 1999 New Zealand Labour Party Manifesto (pre-election), what actions have been taken and what is the result?**

<b>Problems identified in the 1999 Labour Party Manifesto (pre-election) (page 2)</b>	<b>Actions taken</b>	<b>Result</b>
Fragmentation of the sector – both in terms of the number of agencies and the different types of agencies all with responsibility for aspects of output delivery.	Restructuring throughout the period 2001 to 2007  36 Public Sector Departments at 30 June 1999 and 35 at 1 July 2007. Groups of ministers consolidated around three Themes introduced in 2006	While consolidation around the Ministry of Social Development has taken place, no overall reduction in the number of departments was achieved, due to new agencies with specific functions being established eg Food Safety Authority
State Services Commission has not been an effective guardian	2004 Amendments to the 1988 State Sector Act gave the Commissioner an increased mandate to review the machinery of government across all areas of government and to provide advice on integrity and conduct and training for staff in the Public Service.	The State Services Commission is now expanding its mandate with the Development Goals for the State Services, the Standards of Integrity and Conduct and the review process for machinery of government.
Departments and Ministries exist in isolation resulting in duplication and inefficiencies.	Consolidation around Social Development should produce efficiencies. Some smaller ministries integrated	While some reduction in the number of smaller agencies, the number of ministerial portfolios continues to grow
A focus on narrow technical contracts rather than the provision of service	Statements of Intent have been introduced which require departments and Ministers to set strategic priorities ahead for 3-5 years.	Chief executives' performance agreements have been dispensed with. Now the agreement between chief executive and Minister rests with the Output Plan with Letters of Expectation between the Commissioner and the chief executive.

<b>Problems identified in the 1999 Labour Party Manifesto (pre-election) (page 2)</b>	<b>Actions taken</b>	<b>Result</b>
Agencies regarding themselves as businesses	The business model has largely been discontinued	Managing for outcomes has changed the emphasis
Service departments spending “fortunes on branding exercises”.	Spending on branding has been actively discouraged by Ministers and central agencies.	The introduction of new stripped down format for annual reports and Statements of Intent for the 2008/09 year emphasise minimum ‘gloss’.
The National-led government reducing the size of the State.	Concerted effort by Government to increase the size of the public service – 30,702 in 1999 to 44,335 in 2007 (headcount) (State Services Commission, 2007)	This Government has sought to ‘grow’ the public service and improve capability.
Loss of long-term operational capacity.	Departments are still complaining about lack of institutional memory caused through the exodus in the 1990s	Capacity and capability emphasis in Statements of Intent and Annual Reports
Emphasis on the political interests of the Minister rather than the needs of citizens.	More emphasis now on involving citizens	Office of the Community and Voluntary Sector opened and new Ministerial portfolio created. Greater community consultation has taken place.
The narrow focus on “efficiency and financial performance rather than effectiveness, quality and service”	Public Finance Amendment Act 2004 contained measures to improve transparency and accountability and more flexible appropriations options.	The emphasis on managing for outcomes and the redesigned Estimates information focuses on achievements and services delivered.

## 9.6 Conclusion

The Labour-led Government came to power in 1999 with an agenda to re-build the public sector. Their concerns about fragmentation and siloisation, which had developed in part, as a perceived consequence of the separation of policy ministries from operational departments, were validated by the Review of the Centre in its first report in 2001. Responsibility for addressing the problems was given to the Minister of State Services who, while not wanting to appear hasty and thus unsettle the sector, pursued the aim of achieving “a system that works practically rather than one that works theoretically” (Mallard, 2001).

In order to address the question as to what extent the administrative doctrines and practices have been modified in the second phase of the New Zealand reforms, the approach taken in this chapter has been to examine the re-coupling process which was followed and explore the rationale for the changes made. The evidence provided indicates that, since 1999, the government has worked incrementally to develop a more coherent social sector. Structural changes have been carried out to achieve a more ‘joined-up’ approach. While there is no explicitly articulated evidence that a specific set of administrative doctrines has guided the transition to the second phase of reforms, the material produced over the period has supported the pragmatic approach taken by the government to achieve change on an issue-by-issue basis.

The problems identified in 1999 (New Zealand Labour Party, 1999:2) have been systematically addressed by the government throughout its three terms in office. Table 9 provides an analysis of the problems identified in the 1999 Labour Party Manifesto, the actions taken and the results achieved to date. While the focus of this research is on structural reform it is important to view this aspect in the totality of the programme adopted since 1999. In addition to re-coupling policy and operational functions, the changes have involved strengthening the legislative ‘pillars’ through amendments in 2004 to the State Sector Act (1988) and Public Finance Act (1989); emphasis on the needs of citizens; and a broader focus on the achievement of longer term outcomes in line with the government’s strategic goals.

The structural change process has been essentially evolutionary, in that what has developed has been based on what went before. The re-coupling which has taken place has not been a total return to the former structure, but has built on the earlier

configuration and enhanced or modified it according to the sectoral emphasis which the government has sought to develop. This is particularly evident in the social services sector where the social development approach<sup>184</sup> adopted has integrated policy and service delivery. The Ministry of Social Development's role in cross-sectoral development continues to expand as it works more closely with communities.

The modifications to the model advanced in phase one of the New Zealand reforms have resulted in a situation where, while there is some resemblance to the previous system, there can never be a complete reversal while the present legislation remains in force. The latest changes are pragmatic, incremental, and much more slowly put together – a 'whole-of-government' approach is being developed. While there is still further work to be done, the indications from the social sector are that joined-up government and an integrated social development approach is indicating the way forward.

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<sup>184</sup> Ministry of Social Development, Statement of Intent 2007/2008.

## Chapter 10: Conclusion

Although efforts to restructure the machinery of government in order to improve public management have long been commonplace, the results of such efforts have usually been deemed to have entailed considerable cost but precious little in the way of concrete benefits (Aucoin, 1998:310).

### 10.1 Introduction

This research set out to address three sets of questions relating to the administrative doctrines and practices which underpinned public sector reform in New Zealand over the period from 1984 to 2007. The period has been reviewed in two phases to differentiate between the period of the separation of policy and operational and regulatory functions from 1984 to 1999 and the period since 1999 when some re-coupling has taken place. The two phases represent the distinction between the new institutional economics focus of governments between 1984 and 1999 and the post-1999 changes implemented by new Labour-led governments.

The questions were:

1. What were the administrative doctrines and practices that informed the separation or decoupling of policy and operational and/or regulatory functions in the first phase of New Zealand's state sector reforms (1984 -1999)? (The focus is on the social services sector where sustained decoupling proceeded.)
2. To what extent have the administrative doctrines and practices been modified over time and particularly so in the second phase of the reform period from 1999; why were the changes deemed necessary; and what were the specific consequences for machinery of government arrangements which had been so influential in the first phase of the reforms?
3. Given the tendency over the second phase of the reforms towards greater alignment between, and re-coupling of, policy and operational functions, is there a coherent set of administrative doctrines and practices that has informed machinery of government changes over the second phase of the reforms able to be identified? If so, does that constitute an appropriate foundation for policymakers to address such issues in the future?

The final chapter of this thesis will address these questions in sequence to examine the logic which has been applied to each phase of the reforms and then look forward to consider the challenges facing policy makers – either elected or appointed – in the future when changes to the organisation of the public sector are contemplated.

The qualitative evaluation approach which has been followed has used the Denzin and Lincoln notion of the researcher as a ‘quilt maker’ – “deploying whatever strategies, methods and empirical materials are at hand” (Denzin and Lincoln, 2005: 4). Thus the dissertation will resemble a quilt where the component parts have been stitched together to develop a coherent whole – a patchwork of theories, administrative practices and interpretation of the New Zealand experience of the public sector reforms carried out in the 1980s and 1990s and the subsequent modifications which have been enacted post 1999.

What has become apparent in the study of the literature over the period has been the focus on generalisations to frame theories which have a universal explanatory application. The evidence of country-specific nature of the reforms, which have taken place, indicates that each jurisdiction has adapted the doctrines and theories to suit its own particular circumstances and the views of the government of the day. The public sector reform experience in New Zealand has involved both aspects – the adoption of doctrines and theories, and the ideology of the current government. The adoption of the theoretical constructs of what later became known as New Public Management (NPM), which were universally applied in phase one, were in line with the views of the Fourth Labour government and the National-led governments of the 1990s. However, in phase two there was a more pragmatic approach to address the problems encountered and design situation-specific remedies.

## **10.2 New Zealand reforms phase one – doctrines guiding the reforms**

### Research question

*What were the administrative doctrines and practices that informed the separation or decoupling of policy and operational and/or regulatory functions in the first phase of New Zealand’s state sector reforms (1984 -1999)?*

The identification of the doctrines and practices that informed the New Zealand reforms from the change of government in 1984 have been well documented (see Boston et al., 1991, 1996; Boston and Eichbaum, 2005; Gregory, 2003, 2006, 2007; Scott, 2001; Scott, Bushnell and Sallee, 1990). The doctrines of NPM were based on the 'new institutional economics' and involved the economics-based theories of public choice theory, agency theory and transaction cost analysis. One of the key aspects of public choice theory applied to the New Zealand reforms was the notion of capture (see chapter 4.4.3) and the need for the separation of policy from operations and service delivery which was first outlined in *Government Management* (Treasury, 1987). It was held that a department should not both provide policy advice to its Minister and deliver the services resulting from the adoption of the policy.

While the literature reviewed in chapter three has covered the global scene, this thesis seeks to address why these doctrines and practices found a receptive audience in New Zealand at that time, and why they were embraced so enthusiastically. Indeed, as was noted in chapter two, New Zealand was considered the 'world leader' in the NPM-associated reforms, according to overseas observers writing in the late 1980s and early 1990s.

New Zealand's economic position, after years of stagnation under a National government led by Robert Muldoon<sup>185</sup>, was in a parlous state with high fiscal deficit and levels of overseas borrowing. The situation in 1984 and the events following the election have been described in chapter four (see also Boston and Holland, 1987). The overall size and perceived inefficiency of the public sector was also a concern for the incoming government who were prepared to take immediate action to address the multiplicity of major problems identified. Cabinet Ministers in the Fourth Labour Government, who were interviewed for this study, all attested to the seriousness of the situation they encountered and rationalised the actions taken as being essential at that time.

Another factor to be considered was that senior Treasury managers were said to be "under-employed"<sup>186</sup> under Finance Minister Muldoon and had the time to read and observe overseas trends such as "rolling back the state" in Thatcher's Britain and

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<sup>185</sup> Prime Minister Muldoon also held the Finance portfolio where he maintained tight control and was not receptive to new ideas.

<sup>186</sup> Opinions from people interviewed.



the advent of managerialism in the United States and, to some extent, Canada. The Treasury's Briefings to Incoming Governments, *Economic Management* (1984) and *Government Management* (1987) reflected the current thinking and provided the blueprint for the reforms which took place in New Zealand.

However, and this point is often lost sight of in the subsequent literature and criticism of the Treasury approach to reform, the Treasury advocates of reform did not envisage a total take-up of the separation of policy and operations and urged a case-by-case approach. There was a caution against that too rigorous a separation which could result in the development of inappropriate policy: "Policy advice, divorced from considerations of reality, is bad advice" (Treasury, 1987:77).

In their contribution to the 1988 Conference of the New Zealand Institute of Public Administration, Bushnell and Scott cautioned that the presumption of the separation of policy control from operational functions would need to be tested against a possible need for a high degree of involvement in operations for informed advice (Bushnell and Scott, 1988: 24). In the interviews undertaken for this research, both these authors repeated the view that each situation should be assessed separately, but noted that instead, the separation had been applied regardless of the circumstances. A 'one size fits all' approach had been taken instead of a discussion on the strengths and weaknesses of each case. Once the idea had been 'wholesaled' it became doctrine.

A timely caution had been offered by Boston, who commented in 1991 that:

it would be unfortunate if the current excitement with the new economics of organizations and the new managerialism blinded policy makers to the insights of earlier political philosophies, administrative traditions, and organizational theories, or led them to ignore the way public agencies have been shaped by the forces of culture and history (Boston, 1991a: 23).

Boston's caution did not appear to have been heeded by the incoming government in 1990, which proceeded to continue on the 'reform' path and to separate policy ministries from operational departments, including those in the social sector.

Another aspect to consider, when the 'drivers' of change are being discussed, is the impact – perceived or otherwise – of capture:

The original reformers believed that public choice and agency theories were tools that enabled them to solve perceived problems such as ‘provider capture’ of the political executive by egoistically self-interested bureaucrats who were unresponsive to the will of the elected government of the day (Gregory, 2006:155).

For the incoming government in 1984 and for the bureaucrats at that time who were interviewed for this research, the experience of capture was a very real occurrence.<sup>187</sup>

The structural reforms of phase one, through the 1980s and 1990s, proceeded following the creation of the State-Owned Enterprises in 1986. The environmental and conservation restructuring took place in 1986/7, followed by the creation of the Ministry of Research, Science and Technology in 1989 and the establishment of Crown Research Institutes. In the social sector changes commenced in 1989 starting with Education and proceeding through Housing, Justice and Social Welfare in the 1990s (see chapter six, Table 5).

The major official reviews, which were undertaken in this period (Logan 1991 and Schick 1996), offered confidence that the new regime provided by the State Sector Act (1988) and the Public Finance Act (1989) had delivered a sound foundation. However, Logan expressed a number of concerns including the policy capability under the numerous policy ministries, and Schick suggested some consolidation of departments.

The subsequent revisiting of the evaluations revealed some modification of the initial enthusiasm. In discussing the various evaluations which had taken place in phase one, Boston and Eichbaum’s overall assessment was that while the new model of public management was superior to the one it replaced, it contained numerous flaws including an undifferentiated approach to institutional design (Boston and Eichbaum, 2005: 9-10). Professor Allen Schick, who revisited New Zealand in 2001, said that he was “more critical and less ambivalent” than he had been in 1996, and while admiring the work which had been undertaken, he was “less convinced that it is the right way to go” (Schick, 2001: 2).

While the doctrines and practices which had guided the de-coupling of policy and operations in phase one have been well documented, this thesis has also

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<sup>187</sup> “We all knew examples where outrageous advice to the Government had come about because government organisations were protecting their jobs.” (28) Former Chief Executive

assembled instances where implementation deficits and unintended consequences were becoming apparent during the latter 1990s. There was evidence of a disjunction between the development of policy initiatives in the social services sector and the difficulties encountered with the delivery of programmes to the intended client groups. The separation of policy from operational agencies resulted in delivery problems and implementation delays (see chapter 6.3). The later Review of the Centre reports (2001, 2002) highlighted the problems of fragmentation and siloisation which had resulted from the separation.

A further major negative consequence of the operations/policy separation emerged after 1999 when the performance of the newly created Department of Work and Income came under scrutiny after a succession of problems and the dissatisfaction of ministers with the Department's behaviour. In the subsequent review of the Department undertaken in 2000<sup>188</sup> a variety of problems were identified. These included the adoption of a corporate business culture which was inappropriate for a government agency, the inexperience of the chief executive and senior managers in dealing with ministers and other departments, and the lack of sound policy input to the work of the department. The department was said to be "without a brain" (see chapter 8.3.1).

### **10.3 New Zealand reforms phase two – changes and reasons for these**

#### Research question

*To what extent have the administrative doctrines and practices been modified over time and particularly so in the second phase of the reform period from 1999; why were the changes deemed necessary; and what were the specific consequences for machinery of government arrangements which had been so influential in the first phase of the reforms?*

The structural changes which have taken place since the change of Government in 1999 have been an integral part of that Government's agenda to rebuild the public sector. The changes which proceeded addressed the problems identified in the 1999 Labour Party Manifesto (see chapter nine, Table 9). From 2000 to 2005 under the aegis of the Minister of State Services, Hon Trevor Mallard, a period of

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<sup>188</sup> Ministerial Review into the Department of Work and Income. (2000). *(The Hunn Report)*. Wellington.

sustained change and re-coupling took place. Structural change proceeded on a case-by-case basis. Reviews, usually led by the State Services Commission, were carried out to investigate each situation identified by the Government and reported back to Cabinet, with recommendations for changes required to address the particular problems which were identified. While each situation had its own characteristics, there were several over-arching 'drivers': policy advice needed to be better informed and be linked to its operational and service delivery conduit; the public service needed to be 'rebuilt'<sup>189</sup>; and each change needed to be thought through on its individual merits (Clark, 2004).

The process followed post-1999 to address the 'rebuilding' of the public sector involved the establishment of a Standards Board in November 2000, and then, in line with the Board's recommendation, a Statement of Government Expectations and Commitment to the State Sector, which was released in March 2001 (Mallard, 2001). Although the Standards Board had a two-year mandate, the focus changed to the Review of the Centre, which was established in 2001, and related projects associated with that Review followed.

The Review of the Centre reports and publications provided the overarching strategy for the changes which followed (see chapter 7.4). A major finding from the Review of the Centre was that the public sector had become fragmented. Several pilot projects such as the circuit breaker teams, were established. However, these languished over time as emphasis shifted to other initiatives, such as the promotion of the Development Goals for the State Services<sup>190</sup> (2005, 2007). A 'whole-of-government' approach was advocated by the Review to coordinate (social) policy and the delivery of services. The need to bring policy and operations back together was identified, and the small Crown Entities needed support from a parent department in order to achieve improved synergies. As was noted in chapter nine, the various reports and statements issued by Ministers in the period post-1999 indicate that the concerns regarding fragmentation and siloisation were addressed in a pragmatic way with each situation being considered on its merits.

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<sup>189</sup> Earlier, Shaw (1999) had identified the low state of morale in the public service as a result of the reforms, and advocated rekindling "the flame of public service" by embarking on a process of rehabilitation which acknowledges the value of public service (Shaw, 1999: 216).

<sup>190</sup> The Development Goal "Coordinated State Agencies" specifically addresses the need for government agencies to provide clear joined-up responses.

The modification of the administrative doctrines and practices which took place in the second phase of the New Zealand reforms was a direct result of the changes which had been enacted in phase one. The business operations of government had been moved out of the public sector to State-Owned Enterprises or privatised. Thus the 'core' public sector remained to work directly with the Government. While capture<sup>191</sup> may have been a major problem in the 1980s, the problems of fragmentation and the quality of policy advice, which were now emerging, were thought to be greater, hence the re-coupling of policy and operational functions.

Although the State Sector Act (1988) remained in force and departments were led by chief executives, the State Services Commissioner received greater coordination powers under the State Sector Amendment Act (2004). The promulgation of Development Goals for the State Services (2005) and the 2007 update<sup>192</sup>, and Standards of Integrity and Conduct (2007), by the State Services Commission, is an attempt to return to a more unified State sector. *Transforming the State Services* (2007) reported on progress achieved on the six Development Goals. Further leadership from the State Services Commission was demonstrated by the release of the "Reviewing the Machinery of Government" paper in 2007 which provided guidelines for machinery of government analysis and the determination of the best organisational form for carrying out government functions. The Commission now has a key role in all matters impacting on institutional design and is required to be consulted by departments.

The overall organisation of the public sector to address issues of alignment and fragmentation has continued throughout phase two as different approaches to coordination have been attempted. A set of Government Priorities<sup>193</sup> was promulgated in 2006. These priorities are informed by three themes: Families – Young and Old, National Identity and Economic Transformation. These have been applied across the State sector and have been used as the focus for coordinating subsequent Budget initiatives. Each Theme has an overarching goal, sub themes and priority issues. The three themes are still an overarching coordination mechanism although a sectoral grouping was adopted for Budget 2008.

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<sup>191</sup> The problems associated with bureaucratic and provider capture, which were an initial rationale for decoupling, were not mentioned in the various reports from the Review of the Centre teams.

<sup>192</sup> *Transforming the State Services* (2007).

<sup>193</sup> DPMC website <http://www.dPMC.govt.nz/dPMC/publications/government-priorities> accessed 19/11/2007

Modifications to administrative doctrines and practices in this second phase have involved the re-joining of the policy and operations functions to improve coordination and address fragmentation, the reassertion of the centre through greater responsibilities for the State Services Commission, and improved coherence between the government's strategic direction and departmental and ministerial clusters.

#### **10.4 Whole-of-Government and Joined-up Government developments**

The responses to fragmentation have been to engage in putting departments back together again to achieve what has been referred to in the literature as 'joined-up government' and 'whole-of-government'<sup>194</sup>. The term whole-of-government appeared in the first Report of the State Sector Standards Board in January 2001 where the term was used to focus on the approach to fragmentation. Later the Statement of Government Expectations in March 2001 articulated the expectation that individuals and agencies of the State sector would have whole-of-government commitment by:

- considering the implications of activities for other agencies and the whole of government; and
- encouraging and participating fully in processes of consultation and collaboration within and beyond the Government (Mallard, 2001).

The first Report of the Advisory Group on the Review of the Centre (dated November 2001) also uses the term whole-of-government when discussing tackling fragmentation and improving alignment.

Recent literature has identified a second generation of public management reforms (see Christensen and Lægheid, 2006, 2007; Hood and Peters, 2004; Pollitt and Bouckaert, 2004; OECD, 2005). Here the theoretical genesis of joined-up government and whole-of-government is contrasted to the initial NPM reforms which were dominated by the logic of economics. This later approach is seen to apply a more 'holistic strategy' using the insights of social sciences and to be a response to the 'negative feedback' detected in the most radical NPM countries. Here New Zealand is named, together with Britain and Australia. While it is acknowledged that the terms are new, they have been 'coined' to address old problems concerning co-ordination and control (Christensen and Lægheid, 2007:25). In a 2005 Report

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<sup>194</sup> Christensen and Lægheid note that these terms are often used interchangeably in different geographical settings (Christensen and Lægheid, 2007: 25)

resulting from a two-year study of 30 countries the OECD concludes that: “as governments move forward in deciding future organisational change, the case for adopting a whole-of-government perspective is overwhelming” (OECD, 2005:190).

Speaking to a Public Sector Governance Seminar in Viet Nam in September 2006 the Secretary to the New Zealand Treasury<sup>195</sup> reviewed the New Zealand reforms and the gains resulting from them. These included clear managerial authority and organisational objectives and effective systems of accountability. However, he identified where further progress was needed to improve the performance of the public sector. “We continue to struggle to improve the ‘whole-of-government’ approach – the coordination across two or more agencies whole responsibilities to deliver the right results requires collaboration, or pulling in the same direction” (Whitehead, 2006: 10). He noted that recent measures adopted by the current Government would assist in improving effectiveness and efficiency and referred to the three themes, or overarching objectives, which had been created in 2006.

The more recent literature reviewed for this research, especially that involving cross-country studies, indicates that a world-wide movement to achieve a whole-of-government focus is proceeding. However, there are country differences in the methods taken to achieve this. In New Zealand fragmentation is being addressed, by re-coupling and restructuring departments and implementing a mechanism to coordinate Ministers into functional groups, although there remains a multiplicity of Ministerial portfolios and responsibilities which can have a fragmentary impact, as those interviewed for this research have pointed out.

## **10.5 The situation in 2007**

### Research question

*Given the tendency over the second phase of the reforms towards greater alignment between, and re-coupling of, policy and operational functions, is there a coherent set of administrative doctrines and practices that has informed machinery of government changes over the second phase of the reforms able to be identified? If so, does that constitute an appropriate foundation for policymakers to address such issues in the future?*

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<sup>195</sup> Whitehead, John (2006) The Imperative for Performance in the Public Sector.  
<http://www.treasury.govt.nz/speeches/ipps/>

This study has examined the machinery of government changes which have taken place since 2000 in order to establish the logic behind the restructuring. The evidence obtained, although focused on the social sector, suggests that decisions have been taken on a case-by-case basis in order to address the perceived problems at that time. Thus a pragmatic approach to problem solving has been adopted by the current government over the period of their tenure from late 1999.

The pragmatic approach was earlier noted by Gregory who considered that the failure to revisit theoretical design, in the light of the experience in New Zealand, may have reflected the fact that the theoretical coherence of the original reforms was something of an 'opportunistic aberration', since overtaken by the pragmatic contingencies entailed in getting on with the job (Gregory, 2003:53). However, the evidence presented in this dissertation would indicate that the 'theoretical coherence' of the phase one reforms, in New Zealand's case, was designed to address the particular circumstances which existed at that time. The flaw was that having addressed the initial structural issues to separate out the State-Owned Enterprises, the structural change to decouple policy functions then proceeded across the board, including the social sector. While the legislative pillars of the first phase of the reforms have remained in place, they have been modified through the 2004 amendments, to achieve improved coordination and focus on the management of the State sector – both organisational and financial.

Another coherent strand, which has been evolving in this period, has been an acknowledgement that there are major differences between the public and private sectors and that the blanket importation of private sector management models has not necessarily been a success in the public sector (see Christensen and Lægveid, 2006, 2007; Hood and Lodge, 2006; OECD, 2005). Governments require a different approach and the complexity of constitutional arrangements under Westminster systems do not readily accommodate a private sector model. In New Zealand this acknowledgement has underpinned the moves to strengthen the 'centre' through the provision of a stronger legislative mandate to the central agencies of the State Services Commission and the Treasury. Updating the State Sector Act (1988) and the Public Finance Act (1989) through the addition of substantive amendments in 2004, has provided more comprehensive responsibilities and powers for the State Services Commissioner to set minimum standards of integrity and conduct, to appoint and employ chief executives, to make enquiries, and to develop and train senior leaders and managers. The changes to the Public Finance Act have provided



more flexible appropriation options, expanded non-financial reporting requirements, and increased transparency and accountability. The change of focus or, as described in chapter 3.3.4, 'refocus' on public administration, indicates that a platform is being established for the operation of the whole public sector. A whole-of-government approach is evolving.

When considering the changes in public administration which have taken place over the period, cross-country studies have demonstrated that rushing into the latest management or governance 'fashion' from an overseas jurisdiction has not necessarily addressed country-specific problems. Christensen and Lægreid (2007) question whether the reforms have been characterised by a similarity in reform patterns or variety and divergence engendered by national differences<sup>196</sup> in environmental, cultural and political-administrative contexts. However, the phase two changes implemented in New Zealand have been country-specific.

The third question sought to establish where there was a coherent set of administrative doctrines and practices which had informed the machinery of government changes over the second phase of the New Zealand reforms. From the evidence presented in chapters seven, eight and nine the answer must be negative. The structural design imperatives identified in these chapters were largely based on the problems identified at that time by the government. The information sources reviewed and the interviews undertaken did not reveal a theoretical framework or clearly articulated set of doctrines. While the coherence centred on the re-coupling of policy and operations, the order in which the structural changes were implemented was directly proportional to the magnitude of the identified problem and the political risk component. (The re-coupling rationale to join the Department of Work and Income with the Ministry of Social Policy has been traversed in chapter 8.4.)

The research undertaken in this study, to address the second part of the question relating to whether there was an appropriate foundation for policymakers to address issues in the future, has produced some useful guidelines. The lessons learned indicated that economic and social environment of the time needs to be assessed before adopting 'across-the-board' solutions. Each identified 'problem' should be

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<sup>196</sup> They also note that Scandinavian countries were reluctant to implement reforms, in part because aspects of national and administrative culture were less compatible with NPM.

analysed carefully before rushing to adopt 'off the shelf' remedies. Fragmentation has been identified as a major problem in public sector performance. However, more than the re-coupling of agencies is required in order to achieve a coordinated approach to managing the State sector. While joined-up government is advocated it is apparent more in the rhetoric than in the reality. There are still 35 Departments of State and a multiplicity of ministerial portfolios. The foundation for policymakers to use in the future is under development as a result of the State Sector Amendment Act (2004) which has reinforced the state Services Commissioner's mandate to review machinery of government including the allocation of functions and the desirability of, or need for, creating new departments of state. The State Services Commission's 2007 report "Reviewing the Machinery of Government" contained guidelines which set out the main lines of thought for machinery of government analysis and determining the best organisational form for carrying out government functions. However, as discussed in chapter 9.2, while the framework has been established it is too soon to assess its impact.

## **10.6 What lies ahead?**

The New Zealand situation in 2007 could be said to represent a public sector in transition. The structural changes carried out in phase two of the reforms are settling down. The latest Ministry of Social Development merger is not yet two years old and commentators and Opposition spokespeople are suggesting that the remaining Department of Corrections could be targeted for realignment with the Ministry of Justice as operational problems continue to dog the department and attract media attention<sup>197</sup>. One of the former chief executives interviewed also mentioned the possibility of Corrections back with Justice, depending on how much 'noise' there was.

Writing in 2001 Christensen and Lægreid ask 'what kind of further development of government can one expect?' and looking back they proffer three scenarios. The first is linear progression towards a more market focus with the globalisation of NPM. The second scenario is that after a period of NPM there will be a reaction to the norms and values that the reforms have been built on, and a return to some of the main features of the 'old civil service'. The authors state their preference for a third scenario, which is that NPM has contributed to making the public sector more

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<sup>197</sup> Simon Power, Opposition, Oral Question to the Minister of Corrections, 11 December 2007 "Does he have confidence in his department and if so, why?"

complex and that this development will become more apparent in the new millennium with the development of more hybrid organisational forms (Christensen and Lægheid, 2001:309-312).

From the evidence provided in this thesis a mix of scenario two and three seems likely for New Zealand. A 'fourth age' of NPM, as outlined in chapter three, would include a return to some of the earlier values of public administration, with sector-wide standards and ethics and coordination from the centre, while acknowledging that the increasing complexity of the operations of the State sector will require a more 'hybrid' organisational focus. This fourth age concept is not intended as advocating a return to the pre-1984 situation for the core public service with the State Services Commission as the employer of public servants and chief executives being 'permanent heads'. While there is reference in the literature to pendulum swings (see Aucoin, 1990; Norman and Gregory, 2003), this is intended only in the institutional design context of the policy/operations split and not as a total return to a pre-NPM regime.

The literature studied can use the terms public administration and public management interchangeably. Examples of the use of the terms are: the paradigm of public management in the NPM era places emphasis on efficiency, economy and effectiveness, and management accountability (Hughes, 2003); and the enduring qualities of traditional public administration are collaboration, a moral perspective on the public interest, a concern for democratic administration and pragmatism (Lynn, 2001:154). It is these latter qualities which are still very relevant for New Zealand in the twenty-first century, although the efficiency, economy and effectiveness, and management accountability elements, which were promoted in the phase one reforms, are still important.

The emerging issues identified in the fourth age are outlined in Table 10.

**Table 10 The Four Ages of the ‘New’ Public Management: The case of New Zealand**

Ages	Defining elements
1st	<p>Early writings developed from the late 1980s – mix of broad-brush normative concerns and attempts at descriptive mapping of institutional developments.</p> <p>The “New Right” agenda was dominant in a number of OECD countries.</p> <p>No general theoretical treatise emerged from the academic world. Many ideas came from practitioners such as the New Zealand Treasury.</p> <p>Descriptive mapping of the ideas and practices based on the form of observations of the developments in Britain, the United States, Australia and New Zealand.</p> <p>NPM turned out to be somewhat mystical in essence as no two authors of that era listed exactly the same features in enumerating its traits.</p>
2nd	<p>Developing themes with refinements, variants of public sector managerial reforms as themes changed and new issues emerged. More awareness of cross-national differences with antipodean countries seen as the leaders.</p>
3rd	<p>From the later 1990s there was increasing intellectual self awareness.</p> <p>There was more comprehensive textbook treatment with the intellectual history and development in particular regions and policy domains attracting attention.</p> <p>A more formal approach to the study of public sector reform with the identification of paradoxes and surprises as problems and unintended consequences started to emerge.</p> <p>“Middle age” of the NPM debate.</p>
4th	<p>Post 2000</p> <p>Unique nature of public administration acknowledged.</p> <p>Whole-of-government approach with organised cooperation between government agencies.</p> <p>Acknowledgement of the complex constitutional arrangements between government and the public sector.</p> <p>Institutional design addressed on a case-by-case basis rather than import a standard framework.</p> <p>Integrated approach to policy development – both vertical and horizontal.</p> <p>Enhanced leadership role for the State Services Commission as a central agency, and for the State Services Commissioner as leader of the public service.</p> <p>Public sector-wide standards of integrity and conduct promoted.</p>

(adapted from Hood and Peters (2004))

Another lesson learned from the New Zealand reforms was that the agency theory model, which established accountability arrangements between ministers and chief executives, has presented some difficulties for the public sector and has had several modifications. The State Sector Act (1988) was intended to clarify the accountability relationship between minister and chief executive by specifying the principal responsibilities of the chief executive (State Sector Act, 1988, Part III, section 32). However, initially ministers were not comfortable with Performance Agreements in terms of the specificity of the detail required annually to scope the chief executive's performance objectives (see Whitcombe 1990). Performance Agreements were eventually dispensed with in 2001/02 and the associated Purchase Agreements ceased the following year. The current accountability relationship with Ministers is formalised in the department's Output Plan and performance is monitored quarterly by the State Services Commission and the Treasury. The department's Statement of Intent for the next three to five years is signed by the Responsible Minister and the chief executive and contains the Forecast Financial Statements and the Forecast Output Performance Statements<sup>198</sup>. The State Services Commissioner appoints and employs chief executives of public service departments on behalf of the Crown, and also reviews their performance – on behalf of the Responsible Minister.

The fourth age for New Zealand has been identified by an acknowledgement that public administration is complex and based upon the constitutional relationship between the government and the public sector. Thus, a whole-of-government approach has been essential for the efficient management of the sector and to address the negative consequences of fragmentation. A cadre of capable and loyal public servants is needed to design and implement the government's policies. However, this is not without problems, and some tensions were developing in 2007. Under the doctrine of ministerial responsibility the minister takes responsibility for the operations of their department and fronts the media when situations arise. The Cabinet Manual clarifies individual ministerial responsibility for departmental actions (Cabinet Manual, 2008: 3.21). However, the previously 'anonymous' permanent

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<sup>198</sup> From 2008/2009 the Statement of Intent contains only the department's programme of activity for the next 3-5 years. The financial and performance information is located in the Information Supporting the Estimates which also contains Ministerial and Chief Executive Statements of Responsibility.

head has now become a very visible chief executive who is expected to answer publicly for the performance of their department.<sup>199</sup>

Another consideration to be addressed in the context of re-coupling is the case of a 'super-ministry'. The Ministry of Social Development is now the largest New Zealand public service department with some 10,000 staff. This has resulted from the accumulation of former departments as described in chapter eight. There is potentially a danger that policy silos could develop in such a large organisation and the development of policy could, once again, lose touch with the operational practicalities of implementation. However, the Chief Executive has been aware of this danger. The concept of social development represents an extension of policy and delivery directions (Hughes, 2002:6). The integrated approach which is being fostered, as outlined in chapter 8.6.2, shows awareness of potential problems and the development of an organisational structure to maintain an holistic focus. When interviewed for this research, Hughes outlined his organic model of organisational design which is outcome focussed. The organisation works through cross-cutting 'soft' processes which allows policy and service delivery to work together in teams in projects led by different groups from corporate, policy and the service lines – depending on the project. The outcomes focus ensures cohesion both within the Ministry and among the other agencies with whom they collaborate. This approach also emphasises the importance of engagement with the public and community organisations. However, one community representative interviewed expressed the view that:

- Social policy generated in the Ministry of Social Development is not going to address all the issues. It doesn't address the issues related to urban planning and transport planning. If you look at the way communities work - or don't work all these issues come into play. It's a mistake to have all the policy capacity in one ministry. There is no independence – you can't get objective advice from a government department.  
(23)

While this criticism of the Ministry appears somewhat harsh, it does reflect past experience. The test will be whether the Ministry can, in the future, work collaboratively with other agencies and community groups to meet its Statement of Intent's high level outcome for Communities, hapū and iwi: 'build our relationships

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<sup>199</sup> The issues relating to accountability and ministerial responsibility are traversed by Gregory (2007a) who acknowledges that over the past couple of decades accountability has become an increasingly difficult issue and argues that when something goes wrong the public expect someone to be held accountable.

with, and the capability of, the community and voluntary sector to ensure that New Zealand families and communities are strong and resilient’.

Those interviewed were asked what they thought would happen in the next three to five years. The question was designed to take thinking beyond the next general election to be held later in 2008. Over half the respondents considered that a change of government would bring about changes to the public sector. However, they were less specific on what those changes could be. Generally, the increasing size of the public sector was seen as a likely target for an incoming government, as was structural change with fewer agencies, although there was often the proviso that this would depend upon coalition partners and the specific policy accommodations that might be required as part of the process of forming a government in an MMP environment. A major area of concern was a perceived lack of appropriate people to lead all the separate agencies and this could result in further amalgamations. Other views included the likelihood of more coordination between local and central government and improved data sharing between departments.

One dimension which keeps recurring with those who occupy, or formerly occupied, senior public service positions, is the relatively small population of New Zealand in relation to the design of the bureaucracy. Indeed it is hard to justify why such an interwoven maze of departments is justified to serve a population of 4.5 million people. In contrast with the small population is the large number of Ministerial portfolios<sup>200</sup> (see chapter nine). Over half those interviewed expressed views that in the future there would be further consolidation with fewer departments and greater collaboration between Ministers and departments. Several suggested a smaller number of departments with the British model of 20 advocated.

- Ministers need to co-ordinate and work together – and be talking about similar outcomes. This will then shift down to the chief executives who will work together and their departments will cooperate. Ministers are now working in teams – whether they are the right teams is another matter. Some areas don’t come together – some departments have quite different frameworks. Officials need to get to know each other and get on. Interdepartmental changes of staff will improve relations. (12) Academic observer
- More reconstituting into larger agencies. The downside of the reforms was too many agencies – the need to split policy from operations was never a powerful

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<sup>200</sup> As at 31 October 2007 there were 58 ministerial portfolios and 51 “other responsibilities” allocated to Ministers inside and outside Cabinet.

argument. The notion of “capture” was just a convenient rationale at the time – and it fitted with prevalent theory then. Now there is a more pragmatic approach taken. (14) Former senior public servant

There is a contradiction between fewer departments working together in a joined-up way and the current multiplicity of ministers, associate ministers and additional responsibilities which have been allocated to ministers outside Cabinet. While the Government is endorsing the whole-of-government approach with fewer departments, the current Cabinet structure appears large and somewhat cluttered. The necessity to accommodate support partners has required additional portfolios, such as the Minister of Revenue. However, within Cabinet there can be several associate ministers for one portfolio, for example the Minister of Justice has three associate ministers.

The pragmatic case-by-case approach to institutional design, the major message emerging from the Ministers of the Labour-led governments from 1999 and from the interviews undertaken for this research, represents a modification of some of the elements of the doctrines that informed the first phase of the reforms with separate policy and operational agencies working independently. The point is continually made that a standard ‘across-the-board’ ‘one size fits all’ methodology is not acceptable. The emergence of a fourth age would suggest that the implicit doctrinal foundations of traditional public administration - including a unified public service with government and government agencies working together - have exerted an influence on the approach taken to addressing the problems of fragmentation and achieve joined-up government, and to manage the public sector from a whole-of-government perspective.

## **10.7 Conclusion – Foundation for the Future**

The third research question sought to investigate whether there was a set of administrative doctrines and practices which could constitute an appropriate foundation for policymakers to address future issues. The dissertation has traversed a period of over twenty years where the New Zealand public service has been subject to constant change. The approaches which have been adopted, in response to the directives of the governments in power, have ranged from the major restructuring of the sector through the 1980s and 1990s, to fine-tuning to address specific issues post-2000.



From the evidence assembled, the identification of a coherent set of administrative doctrines to guide policymakers in the future is becoming clearer as the patchwork of doctrines and practices takes shape. The notion of a fourth age in the NPM reforms which entails departments working together to deliver coordinated services to the public, an integrated approach to policy development informed by the operational practicalities, and leadership role for the central agencies, represents an emergent doctrinal foundation. A return to elements of traditional public administration, in the relationship between government and the public sector, has been discernable since 2000. The location of complementary policy and operations functions in one department is consistent with the Westminster tradition whereby Ministers, working in partnership with their departments, have the ultimate responsibility for both the development and implementation of policy under their portfolio responsibility. The challenges facing policymakers in the future will be to chart the way forward into an even more technologically advanced age and to maintain trust between citizens and the State sector. The institutional design for the public sector will be influenced by international and local imperatives as new situations emerge<sup>201</sup>.

The foundation for the future in New Zealand will also be influenced by such factors as the administrative practices favoured by the government of the day and with a general election scheduled for 2008 there could be a change from the current regime. The National Party in opposition has stated that the public service is too large and staff numbers will be reduced. The process of down-sizing, which was followed by a National-led government in the 1990s, had long-term ramifications with the loss of both capacity and capability in the public service and some loss of trust in the public sector by the community. However, the public perception has improved as the 2007 Kiwis Count Survey<sup>202</sup> of 6,500 New Zealanders, conducted by the State Services Commission, indicated that the State Services are on the right track and overall satisfaction was high.

The number and structure of public sector agencies will also be influenced by the availability of high-calibre chief executives. Interviewees made mention of this as a reason for further re-coupling. Poor performance by a chief executive which results in adverse media coverage is another reason which has been advanced for

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<sup>201</sup> The latest department created was the New Zealand Food Safety Authority on 1 July 2007.

<sup>202</sup> Public Satisfaction with Service Quality 2007.

restructuring. The allocation of Ministerial portfolios and any Coalition agreements made by the government can also affect de- or re-coupling decisions for agencies.

While current fashions and across-the-sector solutions can have seductive power for politicians and policymakers, the New Zealand post-1999 experience has demonstrated that structural change should be assessed on a case-by-case basis. The overall whole-of-government doctrine, which is currently enjoying cross-national support, operates at a higher level to coordinate public sector operations. Indeed, in New Zealand, the amendments to the foundation reform legislation have reinforced the coordination role of the central agencies and the reassertion of the centre.

As the periods studied in this thesis have demonstrated, the environmental, economic and political climate of the time will also exercise an influence. New Zealand has a tradition of pragmatism in all things<sup>203</sup>, including its constitutional and political arrangements and New Zealand's approach to constitutional change has been described as 'pragmatic evolution' (Gregory, 2007b:4). The pragmatic case-by-case approach to work through the structural changes which have proceeded through phase two of the New Zealand reforms, is endorsed by politicians, and those interviewed for this research. The blanket application of the separation of policy and operations has been universally condemned.

The 2005 OECD review observed that too often countries impose one reform on top of another without evaluating the results and effects of the previous initiatives. "The design of reform strategies must be calibrated to the specific risks and dynamics of the national public administration system and take a whole-of-government approach" (OECD, 2005:201). In the case of New Zealand, there has not been a systematic analysis of the original reforms in the light of subsequent experience (see Gregory, 2003) although there has been a traverse from total acceptance of the new NPM paradigm to a reconsideration of the components of public management and governance and a progressive attempt to restore those elements of the earlier public administration doctrines which were needed to take the public sector forward.

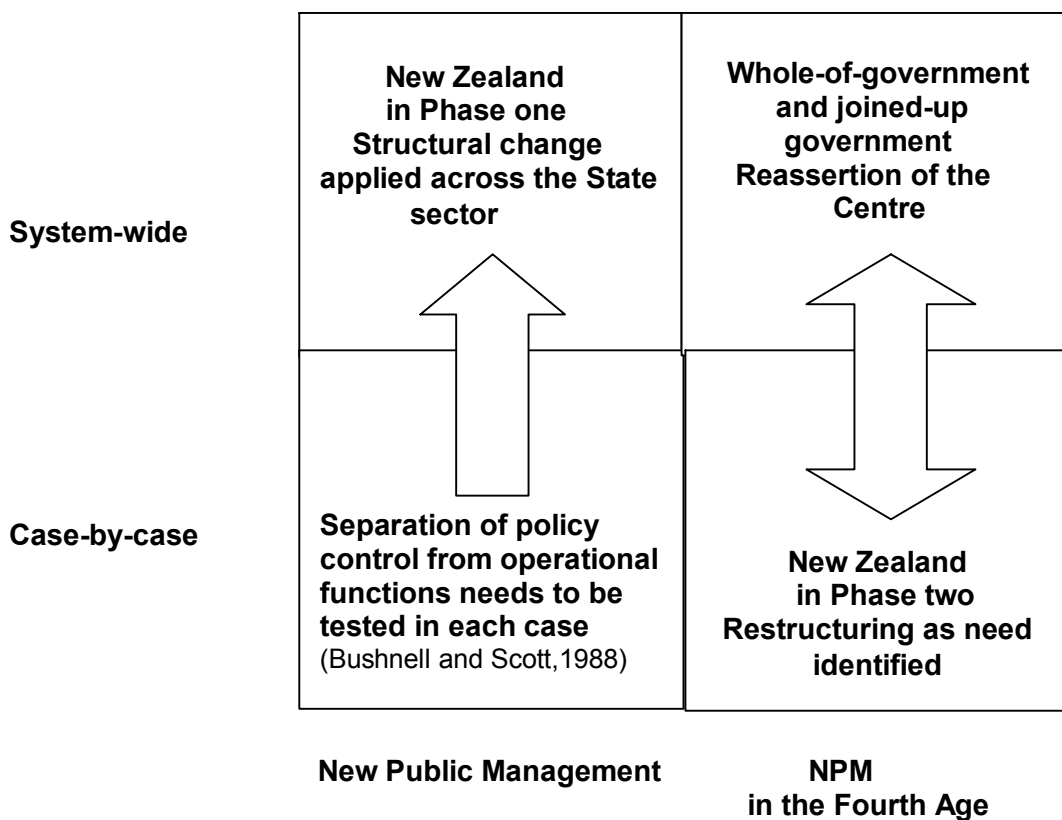
The changes which have continued over the two phases of the New Zealand reforms are summarised in Figure 2. In phase one the case-by-case approach initially suggested by the reform architects developed into structural change across

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<sup>203</sup> "The process of constitutional reform in New Zealand has always been pragmatic." Report of the Constitutional Arrangements Committee (2005) page 21.

the sector. However, the phase two approach, which has involved both system-wide and case-by-case dimensions, is an evocation of the elements of traditional public administration with an emphasis on coordination of the sector on a system-wide basis and with structural change assessed on a case-by-case basis.

**Figure 2 The theory and practice of the New Public Management in New Zealand: 1984 – 2007**



One lesson learned from this investigation is that unintended consequences can emerge from any empirically based solution grounded in theory and applied in varying degrees in other jurisdictions. A pragmatic approach which considers both the individual characteristics of each situation, the whole-of-government impact, and the particularities of the New Zealand situation, is required when addressing structural design issues in the future.

The uniqueness of the public sector is acknowledged and private sector models do not reflect the complexity of the interface between government, ministers, the public

service, and citizens. The co-location of policy and operations functions reflects their interdependency and the imperative to have policy development informed by service delivery experience and operations guided by informed policy advice. The reassertion of the centre has been necessary to achieve better coordination and a whole-of-government approach which brings departments together to support the outcomes sought by government. The promotion of the concept of a core public service with shared ethics, and standards of integrity and conduct also contributes to the whole-of-government focus which is being developed to take the New Zealand public sector forward.

This research has focussed on the structural changes which have taken place in New Zealand social sector agencies through the period from 1984 when the first wave of NPM reforms were felt, through a second phase from 1999 to the present situation in 2007, where a period of review and refocus has been observed. What has emerged from the study of the public policy and related literature, New Zealand government documents and interviews with key actors in the reform processes, is that post-2000 developments in New Zealand can be classified as a fourth age of NPM reforms. This fourth age builds upon the three ages identified by Hood and Peters (2004) and encapsulates the changes which have proceeded in New Zealand public sector post-2000.

The fourth age is characterised by a revisiting of elements of the discipline of traditional public administration. These elements are identified as: the integration and alignment of policy and operational functions on both vertical and horizontal dimensions; a reassertion of the role of the centre to coordinate machinery of government arrangements and set goals and standards; renewed focus on the ethical responsibilities of public service; a pragmatic approach to dealing with structural issues on a case-by-case basis; and a whole-of-government focus for the public sector. Together these elements represent an emerging doctrinal foundation to take the New Zealand public sector forward into the twenty-first century.

# **APPENDIX ONE: THE INTERVIEWS**

## **1. Respondent selection**

In-depth open-ended questions were carried out with thirty-six respondents who had contact with the public sector through the period from 1984. The interviews were conducted with

(a) people who were involved in the original reforms, either as public servants or observers (usually academics) or Ministers, to establish their recollections of the changes which took place and the rationale for these, and their subsequent reflections of the results.

(b) people who have been (or are currently) involved with the re-coupling which is occurring.

Respondents were contacted by letter to seek their agreement to participate in the study, the purpose of which was explained in the letter. Also enclosed were the interview schedule (see below) and the Informed Consent form. The letter, schedule of questions and the Informed Consent had been approved by the Victoria University Human Ethics Committee. Interviewees were given the assurance that any material used in the report would not be directly attributable to them.

All those contacted, except one, agreed to be interviewed and were generous in the time they made available for the interview. For a variety of reasons, including the availability of respondents, the interviews were spread over a ten month period during 2006. All interviewees were asked the same questions.

### **Interviewee Profiles**

The position held at the time of the major changes in phase one of the reforms is based on the respondent's position used for the response to question 2. While some chose one position to address the question, others responded from their various positions held over the period. By phase two, post 1999, some had retired while others were classified as consultants.

## Summary Table

Phase 1 Sector	Position		Phase 2 Sector	Position	
Government Departments	CE or Senior	7	Government Departments	CE or very senior	8
	Middle level	7	Primarily Government sector	Retired/Consultant	8
			International and NZ	Consultant	6
Central Agency	CE or Senior	9	Central Agency	Senior	4
University	Senior Lecturer	4	University	Professor or Assoc	5
Community/ NGO		3	Community/ NGO		2
Government	Ministers or MP	6	Government	Ministers	3
		<b>36</b>			<b>36</b>

**2. Respondent List**

**List of People interviewed in 2006 (in alphabetical order)**

The number shown beside the quotations used in this dissertation reflects that allocated to respondents, in the order that the interviews were conducted, and has no relationship to the list below.

<b>Name</b>	<b>Position Phase 1</b>	<b>Sector</b>	<b>Position Phase 2</b>	<b>Sector</b>
Dr Russ Ballard	CE, Education, MAF, Lands	Government Department	Retired - Consultant	Independent Director
Kathy Baxter	Field Officer, Dept of Internal Affairs, Early Childhood Development Unit Chair	Government Department	Senior Manager, Ministry of Social Development	Government Department
Dame Margaret Bazley	State Services Commissioner and CE Ministry of Transport & Department of Social Welfare	Central Agency and Government Department	Chairperson NZ Fire Services Commission	Government sector
Dr Jonathan Boston	Senior Lecturer Victoria University	University	Professor, Public Policy, Victoria University	University
Rob Brown	Middle Manager Department of Social Welfare	Government Department	Senior Manager, Ministry of Social Development	Government Department
Dr Peter Bushnell	Senior Analyst Treasury	Central Agency	Deputy Secretary, Treasury	Central Agency
Hon David Caygill	Cabinet Minister	Government	Deputy Chair Commerce Commission	Government sector
John Chetwin	Deputy Secretary Treasury	Central Agency	CE Dept of Labour Now retired	Government sector
Hon Dr Michael Cullen	Cabinet Minister	Government	Deputy Prime Minister	Government

Dr Roderick Deane	State Services Commissioner and CE of ECNZ	Govt Dept & Private Sector	Company Directorships	Private Sector
Hon Roger Douglas	Cabinet Minister	Government	Consultant and Coach	Government and O'seas
Dr Bob Gregory	Senior lecturer Victoria University	University	Associate Professor, Victoria University	University
Peter Hughes	Middle Manager, Income Support, Department of Social Welfare	Government Department	Chief Executive, Ministry of Social Development	Government Dept
Don Hunn	State Services Commissioner	Central Agency	Consultant	Government sector And overseas
Ken Irwin	CE Presbyterian Support Services	Community	Training Consultant	Government sector
Hon Annette King	MP	Government	Cabinet Minister	Government
Rob Laking	CE, Ministry of Housing	Government Department	Senior Lecturer, Victoria University	University
Stuart MacDonald	Policy analyst Dept Health	Government Department	General Manager Purchase and Monitoring Group, Ministry of Social Development	Government Dept
Hon Steve Maharey	Senior lecturer	Massey University	MP and Cabinet Minister from 1999	Government
John Martin	Deputy Director General, Health	Government Department	Retired - Senior Associate	Victoria University
Alex Matheson	Senior Manager, State Services Commission	Central Agency	Retired - Consultant	OECD
David Oughton	Department. Head, Justice	Government Department	Retired - Consultant	Government sector
Rt Hon Sir Geoffrey Palmer	Cabinet Minister	Government- Deputy PM	President Law Commission, Legal Practice & Victoria University	Government sector
Dr Mark	Treasury incl.	Government	State Services	Government



Prebble	Deputy Secretary	Department	Commissioner from 2004, Chief Executive DPMC	Department
David Preston	Senior Analyst Treasury	Central Agency	General Manager	Government Dept
Bonnie Robinson	EO NZ Council of Christian Social Services	Community	Salvation Army	Community
David Robinson	Community Research	Community	S/employed Social Policy researcher	Community
Hon Stan Rodger	Cabinet Minister	Government-Minister	Independent Director	Business and Health sector
Dr Graham Scott	Secretary Treasury	Central Agency	Consultant	Government sector & overseas
Murray Short	Group Manager Department of Justice	Government Department	Relationship Manager Leadership Development Centre	Government agency
Mel Smith	Dept Secretary, Internal Affairs & Justice	Government Department	Retired - Consultant	Government sector
Bob Stephens	Senior Lecturer, Victoria University	University	Senior lecturer Victoria University & social sector Advisor	University
Ross Tanner	Senior Public Servant Treasury & DOL	Government Departments	Deputy State Services Commissioner	Government Department
Michael Wintringham	Treasury Hay Consultants PM's Dept Asst Auditor General	Central Agency Private Sector Government Departments	State Services Commissioner	Central Agency
Richard Wood	Middle Manager, Department of Social Welfare	Government Department	Senior Manager, Ministry of Social Development	Government Department
Dr John Yeabsley	Senior Manager Dept. Labour	Government Department	Senior Fellow NZ Inst. Economic Res	Consultant

**3. Interview schedule**

The interview questions are designed to delve into the experiences of those involved at the time of the major impact of the policy/operations separation to ascertain their recollections at the time and any further thoughts they may have had from their initial position.

The schedule of largely open-ended questions was based on Patton’s question type structure (Patton, 2002: 348-351).

Question type	Question asked
Background	<ul style="list-style-type: none"> <li>• What is your current position?</li> <li>• What position did you hold at the time of the de-coupling of departments in the late 1980s and 1990s?</li> </ul>
Experience and behaviour	<ul style="list-style-type: none"> <li>• How did the changes impact on you in your position?</li> <li>• What was the impact of the changes on your department?</li> </ul>
Opinion and values	<ul style="list-style-type: none"> <li>• What did you perceive as the ‘drivers’ of the reforms?</li> <li>• What was the impact of the separation of policy ministries from operational departments in the social sector?</li> <li>• What went well?</li> <li>• What were the problems? (if any)</li> <li>• Other comments on the impact of separation               <ul style="list-style-type: none"> <li>○ On the policy ministries</li> <li>○ On operational departments</li> <li>○ On the recipients of programmes</li> <li>○ On the central agencies</li> </ul> </li> <li>• What are your views on the re-coupling which is taking place in the social sector?</li> <li>• What do you see as the drivers of these changes?</li> <li>• What do you think will occur in the future – say the next 3 years?</li> </ul>

The request for interview letter also included the list of questions to be covered. See below.

**SOCIAL POLICY TO SERVICE DELIVERY**

**INTERVIEW SCHEDULE**

1. **Name**
2. **Current position**
3. **Position at the time of the reforms in late 1980s-1990s**
4. **How did the changes impact on you?**
  - (i) **in your position**
  - (ii) **on your department**
5. **What did you perceive as the 'drivers' of the reforms which took place?**
6. **What was the impact of the separation of policy ministries from operational departments in the social sector?**
7. **What went well?**
8. **What were the problems? If any**
9. **Other comments on the impact of separation**
  - (a) **On the policy ministries?**
  - (b) **On the operational departments?**
  - (c) **On the recipients of programmes?**
  - (d) **On central agency co-ordination**
10. **What are your views on the re-coupling which is taking place in the social sector?**

Eg Courts back with Justice; Work and Income with the Ministry of Social Development; the expansion of the Ministry of Social Development to include Youth Affairs, Office of the Community and Voluntary, Family and Community Services.
11. **What do you see as the 'drivers' of these changes?**
12. **What do you think will occur in the future – say the next 3 years?**

**Any other comments?**

**4. Method of analysis**Using the Interview information

The process adopted to capture the interview information was to record the interview on a digital recorder. Notes were also taken through the interview. The handwritten notes were then typed up and the recording downloaded. The production of the interview record involved augmenting the interview notes from the sound recording. This copy was then sent to the respondent for approval. The Informed Consent Agreement allowed three months to withdraw from the research. No one withdrew. A few made changes, usually minor additions to the notes they received.

Berry (2001) advises that before the fieldwork commences, an intermediate coding template should be created. While coding isn't done until all the interviews have been completed, Berry makes the point that the interviewer, having this structure in their head can better guide the interview and direct probes.

A coding system for analysing the factual and perceptual questions was developed for open-ended questions, such as "what were the drivers of the reforms?" The responses were classified when the analysis of the responses was completed and patterns emerged. Spreadsheets were used to group and aggregate responses. While the classification of responses is essentially subjective, it was relatively easy to identify the main themes and quantify the responses. (A variant of this table appears in chapter 4.4.1.)

<b>Question 5</b> <b>What were the drivers of the reforms?</b>	<b>Number of mentions</b>	<b>% of mentions</b>
<u>New Zealand's financial position in 1984</u>		
• State of the New Zealand economy and the financial crisis	11	32%
• Need to improve accountability and financial management	14	
<u>Economic thinking and structural frameworks</u>		
• Current economic theories (at the time of the reforms)	15	
• Avoidance of capture by provider and professional interests	13	48%
• Copying private sector management practices	9	
<u>What needed to be achieved</u>		
• Need to improve the efficiency and effectiveness of the public sector	13	
• Better outcomes for clients and consumers	2	20%

Other open-ended questions, such as “what went well?” could have received varied responses depending on the background of the interviewee. The range of responses was classified according to the position of the respondent at the time. Those who were involved in implementing the reforms had more positive views than those who were at the receiving end, respondents classified as ‘observers’ had different experiences from those who were actively involved in the management of a department which was under reconstruction.

The interview responses have been incorporated in the relevant chapters to provide insights from those who were actively involved through the period encompassing the two phases of the reforms, although for some their phase two involvement was more as an observer. Throughout the text the quotes used are attributed in general terms and related to their position at the time of the interview, for example: former chief executive, academic observer, senior public servant. This prevents immediate identification of the interviewee.

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