

REPORT OF THE ADVISORY GROUP

ON THE

REVIEW OF THE

CENTRE

Presented to the Ministers of State Services and Finance

November 2001

REVIEW OF THE CENTRE

PREFACE

This report presents the findings and recommendations of the review of the centre of the New Zealand State sector conducted over a four-month period in 2001 by a Ministerial Advisory Group including Public Service chief executives, external commentators and a representative of the Public Service Association.

In conducting its review, the Advisory Group considered previous research studies and texts, ran focus groups with frontline staff, commissioned case studies, held hui with Māori staff and consultants, interviewed a range of stakeholders, analysed available statistics, and submitted its work to peer review by commentators in New Zealand and abroad.

The Advisory Group concludes that, although the New Zealand public management system provides a sound platform on which to build, it needs to meet more effectively the needs of Ministers and citizens. It proposes improvements in three areas: integrating service delivery across multiple agencies; addressing fragmentation of the State sector and improving its alignment; and improving the systems by which State servants are trained and developed. The Government's decisions in the wake of this report map out a programme of improvement, to be implemented over several years, that will result in a better performing State sector, and a more rewarding environment for those who work in it.

We wish to thank the members of the Advisory Group and the many people in the State sector and elsewhere who assisted in the review of the centre. This report, the result of their work, is a valuable contribution to public management in New Zealand.

Trevor Mallard
Minister of State Services

Dr Michael Cullen
Minister of Finance

TABLE OF CONTENTS

EXECUTIVE SUMMARY	4
Integrated service delivery	4
Tackling fragmentation / Improving alignment	4
People and culture	5
Other issues	6
Summary of recommendations	6
INTRODUCTION TO THE REVIEW.....	10
The scope of the review	10
The objectives of the review	10
Review method	11
The structure of the paper	12
A BRIEF ASSESSMENT OF THE STATE SECTOR.....	12
Setting objectives and priorities, and deciding what interventions are needed	14
Deliver services and other functions effectively	15
Assess performance, adapt, and innovate	16
Have the capability to do these things	17
NEW DIRECTIONS – THE PROPOSALS.....	18
Integrated service delivery	20
Tackling Fragmentation and Improving Alignment	23
People and Culture	28
Other issues	31

APPENDICES

Appendix 1 – Members of the Advisory Group	38
Appendix 2 – Terms of reference and responses to them	39
Appendix 3 – Recent reviews of the public management system	45
Appendix 4 – Stakeholder perspectives	50
Appendix 5 – Environmental trends and influences	52
Appendix 6 – Case studies	54
Appendix 7 – New technology to support the changes	64
Appendix 8 – Work at present in progress to address problems in the public management system	65
Appendix 9 – Glossary	67

EXECUTIVE SUMMARY

1 The “*Review of the Centre*” is essentially a review of the public management system - of how well it responds to the needs and expectations of Ministers and of citizens, be they individuals, communities, businesses, or Māori.

2 The Review has not taken place in a vacuum. We have drawn on earlier reviews, interviewed many individuals both in and outside the State sector, and attempted to build on other developments in train.

3 Our major finding is that the public management system as it stands today provides a reasonable platform to work from, but some significant shifts in emphasis are needed to better respond to the needs of the future.

Integrated service delivery

4 The first big issue requiring attention is the interface of Government with citizens, particularly on cross cutting issues where multiple agencies are involved – and where judgments need to be made at the front line. These are challenging issues posing difficulties to governments all around the world. New Zealand is no exception, but we believe we can do better.

5 Progress on cross cutting issues requires action on a number of fronts. We suggest a number of system level improvements as discussed further below. But these need to be combined with a bottom up testing of how government is working in the regions, followed by responses that reflect the circumstances of each region. We suggest a number of new ways of working , including:

- inter-agency teams to tackle problems that have come to be regarded as intractable;
- much better regional coordination; and
- dealing with problems that have emerged in some areas through the separation of policy and operations.

Tackling fragmentation / Improving alignment

6 A second important issue is fragmentation, and the loss of focus on the big picture that fragmentation can cause. This is caused by a proliferation of agencies; a proliferation of Ministerial portfolios leading to an excessive number of votes; and in some areas, by an over-emphasis on vertical accountabilities at the expense of whole of government approaches.

7 Fragmentation makes coordinated service delivery more complicated, adds to the costs of doing business, and blurs accountability for some issues. Structural fragmentation means many small agencies, spreading leadership talent and other skills more thinly and increasing the risk of weak capability. Fragmentation means Ministers need to build relationships with multiple agencies, and at times reconcile conflicting agency positions at an excessively detailed level. Fragmentation can make alignment more difficult.

8 We suggest tackling fragmentation and improving alignment in a range of ways:

- establishing networks of related agencies to better integrate policy, delivery, and capability building;
- an accountability and reporting system that puts more emphasis on outcomes and high level priorities, as well as output specification;
- changes to vote structures to facilitate a greater outcome focus and better prioritisation across agencies; and
- gradual structural consolidation targeting: small agencies; Crown entities required to give effect to Government policy; policy/operations splits, and sectors where there are Ministerial concerns about agency performance or alignment.

9 We believe that more widespread and proactive use of networks, some structural consolidation and a reoriented public accountability and reporting system will help address the problems of fragmentation. We also note the possibility of going much further, to formally group and manage Government agencies in 7-10 super-networks. This would represent a move towards substantial structural change.

10 Each of these proposals is only a partial solution. All are dependent on Ministerial support and active engagement with senior officials, including discussions of priorities, responding to evaluation, and actively managing risk in ways that make room for innovation.

People and culture

11 We seek a culture shift in the State sector (more dynamism and innovation, more regional focus, more balance between outcomes, outputs and capability, and a longer term focus) and see staff and leadership development as an important part of the strategy, along with values and ethos work already underway. Whilst we do not propose any fundamental change from current employment arrangements - staff will continue to be employed by their own agencies - we do see a case for more active nurturing of the State sector workforce. Staff and managers who identify as public servants as well as employees of a specific agency will more readily carry a whole of government perspective into their interactions with other public servants and with citizens.

12 We endorse the more proactive role taken by the State Services Commission in recent times with respect to promoting public sector values and more active work force analysis, but think more steps can be taken by:

- developing an over-arching human resources framework in the context of the Partnership for Quality Agreement with the PSA, and with the collective participation of staff;
- working with individual agencies to develop the leaders of tomorrow; and
- extending this oversight role into the Crown entity sector.

Other issues

13 We have identified a number of other issues to consider:

- Crown entity governance – even with fewer Crown entities in the future they will still need greater clarity around the nature of their relationships with Ministers. We suggest the deferred Crown entity reform package be revisited in light of the Review of the Centre.
- Changes to the style and operation of Central Agencies.

14 The terms of reference focussed on the public management system in general, rather than its effectiveness for any group. We did, however, run two hui to test the performance of the public management system against the needs and aspirations of Māori, and heard a consistent view that the system was wanting in many respects. The emphasis of our proposals on more integrated front line services, including developing stronger relationships beyond the State sector, on tackling fragmentation and improving priority setting, and on more active oversight and nurturing of the State sector work force should all be steps towards improving the performance of the system for Māori.

Summary of recommendations

15 We recommend that Ministers:

Assessment of public management system

Agree that the current public management system provides a reasonable platform, but needs significant shifts in emphasis to meet more effectively the needs of Ministers and citizens.

Note the Advisory Group's view that the three main areas for attention are:

- ***Achieving better integrated, citizen focused, service delivery***, particularly where complex social problems are dealt with by multiple agencies, making sure the system is focused on the results that citizens and governments want in terms of outcomes and services;
- ***Addressing fragmentation / Improving Alignment*** particularly through: improving emphasis on outcomes; developing more effective, higher trust means of working together; harnessing technology; re-examining the large number of agencies and votes, and the tendency to emphasise vertical accountabilities rather than whole of government interests; and
- ***Enhancing the People and culture*** of the State sector, particularly building a strong and unifying sense of values, staff and management development, and meaningful opportunities for collective engagement in organisational decisions.

Integrated service delivery

Agree to a series of initiatives to better integrate service delivery including:

- establishing cross-agency “circuit breaker” teams to solve previously intractable problems in service delivery by drawing on front-line knowledge and creativity together with central technical support;
- enhancing regional coordination of State sector agencies, including their interaction with local government and community organisations, by adapting and building on existing successful models of local coordination;
- reviewing relationships between policy and operational units within the State sector, and identifying ways of enhancing the sector’s ability to provide well-informed and practical policy advice and to implement policy decisions on the basis of a thorough understanding of them.

Addressing fragmentation / Improving alignment

Agree in principle to changes to the accountability and reporting system to put more emphasis on the achievement of high level objectives and priorities (outcomes), and the capability of government agencies, as well as outputs, by:

- i Providing Ministers with a stronger mechanism for shaping departmental priorities through better engagement with departments around a statement of intent;
- ii Replacing purchase agreements with output plans;
- iii Enhanced monitoring of organisational performance;

Agree to a series of initiatives to address fragmentation and improve alignment of State sector agencies with the Government’s objectives including:

- establish networks of related agencies to better integrate policy, delivery and capability-building in the State sector;
- reduce structural fragmentation in the State sector by a careful process of structural consolidation, including the preparation of criteria to be agreed by Ministers, looking in particular at:
 - i Crown entities;
 - ii the effectiveness of policy/operations splits;
 - iii small agencies; and
 - iv sectors where there are Ministerial concerns about performance or alignment;
- improve the governance of Crown entities with particular attention to improving the clarity of relationships between Ministers, departments and Crown entities, and strengthening those elements of the public management system that enable whole-of-government action;
- reduce barriers to resource reallocation arising from the Government’s budget and financial management system and promote flexibility in service delivery in pursuit of outcomes for citizens while maintaining appropriate accountability to Parliament;

- investigate whether further mechanisms are needed to increase the extent and quality of evaluation undertaken by State agencies, taking into account the recently established Social Policy Evaluation and Research Committee.

Enhancing People and culture

Agree to a series of initiatives to better develop staff and leaders in order to enhance the capability of individual organisations and the Public Service as a whole (and where appropriate the wider State sector) to better serve the needs of Ministers and citizens including:

- Developing an overarching human resource framework, including clarity on what parts of the framework apply to which Crown entities;
- Promotion of more widespread use by State sector organisations of generic public sector standards and qualifications (e.g. Public Sector Training Organisation unit standards);
- Undertake a multi-agency project to review the coaching and development by managers of staff across the sector, identify areas where improvement is needed and promulgate good practice, including investigating training options to improve the coaching and development skills of State sector managers;
- Undertake a multi-agency project to review current practice in leadership skills training for staff at all levels, identify areas for improvement and promulgate good practice;
- Develop detailed proposals for a more collective, centralised and consistent approach to the development of senior managers across the Public Service, (and to a lesser extent into the wider State sector) based on a common competency framework that gives weight to both policy development and implementation skills;
- Report back on how best to charge senior staff across the sector (including but not limited to Chief Executives) with modelling and leading the development of a modern, professional, Public Service culture - proposals to include consideration of training and development opportunities;
- Form a partnership with a strategic provider of top-level training for senior civil servants, probably one or several tertiary education institutions.

Agree to undertake a project to assess the current state of innovation in the New Zealand State sector, to propose enhancements to the public management system, and to establish some indicators of innovation in the State sector that can be measured over time.

Agree that the Central Agencies (State Services Commission, Treasury and Department of the Prime Minister and Cabinet), collectively and individually, should exert more effective leadership across the wider State sector by formally adopting as part of their core business a responsibility to lead the State sector on whole-of-government initiatives. This to include:

- Advising Ministers where a more directive common approach is needed;

- An advisory role to government agencies in areas of central government expertise;
- Brokering collective action;
- Directing the adoption of standard approaches;
- Better engagement with departments and Ministers including over Statements of Intent and Output Plans;
- Leadership of the change process.

Agree that the mandate of the State Services Commissioner should be extended to enhance his ability to collect information from and provide leadership to State sector organisations beyond the Public Service.

Agree that the State Services Commissioner should form a Change Implementation Advisory Board to assist with the implementation of the package of work arising from the Review of the Centre, to include a representative of the Public Service Association.

INTRODUCTION TO THE REVIEW

“The essential qualities of the coming era are of swiftness and lightness, exactitude and multiplicity, that may contrast sharply with the slow, heavy, standardising bluntness of so much government and administration of the last century.” Italo Calvino.

16 The review was established by the Prime Minister, the Minister of State Services and the Minister of Finance in July 2001. A Ministerial Advisory Group (see appendix 1) was appointed, which consisted of the heads of the three central agencies and three other members, suggesting a desire for both internal experience and external challenge.

17 *The terms of reference* (appendix 2) suggest that the government is looking for improvements that can be implemented over a period of years, and also indicate the Government’s perceptions of the problems of the system. The Advisory Group was to report to Ministers within a three-month period. This timeframe helped to set the expectations of this review as it precluded in-depth analysis of options and underlined the expectations of Ministers that the recommendations were likely to be evolutionary. This was not intended to be a complete redesign of the public management system, but it was also required not to shrink from some radical adjustments if they were necessary.

The scope of the review

18 The terms of reference make it clear that the Advisory Group was to look at the public management system as a whole. They were also clearly intended to be a guide to matters of concern rather than to constrain the Group to just those issues mentioned. We have taken the view that the review must consider both departments and Crown entities, given the role that Crown entities play in service delivery. We have not, however, looked in depth at SOEs because issues relating to commercial organisations are quite distinct from those relating to the rest of the sector. Consistent with the terms of reference, the review has focused on the operation of the executive rather than other branches of government – Parliament or the Judiciary. The review is aimed at the performance of the system in (among other things) supporting Ministerial decision-making, and implementing government policy decisions, and delivering services. It is not about the merits of particular government policies.

19 The review suggests a direction for change, rather than specifying all the details or costings of the change. Some of the recommendations make the future aspiration clear, but will require further analysis to test and refine the actions to be taken.

The objectives of the review

20 We have approached the terms of reference not so much as a set of criticisms of the past to be debated and tested at length, but rather as a challenge to create a more flexible and resilient public management system that will perform in the 21st century. The Government’s objective is to maintain and strengthen the State sector. From the terms of reference, the Government:

- wants frontline staff to have effective support so they can provide the best possible service for New Zealanders;
- values capable analytical staff who can provide useful and balanced advice;
- looks to the senior staff of the Public Service to provide leadership and management in order to co-ordinate the full range of work across the Public Service;
- calls for a renewal of the processes and practices that provide a strong centre to the State sector;
- is particularly interested in strengthening management and co-ordination processes to ensure a whole of government focus is adopted and maintained by all agencies.

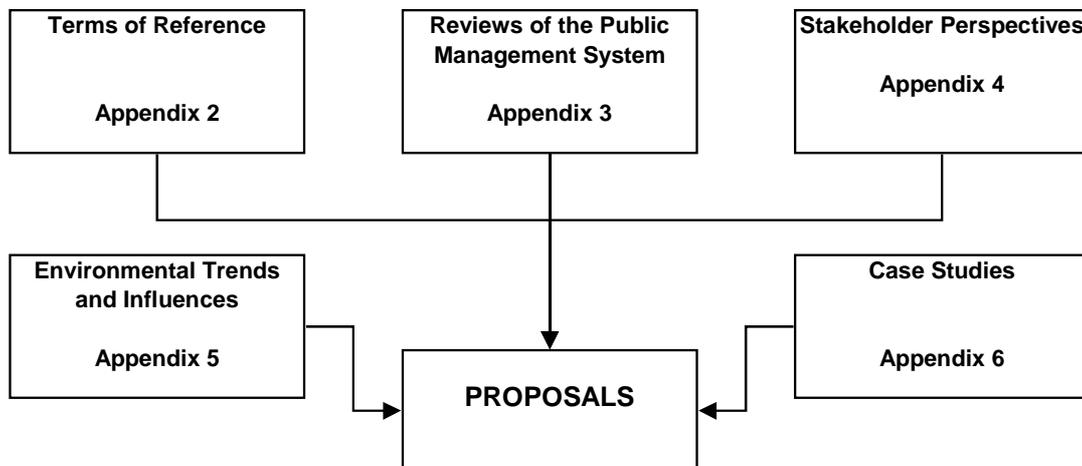
21 In the course of the review other issues were identified such as the effectiveness of the interface between officials and Ministers, and the extent to which the State sector is effective for Māori.

Review method

22 The Advisory Committee was supported by an inter-agency secretariat drawn from Treasury, SSC, Te Puni Kokiri and Department of Labour. Information for the review was collected from a wide variety of sources, informed by data wherever possible and subject to analysis and review. These sources included:

- Research studies. We commissioned an analysis of evaluations of the quality of service delivery in the public sector, and work on private sector management trends. We also used information from a survey of citizens' expectations of government service delivery undertaken by the e-government unit;
- Case studies: We commissioned three case studies to look at collaboration, frontline service delivery, community development and economic development;
- We ran focus groups with frontline staff to explore service delivery issues;
- Hui: We ran two hui with a focus on senior Māori public servants for one and Māori consultants and commentators for the other;
- Published work by commentators, some of which is summarised in Appendix 3;
- Interviews were conducted with stakeholders - frontline staff and their managers, local government, business, community groups, unions, Ministers, public sector CEs, Crown Entity CEs, not-for-profit experts, second tier public managers, academics, commentators and consultants in public management (Appendix 4);
- SSC and Treasury staff contributed strongly to the analytical work;
- Peer review: Allen Schick visited New Zealand and worked with the secretariat and the Advisory Group. More widespread review by chief executives, commentators and practitioners took place in the latter stages of the project;
- Quantitative analysis: In order to test some assumptions in relation to capability and ethos in the public sector, a summary of the existing databases on human resources in the public sector was commissioned.

23 The Advisory Group has used a number of sources to reach conclusions about the way in which the State sector is functioning.



The structure of the paper

24 This paper follows the format outlined below:

- **A brief assessment of the State sector**
- **New Directions - Proposals**
- **How will this make a difference (for citizens and ministers)?**
- **Where to from here?**

A BRIEF ASSESSMENT OF THE STATE SECTOR

25 The State sector is a means to an end – the achievement of the objectives sought by citizens (as expressed through the political/democratic process), and the delivery of services for citizens. The ultimate test of the system is how well it does these things. The system also needs to deal with the complexity of government reflecting the great variety of activities governments undertake, and the different and sometimes competing objectives and interests governments must attempt to reconcile.

26 The public management system must have a number of features that work well. Broadly, it has to:

- Help the government to set objectives and priorities, and decide what interventions are needed;
- Deliver services and other functions effectively and efficiently;
- Assess performance, adapt and innovate;

- Ensure there exists the capability (powers, systems and resources including people) to do these things.

27 This framework is used below to analyse the present state, ascertain gaps and set the new directions for the proposals. The system also needs to be robust enough to operate effectively in an environment of:

- Change, including external shocks;
- Globalisation, which may restrict government's freedom of action;
- Labour market fluidity – the State sector competes for skilled staff with the private sector, and internationally;
- Changing (and rising) consumer expectations;
- Diversity and demographic change – particularly the increasing proportion of Māori and Pacific Island people in the population;
- Knowledge and information becoming the primary basis of the economy;
- Governments internationally (and other institutions) face an erosion of trust;
- Resource limitations – the system is constrained by what the government is able or willing to spend;
- Technological change, particularly information technology.

Some strengths of the system

28 The New Zealand public management system has a number of important strengths. We have aimed to enhance the system in ways that build on this platform. Strengths include:

- The transparency required by the Public Finance Act and the Fiscal Responsibility Act provides two very important benefits in terms of priority setting. The Crown's financial position is clear to Ministers, the opposition and the public, and it is clear, in broad terms, what money is being spent on;
- The quality of client service has generally risen in the last 15-20 years and there are examples of outstanding service delivery. The expectations of citizens and of Government, however, have risen at the same time;
- The internalisation of some fundamental values - a commitment to democracy and the rule of law, and the low levels of corruption we tend to take for granted;
- The freedom to manage made possible by accountability on the basis of outputs allows managers the flexibility to use available resources to best produce the desired services and goods. It provides more scope for innovation, as long as other aspects of the system do not discourage this;
- The governance arrangements of Public Service departments and SOEs are clear and well understood;

- The system is flexible, as evidenced by the recently published “Guidelines for Contracting with Non Government Organisations for Services Sought by the Crown”;
- There is evidence of improvements in efficiency and productivity;
- Some important aspects of financial performance are well managed and reported (e.g. debt management, accounting for physical assets);
- The financial accountability system provides better information and is cheaper to run than the previous system. We now have, for example, a much clearer idea of the financial position of both individual government agencies, and of the government as a whole;
- Accountability is taken seriously in the system. The system requires information about performance to be provided, and explicitly enables certain actors to review the performance of State sector agencies (e.g. the State Services Commissioner).

29 The New Zealand system also has a number of weaknesses, and addressing these weaknesses has been the main focus of this report. The following section identifies and discusses important weaknesses under each of the features of the system in paragraph 26.

Recommendation: We recommend that Ministers **agree** that the current public management system provides a reasonable platform, but needs significant shifts in emphasis to meet more effectively the needs of Ministers and citizens.

Setting objectives and priorities, and deciding what interventions are needed

30 In our system the political process, mandated by democratic elections, identifies priorities. Cabinet has a central role as decision maker. The system responds to changes in government and political priorities. The Government sets out broad objectives in a variety of places, such as the coalition agreement, the speech from the throne, the Prime Minister’s statement to the House, *Key Government Goals to Guide Public Sector Policy and Performance*, and budget related documents. These in turn reflect the priorities developed by political parties and articulated in their manifestos.

31 The system is not particularly good at assisting Ministers to articulate their common objectives and priorities, and the means to be employed to achieve those. A number of stakeholders and commentators, including chief executives and senior Māori emphasised the need for clarity on directions and expectations, particularly in relation to issues or intentions impacting across sectors or the whole of government. The clearer Ministers can be about what they want to achieve, and about how Cabinet collectively prioritises its goals, the more effectively departments and Crown entities will be able to respond. Weaknesses include:

- The lack of a systematic approach to setting **outcome goals and priorities** and identifying the services and other interventions that will achieve the goals;
- Problems with policy advice, including the availability of information on practical service delivery and the effectiveness of government activities;

- Variable standards of **planning** by government agencies;
- Linking government objectives to **resource allocation decisions**. This has implications for Budget process and for the way Ministers collectively decide priorities.
- A tendency towards a **short term** focus;
- The **difficulty of stopping** doing things which are ineffective;
- The **fragmentation** of the State sector – the large number of agencies, portfolios and votes makes it more difficult to agree and actively pursue cross cutting objectives, and provide integrated service delivery;
- Varying requirements for information production by Central Agencies and other groups leading to **costly compliance** and unread reports.

Deliver services and other functions effectively

32 Most government agencies exist to provide services to or for citizens. These services are “outputs”. Citizens value both the high level outcomes the services are contributing to, and the quality of the services themselves. Access can be as much or sometimes more an issue than quality.

33 The nature of the services provided by Government agencies varies enormously, and different services raise different management challenges, including the issue of which decisions should be made locally and which centrally. Some services are provided to individuals (e.g. benefit administration, passports), some to community groups or businesses (e.g. company registration), some to society as a whole (e.g. Police and Defence), some to the Government (eg policy advice). Some are provided in competitive markets (e.g. maps), some in monopoly situations (Fisheries Quota Management System), some involve coercion (e.g. tax collection). Some are regionally organised (e.g. health), some nationally.

34 There are number of impediments to better front line service, that are particularly problematic for services aimed at dealing with complex social problems and involving multiple agencies:

- **Coordination problems** that arise from the sheer number of state organizations, different levels of delegation and differing regional boundaries used by government agencies and local government;
- **Interaction** with government is not easy for citizens;
- **Financial resources** are divided into a large number of small pools creating opportunities for inappropriate double dipping as well as the risk of the genuinely needy missing out;
- **Risk aversion** due to the political cost of failure;
- Service delivery is **not sufficiently valued** – the emphasis in the system is on the top and policy advice rather than the frontline;

- ***Inappropriately specified or inflexible*** output requirements may distort or constrain service delivery;
- Many government agencies struggle to understand Māori needs and to ***deliver effectively for them***; and
- ***Frequent structural change*** may make it difficult to maintain expertise, commitment and the relationships necessary for effective collaboration in some sectors.

Assess performance, adapt, and innovate

35 Our system needs to be able to assess performance in terms of overall objectives (outcomes), service delivery (outputs) and ownership. It needs to draw on knowledge about performance, together with other information and analysis to adapt and innovate.

36 The provision of audited information to Parliament about actual organisational performance, against expectations set at the beginning of the year is a powerful feature of our public management system, but this is an area where there is scope for improvement. Among the current problems in the system are;

- The lack of information about performance in ***outcomes*** terms, whether through evaluation of the link between outcomes and interventions, or reporting of indicators of the state of society;
- The system does not deal well with the government's ***non-financial interests*** as owner of organisations;
- There are concerns about the ***quality of monitoring*** of government agencies and about how the system identifies and deals with inadequate performance; and we need a better ***in depth review*** capacity;
- There are inherent features of the State sector that discourage ***innovation*** (e.g. high political cost if risky innovation fails). Nevertheless innovation does occur, and managers are given more freedom to innovate than was the case under a system of input controls. It is important that we give innovation more encouragement;
- The ***compliance costs*** the system imposes;
- The tendency for aspects of the system to reinforce ***coordination problems***, by allowing or encouraging people to ignore wider government interests;
- A number of commentators have noted the ***uneven performance*** of our public management system. Some agencies have used the greater freedom available under the new system to enhance strategic alignment, outcome focus, capability and service delivery. Others have not. We do not consistently learn from what works well and what does not;
- Accountability for ***results for Māori*** is not well embedded into the system.

Have the capability to do these things

37 The public management system needs to offer the Government the capability to set objectives and priorities, decide what interventions are needed, deliver services effectively and efficiently, and assess performance, adapt and innovate. It also needs to effectively manage the responsibilities the Government has as an “owner”. This includes people, values, authority, organisations, and systems.

38 There is a problem in terms of how well the system deals with **non-financial and non-commercial** aspects of the ownership interest, particularly capability.

39 This is apparent in the areas of **senior management and staff development**. There are not enough people with the mix of skills and experience required to provide effective leadership of the departments and agencies of the State sector. Current highly devolved arrangements for senior management development and career management are inadequate to produce the number of skilled leaders required. The large number of agencies in a country with a small population exacerbates these problems.

40 There are deficiencies in several areas of **current employment, performance management, training and development**, and career management systems, which may, if not corrected, undermine the capability of individual organisations and of the State sector as a whole (e.g. shortages of skilled staff such as policy analysts, evaluators, nurses).

41 The SSC and agencies themselves do not have sufficient tools to specify or **assess organisation capability**. It is not sufficiently clear where capability problems may exist.

42 State sector organisations need stronger capability to formulate sound policy that works for **Māori, to deliver services effectively to Māori**, and to maintain effective relationships with Māori. Although the public service has Māori employment rates higher than in the general labour force (17% public, 9% private) too few Māori fill influential positions.

43 The State sector has undergone **significant restructuring**, with most of the sector being affected in one way or another. Policy/operations splits and extensive use of Crown entities have become familiar features of the landscape. We now have a large number of agencies. Structural change has provided benefits in terms of sharper focus, and avoiding conflicting functions, but it has also created or exacerbated some problems:

- The narrow organisation of organisations can **inhibit seeing whole of government connections**;
- The large number of agencies has added to **coordination problems**, including dealing with cross-cutting issues;
- Getting enough **high calibre people** to govern and manage all these agencies;
- The **critical mass** of small agencies; and
- The **high costs of re-structuring**, financial and non-financial, and concerns about the capacity of the State sector to manage change effectively.

44 While there have been some enhancements of the ***governance and accountability regime*** that applies to Crown entities, they have been a known area of unfinished business, with uneven governance arrangements and, in some cases, unclear roles, responsibilities and relationships. Not enough emphasis is put upon whole of government interests.

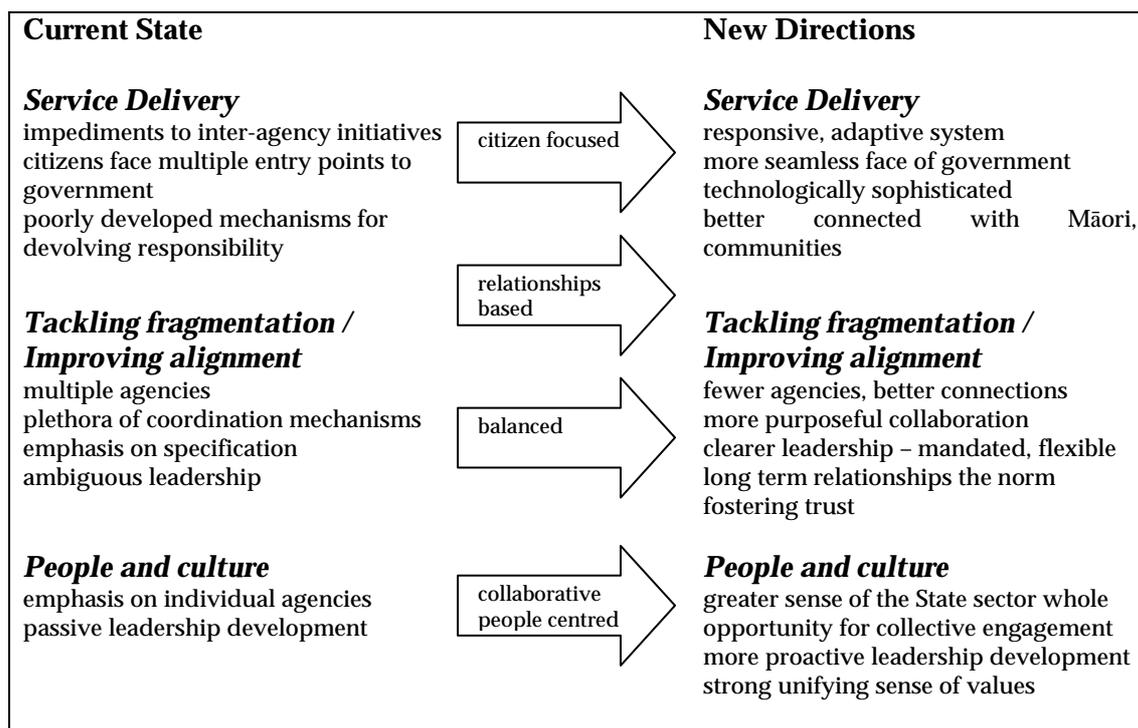
45 The Advisory Group notes that during the 1990s, organisations in the public sector became increasingly detached and separate, less unified around core values and purpose. A number of commentators and stakeholders expressed concerns about the performance of ***Central Agencies*** in terms of adding value, monitoring the right things effectively, building capability and the ability to manage change. Central agencies have been reluctant to assert a strong leadership role over the sector as a whole, arguably slowing the sector's responsiveness to changing Ministerial concerns.

NEW DIRECTIONS – THE PROPOSALS

46 The picture that emerges is a system that provides a reasonable platform to build on, but one where some significant change is needed. We have identified three priority areas for change:

- service delivery for cross-cutting services – more integration is needed;
- tackling fragmentation and improving alignment; and
- people and culture – stronger culture, a better place to work.

47 The nature of the changes we think are needed is as follows:



48 Moving in these new directions requires action across the board. The proposals that follow represent our view of good places to start. They are not a comprehensive list of things to do, nor are all of them new. A number of initiatives to address these issues are already underway across the State sector, many of them from the last 18 months, including the Partnership for Quality Agreement with the PSA, the work of the State sector Standards Board, collective work by chief executives, work on social indicators underway in the Ministry of Social Development and other departments, the Pathfinder project on outcomes and the development of Deputy Commissioner Teams in the SSC. A number of significant projects are described in Appendix 8. Our intention is not for the Review of the Centre to cut across other work, but to build on it where appropriate.

Recommendation: We recommend Ministers note the Advisory Group's view that the three areas for attention are:

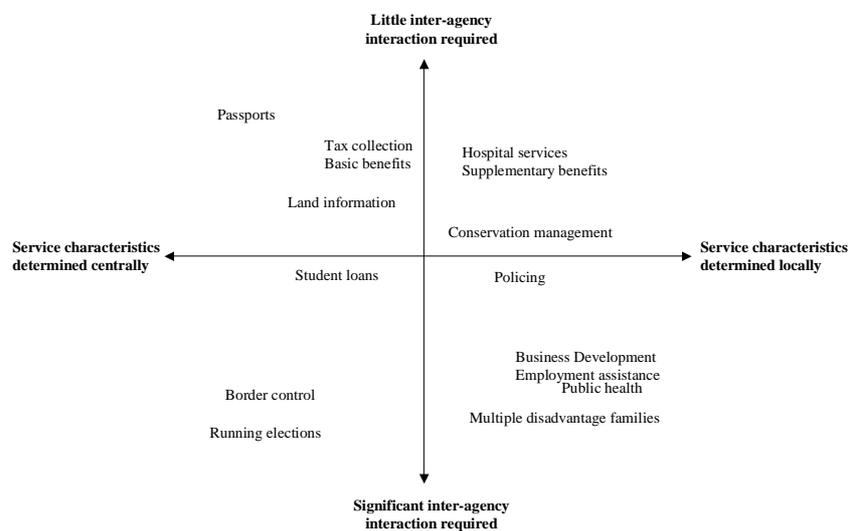
- **Achieving better integrated, citizen focused, service delivery**, particularly where complex social problems are dealt with by multiple agencies, making sure the system is focused on the results that citizens and governments want in terms of outcomes and services;
- **Addressing fragmentation and improving alignment** particularly through: a stronger emphasis on outcomes; developing more effective, higher trust means of working together; harnessing technology; re-examining the large number of agencies and votes, and the tendency to emphasise vertical accountabilities rather than whole of government interests; and

- **Enhancing the People and culture** of the State sector, particularly building a strong and unifying sense of values, staff and management development, and meaningful opportunities for collective engagement in organisational decisions.

Integrated service delivery

49 A central question for the Advisory Group was whether the State sector is as effective as it should be in providing services to the community. Two sets of issues emerged consistently through the review:

- The extent of inter-agency cooperation required in the delivery of some services, and the difficulty of achieving coordinated “whole of Government” action; and
- The extent to which decisions about the service are best made at the point of delivery, in a local context, or in a standardised, frequently pre-specified way.



50 Both these issues have different implications. Neither applies uniformly to all Government services as can be seen in the diagram above. Different approaches are needed to different services. In broad terms the most straightforward services are those in the top left corner of the diagram. These are provided according to a specification that will typically be determined nationally, with minimal need for inter-agency interaction. These sorts of services tend to be standardised and predictable, a desirable characteristic for many services delivered to businesses and citizens (e.g. tax, border control). They represent a significant proportion of Government services, and by international comparison are well supported by the current New Zealand public management system.

51 Moving out of the upper, left corner, services become less well suited to national specification, and more agencies need to be involved. Moving from left to right sees an increase in service discretion, and more need for frontline staff to make case-by-case

judgments. Moving from top to bottom more agencies need to be involved and vertical accountabilities need to be tempered with a stronger whole of government perspective.

52 The bottom right hand corner poses some of the hardest challenges. Services here tend to be both cross-cutting and highly devolved. The boundaries between central Government and local Government, Māori and NGOs can become blurred. Staff need to be able to manage diverse relationships and make difficult trade-offs. Front line staff need to be able to access information quickly. Considerable potential for innovation exists, as there are many different, local ways of approaching problems. With these possibilities comes greater risk.

53 To achieve significant change it will be necessary to test new concepts and empower those dealing with citizens to move away from a one-size-fits-all model. These initiatives may cross Ministerial boundaries, and may also move outside traditional reporting structures. Some of these concepts will fail. Changes recommended in this report provide the flexibility to manage the reporting and interagency relationships, but the ability of Ministers to reflect these changes in their responses will be a critical element in the success or failure of initiatives.

54 The focus of the Advisory Group has been on these issues. There are no simple solutions, or single levers that can be pulled. Progress will be made through finding flexible and responsive ways of working that reflect the particular challenges of each situation. There are proposals in this package that will enhance service delivery in all quadrants (eg culture, values and ethos) but the new ways of working, outlined below, will have the biggest impact on services nearer the bottom and right of the diagram. These challenges are illustrated in the case studies in Appendix 6.

New ways of working to improve integrated service delivery

55 ***Circuit-Breaker teams:*** We propose the establishment of front-line based, inter-agency teams to find creative ways to solve problems that have proved intractable over time (e.g. the state of rural housing in Northland). These would not be simply more committees - they represent a different approach to problem solving. We already see some examples of this sort of approach, often at local initiative. The teams would also:

- Create a demonstration effect showing that front-line, cross-boundary creativity can solve problems;
- Show that the centre is serious about tapping the ideas of the front-line; and
- Build stronger links between the centre and the front-line.

56 The teams would:

- Draw on front-line staff from multiple agencies;
- Be supported by a dedicated unit based in one of the central agencies to provide technical, research and analytical support, including advice on evaluation;
- Undergo an initial course in problem analysis, creativity and change management;

- Be given six months to develop, cost and plan a solution to the problem, with a brief to think beyond existing procedures, programmes or rules;
- Meet periodically with the chief executives of agencies involved, to present their proposals and receive feedback and a go/no-go decision. Some proposals are likely to require Ministerial endorsement.

57 If the teams succeed, later teams could work on other matters (such as a development focus as opposed to a problem focus). However, we want these teams to focus initially on service delivery problems.

58 **Mandated regional coordination mechanisms:** Ensuring coordinated delivery is hard. Different agencies often have different levels of delegated authority, and different regional boundaries. Typically no agency is mandated to ensure coordination occurs, although in some regions coordination mechanisms have developed. We propose more work to understand the best of current practice, as a prelude to implementing mandated regional coordination mechanisms. This should include looking at the impact of factors such as the Privacy Act and different regional boundaries on coordination.

59 We expect a range of different co-ordination arrangements will emerge. They will need to facilitate more effective inter-agency collaboration and planning, and more effective interaction with local Government, NGOs and Māori, as well as being able to provide a regional perspective on how effectively government is meeting the needs of citizens. An important part of the brief for regional coordination will be to ensure a range of fora for the State sector to interact with Māori.

60 Many problems cannot be solved by a single actor, public, private or community. We have not had enough time for consultation on how to make relationships with local government, the voluntary and community sector, and the private sector and Māori stakeholders, work better, but note the work undertaken by, and subsequent to, the Community and Voluntary Sector Working Party. The review of regional coordination should pay attention to relationships with these groups.

61 **Policy/operations connections:** Good policy advice and implementation requires good two-way flow between staff and communities at the local level, and policymakers at the centre. The extent to which this currently occurs is variable. We need to improve the links between policy and delivery. Engaging Māori early in the process of policy development and programme design will minimise the risk of service failure. There are good models of development work at a regional level to build on.

62 We should begin with an assessment of how well current policy/operations relationships operate, to identify targeted change. While this may involve structural change, the Advisory Group does not recommend a comprehensive restructuring of the State sector to put all policy and operations into the same organisations.

Recommendation: We recommend that Ministers **agree** to a series of initiatives to better integrate service delivery including:

- establishing cross-agency “circuit breaker” teams to solve previously intractable problems in service delivery by drawing on front-line knowledge and creativity together with central technical support;
- enhancing regional coordination of State sector agencies, including their interaction with local government and community organisations, by adapting and building on existing successful models of local coordination;
- reviewing relationships between policy and operational units within the State sector, and identifying ways of enhancing the sector’s ability to provide well-informed and practical policy advice and to implement policy decisions on the basis of a thorough understanding of them.

Tackling fragmentation and improving alignment

63 Fragmentation occurs partly because there are too many agencies, and partly because there is an inadequate unifying vision and purpose for these agencies, within which each can make its own contribution to the Government’s objectives. The proposals to address fragmentation and improve alignment cover priority setting, structural change, networks, Crown entity governance, and accountability arrangements.

Priority setting and accountability systems

64 The State sector works best when it has a clear sense of where it is going, and what has to be done to achieve the desired results. Ministers have an important role in this, both individually and collectively. Senior public servants need to engage with Ministers on what will make the biggest difference – a point made by a number of commentators and chief executives that also came through strongly in the hui with senior Māori.

65 Better priority setting and planning is in part dependent on better information on what it is the Government wants to achieve. We propose a number of changes to the performance management and accountability system to focus attention on outcomes (what are the overall results we are trying to achieve, and how are we going to get there?), and to promote genuine engagement between Ministers and departments by focusing on the things that are really of interest to most Ministers. This should include better information on intermediate level outcome goals. These proposals include:

- Reducing the number of formal ex ante documents and concentrating on a departmental statement of intent (SOI) that must be tabled in Parliament. This will focus attention on a range of aspects of performance – outcomes (and evaluation), capability and relationships as well as outputs (services). Detailed information on outputs would still be available in an output plan. The SOI would be a product of a

process of objective setting and planning by departments that involved active engagement with Ministers and central agencies;

- The use of networks and judicious structural change to better coordinate policy development and delivery for particular sectors or outcome goals;
- Enhancing recent developments associated with the budget processes that provide a greater focus on outcomes (notably value for money reviews that focus on effectiveness, and the requirement that new funding include evaluation criteria). Incentives on Ministers and departments to identify efficiency gains, and to actively prioritise projects, will be stronger where budget constraints are clear and where the basis on which any savings will be shared is well understood in advance;
- Better “State Indicators” - a set of high level measures on a relatively small number of indicators of community well-being should prompt a greater focus on outcomes (Work is already underway on this in the Ministry of Social Development and other agencies.);
- More effective evaluation;
- An enhanced process for reviewing agencies, being introduced in the SSC through the Deputy Commissioner teams, that involves active engagement with Ministers and looks at both strategy and performance, including evidence of effectiveness.

Recommendation: We recommend that Ministers **agree** in principle to changes to the accountability and reporting system to put more emphasis on the achievement of high level objectives and priorities (outcomes), and the capability of government agencies, as well as outputs, by:

- i Providing Ministers with a stronger mechanism for shaping departmental priorities through better engagement with departments around a statement of intent;
- ii Replacing purchase agreements with output plans;
- iii Enhanced monitoring of organisational performance.

More effective evaluation

66 We need better information about actual performance, in both outcome and service delivery terms. A number of initiatives should prompt greater emphasis on evaluation by government agencies, including:

- The “Pathfinder” project is helping develop and spread the techniques to make outcome focussed management more real in departments;
- The greater outcomes focus in statements of intent;
- The more explicit emphasis on evaluation through the budget process;
- More emphasis on evaluation by central agencies in departmental review processes.

67 We endorse these developments, and believe they need to be reinforced. There is merit in the idea of having a dedicated resource that can provide a broader focus to evaluation effort through:

- Setting up a whole-of-government steering group involving key evaluators and others with an interest in evaluation;
- Developing criteria for deciding which outcomes should be evaluated;
- Liaising with Ministers to ensure sponsorship for these impact evaluations;
- Deciding on high level evaluation methodology;
- Advising on or commissioning these evaluations;
- Determining if anything needs to be done to increase the supply of evaluators.

68 The recently established Social Policy Evaluation and Research Committee (SPEaR) seems a significant step in this direction. The change implementation group should liaise with SPEaR and recommend further action if appropriate.

69 More weight is required than the impact of a new committee, however. Given the importance of evaluation, and the poor performance of the system in this regard, this is an area where we expect that central agencies should retain ongoing leadership, not necessarily in the sense of conducting major evaluations themselves, but in providing encouragement and oversight of evaluation. This should be reflected in the ways in which central agencies:

- Engage with departments in planning and priority setting;
- Provide policy advice;
- Operate in the budget process; and
- Review agency performance.

Vote structures:

70 Vote structures can affect resource allocation and budget management, as well as policy and service co-ordination. The Public Finance Act requires a separate Vote for each funding relationship between a Minister and a department, to provide clear accountability to Parliament (e.g. one Minister has four separate Biosecurity Votes because four departments are involved).

71 We recommend that an enabling amendment to the Public Finance Act be made to remove the technical barrier to Ministers implementing a Vote structure that may significantly improve resource allocation, without compromising good financial management practice, or Parliament's ability to hold Ministers to account. This would not commit the Government to change the current Vote structure, but would enable Ministers to rationalise and order Votes in a way that is more consistent with the Government's outcome goals (e.g. one Biosecurity Vote rather than four). Treasury should report to Ministers on initial candidates for these arrangements among current votes.

Networks

72 One way to facilitate the development and implementation of joint strategy and collaboration across multiple agencies is for groups of those agencies - both departments and Crown entities - to establish and work within networks. These are cooperative arrangements between separate agencies. Such networks can operate at both the centre and in the regions; and support both policy development and the delivery of joined-up services. Some networks exist now in the State sector, but more effective use could be made of this type of working arrangement.

73 The Advisory Group recommends central agencies work with Ministers and other Chief Executives to identify where formal networks of agencies would add value. Such networks would be:

- Based around either sectors (e.g. Justice) or outcomes (e.g. economic transformation), and include a core group of the main agencies working in the area;
- Set up and continued where useful;
- Endorsed by Ministers;
- Compulsory - component organisations could not opt out;
- Not exclusive - agencies could belong to several networks.

74 A chief executive of one of the agencies would lead the network. This network leader would be first among equals with a clear mandate to:

- Require the provision of information;
- Call meetings;
- Report to any of the relevant Ministers;
- Provide purchase advice to any of the relevant Ministers;
- Provide input into performance assessment and appointment processes run by the State Services Commissioner;
- Coordinate the provision of policy advice;
- Exercise other specific powers conferred by Ministers.

75 Network leaders would not have the right to direct the member organisations on their internal management, and would not be accountable for the performance of individual organisations in the network.

76 Networks would need to be fit for purpose and would vary according to circumstance. The Advisory Group recommends central agencies and the change implementation group work with chief executives and Ministers to identify sectors or outcomes that should be organised as networks and report back to Ministers.

77 If networks enable better coordination of agencies and provide a platform for collaboration, they will produce some benefit even if they operate only at the officials level. To the extent that collaborative behaviour between officials is modelled on and led by collaborative behaviour between Ministers, the potential for networks to generate gains will be greatly enhanced.

Comprehensive coverage networks

78 The PSA believes we should go further than this and create “hard-wired” networks across the State sector. These would be:

- permanent, or at least long term;
- comprehensive (every department and relevant Crown entity would be assigned to a network) – and exclusive (an agency would belong to only one network); and
- led either by the chief executive of a component organisation, or by a “super-CE” appointed to a separate role running the network with a secretariat to assist them.

79 In addition to the powers of “soft” network leaders, “hard” network leaders would have the right to direct the chief executives of component organisations on internal management issues, and might also have the power to co-sign the statements of intent of member organisations to ensure alignment with the plans of the sector and the Government as a whole. This sort of arrangement would be well on the way towards merger of agencies into a super-ministry. Changes to the State sector Act would be required.

Structural change

80 Structural change is not a panacea for the problems facing the State sector today, and it can be a blunt and expensive instrument. Having said that, we believe some structural consolidation will be beneficial, leading to fewer agencies overall - bigger, more “federal” departments comprising sub-units with compatible objectives. We recommend that the Ministers of State Services and Finance lead a targeted review of the opportunities for structural consolidation, looking in particular at:

- Crown entities;
- Whether small agencies (departments or Crown entities) should be merged with other agencies, retaining separate identities if necessary, (e.g. as the Ministry of Consumer Affairs has within the Ministry of Economic Development);
- The effectiveness of policy/operations splits with a view to reversing them unless they are clearly adding value;
- Sectors where there are Ministerial concerns about performance or alignment.

81 This review should use a clear set of criteria, developed by the central agencies and agreed by Ministers, for determining what functions should be carried out by what type of agency (department, Crown entity, or something else), and when functions should be combined or shared within an agency, and when they should be separated.

Crown entity governance

82 Notwithstanding the preceding recommendations on structural change a number of Crown entities are likely to remain in Crown entity form. We recommend that Government moves to resolve the confused governance arrangements that continue to characterise the Crown entity sector, and that the Ministers of State Services and Finance develop detailed proposals on Crown entity governance, in light of the review of the centre, including proposals for legislative change.

Recommendation: We recommend that Ministers **agree** to a series of initiatives to address fragmentation and improve alignment of State sector agencies with the Government's objectives including:

- establish networks of related agencies to better integrate policy, delivery and capability-building in the State sector;
- reduce structural fragmentation in the State sector by a careful process of structural consolidation, including the preparation of criteria to be agreed by Ministers, looking in particular at:
 - i Crown entities;
 - ii the effectiveness of policy/operations splits;
 - iii small agencies; and
 - iv sectors where there are Ministerial concerns about performance or alignment;
- improve the governance of Crown entities with particular attention to improving the clarity of relationships between Ministers, departments and Crown entities, and strengthening those elements of the public management system that enable whole-of-government action;
- reduce barriers to resource reallocation arising from the Government's budget and financial management system and promote flexibility in service delivery in pursuit of outcomes for citizens while maintaining appropriate accountability to Parliament;
- investigate whether further mechanisms are needed to enhance the evaluation environment, taking into account the recently established Social Policy Evaluation and Research Committee.

People and culture

83 People are the most important part of the public management system. Good people can often make poor systems work; the reverse is seldom true. Good people need to be imbued with a spirit of service to the community. The Standards Board has made a strong case for building the Public Service ethos. We endorse their recommendations.

84 State sector values and ethos will be promoted through the staff development programme discussed below and will need to be supported by the involvement of

Ministers, the PSA, Crown entity boards and chief executives, along with the SSC. Leadership on values and ethos goes beyond chief executives, and we see enhanced senior management development as an important component of promoting ethics in the State sector. The State sector Act will need to be amended to extend the Commissioner's mandate to the Crown Entity sector.

Developing staff and leaders

85 The State sector includes a hugely diverse range of employers. Different agencies have different human resource needs. Reflecting this diversity, individual organisations will continue to employ and develop their own staff and undertake their own human resource planning. Many aspects of human resource management, however, are common to all State sector organisations. There would be benefit in the progressive adoption of common standards, the sharing of good practice, and the development of joint systems or programmes. We propose, therefore, that individual agencies' human resource planning be done within the context of an overarching State sector human resources framework. This framework would cover the Public Service and an appropriate range of Crown entities (the actual coverage would need to be considered further during the development of the framework).

86 Decisions about organisational and people capability in the State sector can potentially be made at one of several levels: within individual organisations; within networks or sectors or other groups of organisations; or at something closer to whole-of-State-sector level. The process of developing the framework would involve discussion, and recommendations to the Government, about the appropriate level at which decisions should be made on a wide range of matters affecting organisational capability and human resources, including:

- Overall means of improving the effectiveness of the sector and departments and their ability to provide quality services and outcomes by addressing issues of training and development, workloads, EEO, culture values and ethos, constitutional knowledge, the Treaty, responsiveness to Māori, leadership, workforce planning, and interagency exchanges and secondments;
- Principles that should guide ways of addressing employment conditions such as Superannuation, leave provisions, occupational health and safety, remuneration systems, recruitment, competencies, recognition of service and performance management systems;
- Overall means of implementing the Partnership for Quality agreement so that employees are enabled to participate collectively in the management of their workplaces through the PSA.

87 A common framework on some of these matters would contribute to improving the effectiveness of State agencies, and also to State servants' perception that they are part of a larger entity than just their own agency.

88 We recommend that the State Services Commissioner should be charged with leading the development of the framework with the involvement of a range of stakeholders, including the tripartite forum (Ministers, Public Service Association, and

Public Service chief executives), and in keeping with the Partnership for Quality agreement.

89 Supporting the development of such a framework would require SSC to broaden the focus of its long run labour market data collection and analysis, and we propose that this focus be expanded to include Crown entities (but excluding SOEs and CRIs), without duplicating work already going on in other sectors (e.g. health and education). We note and encourage the Commission's recent work to improve the depth and detail of its HR analysis within the Public Service through such things as the Human Resource Capability unit record collection and the Career Progression Survey.

90 Matters already identified as requiring further work are the development of:

- Staff, not just for their current roles but preparing them to play new roles in future, perhaps at higher levels, perhaps elsewhere in the State sector;
- Managers, to be more effective in their people management roles – in providing performance management, training and development, mentoring and career support to their staff; and
- Staff at all levels – not just managers – to provide leadership, including innovation, responsiveness, risk management, partnership and teamwork.

91 We recommend further promotion of the use of generic public sector standards and qualifications within State sector organisations (such as the unit standards being developed by the Public Sector Training Organisation); identification and promulgation of good practice in coaching and development of staff by managers, including investigating training options to improve the skills of managers; and work to identify and promulgate good practice in leadership skills training for staff at all levels.

92 We encourage the Central Agencies, particularly the SSC, to actively develop initiatives that build leadership capability and innovation. We recommend that SSC, working with Chief Executives, take a more active role in developing senior staff, including the identification and fostering of talent in the context of a sector wide senior management competency framework.

93 We propose that the group of the 300 (say) most senior staff (including chief executives) across the State sector be identified, and receive a greater investment in training and mentoring. They would have an explicit duty to actively model and develop a professional, public service culture.

94 We also encourage the State sector to form a partnership with a strategic provider of top-level training, probably one or several tertiary education institutions.

Recommendation: We recommend that Ministers **agree** to a series of initiatives to better develop staff and leaders in order to enhance the capability of individual organisations and the Public Service as a whole (and where appropriate the wider State sector) to better serve the needs of Ministers and citizens including:

- Developing an overarching human resource framework, including clarity on which parts of the framework apply to which Crown entities;
- Promotion of more widespread use by State sector organisations of generic public sector standards and qualifications (e.g. Public Sector Training Organisation unit standards);
- Undertake a multi-agency project to review the coaching and development by managers of staff across the sector, identify areas where improvement is needed and promulgate good practice, including investigating training options to improve the coaching and development skills of State sector managers;
- Undertake a multi-agency project to review current practice in leadership skills training for staff at all levels, identify areas for improvement and promulgate good practice;
- Develop detailed proposals for a more collective, centralised and consistent approach to the development of senior managers across the Public Service, (and to a lesser extent into the wider State sector) based on a common competency framework that gives weight to both policy development and implementation skills;
- Report back on how best to charge senior staff across the sector (including but not limited to Chief Executives) with modelling and leading the development of a modern, professional, Public Service culture - proposals to include consideration of training and development opportunities;
- Form a partnership with a strategic provider of top-level training for senior State servants, probably one or several tertiary education institutions.

Other issues

New technology

95 No discussion of the State sector of tomorrow would be complete without mention of the impact of new technology. New technology will impact on service delivery, on back office functions, on citizens' expectations. It potentially holds the key to a more seamless provision of a range of services that adapts to the needs of individuals and communities, delivered through a range of channels - physical and electronic. Some functions of the State may come to be organised around knowledge bases or a client-based view of Government services.

96 This is being dealt with through a different process - the e-government strategy - but we are mindful that the State sector needs to be alert to the implications and opportunities of e-government, which may have a long-term impact on the accountability

processes and structures of government. A further discussion of the impact of new technology is included in Appendix 7.

Treaty guidelines

97 Different agencies have been working out, largely in isolation, how they should incorporate the principles of the Treaty of Waitangi in their activities. This has resulted in a somewhat ad hoc variety of arrangements in an area where consistency would be valuable.

98 There would be benefit in enabling agencies to more easily share their knowledge with others, and for the sector as a whole to achieve greater clarity and consistency in its approach. Te Puni Kokiri has recently completed work on a guide to the principles of the Treaty, which collates the jurisprudence of the courts and Waitangi Tribunal. We understand that TPK and the central agencies are considering ways in which they can build on this work to encourage more consistent consideration of the practical implications of the Treaty of Waitangi for policy development and operational activities. We endorse this work.

Innovation, risk and opportunity

99 Innovation is the application of creative, unusual or novel solutions to problems or needs. There are features of the State sector, such as high visibility and political risk, that discourage innovation and tend to encourage cautious management behaviour. To offset these inhibitors of innovation requires a deeper level of engagement between Ministers and officials, so both sides understand the risks and can agree on the strategies to manage them. Moving to fewer agencies – and hopefully fewer but more substantive relationships for Ministers should help, as will the focus on outcomes and the Circuit Breaker teams.

100 We think we need more than this. We recommend an innovation project facilitated by Central Agencies, at least in the first instance, that assesses current innovative activity in the State sector, suggests adjustments in the public management system to actively enhance it, and identifies other ways of encouraging innovation. This project should use external expertise to undertake this stocktake and recommend adjustments. This could include putting in place some indicators of an innovative State sector that can be tracked over time, thereby serving as a continued impetus for innovation.

Recommendation: We recommend that Ministers **agree** to undertake a project to assess the current state of innovation in the New Zealand State sector, to propose enhancements to the public management system, and to establish some indicators of innovation in the State sector that can be measured over time.

A new focus for central agencies

101 The Advisory Group believes that central agencies need to take more leadership, particularly on “whole of government” matters. This leadership needs to be wider than

just the Public Service. The Advisory Group notes there has been a number of moves in this direction by the central agencies, but thinks they need to go further. In doing this they will need Ministerial support. We see this greater leadership being developed in a number of practical ways:

- Being more willing to identify areas that require **Ministers to direct a common approach**, and advise Ministers accordingly. Central agencies in consultation with chief executives should develop some clear criteria for deciding when a more directive approach is desirable;
- **An advisory role to government agencies** in areas of central agency expertise (e.g. the SSC on human resource management and capability, Treasury on financial management and other aspects of performance management, DPMC on how to align with government goals better). This could include general information provision, as well as knowledge of good/best practice and sharing benchmarks;
- **Brokering collective action**, either by coordinating projects directly, or identifying others to coordinate projects. This could include input or management issues, as well as policy and operational matters (e.g. joint ventures or common purchasing);
- **Direct the adoption of standard approaches**. Central Agencies must exert stronger influence and at times seek the authority to direct agencies to adopt standard processes, approaches or systems;
- **Better engagement with departments and Ministers** on priority setting and planning, using vehicles such as statements of intent, output plans and the budget process. Collectively, the central agencies should be able to more effectively identify areas of duplication, gaps and conflict;
- More leadership by the SSC in **human resource** matters including the development of a State sector wide human resource framework and promoting State sector values (discussed under People and culture above);
- More regard to, and engagement, with the wider State sector. This should include an **extension of the State Services Commissioner mandate to Crown entities**. For the most part the Commissioner's scope is currently limited to the Public Service. We recommend his mandate to advise on capability, and exert leadership on matters such as values and ethos, be extended;
- **Leadership of the change process** to implement the direction proposed by the Advisory Group.

Recommendation: We recommend that Ministers:

Agree that the Central Agencies (State Services Commission, Treasury and Department of the Prime Minister and Cabinet), collectively and individually, should exert more effective leadership across the wider State sector by formally adopting as part of their core business a responsibility to lead the State sector on whole-of-government initiatives. This to include:

- Advising Ministers where a more directive common approach is needed;
- An advisory role to government agencies in areas of central government expertise;
- Brokering collective action;
- Directing the adoption of standard approaches;
- Better engagement with departments and Ministers, including over Statements of Intent and Output Plans;
- Leadership of the change process.

Agree that the mandate of the State Services Commissioner should be extended to enhance his ability to collect information from and provide leadership to State sector organisations beyond the Public Service.

Leadership board

102 Some members of the Advisory Group consider the centre needs to be strengthened further by forming a Leadership Board. There are a number of options for this Leadership Board. It could have direct powers over chief executives and a direct accountability to Cabinet, inserting a new layer between Cabinet and chief executives. Alternatively a Leadership Board could have an advisory and support function, to enhance the leadership of the Central Agencies without diluting their responsibilities. The Leadership Board would in this instance be accountable through the Central Agency heads to the Prime Minister, Minister of State Services and Minister of Finance. Its functions could include the following:

- Acting as an intelligence or surveillance function for Cabinet;
- Advising government on whole-of-government issues;
- Brokering innovative and cross-cutting initiatives as specified by Cabinet;
- Considering sector wide ownership issues and developing ideas to correct problems;
- Maintaining an overall review/oversight of the performance of the State sector;
- Appointing leaders for specific projects, assisting in holding them accountable for the outcomes, ensuring they receive recognition for success;
- Overseeing sectoral and departmental planning so that long-term outcomes are increasingly supported by short-term planning;

- Supporting both the mandated regional coordination mechanisms and the circuit-breaker teams;
- Supporting the e-government programme, work on State sector values and any other whole-of-government priorities;
- Communicating Ministerial priorities across the State sector to help make them happen smoothly and quickly.

103 The membership of the Leadership Board could be determined once the functions were clarified but would probably consist of the Central Agencies CEs, other public service CEs with delivery experience and possibly some State sector CEs.

104 There are risks associated with having a Leadership Board. It may add another level of bureaucracy without concomitant value, reduce flexibility, and exclude important interests. For these reasons, and because they did not believe there was evidence of the need for such a body, some members of the Advisory Group did not support the Leadership Board proposal.

What will you see, feel and hear which will be different?

105 We propose three groups of recommendations to give more power and support to the interface of the State sector with citizens, make it easier for Ministers to get the system to respond to their aspirations, and make the State sector a better place to work. Our intention is that in time these proposals will make a tangible difference for Ministers, citizens and State sector staff.

<i>What will be different in 5 years time for</i>		
<i>... Ministers</i>	<i>... Citizens</i>	<i>... Staff</i>
<i>Through better integrated service delivery (Circuit Breaker Teams, regional coordination and stronger policy/operations connections)...</i>		
Will see more innovative solutions dealing with long-standing problems.	Will find complex problems get sorted out better. Will feel well-served by public servants.	Will see their views being listened to and put into action. Will find work more satisfying.
Will hear fewer complaints about coordination and duplication.	Will notice that they are not having to handle so many government processes or organisations.	Will see senior Wellington people at the frontline, will have more contact with people in other sectors.
Will find that things happen more quickly and smoothly at the frontline.	Will feel that government in Wellington feels less distant.	Will notice that their views get reflected in policy, will feel connected to Wellington.
<i>Through less fragmentation (networks, structural change, accountability systems)</i>		
Will deal with fewer agencies and noticeably fewer barriers.	Will notice that duplication is less.	Will be working with other agencies more.
May find their previously separate organisation is now part of a larger one.	Will find relating to the public service simpler and more straightforward.	May be working under different management or in a different organisation.
Will see less clutter, less paper, better information. Will have to resolve conflict amongst		Will understand the overall vision and purpose better.

What will be different in 5 years time for		
... Ministers	... Citizens	... Staff
agencies less often.		
Through building People and culture (values and ethos, leadership, training, senior management development, human resources strategy)		
Will hear public servants proud of their work and positive about their contribution.	Will gradually feel that the public service is in good heart and will have greater confidence in public servants.	Will receive more standardised training and education.
Will feel more confident that State sector staff working at the front-line understand and support Government's aspirations.		Will talk more proudly about their jobs, and the value of the State sector.

What happens next?

106 The proposals and new directions set out in this package add up to widespread and far-reaching change. That change, however, will happen incrementally and across the board, as the culture changes and, with it, expectations and behaviours. The risk with wide but incremental change is that momentum dissipates and no real shift occurs. This risk is greatest in those proposals where inter-agency action is required, and in the proposals for tackling front-line, service delivery issues.

107 An important part of managing this risk will be strong leadership from Ministers and central agencies. Indeed, the sort of transformation we anticipate will only happen if Ministers and officials work together to change the way they interact. Just as officials will need to take account of whole of government considerations so too will Ministers need to model and lead this stronger collective approach.

108 If Ministers agree with the directions set out in this report we suggest that the State Services Commissioner should assume overall responsibility for coordinating the departmental implementation effort, with appropriate reporting to Cabinet. Given the scale and scope of the changes involved, we believe the Commissioner should be supported in this role by a change implementation advisory board. Such a board would draw on the perspectives of a range of organisations in the State sector and beyond, including representation from the Public Service Association. We note that a similar arrangement is in place and working well to guide the e-government strategy: the Commissioner is accountable for delivery of the strategy, but an advisory board including both State and private sector members provides guidance and expertise, and champions the strategy with stakeholders.

109 Accordingly, we recommend that the Commissioner establish a change implementation advisory board to advise and support him in overseeing the implementation of the package of proposals from the Review of the Centre. We suggest that the Commissioner be invited to report to Ministers early in the New Year on the composition, terms of reference, and work programme of this board.

Recommendation: We recommend that Ministers **agree** the State Services Commissioner should form a Change Implementation Advisory Board to assist with the implementation of the package of work arising from the Review of the Centre, to include a representative of the Public Service Association.

APPENDIX 1: MEMBERS OF THE ADVISORY GROUP

Alan Bollard, Secretary to the Treasury

Paul Cochrane, National Secretary, PSA

Angela Foulkes, independent consultant

Mark Prebble, Chief Executive, Department of the Prime Minister and Cabinet

Brenda Tahi, independent consultant

Michael Wintringham, State Services Commissioner (Convenor)

APPENDIX 2: TERMS OF REFERENCE AND RESPONSES TO THEM

This appendix sets out the terms of reference for the review, and the Advisory Group's responses to the specific questions in the terms of reference.

“Introduction

The Government wishes to maintain and strengthen the Public Service and the wider State sector.

Frontline staff need to have effective support to assist them to provide the best possible service for New Zealanders. Ministers value capable analytical staff who can provide useful advice without fear or favour. The government looks to the senior staff of the Public Service to provide leadership and management in order to co-ordinate the full range of work across the Public Service. The report of the State sector Standards Board has shown that many of the traditional values of the Public Service are in place - however it calls for a renewal of the processes and practices that provide a strong centre to the State sector.

The Government is particularly interested in strengthening management and co-ordination processes to ensure a whole of government focus is adopted and maintained by all agencies.

Advisory Committee

The Review of the Centre will be led by an Advisory Committee including the heads of the three central agencies, senior advisors from outside the public sector, and a union nominee. The Committee will be convened by the State Services Commissioner.

Tasks

Testing Perceptions

The Advisory Committee will review and report on current practices and performance issues in the State sector including, but not necessarily limited to the following:

- *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 co-ordination across the public sector.*
- *Whether Vote structures and Vote management processes could be altered to improve fiscal decision-making and financial management across government, while being compatible with, and facilitating, other desired changes in public sector management.*
- *Whether the focus on contracts for accountability has led to a legalistic focus with excessive compliance costs, or a loss of collegiality.*
- *Whether a focus on narrow performance goals has led to insufficient attention to outcomes, a lack of connection between outputs and outcomes, and a reduced focus on the importance of maintaining long-term capacity.*
- *Whether the current regime unreasonably restricts appropriate devolution to regional structures.*
- *Whether institutional forms and structures have enhanced or hindered a functional focus so that frontline staff are enabled to do their work with a clear concern for the well-being of the people they are working with.*

- *Whether there are sufficient people with the leadership qualities required to manage the various departments and agencies of the State sector.*
- *Whether training and employment systems are appropriate to produce a supply of people with the appropriate skills and to assist or move those who are struggling.*

Assessment and Recommendations

In light of the review of current practice and performance issues the Advisory Committee will make an assessment of areas of managerial strength or weakness in the current public sector systems and processes, and identify proposals for change. If necessary, these proposals might include suggestions for legislative amendment to the Public Finance Act or the State sector Act or wider Crown entity legislation.

Related Work

The Advisory Committee will be mindful of and draw on relevant streams of work in preparing its advice, including the work of the Standards Board.

General Context

The Government does not wish to undertake wholesale reform or restructuring of the Public Service. Rather it is looking for a plan for significant improvement that could be developed and put in place for implementation over a period of years.”

Responses

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.

Relative to many comparable jurisdictions, New Zealand has a large number of State sector entities. The upside of this multiplication of entities is that they can have a sharper focus and in many cases this has led to greater efficiency. The downside is an increase in the complexity of coordination, the possibility of inter-agency turf battles, and a dilution of State sector capability as talent and resources are spread more thinly over more organisations. On balance, the Advisory Group favours some reduction in the number of independent agencies.

The division between policy and operations gets a similarly mixed review. A consistent theme of our discussions with stakeholders was that in many cases the split has resulted in policy advice that is less well informed about the realities of the environment in which it is delivered and service delivery that is less responsive to policy change. The split has been well managed in some instances, especially where it has been a functional separation within a single agency rather than a structural split between different agencies. These cases have demonstrated that the key to good performance is ensuring strong information flows between policy and delivery teams. Structural reintegration would be one way of achieving this but non-structural mechanisms are potentially just as effective and considerably less disruptive.

The multiplicity of separate agencies, especially the large number of Crown entities, does seem to pose particular problems for Ministers in knowing which agencies ought to have a role in the development or implementation of any given policy idea, and in the absence (in many cases) of anyone at official level with a clear mandate to coordinate these roles and to broker agreement and joint effort between them. There are already numerous ad hoc coordination mechanisms. The Advisory Group favours the creation of stronger, high-level coordinating mechanisms, that span both departments and Crown entities, and that include a clearer delineation of responsibilities for coordination. We believe that a parallel coordinating mechanism at Ministerial level would send powerful signals to the bureaucracy about the value placed on coordination, and reinforce the role of the agency level mechanisms.

Whether Vote structures and Vote management processes could be altered to improve fiscal decision making and financial management across government, while being compatible with, and facilitating, other desired changes in public sector management.

While Vote structure is not the primary cause of problems around coordination and lack of outcome focus, the large number of votes does exacerbate such problems. Outputs produced by different agencies can constitute related services and having them funded from separate Votes makes reallocating resources across agencies but within related interventions more difficult. Having a large number of funding pools adds to the complexity and cost of funding relationships with non-government organisations. Reducing the number of votes by allowing more than one department and portfolio to draw money from a single vote should provide greater scope to enhance coordination between agencies, make resource allocation decisions across agencies, focus on intended outcomes, and reduce compliance costs. Any changes will need to be consistent with maintaining Ministerial accountability to Parliament.

Whether the focus on contracts for accountability has led to a legalistic focus with excessive compliance costs, or a loss of collegiality.

Contracts are not a bad thing per se. Even the most vocal critics of a “contractual” State sector are in favour of clarity about what results are being sought, by what means, with what resources, and by whom. Our public management system has made great strides in providing that clarity, transparency and accountability, but it has gone too far in assuming that written specification can solve all problems and has drifted into a system with several weaknesses:

- insufficient focus on the overall results sought (as well as the things being delivered);
- insufficient focus on the capability of the organisations of the State and of the non-Government organisations working with them;
- an excessively short-term view of relationships and contracts;
- a tension between contractual commitments and a desire to collaborate; and
- excessive compliance costs.

We believe that a longer term view of relationships, a more relational approach to contracting, and a clearer focus on the results being sought will improve effectiveness, reduce compliance costs, and increase a sense of collegiality within the State sector and between that sector and non-Government organisations.

Whether a narrow focus on performance goals has led to insufficient attention to outcomes, a lack of connection between outputs and outcomes, and reduced focus on the importance of maintaining long-term capacity.

The current New Zealand public management system pays insufficient attention to outcomes, and needs to do significantly better in understanding and acting on the connections between outcomes, outputs and organisational capability. Moves already afoot to improve the quality of organisational thinking and planning, and to develop better techniques for defining, measuring and managing for outcomes, should contribute to improvement. Ministers have a vital role to play in clarifying for State agencies the outcomes they wish those agencies to pursue.

Organisational capability was for a long time a neglected area of public management. A short-term focus on outputs may have undermined the longer-term capability of some agencies by diverting resources from capability building activities such as staff development, research, evaluation and maintenance of assets, but there is no strong evidence of a system wide problem in this respect. The move to accrual accounting improved agencies’ ability to understand their assets and to budget for their replacement, but this has been subject to a general environment of fiscal restraint. Capability measurement is still in its infancy in both public and private sectors but more results-driven planning should accelerate the development of techniques for identifying, costing and managing capability.

Whether the current regime unreasonably restricts appropriate devolution to regional structures.

The Advisory Group considered both “devolution” of functions from the State sector to local government and non-Government agencies at regional level and “delegation” of power from

the centre of State organisations to the point of service delivery to citizens. We concluded there is little in the present regime that restricts appropriate devolution to regional bodies other than the already noted short-term view of relationships and the separation of funding into a large number of small pools. Our recommendations to address these problems should contribute to the development of stronger partnerships between State and non-State organisations, whether these involve actual devolution or not.

Patterns of delegation within State agencies vary widely and this variation is itself a source of frustration to some citizens and non-Government organisations seeking to deal with local problems. We believe there is scope for greater delegation of decision-making to the front-line but this will need to be accompanied by: more training of those staff exercising increased levels of discretion; more active risk monitoring and management; and enhanced communication between head office and front-line, between policy and operations, and across agencies.

Whether institutional forms and structures have enhanced or hindered a functional focus so that frontline staff are enabled to do their work with a clear concern for the well-being of the people they are working with.

There are examples of outstanding service delivery within the New Zealand State sector, and we believe that standards of client service have generally risen since the reforms. The expectations of citizens and of Government, however, have risen even faster. As with all the terms of reference, therefore, the real question is not whether service is better than it was, or even whether it is good enough, but whether it is improving to meet continuously rising client expectations? On that basis, we believe there is scope for further improvement in many areas.

We identify a number of impediments to better front line service:

- insufficient delegation of discretion to front line staff in some areas;
- different levels of delegation in different organisations impeding local collaboration;
- differing regional boundaries used by government agencies and local government;
- financial resources divided into a large number of small pools creating opportunities for inappropriate double dipping as well as the risk of the genuinely needy missing out;
- the sheer number of State organisations often imposes significant transaction costs on citizens or groups seeking to broker coordinated responses from multiple agencies;
- inappropriately specified performance targets in agreements and contracts may distort or constrain service delivery;
- frequent structural change may make it difficult to maintain expertise, commitment and the relationships necessary for effective collaboration in some sectors; and
- front-line morale appears fragile.

We also note that the standards by which organizations, central agencies and the Government have judged service improvements are not always the same standards that citizens would apply, and differing perceptions can lead to differing assessments. For example, many organizations have improved the efficiency and (they believe) the accessibility of client service, and contained their overall costs, by replacing local offices with call centres. But many citizens regard accessibility as meaning the ability to walk through a door in their local community and talk face to face with a service provider, and see this as more important than efficiency. Organisations need to choose carefully the criteria by which they assess proposals for change in their service delivery. This will be a particular issue in the future as e-government expands the choices potentially available for service delivery to citizens.

Whether there are sufficient people with the leadership qualities required to manage the various departments and agencies of the State sector?

We believe there are not sufficient people with the mix of skills and experience required to ensure effective leadership of State sector agencies into the future. Current highly devolved arrangements for senior management development and career management are inadequate to produce the number of skilled leaders required, particularly given the large number of state agencies. There is insufficient training and development of more junior staff in the leadership skills that will enable them to move into positions of greater responsibility. There are inadequate arrangements for educating the members of Crown entity boards about the particular responsibilities of governing State sector organisations.

A stronger emphasis on training and development for staff throughout the sector, and more centralised arrangements for the development and career management of senior managers will yield improvements.

Whether training and employment systems are appropriate to produce a supply of people with the appropriate skills and to assist or move those who are struggling.

There are deficiencies in several areas of current employment, performance management, training and development, and career management systems. While it is difficult to point to hard evidence of systemic capability deterioration having already occurred, these deficiencies are likely, if not corrected, to undermine the capability of individual organisations and of the State sector as a whole.

Improvements will come from a renewed emphasis on training and development, within the parameters of a State sector-wide human resource strategy, including greater use of exchanges of personnel between head office and front-line, policy and operations, and eventually between Government and non-Government organisations.

APPENDIX 3: RECENT REVIEWS OF THE PUBLIC MANAGEMENT SYSTEM

There have been a number of reviews of the system in recent years, the more significant of which are briefly characterised below.

Review of State sector Reforms (Logan Report) 1991

“In our view, the legislative framework for the Public Service reforms initiated in 1988 is sound. It has already has a significant and beneficial impact on the effectiveness and efficiency with which the core Service operates.”

“Problems which require explicit action, as recommended in this report, relate to four critical cornerstones of any management system:

- The translation of collective strategies into organisational plans;
- Accurate specification or required performance standards and measures into chief executives’ agreements;
- Objective measurement and reward for performance; and
- The creation of conditions for management of sufficient quality to be attracted developed, retained and motivated to perform to the reform’s objectives.”

Public Management in New Zealand (J Boston, J Martin, J Pallot, P Walsh) 1996.

Some major concerns relevant to this review:

- Structural change has brought clearer organisational focus and improvements in efficiency and service, but has been applied in circumstances where other solutions might have been better. We have a fragmented bureaucracy, by international standards. Separating policy from delivery has worked in some areas but not in others;
- The lack of competence in policy advice in some areas, and the tendency for Treasury to dominate policy advice;
- The greater freedom in human resource matters, in the areas of both senior managers and staff was an important part of the new State sector, but there were concerns about how well middle managers were equipped to deal with their human resource responsibilities
- The absence of an effective strategy for the development of senior managers;
- A lack of clarity about how government agencies should deal with the implications of the Treaty of Waitangi;
- The problem of institutionalising Public Service ethics in a context of significant change, growing agency cultures, and high staff turnover.

The Spirit of Reform (Schick) 1996

Schick’s view was that the State sector reforms had “lived up to most of the lofty expectations held for them. The State sector is more efficient, productive and responsive, and there has

generally been significant improvements in the quality of services provided to New Zealanders”. Schick also pointed to some significant problems with the system, and wrote of the need to “debug” elements of the system that have not worked as well as anticipated. These included the:

- Need to give ownership more attention
- Need to give medium term strategic planning more emphasis
- Need for more rigorous output costing systems
- Risk that capital charge might lead to under capitalisation
- Importance of being able to recruit, motivate and retain talented chief executives, and a continuing supply of managers, and the risk posed by the failure of the SES
- View that accountability had been “robustly designed as an integral feature” of the system, but was very costly to run and could lead to a checklist mentality.

Schick also commented negatively on the large number of agencies and Crown entity governance. Allen Schick visited New Zealand over the course of the Review of the Centre and to a large extent confirmed and reinforced his earlier position, particularly emphasising his concerns about the relationship between Ministers and chief executives, capability particularly with respect to leadership, and fragmentation arising from large numbers of agencies and policy/operations splits.

Controller and Auditor-General – A series of major reports in recent years, notably:

- *Reporting Public Sector Performance (2001)*
http://www.oag.govt.nz/HomePageFolders/AuditOfficeReports/PubSectorReporting/Pub_Sector_Reporting.htm
- *Impact Evaluation – its Purpose and Use (2000)*
<http://www.oag.govt.nz/HomePageFolders/AuditOfficeReports/1streport2000/Part%206.pdf>
- *Third Report for 1999*
<http://www.oag.govt.nz/HomePageFolders/AuditOfficeReports/3rdReport1999/3rdReport1999.htm>
- *Governance issues in Crown entities (1996)*
<http://www.oag.govt.nz/HomePageFolders/AuditOfficeReports/GovernanceIssues/GovernanceIssues.htm>
- Reports on Specific Issues or Agencies (e.g. Tourism Board)

Major themes to emerge from these are that:

- Parliament receives reasonably good financial information, especially about outputs and the financial performance of its agencies;
- Non financial performance information can be significantly improved;
- Parliament should receive much better information about the government’s desired outcomes and the extent to which those outcomes are being achieved;
- There are important information gaps in respect of:

- Capability
 - Risk and risk management
 - The use the executive proposes to make of Imprest supply
- The quality of the governance arrangements among the Crown entities examined by the Audit Office (6) varied markedly and that there were some significant shortcomings in the arrangements, but “encouraging evidence that governance issues within the wider public sector are beginning to be given the attention they deserve”.

Review of Evidence on Broad Outcome of Public Sector Management Regime (Petrie and Webber) 1999

A review of over 40 separate reports and commentaries commissioned by Treasury which identifies a number strengths and weaknesses of the public management system. The main strengths identified are:

- More efficient production of outputs;
- A more responsive, innovative public sector delivering better services;
- Improved financial accountability; and
- Improved overall fiscal control.

The main weaknesses identified are:

- The alignment of outputs with outcomes;
- Weaknesses in the link between government strategy and budget spending;
- The potential for conflict between purchase and ownership interests;
- Problems in contracting for outputs;
- Unforeseen consequences of the new regime; and
- Uneven performance of departments and agencies.

SSC (1999)

The review of the Public Service accountability conducted by the State Services Commission in 1999, based on interviews with a range of Ministers, chief executives, Parliamentarians, central agencies and external commentators, found three overlapping problems:

- The system was complex and expensive;
- Despite the volume of documentation, there were still significant gaps in the information available to Ministers and Parliament, especially about alignment with outcomes, and capability; and
- Third, the system distorted the behaviour of participants in unhelpful ways, especially be driving them into a short-term view focused on the next output purchase period rather than on medium term outcomes.

This analysis, has led to the CAP project and subsequently to, the creation of the new Deputy Commissioner Teams at SSC.

Public Sector Management in New Zealand (Scott) 2001

This review identifies a number of areas of the system that need to operate more effectively:

- The role of Ministers
- The role and performance of central agencies, including monitoring the right things effectively, and providing leadership to ensure more outcome focus
- Strategic capability and coordination
- Capability and the Government's ownership interest, including senior management succession
- Values and ethos
- Crown entities
- Managing change, including recognising when it is needed

Standards Board –2001

As part of their first report the Standards Board identified a number of areas of the public management system that needed attention:

- The need for a stronger centre
- Strengthen governance arrangements, including those for Crown entities
- Emphasise whole of government interests and processes
- Provide greater balance to reporting and accountability by giving more weight to outcomes and capability as well as outputs
- Giving greater emphasis to employee development and morale
- Mutual respect between Government, Parliament and the State sector.

Norman (2001 – forthcoming)

A study based on interviews and questionnaires from a large sample of State sector senior managers. Major positives in the current system that were identified included:

- The importance of balancing management freedom with accountability “The extent to which you are given trust and advised that you are going to be held accountable acts as a very strong incentive”;
- Clarity of role and responsibility
- Greater transparency

- The integration of HR with the management of organisations (rather than being controlled centrally);
- Accrual accounting, which has provided better information than cash accounting and was less costly to run.

Problem areas:

- Lack of clarity of strategy and expectations from Ministers;
- Organisational silos, which tended to reflect Ministerial operating styles rather than the public management system;
- Risk aversion and its affect on innovation
- Central agency performance
- The resources given to capability development

Norman characterised the system as being too reliant on diagnostic controls based on plans, and failing to pay sufficient regard to the fact that effective control systems required a balance between control and empowerment.

APPENDIX 4: STAKEHOLDER PERSPECTIVES

The main themes to emerge from stakeholders are set out below:

- Stakeholders are asking for a considerable amount of change, mainly in style and focus of the State sector. But they are intolerant of bathing the pre-reform past in a golden glow. Many point out that collaboration and customer service, for example, is better than it has ever been.
- Stakeholders comment frequently about the fragmentation resulting from just too many agencies not adequately aligned with overall goals. They want fewer agencies. There is considerable negativity, however about restructuring. People talk of an evolution to structural rationalization, on a fit-for-purpose basis.
- The centre must make a solid and sustained connection with the periphery. There are numerous suggestions about how to do this. This package of changes must be highly evident and will mean big cultural change for the centre. Some strong incentives must be used to bring about this change, because the Wellington status quo is powerful.
- The “contracts” between government and the Public Service and others have gone too far and got too detailed. The purist argument that Ministers purchase from departments is flawed, but do not lose a clear and transparent agreement about what is wanted, provided and checked. It is a message about changing the contractual culture, but not removing written agreements.
- Most stakeholders would not remove outputs, but would link them more clearly to the desired outcomes which government must more clearly state.
- Ministers need to change too, to model whole of government collaboration, to clarify objectives, and to engage in a substantive, trusting way with senior officials. This is evident in the area of risk and innovation and the way in which public and unanswerable criticism can debilitate the morale of the public sector. A new debate – in a safer forum - must occur between public servants and government and extend to citizens.
- Most stakeholders want to see a much more assertive centre developing senior management, actively promoting leadership, supporting CEs, tangibly leading.
- Māori stakeholders commented on the need for government to have clear goals for improving outcomes for Māori. This theme came through strongly and more generally (i.e. not just for Māori) in discussions with chief executives.
- In general stakeholders are not happy with the effectiveness of the Central Agencies.

Some Additional Points from Stakeholders

Ministers

- The advice they receive does not always seem well connected with the lives that ordinary people live, there is a disconnection between the things departments do and the results the citizens want

- There is a plethora of relationships for them to manage, and uncertainty about the risks they are facing
- Ministers want public servants to understand their aspirations and their values, and to be enthusiastic and active in making things happen for citizens.

Managers and Staff

- They want to innovate, but the risk of failure is potentially so damaging to them that they feel constrained
- They are in a fishbowl, and are rarely secure that they will get the support they need should a mistake occur, however much effort has gone into avoiding it
- There is a value put upon policy advice above operational expertise that does not improve advice or performance. The system concentrates on the top not on the vast majority of public sector staff at the frontline delivering the services
- Collaborative delivery takes time, but staff are rarely resourced for it, or rewarded for it. The State sector must change to properly value collaboration. It is done now in spite of the system.

Māori

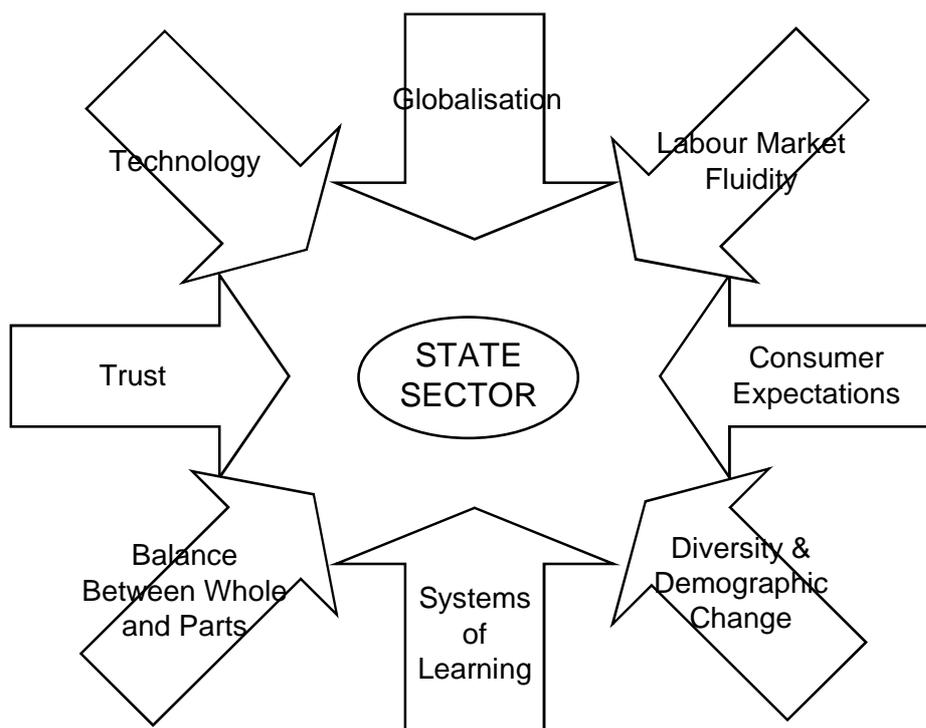
- The State sector does not understand well the needs and aims of Māori and how Māori think and respond to the policies and actions of the state. Key factors underpinning this issue are:
 - The effectiveness of relationships with Māori at different levels in the State sector
 - The capability of the sector to develop and maintain effective relationships with Māori, and to understand Māori perspectives and priorities
- The State sector lacks some key strategies or policies, particularly a Māori development strategy, and a treaty policy framework to integrate and guide its work in this area. Key factors causing this include a lack of strategic capability and of a function in the sector to identify this kind of issue and to develop Māori strategy at a whole of government level.
- The State sector lacks efficient and effective ways of delivering some services to Māori.
- Although provision by Māori for Māori can be and usually is highly effective, it is not always the best, and current contracting practice is fragmented with high transaction costs
- Māori stakeholders also point to the resolution of issues of the nation's constitution and identity as crucial to improving the effectiveness of the State sector for Māori.

APPENDIX 5: ENVIRONMENTAL TRENDS AND INFLUENCES

The forces shaping the environment of the future

Nation states are arguably now less able to command the resources they did, partly because of the mobility of capital in an increasingly borderless world. Therefore, the design of the public management system must continually be flexible and resilient enough to resolve competing priorities, and must not rely on accessing additional resources. In addition to this overriding fact, the following are key contextual influencers

CONTEXT: FORCES SHAPING THE FUTURE ENVIRONMENT



- **Globalisation:** we have to think about how different systems interconnect and ideas flow across previously impermeable boundaries. The primacy of the national level disappears and instead many different levels of governance, from the transnational to the local can compete for loyalty, resources and power. The public management system has to encourage engagement in governance at many levels
- **Labour market fluidity:** we now face a range of competing labour markets for many public servants, and high mobility internationally for some groups. There is more of a free flow between public and private sectors. Furthermore, a significant workforce change is for women and the impact of this on families, work and industries. The public management system must create the conditions for Public Service to be a very attractive career option.
- **Consumer expectations:** the expectations of consumers for fast, 24 hour, efficient and customised service extends from commercial transactions to Public Service. If the users of public services are not satisfied with the service given, the legitimacy of government

becomes more fragile. And yet there is no cornucopia of resources to continue to rise to consumer demands, particularly as the collective and individual good is balanced. The public management system must both enable and support responsiveness to users of the service, but also raise awareness in the public of the complex trade-offs.

- ***Diversity and demographic change:*** we no longer have a single public and single nation, but have many different sets of values in contention. There has to be flexibility to reflect a New Zealand where the demographic picture is moving to a much larger non-European population base. The public management system can no longer be homogenous.
- ***Systems of learning:*** when information and knowledge have become the primary base of the economy, a society has to worry much more about the system of learning. The drive for learning and knowledge will need to permeate all sectors of society, and particularly government processes. The public management system must create the environment where innovation and learning is encouraged.
- ***Balance between the whole and the parts:*** The 21st century, with its unprecedented personal freedoms, has an increasing need for interconnectedness and interdependence with careful regard for the collective good. The public management system must operate with linkages across many boundaries to uphold the collective interest
- ***Trust:*** many societies are suffering acute crises of trust, and successful societies economically and socially rely upon people's capacity to shape their world and to work with others. The public management system must value the quality and nature of relationships
- ***Technology:*** information technology is part of the environment of every field of government, and is transforming the way in which we think about human nature, education and criminality. The public management system must embrace technology.

APPENDIX 6 – CASE STUDIES – CHILDREN WITH HIGH AND COMPLEX NEEDS AND TAIRAWHITI FORESTRY LABOUR AND SKILLS RESPONSE STRATEGY

CHILDREN WITH HIGH AND COMPLEX NEEDS

INTRODUCTION

Children and young people with high and complex needs have been defined as those with serious mental health and/or behaviour problems, and/or disabilities, and/or medical frailty who require services from more than one sector, usually the health, education and social service sectors. At present, there are a concerning number of service gaps and shortfalls for this group, particularly those with mental illness and/or behavioural problems. Services tend to be ill coordinated, with little joint planning or integration or services provided to the same children and their families.

Although other agencies, including the Departments of Corrections and Courts, Police and ACC provide or purchase some services relating to this group, most services for children and young people with high and complex needs are provided by the health, education and social service sectors.

BARRIERS AND ENABLERS IN THE PUBLIC MANAGEMENT SYSTEM

To identify some of the key barriers and enablers in the public management system, which impact on achievement of outcomes for children and young people with high and complex needs, a workshop was held on Friday 14 September 2001 at the State Services Commission. This meeting was facilitated by Shenagh Gleisner, a member of the secretariat to a Ministerial Advisory Group, and recorded by a contractor, Janine Kapa-Brooking of Kia Māia Bicultural Communications. The purpose of this meeting was to ensure that the final recommendations of the Review of the Centre are thoroughly grounded in experiences, as reported by key agency representatives.

Seven representatives from four different agencies attended this workshop, all of whom at some level were charged with meeting the needs of children with high and complex needs, both within their sector and cross-sectorally.

Agencies represented at this workshop included:

- *Ministry of Social Policy*
- *Ministry of Health*
- *Ministry of Education*
- *Department of Child Youth and Family*

Points raised in this workshop are recorded under four headings, aligned with components identified in the overall “Review of the Centre”, and are further illustrated with some practical examples and case studies.

PERFORMANCE MANAGEMENT

The way in which we move beyond specification, towards relational contracting.

Barriers to the achievement of desired outcomes

“The message from the public sector is to meet the outputs of your sector first, but to talk collaboratively with other sectors. There is no incentive to work cross-sectorally.”

- *A high-turn over of personnel, which impacts on agency retention of sectoral experience and expertise. Perceived attrition rates are also attributed to a scarcity of obvious rewards to collaborate across sectors.*
- *High workloads:*

“It takes one social worker one day every single week to work with two children to keep them in school.”

- *core outputs are expected to be met, and compounded by an agency expectation to work collaboratively with other sectors;*
- *lack of consistent managerial support to work collaboratively with other sectors;*
- *cynicism among staff and their managers of the need to work collaboratively, due to a deficiency of obvious outputs achieved; and*
- *limited understanding of services and expectations of other sectors.*

Factors which enabled the achievement of outcomes

“We need to have appointed coordinators; if no one is there to drive an initiative, it often gets put on the back burner.”

“An 11 yr old boy we worked with had not been in school for 4 yrs. Through inter-sectoral effort and commitment, dedication and huge amounts of time exerted by everyone involved, this boy has now been in school daily for the past year.”

- *The appointment of advocates to mediate between families and the agencies with whom they are involved (e.g.: Strengthening Families Regional Coordinators).*
- *The dedication of time and a combined commitment among key personnel to seek outcomes for individual children and young people.*
- *Some agencies are increasing their commitment to working collaboratively with other sectors as they begin to witness the success of inter-sectoral initiatives (e.g.: Strengthening Families).*

MACHINERY OF THE COLLABORATIVE STATE

The way in which we establish a more integrated and collaborative state and the place of restructuring in this development.

Barriers to the achievement of desired outcomes

The infamous ‘Shed Boy’ case demonstrates this point. “‘Shed Boy’, 9 yrs of age, lived rurally. He sustained a brain injury as a result of medical misadventure. He experienced extreme anxiety, reacted inappropriately to others, and was prone to violence. Despite the provision of financial support from the health and education sectors, no actual remediation occurred due to geographical isolation. There has been no change for the child, nor in his family circumstances.

- *Lack of agency accountability and responsibility for inter-sectoral work. For example, the abdication of agency responsibility to seek appropriate solutions and support for children with high and complex needs, which often impacts on the services offered to them.*
- *Absence of generic policy concerning the way in which services are delivered to children and young people.*
- *Lack of clarity around the core business of and services provided by some agencies (financed from baseline expenditure), which in turn impacts on the ability to define and identify new services to be funded from new expenditure (2001/2002).*
- *There is a perceived expense incurred by children with high and complex needs. The level of resourcing is not necessarily a barrier – rather, it is perceived to be more a lack of targeted resources to those with the greatest need.*

Factors which enabled the achievement of outcomes

- *Shift the focus from the need to define and diagnose children, to focus on their individual needs – the development of a child-centred function across agencies.*
- *Working collaboratively across sectors allows for:*
 - *the development of trust and a breakdown of barriers between agency representatives, the emergence of creative and lateral thinking, and a diversity in approach and perspective.*
 - *access to a range of resources not ordinarily available from within other sectors.*

Another example involved a child with disabilities.

“The team was unsure what exact interventions were appropriate to address the child’s behaviour. Specialists from different sectors were engaged, providing conflicting advice. This raised trust issues for the family - it was totally exhausting and overwhelming for them.”

LEADERSHIP AND CAPABILITY

The way in which we build leadership and support the development of staff at all levels.

<p>“One child was in residential care for 18 months, exhibiting behaviours consistent with trauma and abuse. We engaged mental health services, who saw her as a ‘bad’ young woman who should be punished – they focused on her negative behaviours. No-one had the skills to work with her.”</p>
<p>“Agency personnel are unable to make basic connections to other sectors due to information deficits, single sector funding, contracting and reporting mechanisms.”</p>
<p>“Māori families tend to wait until crisis point to seek assistance. We’re not sure why – cultural barriers perhaps?”</p>
<p>“Te Puni Kōkiri used to be the highest paying agency in the 1980s. The Ministry is now experiencing attrition” issues, as other agencies are attracting their staff.”</p>
<p>“A health client for the past 5 years, one young man has been referred to CYF, as it will be 12 months before they can have anyone assess him. There has been a huge exodus of psychologists out of the public sector.”</p>

Barriers to the achievement of desired outcomes

- A lack of specialised professionals and well-qualified, trained personnel across the sectors (attributed to a local ‘brain drain’ and a global shortage).
- Capacity and capability issues associated with gaps in the skill level of front line staff to work with high and complex needs children and their families.
- The capability to work with children with high and complex needs varies across the different sectors.
- While general practitioners tend to have a more holistic view of issues surrounding children with high and complex needs, such practitioners do not have the specialist skills required. Conversely, while specialists understand their own systems and sectoral pedagogy, they do not always fully understand the perspectives and/or systems of other sectors.
- Lack of conflict resolution processes in inter-sectoral forum, such as HESSOG.

Factors which enabled the achievement of outcomes

- Appointed personnel to coordinate and drive inter-sectoral initiatives and programmes (e.g.: SF Regional Coordinators), and personnel identified in core agencies solely dedicated to inter-sectoral work.
- Training and workforce development:
 - Provision of inter-sectoral training;
 - Equivalency of skills – ensuring transparency across the public sector; and
 - Cross-sectoral secondments.
- The systematic changing of attitudes among officials working with children with high and complex needs.
- Ministerial profiling and endorsement to address the needs and rights of children and young people.

Overcoming the barriers

“Youth Aid positions used to be filled with officers not quite ‘up to the grade’. This perception has shifted – salaries were raised, the job was positioned as a specialist role and Youth Aid Officers are now seen as a valued part of the policing team. Research showed that by increasing the resources in this area, it would improve the results.”

- Identifying the gaps in specialist skills across the three main sectors:
 - Develop and preserve specialist skills in New Zealand; and
 - Provision of incentives to retain these skills.
- Inter-sectoral secondments allow for a better understanding of cross-sectoral systems.

VALUES AND ETHOS

The way in which we further support the Public Service ethos.

“CYF have had seven young women with mental health problems in residential care for the past several months. There is no where for them to go, as they don’t ‘fit’ anywhere.”

Barriers to the achievement of desired outcomes

- Negative and lethargic attitudes towards inter-sectoral collaboration among agency personnel.
- Evidence of ‘patch protection’ across agencies:
 - Protection of agency vulnerabilities and deficiencies; and
 - Insufficient collegiality.

SUMMARY

The points raised in this report are relevant both to central and local agencies, and undoubtedly effect the achievement of desired outcomes for children and young people with high and complex needs. While the issues are similar, the manifestations of these issues may differ at both central and local levels. For example, a number of agency representatives who participated in the workshop anticipated the need for appointed personnel to coordinate and drive intersectoral initiatives. At a central level, the expressed desire was to see Ministerial support for the development of central structures dedicated to raise the profile of children and young people with high and complex needs – indicating that this is not currently occurring to the satisfaction of some officials. At a local level however, the appointment of Regional Coordinators for example, under the mantle of Strengthening Families, has occurred and are seen (at varying rates and abilities) to be coordinating intersectoral initiatives in the regions. However, a number of workshop participants identified capacity, capability and fiscal issues, which tend to impact on the implementation of such initiatives.

“It has been a difficult relationship between CYF and MoH. One is policy and output oriented at a national level, the other focuses on systems delivery at a local level.”

While policy drives the implementation of services locally level, it has been identified by at least one regionally based agency staff member that policy must reflect practice and implementation at a local level and enhance (not impede) the provision of support and services. It appears that not only is intersectoral (i.e.: horizontal) coordi.

nation and collaboration desirable, but so too is top-down and bottom-up (i.e.: vertical) coordination and collaboration.

While traction needs to occur to a greater degree at a strategic (i.e.: Ministerial) level to gain support and increase the momentum of intersectoral collaboration for children and young people with high and complex needs, it is also imperative to support and strengthen frontline staff in order to avoid the further fragmentation of services and support provided locally.

TAIRAWHITI FORESTRY LABOUR AND SKILLS RESPONSE STRATEGY

1 *This note summarises the Department of Labour's reflections on some of the lessons that can be learnt from the Tairawhiti Forestry Labour and Skills Response Strategy exercise.*

Project

2 *In 2000, the Tairawhiti¹ Taskforce, led by the Deputy Prime Minister and Parekura Horomia, identified the following key issues amongst its many findings:*

- *Tairawhiti was not realising the full economic and social benefits of forestry and wood processing; and*
- *Employment and skills shortages were perceived to be restricting the growth of the region's forestry and timber processing industries.*

3 *In recognition that the issues identified were likely to be wider than the Tairawhiti region, the Government established a Wood Processing Steering Group (WPSG) to oversee the development of a national forestry and wood processing strategy. The Wood Processing Steering Group, chaired by the Deputy Prime Minister, comprises industry, union, local government and central government members. It has 10 issue-related working groups. The Labour and Skills sub-group is co-chaired by the Department of Labour and the CEO of Forestry Industry Training.*

4 *In late January 20001, the Department of Labour was commissioned by the WPSG to:*

- *identify whether a labour or skill shortage problem existed in the Tairawhiti forestry and timber processing industry and to develop potential options for addressing identified issues;*
- *foster industry, community and government ownership of both the issues and potential solutions; and*
- *to assess the application of the findings and approaches used in Tairawhiti to other industries and regions.*

5 *The consultative research phase of the project was completed by the end of March 2001 and an issues and options paper prepared for consideration by Cabinet in early May 2001. The Tairawhiti Forestry Labour and Skills Response Strategy (which specified responsibilities for industry, the community and the Government) was announced on 25 May 2001.*

Outcomes

6 *The research undertaken by the Department of Labour identified that there were both labour and skill shortages in the Tairawhiti forestry and timber processing industry. The initial labour shortages were for silviculture workers (requires only physical fitness and basic work disciplines) with skill and labour shortages in the harvesting industry looming over the next 5 years.*

7 *There appear to be four key underlying causes of the labour and skill shortages in the Tairawhiti forestry and timber processing industry. These are:*

- *poor coordination and communication between key stakeholders resulting in inefficient or inappropriate use of available resources, mis-information, missed opportunities for synergistic developments, and a lack of strategic regional focus;*

¹ East Coast of the North Island.

- *that Government income support and seasonal work provide an attractive alternative to the physical demands and low initial pay of forestry work (silviculture work in particular);*
- *that the industry has a bad reputation (health and safety, pay and conditions, human resource practices) and is seen as an unattractive place to work; and*
- *that the labour pool has generally low levels of skill and work readiness, linked in many cases to alcohol and drug abuse.*

8 *The ultimate outcome sought is the resolution of short and long-term labour and skill shortages in the Tairāwhiti forestry and timber processing industries resulting in improved employment and economic growth in the region. The underlying issues are complex and their resolution requires ownership and commitment from industry (including unions), the community and Government. The strategy aims to do this through specific initiatives designed to address the underlying issues identified above with specific roles and responsibilities assigned to either industry, the community or Government.*

Barriers

9 *There are a number of key barriers to the achievement of these outcomes:*

- *industry and community cynicism and suspicion, both of Government and of each other (the need to rebuild the trust and confidence aspect of social capital);*
- *initial lack of ownership and “blaming” behaviour between the key players;*
- *the extremely fragmented nature of the industry (large number of self-employed contractors, trend towards small farm forest blocks);*
- *the large number of government agencies potentially involved;*
- *the need to coordinate across a large number of policy areas within a short timeframe;*
- *the need to convince other government agencies to assign priority to something which was not part of their existing work programme (or contract) or a particular priority for their Minister;*
- *poor understanding and awareness of government policies and agency roles and responsibilities amongst the industry and community;*
- *poor coordination at the regional level and in particular the lack of a strategic regional focus;*
- *the geography of the region – the labour market is relatively small but dispersed across three “sub-regions” (area around Ruatoria, the central region around Gisborne, and the area around Wairoa).*
- *the existence of three distinct hapu within the region, each with different views and issues; and*
- *a distinct difference in approach between Māori forest owners (such as Ngati Porou Whanui Forests) and non-Māori, often foreign owned companies.*

Key features of the approach used

10 *A number of strategies were used to ameliorate these potential barriers/risks:*

- *A whole-of-government process. The Department of Labour co-ordinated the input from various government agencies who took the lead in their specific areas of responsibility. Having a co-ordinator, or focal point, enabled people to engage effectively with the project and reduced potential overlap. For example, government agencies agreed to use the Department of Labour information gathering exercise as the vehicle to gather all information needed. As the project progressed, a parallel officials process ran to ensure that the government’s response to the community and industry was co-ordinated.*
- *The project involved in-depth analysis of the industry and regional information;*

- *The data gathering and analysis took a ‘broad brush’ approach. Analysis did not concentrate just on skill shortages, but at understanding what was occurring in the industry and broader labour market and community.*
- *The strategy developed to address identified issues involved consultation with stakeholders. The strategy involved a combined approach to identifying issues and developing solutions – a partnership between Government, industry and the community. The Department of Labour worked closely with the regional staff of the Department of Work and Income and Te Puni Kokiri during the consultation phase. Specific consultation sessions were held with Māori.*
- *The analysis (problem definition and potential solutions) was tested with and verified by stakeholders. The Department of Labour, in conjunction with other government departments, produced a draft report based on the interviews with stakeholders and labour market data. The report was then verified, at an organised regional hui, by stakeholders (industry and community), in that the problem statement and proposed strategies were accepted.*
- *Government’s ongoing role is facilitative. The exercise did not assume Government would take the lead role but rather could add most value by facilitating the action of all players, industry, service and training providers, and the community as well as regional government service providers.*
- *The focus of government’s ongoing role is regional offices. Local offices of government departments have taken responsibility for the implementation and oversight of initiatives at the regional level with Industry New Zealand and the Department of Labour maintaining an oversight role at the national level.*

What lessons have been learnt?

- 11 *The Tairāwhiti Forestry Labour and Skills Strategy has been seen by many as a good example of what can be achieved through a whole of government process. Ultimately, however, the test of the success of the strategy will be whether it addresses the key underlying issues. It is will be sometime before this can be fully assessed. There are some issues which are still being worked through, in particular, the role of the key players in reducing drug and alcohol abuse.*
- 12 *Having said this, there are some insights afforded by the Department of Labour’s experience with the Tairāwhiti Forestry Labour and Skills Strategy (in addition to the approach used) which may prove useful to the Review of the Centre project. These are:*
- a *The critical need for mechanisms to improve coordination and collaboration at the regional level. One of the key lessons to come out of the Tairāwhiti work is the importance of improving coordination and collaboration at the regional level.² Our experience is that simply getting the key players together in one room has considerable benefits in terms of improved information flows, coordination, collaboration and outcomes.*

Agreement on strategic priorities at the regional level is critical to ensuring that greater coordination and collaboration results in ongoing improved outcomes. Ideally a regional strategic plan would be developed in partnership between industry, the community and

² The Response Strategy includes the establishment of two coordination mechanisms. The first is a Regional Steering Committee made up of industry, union, community, and government agency representatives. The Steering Committee is responsible for developing a regional strategic action plan to meet its labour and skill needs. It also provides a forum for discussing issues relating to labour and skills issues more generally. The Government is also funding a full-time coordinator for 12 months. It has taken more time than was anticipated to get these processes up and running but it is hoped that both the Steering Committee and the Coordinator will be in place during this month.

local and central government agencies. However as an intermediary step, the development by government agencies of an overarching regional strategic plan to which each individual agencies own plan contributed would represent a significant advance. Agreement on strategic priorities has the potential to result in greater alignment of funding priorities and agency effort. Forms of this approach have been tried through the Local Employment Coordinating Committees (established by the National/NZ First Government) and Strengthening Families with varying success.

- b A whole of government (agency) approach is easier to achieve where coordination occurs at the portfolio level or where there is a clear alignment between the particular project and portfolio priorities. Gaining agreement from other agencies to assign priority to the Tairāwhiti project was easiest where those agencies had a common Minister with an interest in the project outcomes. For example the Department of Labour, Department of Work and Income, Ministry of Social Policy, Skill New Zealand, the Ministry of Education and Te Puni Kōkiri have a shared Minister in either the Minister of Social Services and Employment/Associate Minister of Education (Tertiary Education) or the Minister of Māori Affairs/Associate Minister of Social Services and Employment.*

The most challenging agency to engage in the project was the Ministry of Health. There could have been a variety of reasons for this. First, there is a less direct connection between improved employment and improved health outcomes than in some other policy areas. Second, initial discussions suggested that the Public Health Units would be reluctant to become involved in anything that was not specified in their contract. Third, the management structures within the health portfolio at the time had been specifically set up to place some distance between the centre and regional decision making. Hindsight suggests that more effort should have been placed on engaging the Public Health Units as part of the regional consultation exercise.

- c The need to recognise the cost of networking and facilitation. The Wood Processing Strategy is the first example of the Government's regional and industry development approach. The Department of Labour's experience suggests that a high level of networking, relationship management and facilitation is essential to making this approach work. This is very resource intensive but because it involves staff time there is a risk that it is seen as costless (the Tairāwhiti Forestry Labour and Skills Project is conservatively estimated to have cost \$80,000 to the end of May 2001). Most government departments are not currently resourced to sustain this level of commitment.*

The resource intensive nature of this type of exercise also suggests that its use should be prioritised. The Department of Labour, Ministry of Economic Development, the Treasury and the Department of Work and Income are currently developing criteria to assist Ministerial decisions on the use of the sector initiatives approach.

APPENDIX 7 – NEW TECHNOLOGY TO SUPPORT THE CHANGES

The Review of the Centre and the e-Government initiative are closely linked. E-Government will be particularly relevant to the implementation of many of the Review of the Centre proposals, facilitating some and inevitably raising new challenges.

- The standardisation of systems intended by the e: government strategy will ultimately remove one barrier to the merging of separate state organisations by making it easier to merge their data and computer systems. E-government both demands and facilitates enhanced coordination and the delivery of joint services.
- E-government is likely to crystallise some tensions around accountability and may increase pressure for changes in vote structures as different agencies collaborate more extensively.
- Centralisation of standards for many aspects of IT infrastructure may enable contracts between state agencies to concentrate more on business objectives and on relationships rather than on the technical detail which has been a major component of such documents.
- E-government can support an outcome focus; it tends to crystallise the fact that citizens are interested in receipt of service rather than in the organisation delivering it.
- The intention of the e-government strategy is to support moves towards a networked public sector, which could ultimately include local government organisations and thus facilitate devolution.
- The ability to repackage data may enable more precise client targeting. E-government is intended to provide a platform for the emergence of new and more effective services, and service delivery mechanisms.
- The provision of more information at the frontline in real time is likely to lead to demands for more autonomy and decision-making power at the frontline.
- E-government should enhance our ability to deliver leadership and other training to staff throughout the State sector via distance learning techniques.

APPENDIX 8: WORK AT PRESENT IN PROGRESS TO ADDRESS PROBLEMS IN THE PUBLIC MANAGEMENT SYSTEM

Few of the issues identified in the report are new. Numerous initiatives to address these issues are already underway across the Public Service. They include:

Partnership for Quality

An early initiative of the Government was to enter a Partnership for Quality Agreement with the PSA, designed to more strongly integrate the perspectives of staff in the operation of the State sector

Standards Board

The Government established a Standards Board to provide an outside perspective on the ethos of the State sector. Their first report, which highlighted a need for a stronger centre, provided important background to the establishment of this review.

The Community and Voluntary Sector Working Party

In 2000 the government established a Community and Voluntary Sector Working Party to investigate the scope for an agreement between the Community and Voluntary Sector, and the Government. The group reported that such an agreement would be premature, but suggested the government publish a statement of intent that set out how it intended to relate to the sector. The group also made recommendations in areas relevant to this review, notably in terms of relationships, and funding and accountability. Follow up work is now underway.

Work by Public Service Chief Executives

Public Service chief executives have recently been working together in groups to examine how they could improve the effectiveness of the Public Service. This has involved teams looking at the leadership of ideas and issues, coordination and collaboration and senior management development.

CAP Pilots

The CAP pilots involved better engagement between Central Agencies and departments on strategic thinking and planning, and better reporting designed to produce better information on outcomes and capability.

Pathfinder

The Pathfinder project is a network of agencies working to develop capability to measure and manage for outcomes in the State sector.

SPEaR

The recently established Social Policy Evaluation and Research Committee (SPEaR) is a significant step towards providing a broader and more coordinated focus to evaluation in social policy related areas.

State Indicators

The Ministry of Social Development has been leading a project that involves publishing indicators of the state of society – information on the level of a particular outcome in New Zealand (such as key indicators of the health of the population).

Developing the capability of the SSC

The SSC is currently undergoing a transformation in terms of capability, structure and culture. This involves organising much of its activity into teams led by Deputy commissioners and will focus upon strategic management and whole of government, long term investment in capability and clarity of thinking around the achievement of results.

Central Agency Work Programme

The SSC and Treasury had a number of projects on their work programmes at the time that the Review of the Centre was established that are relevant to its terms of reference. This work programme includes changing the vote structure, developing the infrastructure for e-government, and crown entity reform.

APPENDIX NINE: GLOSSARY

Many of the terms used in discussions of public management have both narrow, technical definitions (often prescribed in legislation) and broader, more flexible definitions that may vary according to the context in which they are used. Here are a number of terms used in the report of the review of the centre and the meaning assigned to them in that context.

Term	Definition in context of review of the centre
Accountability System	The systems of planning, monitoring and reporting by which the work of Public Service departments and Crown entities is specified in advance, and organisations and chief executives are held responsible for its actual delivery.
Agency	Synonym for “organisation.” A blanket term that may include departments, Crown entities, and any organisation within the State sector.
Capability	What an organisation needs (in terms of people, resources, systems, structures, culture and relationships) in order to deliver efficiently the outputs required to achieve the Government’s goals as set out in its strategy.
Central Agencies	The State Services Commission, the Treasury, and the Department of the Prime Minister and Cabinet.
Central Government	The legislative and executive arms of Government, i.e. Parliament, Cabinet, and the State sector. Those elected in triennial general elections and the institutions directly accountable to them, whose authority covers the entire country. As distinct from “local government.”
Centre, The	An imprecise term denoting the people, institutions and arrangements that determine the direction of the State sector, exercise control over it or monitor it. There is no single definition of “the centre” and its meaning changes depending on the context in which it is used: in discussing a single organisation, the centre might mean head office, or the senior management group; in discussing the State sector, the centre might mean the Cabinet and the central agencies. Often used as a synonym for “central government.”
Cross-cutting	Involving or affecting the work of more than one agency or sector.
Crown entity	Crown entities are separate legal organisations in which the State has a controlling ownership interest. They form part of the Crown reporting entity, but are not part of the Crown itself. Most Crown entities exist under their own governing legislation as well as the Public Finance Act. Examples of Crown entities include the Broadcasting Standards Authority, New Zealand Lotteries Commission.
Delegation	The act of a senior official conferring, usually temporarily and by means of a signed document, some of his/her powers to a subordinate, and specifying the conditions on which those powers may be exercised by the subordinate. “Delegation” is also sometimes used to denote the powers delegated, and the document in which they are described.
Department	The 39 departments that comprise the Public Service are listed in the First Schedule to the State sector Act. All except the Public Trust Office are also departments under the Public Finance Act, as are the Government Communications Security Bureau, NZ Defence Force, Office of the Clerk, Parliamentary Counsel Office, Parliamentary Service, Police, and Security Intelligence Service. The latter seven departments are also referred to as 'Non-State sector Act departments'.
Devolution	A transfer of authority from central government to local government or to a community organisation. Often refers to a community organisation taking over responsibility for making decisions on delivery of a service previously the responsibility of a central government agency.

Input	The resources (e.g. money, people, information technology) used by departments to produce outputs (e.g. goods and services), which will achieve the Government's stated outcomes.
Local Government	Local or regional authorities elected or appointed within a specific geographical area, whose authority relates only to that geographical area, and the institutions accountable to them. As distinct from "central government."
Outcome	In the Public Finance Act, outcomes are described as the impacts on, or the consequences for, the community of the outputs or activities of the Government.
Output	Outputs are defined in the Public Finance Act as "the goods and services that are produced by a department, Crown entity, Office of Parliament or other person or body."
Output Plan	A proposed replacement for departmental Purchase Agreements, Output Plans would detail the outputs (both Crown funded and third party funded) to be produced by the department over the next purchase period, and the associated volumes, standards and prices, consistent with pursuit of the desired outcomes set out in the Statement of Intent.
Public Management System	A broad term encompassing the constitutional, legal, institutional and conventional arrangements by which the country is governed, and especially the means by which the policies of the Government are formulated and then implemented by State sector organisations, and the means by which those organisations are governed, managed and monitored.
Public Sector	The public sector comprises: <ul style="list-style-type: none"> • the State sector ('central Government'); and • all local authorities ('local government'), including local authority trading enterprises (LATEs). "Public sector" is wider than "State sector", which is wider than "Public Service."
Public Service	The Public Service comprises the 39 departments listed in the First Schedule to the State sector Act. Sometimes described as the first, or inner, tier of the "three tier State", the other two tiers being Crown entities and State owned enterprises. Narrower than both "State sector" and "public sector."
Purchase Agreement	A purchase agreement is a documented arrangement between a Vote Minister and a department or other organisation for the supply of specific Crown-funded outputs.
Results	Sometimes used as a synonym for "Outcomes"; sometimes to denote the degree to which an organisation successfully delivers its outputs; and sometimes with both meanings at once.
State sector	The State sector comprises all organisations that are included in the 'Crown reporting entity' and are referred to in s 27(3) of the Public Finance Act 1989, namely:- <ul style="list-style-type: none"> • Public Service departments; · • other organisations defined as departments for the purposes of the Public Finance Act 1989; · • Offices of Parliament (e.g. the Parliamentary Commissioner for the Environment); · • State-owned enterprises; · • Crown entities; and · • The Reserve Bank of New Zealand.

State Services	<p>State services are defined in the State sector Act as meaning: all instruments of the Crown, whether departments, corporations, agencies or other instruments; and including the Education service and the Health service; but not including:</p> <ul style="list-style-type: none"> • the Governor-General; • any member of the Executive Council • any Minister of the Crown • any member of Parliament • any corporation listed in the First Schedule to the State-Owned Enterprises Act 1986 (i.e. any SOE); or • any university, polytechnic or college of education.
Statement of Intent	<p>A document developed after discussion between a department and its Minister(s), that identifies and explains for Parliament's benefit the main features of a department's strategy, capability and performance intentions in the medium term. This is in the process of being rolled out to departments over the next two years. Different in form and content from Crown entity and SOE statements of intent.</p>
State Owned Enterprise (SOE)	<p>SOEs are companies listed in the First Schedule of the State owned Enterprises Act 1986. SOEs operate as a commercial business but are owned by the State. They have boards of directors, appointed by shareholding Ministers to take full responsibility for running the business. They are sometimes referred to as the third or outer tier in the "three tier State."</p>
Whole-of-government	<p>A term of considerable elasticity, intended to describe a subject applying to a large section, if not the entirety, of the State sector. In practice, it can mean anything from "the entire State sector" to "a lot of Public Service departments."</p>