From output budgeting to social investment:

reflections on thirty five years of evolution in public sector management in New Zealand

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Abstract /

The paper traces the unfolding of New Zealand's public sector reforms from the mid-1980s to today, through four governments, eight Prime Ministers and eight ministers of finance. The events described begin with radical reforms in the 1980s in response to financial and political crises against a background of long term unsatisfactory economic performance. The outcomes and various assessments of those reforms are discussed before describing a stream of reviews and adjustments to these since. Partly in response to weaknesses in the original design and particularly in response to changing agendas, the adjustments over the past twenty year have centered around four themes: setting strategic goals, with more attention to outcomes; coordination of cross-agency policies and services; building capability, especially for top management and policy advice; and how to drive the system to higher levels of performance. The story ends with the current Government's priority for "social investment", which is using integrated data bases, advanced analytics and innovative models of service design and delivery to provide customised services to vulnerable families.

1 / Introduction

The paper begins with an explanation of the political and economic context within which New Zealand's radical reforms to systems of public management began in the 1980s, firstly under a centre-left Labour Government from 1984-1990 and then under a centre-right National Government from 1990-1993 particularly but also further through to the later 1990s. These reforms are described, together with the rationale for them at the time and their consequences.

By the mid-90s these reforms had become the new status quo and spawned a substantial literature on their strengths and weaknesses and what should be done to address the latter. Various evaluations and critiques were undertaken both from within the government and in academic literature both local and international. This literature variously focused on technical issues within the field of public management but also included wider and more ideological reflections on those reforms.

Within government circles an agenda for further change emerged, both from the critique of earlier reforms and from changing priorities and circumstances. The main items on this agenda were concerned with setting strategic goals, with more attention to outcomes; coordination of cross-agency policies and services; building capability, especially for top management and policy advice and how to drive the system to higher levels of performance. Twenty years later, these four issues continue to motivate new initiatives for improvement to public management even though there have been significant achievements in each case.

When Labour returned to power from late 1999 until 2008 there was an attempt to strengthen the coordination at the centre of the Public Service and an initiative to set standards of behaviour and ethics. That government also finished the governance and accountability arrangements for semiautonomous government agencies known as Crown Entities in New Zealand. The return of the National party to power in 2008 brought a major initiative to create a stronger corporate centre for the government through the substantial integration of the three central agencies - the Treasury, Department of Prime Minister and Cabinet and the State Services Commission (SSC). Also during this period the SSC drove the design and implementation of a much more robust system for assessing the performance of government entities known as the Performance Improvement Framework (PIF).

A particular initiative which is being pursued energetically today, after building up over recent years, is known as "Social Investment". This began by integrating government administrative data bases across line ministries, in order to get visibility of the range of related social services being provided at the level of individuals, families and communities. It moved on to the use of data science to support better decision making. This paper will trace the origins of the social investment initiative from these beginnings to a much broader concept of the delivery of social services, based on new models of collaboration, not only between government agencies, but also with non-government agencies and blends of both government and non-government organisations. At the frontier of these innovations are arrangements which are being called "collective impact vehicles" that challenge traditional hierarchal forms of public management. These arrangements involve innovations in governance, accountability and funding and also in issues about data ownership, management and privacy.

Whereas most of the reforms described in the paper were top-down reforms, the social investment framework developed more organically, as several initiatives within various ministries reflected in different ways, the value of integrating administrative data and applying new analytical techniques. The long-standing rhetoric about being client-centred is becoming more of a reality, through the application of these techniques and the innovations in service delivery they have the potential to support.

The paper follows the chronology of reform 1984-2017, although it is necessarily concise given the limits on the size of this paper. Key references are provided for readers interested in a more thorough exposition. This chronology concludes with a section on themes and lessons from over thirty years of change in New Zealand. These themes are: horizontal collaboration across state agencies, setting strategic and operational goals, capability and culture, strategies and pathways of change and trust.

I am grateful to Slaven Razmilic and Isabel Aninat for comments on the draft and to the Centro de Estudios Publicos for sponsoring my participation in its program on public sector reform.

2 /
Reform under Labour in the 1980s

In 1984 the Labour Party returned to power following a snap election called by Prime Minister Muldoon who, as leader of the National Party, had been Prime Minister for nine years (three terms of three years) and was seeking a fourth term. The event was a watershed in New Zealand political history that led to fundamental and radical changes in the management of the State. The basis for this almost unprecedented change was to be found in a generational shift from ministers who shared common experiences in the great depression as children and in the Second World War as soldiers. The new ministers belonged to their children's generation whose political views had been forged in the 1960s and protesting the Vietnam War. The post-war social and political consensus in New Zealand was breaking down and new political forces were in evidence such as the women's movement, a resurgence of desire for more self-determination by the Maori, identity-based politics and a more outward looking and worldly view by new generation of ministers, who were better educated and had travelled widely.

The economy was in a financial crisis at the time of the 1984 election and had been deteriorating for many years. Once the third richest country in the world New Zealand had fallen towards the bottom of the OECD rankings and its productivity growth rate had averaged around half of the OECD average for close to 30 years. There were persistent balance of payments deficits, rising unemployment, an underlying rate of inflation that at times reached 10% or more, net public debt of over

50% of GDP (much of which was denominated in foreign currency) and fiscal deficit of 10% of GDP. The big picture was that New Zealand had struggled to shake off the two oil shocks in the 1970s, because the economic policy instruments were creating a rigid economy that was slow to adjust to external shocks. Unusually for a government on the centre-right of New Zealand politics, the National party had responded to the situation with rigid blanket controls across the economy to fight inflation, combined with loose monetary policy and fiscal stimulus to maintain economic activity. On top of this, the government subsidised a collection of very large energy based investments known as the "think big" policies in the early 1980s. The success of these projects depended on a continuing escalation of the world oil price which did not eventuate - leaving the taxpayers with write-offs equivalent to 6% of the GDP forced on the next government. The economic liberals within the National Party were opposed to these policies, which split the government, together with disagreement over the country's policy on nuclear weapons. Labour won the 1984 election in a landslide.

These political and economic circumstances energised the agenda of state sector reform. The material in this section is fully described and assessed in the book by the author (Scott, 2001). New agendas for economic and social policy were spurred by a burning demand for action to attend to the situation and a willingness to abandon old ways of managing the state and entertain new concepts of management. The new generation of ministers had little commitment to the system of public management which went back decades - some key features of which were as follows:

- A Public Service that could only be entered at junior levels and within which the top appointments were essentially made by the cadre of top managers known as "Permanent Heads" who, once appointed, stayed in office until they reached retirement age as a rule.
- Major business activities across public utilities, postal services, banking, finance, insurance, agriculture, energy, transport – land, sea and air - and more were run out of government departments. They paid no taxes or dividends and mostly required subsidies. Key business decisions were taken by ministers. These

businesses amounted to 12% of the GDP and were responsible for almost 20% of gross national investment.

- The public accounting system was based on cash with controls on inputs. There was a program budgeting system that did not deliver on the conceptual benefits of that internationally well-known system of budgeting because the programs mostly reflected only the internal structures of ministries.
- The incentives in the budget and accountability system were to grow the resource base while performance reporting was commonly weak and ineffectual.

The first priority for the new government was to attend to the financial crisis by a 20% devaluation of the currency in the days following the election in July 1984, followed in 1985 by the implementation of a clean float of the exchange rate and the removal of foreign exchange controls. Monetary policy was tightened and the Minister of Finance asked the Reserve Bank and the Treasury to design a new framework for monetary policy, which eventually became the path-breaking legislation for central-bank independence under the Reserve Bank Act 1989, focusing on an inflation target.

The conceptual thinking behind the Reserve Bank Act had much in common with the thinking behind state-owned enterprise policy and the governance and accountability for ministries and semiautonomous agencies. In each case detailed reforms were a manifestation of an intention to:

- Clarify the roles of state agencies to promote focus on their essential purposes and adaptation of their business models and processes to best suit the fulfilment of those roles.
- Restructure organisations to promote this kind of focus and avoid fundamental conflicts of interest, for example policy advice on the expansion of electricity generation being dominated by organisations that construct generating plants.
- Grant extensive managerial freedoms so as to permit managers to design their business models and processes to be fit for purpose and efficient.
- Establish a "performance agreement" between the top managers and whoever they are accountable to within appropriate gover-

nance arrangements - boards of directors for state enterprises and boards of semiautonomous bodies who are in turn accountable to ministers or between ministers and Chief Executives directly for the line ministries.

- Implement modern accounting systems including attention to assets and liabilities and identifiable contingent risks. These issues were named “the ownership interests” in these organisations and intended to ensure the sustainability of these organisations to meet future service needs.
- Place the business activities in question into a legal form of organisation (company, agency or ministry) that is best suited to promote the success of the organisation and tuned to fit its particular obligations and circumstances.

These general principles were applied across a broad sweep of state organisations and were manifested in the State Enterprise Act 1986, the State Sector Act 1988 and the Public Finance Act 1989. These principles were applied to various degrees within specific sector policies as well as across generic classes of organisation. There was a lot of variation according to the nature of services being produced and the kind of commitments that the Government and Parliament wanted to make about services. Some examples are: the governance of schools was passed to boards of trustees made up from the parents of pupils, although a lot of residual responsibilities for policy and funding remained at the centre: public hospitals were established as “Crown Health Enterprises” to be run somewhat like state enterprises but within an extensive framework of policies, regulations and funding channels, plus the expectation that they would not be privatised. The government’s research establishments were moved from government departments into “Crown Research Institutes” also with the understanding that they would not be privatised.

2.1. The State Enterprises Act and privatisation

In 1986 the Parliament passed the State-Owned Enterprises Act(Govt NZ, 1986), which provided the legislative basis for the transfer of commercial activities, which were mostly run from government departments, into companies that were incorporated under New Zealand’s generic legislation for company law. The principal objective of these companies is to be a successful business by comparison with private sector businesses in the same industry. They were put on a level playing field by requiring them to pay taxes and dividends and to structure their balance sheets to align with benchmarks for the industries in question. In the early years this policy was applied to the following State Owned Enterprises (SOEs) businesses:

- Coal Corporation of New Zealand Limited;
- Electricity Corporation of New Zealand Limited;
- New Zealand Forestry Corporation Limited;
- New Zealand Post Limited;
- New Zealand Railways Corporation/Rail Ltd;
- Shipping Corporation of New Zealand Limited;
- State Insurance Limited;
- Telecom Corporation of New Zealand Limited;

Boards of directors were appointed by ministers who insisted on experienced private sector business people driving the governance of these new companies. The shares were held jointly by the Minister of Finance and one other minister in each case and the accountability of the companies to the shareholders is through a “Statement of Corporate Intent”. This statement is prepared by the board and provided to the shareholding ministers and covers the scope and purpose of the business, key corporate policies concerning accounting, performance reporting, risk management, dividend policies etc. Ministers may direct the boards on some matters but must do so transparently. Any non-commercial activities required of the companies must be funded separately in order to ensure that commercial objectives predominate the company’s activities. The companies are monitored by the Treasury, which has a specialised unit for the purpose.

Beside the group of businesses listed above that were corporatized there were other activities at both central and local government level that were already in some form of public corporation and were re-structured in line with the general corporatisation policies. These were involved in finance, agriculture, energy, shipping, ports, airports, engineering, electricity retailing and more.

Privatisation began under Labour in the late 1980s and covered New Zealand Steel, Petrocorp, Health Computing Services, the Development Finance Corporation, Post Bank (a savings bank owned by the Post Office), the Shipping Corporation, Air New Zealand, Landcorp mortgages, the Rural Bank, Government Print, the National Film Unit, Communicate New Zealand, the State Insurance Company, Telecom NZ Ltd, Liquid Fuel investments, Maui Gas, Synfuels, the Export Guarantee Ltd, the Tourist Hotel Corporation, Forestry cutting rights.

A full discussion of the early years of state enterprise policy and privatisation is beyond the scope of this paper but can be found elsewhere (Duncan & Bollard, 1992). Some of the early results are worth noting. Throughout the SOEs customer service improved as for example, the waiting time for a phone dropped from six weeks to 48 hours. Electricity prices fell 13% and costs fell 25%. Telecom productivity rose 85% and prices dropped 20%. Postal Service productivity rose 120% and a $38 million loss turned to a $43 million profit. Rail freight rates fell 50% while $77 million loss turned to a $41 million profit.

Although the Labour government had been returned with an increased majority in 1987, the strains between its left-wing and the senior ministers who had driven the reforms were breaking out and resulted in a split between the Prime Minister and the Minister of Finance. Also the 1987 share market crash put an end to the exuberance in markets that the reforms had partly engendered against the background of the global stock market. Although the stock market boom and bust was global New Zealand was hit harder than most by it. The Minister of Finance and then the Prime Minister resigned as the Government tore itself apart over what was the appropriate response to the crash. Some reforms continued however, such as the decentralisation of the governance of schools and the privatisation of Telecom, but more significantly, ministers led later by a new Prime Minister and new Minister of Finance completed the legislative and institutional reforms they had begun. In particular the Reserve Bank Act, the State Sector Act and the Public Finance Act. The latter two acts applied the generic concepts above to the core activities of the state ministries and departments.

2.2. The State Sector Act 1988

New Zealand has had an apolitical public service since reforms following a commission of inquiry in 1912. The arrangements were updated and embedded following another commission of inquiry in 1962. Although the ministers in the Labour government in 1988 were staunch in wanting to retain an independent civil service, they were concerned that there was a staleness evidenced by the "sameness" of the senior public servants and caused by its practices and traditions. Notably this view was held by the Minister of State Services and who was a former president of the main state sector union. It was a rare and powerful coalition of ministers in support of the reforms.

Senior appointments were all under the control of the cadre of senior civil servants, there were very few women in senior positions or members of ethnic minorities or indigenous people. There were strong incentives to preserve the status quo and inadequate information on patterns of expenditure and organisational performance. The pension policy had the effect of locking people in and blocking the promotion of young talent.

The essence of the State Sector Act 1988 was to seek a more efficient and effective core state sector by delegating authority to the heads of central government agencies to make decisions about their purchases of "inputs" within a performance framework, which more clearly established their roles, the services they would produce and the cost and quality of those services, or "outputs". These delegations included the control of personnel, which had previously been regulated through central controls administered by the State Services Commission. The Public Service was opened up to the employment of any qualified people and their heads of ministries were given the title of Chief Executive and placed on five year performance-based contracts. The practice however is that a well performing Chief Executive can be reappointed for three more years and may be appointed to a chief executive position in another ministry.

Chief executives were required to meet the performance specifications captured within "performance agreements" with their ministers, while the act required the chief executives to be responsible for the efficient and effective conduct of the responsibilities for the provision of advice (SSC, 1998).

When the state sector act was first passed in 1988 a Senior Executive Service (SES) was established for the purpose of training top managers and preparing them for promotion to senior positions. It included all the first and second tier officials across the ministries who participated in off-site coursework, which included both general material in modern management methods and specific capabilities required for senior positions in the public service. The SES was modeled on similar arrangements and other Commonwealth countries at the time. It did not arouse much enthusiasm and participation by the members located in the capital city, but was seen as more valuable by senior people in other parts of the country, as it enabled them to network with those in the centrally located ministries. It was closed down after a few years by the SSC because it did not seem to be achieving its intended purpose sufficiently and the participation rate by senior public servants was unsatisfactory.

2.3. The Public Finance Act 1989

Ministers of finance were concerned that they had poor information on how resources were being used at a time when they were struggling to turn around an unsustainable fiscal deficit. The incentives were perverse, for example senior management salaries depended in part on the number of people employed.

The Public Finance Act fundamentally changed the framework for budgeting and managing the State's finances. It replaced the rather inadequate program budgeting classification with outputs, although in practice outputs are sometimes not very different from descriptions of sub- programmes in some program budgeting applications. The focus on outputs was a reflection of the need to specify what the chief executives of ministries were agreeing to as their deliverables. The Treasury and its ministers wanted to get transparency about what the government was actually "buying", whereas the previous system was mostly exposing only what loosely defined bundles of related activities were costing.

The act also required that the outputs specified be related to the outcomes that they were seeking to achieve.

All state finances were to be accounted for using the international Generally Accepted Accounting Principles, which meant that full accrual accounting was introduced across a government for the first time anywhere in the world. While this attracted a lot of attention and some criticism globally, its implementation in fact went reasonably quickly and smoothly in New Zealand. The story of the subsequent spread of accrual accounting in public finance globally is extensively documented elsewhere (Chan & Zhang, 2013). In New Zealand the approach was seen as important to ensure attention to the management of assets liabilities and contingent risks, both for the government as a whole and for constituent organisations with substantial balance sheets. Accrual accounting is also important in relation to the sustainability of the ministries over time and for accurate costing of the services. It captured what came to be known as the "ownership interest" that the government has in the continuity of state organisations, although further measures became necessary to embed this feature of the system in later years as discussed below.

An important linkage between the accountability regime in the State Sector Act and the budget process under the Public Finance Act was through the "purchase agreement" which matched the outputs in the performance agreement under the State Sector Act with the budget appropriations. It took only a few years for the budget process to be based on accrual accounting, so that the same concepts of financial performance ran through both the budgets and the annual accounts.

3 / Reform under National in the early 1990s

The National party was returned to power with a large majority in 1990. Contributors to this were the breakdown within the Labour Party and its cabinet, the aftermath of the 1987 stock market crash, a small decline in New Zealand's terms of trade and the adjustment pressure from disinflation and fiscal consolidation. All this lead to a recession and a collapse in business confidence, which was made more serious because of the heights of exuberance that had been reached in some parts of the economy in preceding years. The incoming cabinet was divided between those who admired the recent reforms and wanted to consolidate them and those who wanted to roll them back or at least stop the reform momentum.

Basil Logan, the retiring chief executive of IBM in New Zealand was commissioned in 1991 to conduct a review of the previous government's reforms and concluded that they had brought about positive results (Logan, 1991). In particular the report noted how well the new systems had worked to support the implementation of a very tough budget in 1991. The report recommended improvements to the recruitment and development of top managers, the quality of the performance agreements and to the incentives on managers to perform. The report also pointed to weaknesses in strategic management and coordination between government agencies in the pursuit of government wide objectives its main points are summarised in (Scott, 2001) p46.

But following the Logan critique and other contributors on the subject, from 1993 the government began experimenting with approaches to the strategic management of government wide goals. The first of these involved the cabinet setting Strategic Result Areas, which defined areas of concern within which the government wanted to see progress, but without setting specific targets. From these were derived Key Result Areas, which captured the contributions which the chief executives were expected to make as their contribution to the strategic result areas and captured within their performance agreements.

From 1991-93 the Minister of Finance, Ruth Richardson, the Minister of State Services Jenny Shipley and other senior ministers drove the public sector agenda and continued with fiscal consolidation and state sector reform. Because of the recession and spending increases at the end of the previous administration, the fiscal outlook was for unsustainable deficits again, to which the government responded with a tough budget in 1991. Not surprisingly, given what was happening in Iraq at the time, this became "the mother of all budgets". This included cuts in social welfare benefit rates that reflected the Governments ideological views as well as a fiscal imperative. The government also had an ambitious agenda of reform to social policy in areas that had been politically off-limits under the Labour government. This included a reform of the health system based on corporatizing the public hospitals and creating regional health funding authorities. For the record, many of the social policy reforms were not finally implemented as planned and some were reversed when the Labour government return to power in 1999.

The reforms to the financial management system were carried through to completion and employed to support fiscal consolidation. There was no compensation for inflation or wage increases in the ministries for several years. Chief executives were expected to reallocate within their budgets to meet any unavoidable cost increases. The long-standing practice of making additional appropriations through the fiscal year to meet cost increases was stopped.

In 1991 New Zealand published the world's first consolidated statement of public sector accounts on the accrual basis, which played a vital part in persuading rating agencies to rate New Zealand's sovereign debt at a higher level than they had previously indicated would be the case. These early accrual accounts were also invaluable for identifying and putting numbers on contingent liabilities, including the unfunded pension liabilities of public servants.

There were a few more privatisations under this government. The Railway Corporation, further forestry cutting rights, Housing Corporation mortgages, the Government Supply Brokerage Corporation and the Bank of New Zealand, which was bankrupt, were sold.

The most lasting initiative taken in the first three years of the National Government was to design the Fiscal Responsibility Act 1994, which it passed into law in its second term. This law imposed, on future governments, medium and long-term fiscal framework that required an orderly production of fiscal statements and reports, imposed transparency requirements around fiscal policy and future intentions that was picked up by the IMF and promulgated globally. Because the government's advisers were sceptical about legislative constraints on fiscal policy expressed in quantitative terms, the act required the government to honour some basic principles of responsible fiscal policy, to explain any departures from the principles and also explain how it intends to get back into conformity with those principles (Scott, 1995).

The Management Development Centre (MDC) was established in 1995 by the chief executives of the ministries, which established management training activities for younger managers at lower levels particularly. It became commonplace for senior civil servants to undertake all manner of professional development activities in environments where they mixed with people from other sectors and people within their own wider profession as economists, scientists etc.

4 / Reflections and adjustments through the later 1990s

The National party's electoral majority was severely cut in the 1993 election following which the Prime Minister –Jim Bolger– replaced the energetic reformer Ruth Richardson as Minister of Finance with the pragmatic Bill Birch. Two remarkable periods of reform had come to an end and were replaced by a period of reflection, review and a general reluctance to implement further large-scale reform. But Bill Birch did not reverse any of the reforms but attended to the emerging problems with some of them. He took Ruth Richardson's Fiscal Responsibility Act through to completion and on Treasury advice, repatriated foreign public debt into New Zealand dollars. An initiative to formalise the strategic orientation of the Government was undertaken based in Strategic Result Areas for the Government and Key Result Areas for contributing ministries, as discussed below. The 1996 election was conducted under the new system of Mixed Member Proportional representation, which replaced the previous First Past the Post system. From then on all governments would be coalitions of multiple parties and any government would have to negotiate controversial policies with its coalition partners. The days of the hard-driving super-hero-minister were over. Jenny Shipley become the leading minister concerned with state sector management and replaced Jim Bolger as Prime Minister in December 1997.

One of the last major reforms under that Government were to consolidate the four Regional Health Authorities into a single national Health Funding Authority and to create a competitive wholesale electricity market. The monopoly Electricity Corporation was broken up into competing generators, one of which was privatised. And while the general thrust of privatisation was over, some state assets were handed over to Maori tribes by way of compensation in the resolution of historical grievances due to breaches of the Treaty of Waitangi.

An extensive academic literature grew in the wake of the reforms that characterised them as “New Public Management” and a state sector based on “contracts”. Reviewers of a leftist persuasion tended to dislike the reforms, whereas those further to the right generally liked them. Because of their speed and consistency they became something of an archetype in both the New Zealand context and internationally. As a result, commentaries about them often departed far from the reality of the practicalities of running the government in Wellington. There was also quite a lot written about the suitability or otherwise of these reforms to other countries and developing countries in particular. A steady stream visitors to Wellington from countries around the world sought briefings on the reforms, although they were largely unsuitable for most of the governments in question.

A notable review of the reforms was undertaken in 1996, at the invitation of the State Services Commission and the Treasury, by Alan Schick, an American expert in budgeting and contributor to international literature on the topic (Schick, 1996). Schick’s report generally supported the reforms: “The State Sector is more efficient, productive and responsive and there generally have been significant improvements in the quality of services provided to New Zealanders. One does not have to search far for efficiency gains in the reformed State sector. Most departments have reduced staffing levels and operating budgets without lowering the volume or quality of public services … these and other cost savings have been made possible by the reforms. They could not have been achieved if managers were still bound by ex ante controls enforced by central agencies. There is near universal agreement that the New Zealand Government is much better managed now than before.” However Schick also observed that against the general improvement in management there were some offices that were “adrift and bereft of purpose”.

But, while generally positive about the reforms at that time, Schick raised a collection of issues that concerned him as a result of what he called “hard edged contractualism”. While he observed that this had been the basis of positive aspects of the new system of management he also saw its potential risks. In particular the weight placed on performance specification and the bilateral relationship between ministers and their chief executives could lead to certain problems including:

- too tight restrictions on the freedoms of managers to shift funds between specified outputs;
- difficulties in implementing practical ways to emphasise outcomes in performance requirements;
- high transaction costs associated with the operation of systems despite attempts to minimise and refine these requirements;
- possible reduction in public-regarding values and behaviour and the potential development of a 'checklist' mentality where focus is placed on specified items at the expense of non-specified ones; and
- weaknesses in senior manager development.

He was also concerned about whether the system might undermine the commitment by managers to the collective interest of the government but concluded at that time: "I believe that regard for collective values remains unusually relevant and valued in New Zealand."

Schick saw the relationship between a minister and a senior public servant as fuzzier in reality than the formal framing of this relationship allowed for. He pointed to the importance of what he saw as the softer side of an accountability relationship and was concerned that the hard edges of the accountability framework might undermine valuable but informal aspects of the accountability relationship. By contrast, the author and other a veterans of the system saw the system as having been too amenable to soft non-transparent political influence and welcomed the attention to greater formality in the relationship with ministers as an empowerment. An important symbol of this was the requirement that was captured in the revised Public Finance Act for the Treasury Secretary to sign the public accounts as "true and fair". This one provision put a stop to the tradition of window dressing the public accounts.

Overall Schick saw merit in the system but also risks of misalignment for these reasons. His suggested remedies were:

- loosening the specification of outputs
- allowing for some selective input controls
- a greater emphasis on "public regarding behaviour"
- a "heavy dose of managerial values"

Local academic and other critics outside the government built their critiques around this contractual character of the reforms, the introduction of private sector management values and methods and the commercialisation of public sector activities.

Comments by senior ministers in the 1990s drew positive contrasts with the way the system worked by comparison with how it had been when they had previously held ministerial responsibilities. A full discussion of the main critiques of the reform system and the author's response to these can be found in (Scott, 2001) ch3. The budget process was more stable and done on a multi-year basis with long term projections, the SOE policy had caused a big shift in broad expenditure priorities, while the new budget system enabled better information for setting priorities at the micro-level. There was plenty of anecdotal evidence and some research-based evidence pointing to improved efficiency. Together with the Fiscal Responsibility Act the new system of financial management is credited with facilitating the end to fiscal deficits and the introduction of fiscal surpluses that ran from 1994 up to the Global Financial Crisis. Public debt to GDP fell from over 50% and today is targeted on 20%. The public debt in foreign currencies was retired.

By the mid-90s ministers and public sector leaders had turned their attention to new agendas, which were only partly about attending to weaknesses in the system and pointed to new challenges that the country faced and that suggested new approaches would be needed, particularly in relation to complex issues of social policy. In a stirring speech (Shipley, 1997) the Minister of State Services and future Prime Minister Jenny Shipley called for:

- A major improvement in the quality and relevance of policy advice from the Public Service so as to find new ways to address complex social issues and achieve better outcomes.
- Attention to the human resources capabilities in ministries
- An end to territorial behaviours by ministries
- Commitment by ministries to the Government's overarching policy priorities as expressed in the Strategic Result Areas
- Development of a new breed of manager

In elaborating on the final point she said "It appears we need a new breed of manager. They need to know much more, make many more weighty decisions and possess a wide range of new abilities, employer skills, contract management skills, how to cope with new technologies and with client responsiveness, financial management skills, how to cope with an uncertain future, and policy leadership skills."

This speech from the Minister of State Services headlined a widely agreed view across the government that the reforms had brought substantial benefits in terms of the objectives they had been aimed at. But that there were concerns about the development of top management, investment in capability especially for advanced policy analysis, collaboration across ministries to address emerging overarching issues particularly in social policy, finding practical ways of driving the system more towards outcomes, drawing on emerging technologies and in maintaining high ethical standards and public service values.

New Zealand has always had and maintains high ethical standards and the fear that the reforms would undermine these never materialised. The other five concerns from 1997 are as prominent in today's discussion of public management as they were then, although the intervening years have seen significant innovations around each and some progress can be reported. The paper returns to these issues below in elaborating on the themes of these reforms.

5 / The return of a Labour Government 1999-2008

The return of a Labour government in late 1999 brought to power a Prime Minister, Helen Clark, who had been a senior minister in the previous labour government in the 1980s, but had wrested control of the caucus following that government's defeat in 1990 by moving to the left. Hence she came to power with a critical narrative about the way the public sector had evolved over the 90s. Also her style of leadership was centralised and controlling, due as much to the demands of disciplining a fractious party as personal preference. Thus, she rolled back some of the decentralisation that had taken place and sought to exert tighter ministerial control over ministries and discipline over her own ministers. She abandoned the system for setting Strategic Result Areas and excluded senior public servants from attending most Cabinet subcommittee meetings on the grounds that ministers make policy and public servants implement it. She also promulgated the doctrine of "no surprises", which dampened any inclination to innovate and take risk and generally ran a very tight ship, overseen by her personal office staff.

The general shift in attitude by the new government towards the public management system can be seen in a speech by one of the Prime Minister's closest ministerial colleagues and Attorney General, Margaret Wilson (Wilson, 2000) who expressed her dislike of what she described as contracting for outputs. This echoed the criticism that had emerged in academic articles and in Schick's work that characterised the reforms as based on contracts and then pointed to the problems within such a conception. In Wilson's case she postulated that contracts are only necessary when parties distrust each other, which would have been news to people with commercial experience who generally avoid entering contracts with people they don't trust. However this line of criticism was commonly heard around that time and reflected concern, for which there was little or no evidence, that the new arrangements were somehow eroding the values of public sector managers to serve the public. The Minister of State services, Trevor Mallard, instituted a detailed set of expectations of behaviours in the public sector known as the "standards" initiative. In a significant speech he also said "we need to change the mode of thinking that relies on very narrow contracts to drive and motivate people to co-operate and deliver results". The rhetoric was fairly clear but in reality not much changed.

The Government undertook a review of the state sector known as the Review of the Centre (Advisory Group Report on the Review of the Centre, 2001). The review concluded 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 report brought together the contemporary thinking on these well-rehearsed issues.

Regarding better integrated service delivery the report recommended:

- "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."

In other words the recommendations involve better vertical integration of policy and operational functions as well as horizontal integration across ministries.

To promote collaboration across ministries and semi-autonomous agencies (Crown Entities) the review recommended the establishment of 'networks' consisting of groups of ministries and Crown Entities under the leadership of one of the constituent CEOs who is "first among equals". But the network leader would not be accountable for the performance of the constituent organisations.

The review acknowledged the point already made here, that the degree of collaboration by ministries is considerably influenced by the collaboration, or not, by ministers in the following carefully drafted piece:

> 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 lead by collaborative behaviour between Ministers, the potential for networks to generate gains will be greatly enhanced.

Soft recommendations were made to ministers to consider some structural consolidation, where it was thought the functional separations that were a pillar of the earlier reforms had resulted in fragmentation, which was contributing to coordination problems.

More forthright and useful was advice to attend to the long overdue reform of the governance arrangements for Crown Entities. This advice led on to legislation to provide for the governance of different types of entity according to their degree of independence from ministers. A generic framework of governance was installed, which is commonly supplemented by specific legislation establishing particular entities. These arrangements are generally working well today.

These coordination systems under the Clark Government tended to be focused on short term issues that attracted political attention and were largely transactional rather than strategic. This reflected the general style of that government, which had difficult experiences with setting complex strategic goals about closing the gaps in social outcomes between Maori and the total population and also in seeking to lift the country's economic performance up the OECD rankings. It did better on more focused goals like tax-benefit changes to support low income working families and stabilising the funding of the national old-age pension.

On the question of training managers, The Management Development Centre –described above– was relaunched in 2003 as the Leadership Development Centre, this time with the involvement of the SSC, and continues to this day (Leadership Development Centre).

6 / The National Government 2008-2017

The return of the National party to power in 2008 under Prime Minister John Key saw a reversal of the rather conservative and centralised management style of its predecessor. Bill English, who was both the Minister of Finance and Deputy Prime Minister made a series of remarkable speeches to senior staff and policy advisers in the ministries demanding that they lift their performance as managers and show imagination and innovation in the development of policy proposals. He threatened that if the policy advisers did not improve, then the government would rely on other sources of advice. This was not an idle threat as he did in fact establish various groups of advisers on particular topics for example tax reform. He also agreed to the creation of the Productivity Commission, in spite of the tight fiscal environment. A major change in the way government strategic goals were set and in the expectations on ministries as to how to respond to these was promulgated in an initiative known as "Better Public Services" (BPS). Also Bill English was the politician who gave attention and political energy to the development of what became known as "social investment".

6.1. Better Public Services

In 2012 at the beginning of the National Government's second term, it released a report by a committee it had appointed known as the Better Public Services Advisory Group (Better Public Services Advisory Group, 2011). It was a major initiative and has brought more change than the Review of the Centre under the previous government had achieved, although its agenda overlapped with the previous review. The new review stemmed from a belief that there had been a lack of innovation and change in the way that the state sector was managed. Major challenges were not being adequately addressed and would have to be in the difficult economic and fiscal environment following the global financial crisis:

> "It would be fair to say that the impetus for continuous improvement in New Zealand's public service and state sector has not been as evident in the past few years as it was in the 1980s, nor as evident as it has been in some other similar countries in more recent times…
>
> In New Zealand, the system has not been as effective in delivering improved social, environmental and economic outcomes as we might have wished. This is despite the fact that our policy settings have routinely been judged as being as good, or better, than most OECD counterparts in many respects"

The Better Public Services report responded by advocating that the actions needed were to:

- "manage the state agencies that provide or fund services less as a collection of individual agencies, in pursuit of their own singular objectives, and more as a system that is focused on the results

that will have the biggest positive impact on New Zealanders' lives
- clarify and strengthen leadership and reduce the clutter of decision points, and
- move away from a culture where value-for-money is a secondary consideration, and towards an environment where leaders and workers are motivated to continuously innovate and improve."

Noting that the state services have struggled to organise themselves around delivering on outcomes, the report recognises that lack of clarity about what the government's desired goals are has been a cause of this. It "proposes a new modus operandi for state agencies – where sectors mobilise around specified results, deliberately tackling complex issues, or matters that might fall between the responsibilities and accountabilities of individual agencies, taking opportunities to harness better results in places where more integrated working practices across agencies make sense."

To give effect to this objective, which echoes several previous reviews, the BPS review provided specific recommendations about organising the state sector to align with specified strategic objectives, getting better value for money, all of this supported by stronger leadership, culture and capability.

The most significant points in these recommendations were:
- Ministers to specify a small number of measurable sector-wide results
- A chief executive mandated to lead the cross agency teams for each result
- These chief executives to provide regular reports on specific indictors of performance within 'result action plans'
- Change the State Sector Act to permit more flexibility about the organisational forms in support of collaborative action
- Change the Public Finance Act to permit more flexibility in deployment of resources to the achievement of the results – essentially extending the time horizon of the budget and consolidating the budget classification a bit.
- The three central agencies Treasury, the Department of Prime Minister and Cabinet and SSC working more closely together

as a ‘corporate centre’ to frame and support the groups working on the results

- Improving policy capability
- Further use of ‘functional leadership’ roles relating to cross-sectional functions such as information technology and policy hubs
- Consolidation of ‘back office’ services to get economies of scale
- Market testing of public services
- Much improved skills in contracting for services
- Strengthening the powers of the Chief Commissioner of the SSC to deploy senior staff to teams working on the results; also to build a culture of collaboration and continuous improvement

As the BPS group acknowledged, there were sectors where a lot of the patterns they were recommending were in evidence, notably the Justice sector where the state agencies had come together to develop broader frames of reference of policy analysis and the integration of data. Examining the implications of sentencing policies was one example of this collaboration.

The Government’s response to the report launched in 2012 was to set 10 Results across five areas: reducing long-term welfare dependency, supporting vulnerable children, boosting skills and employments, reducing crime and improving interaction with government. Lead ministers and chief executives were appointed for each (SSC, 2012) and performance information began to be reported.

Parliament made changes to the State Sector Act (SSC, 2013). The essence of these were to modify the State Sector Act to expand the role of the State Services Commissioner across the state sector, provide the Commissioner with obligations and powers to promote the coordination of the state sector around collaborative processes and to lift the human resource capabilities of the public sector.

Parallel amendments were made to the Public Finance Act to facilitate budgeting for cross-agency objectives. The SSC provides easily accessible reports on the ten results. (SSC, 2017) Functional leadership roles were mandated in information and communications technology, property, and procurement.

In order to support BPS mandates the Treasury developed a cross-agency funding framework consisting of three broad funding models (Treasury, 2015):

- *Cost recovery charges* – where an agency buys a service from another agency that recovers costs through a service fee
- *Pooled funding* – a small group of agencies pool funds from their baselines to share the cost of an initiative to achieve a common goal
- *Centrally determined funding* – where Ministers determine that an activity is to be performed and funded on a cross-agency basis, and determine the funding sources.

Amendments to the Crown Entities Act provided for these semi-autonomous agencies to be drawn more effectively into cross-agency collaborations.

6.2. The Performance Improvement Framework (PIF)

From 2010 a major change was introduced in the way that government agencies were assessed for their performance. Based initially on a system developed in the United Kingdom, the New Zealand approach developed into a very comprehensive method and process for gaging performance. Initially it was largely focused around dimensions of organisational management:

- leadership direction and delivery
- external relationships
- people development
- finance and resource management

Assessment of results was expressed as delivering on government priorities and attending to core business. Under each of these headings were standard questions totaling twenty eight in the first version of the framework. A team of "lead reviewers" was appointed, whose members were typically former chief executives of state agencies, non-government people with either executive experience or senior management consultants. Typically two lead reviewers were appointed to review each agency over a period of two or three weeks, leading to a draft report covering their conclusions, expressed as traffic lights with supporting comments, on each of the performance dimensions. The agency then provides a response to the draft, which then goes through a quality control process based on peer review. The central agencies accept these reports without modification and a development plan for the agency is put in place based on addressing weaknesses that have appeared in the review. These reviews all become public and are available on the SSC website.

A speech by the Minister of State Services saw the need in this way:

> "By and large, when a discrete event happens – such as the Christchurch earthquake – the public service really gears up and delivers some impressive results.
>
> However, the public service hasn't been as good at transacting business as usual. These PIF reports are helping departments to continuously improve at delivering on their core bread and butter business.
>
> PIF reports also give Ministers independent assurance on their departments' organisational health, as these reviews are undertaken by external experts; not by another public service department" (Coleman, 2013).

After a couple of years of experience and a lot of reviews undertaken, and exercise called "Getting to Great" (SSC, 2014) was undertaken to scan the stock of reviews for further insights as to how to improve performance assessment. The pattern that emerged was that agencies were generally doing well in meeting government priorities and in business as usual or transactional management. But what was clear were weaknesses in building great institutions that are being driven to make strong contributions to the welfare of New Zealanders on a long-term basis.

From this review of experience, the PIF framework was modified by the addition of "the four year excellence horizon". The concept behind this was to challenge every state agency to be clear about desirable long-term outcomes for New Zealand in its sphere of influence, then to envision what the agency would be like in all its dimensions, if it were optimising its contribution to those outcomes. Then on the basis that it has four years to transform itself in conformity with this vision, it sets out a strategic plan for the necessary transformation. While some agencies have struggled with this, it has been a very useful step towards orienting agencies to align themselves with desirable outcomes and follow-through with strategies and management plans to make a more effective contribution. It has the benefit of asking an agency to be clear about what its contribution to an outcome will be, even though it does not control all the forces that will influence that outcome. The template used for the PIF reviews today can be found on the SSC website (SSC, 2015)

The latest development with the PIF has been to conduct a sector wide performance review starting with the education sector (SSC, 2016). This covered seven state agencies involved in education which concluded that there was no unifying education sector strategy across them all and made recommendations as to how such a strategy might be developed. The purpose of this review was to expose the ways in which the separate strategies of the sector components did or didn't interact in the pursuit of higher goals. The key legislation governing education in New Zealand contains a strategy and guiding principles, but it is evident that there have not been institutional arrangements to draw all the service delivery organisations together around the achievement of that strategy. These sector performance reviews are only a work in progress at this point but the first of these reviews has shown their potential value. However aligning all these organisations will be an enormous challenge. A recent study by the Productivity Commission of the tertiary education sector (Commission, 2017) clearly spells out in detail the problems of getting sector wide outcomes agreed to and embedded in the structure and operation of the various institutions.

Overall it seems fair to draw a conclusion that the BPS and PIF initiatives have enabled the public management system to make a lot of progress in improving both its transactional and strategic performance. In the writer's view the quest for better outcomes is more likely to be successful by finding ways to embed motivations that are inspired by outcomes within the warp and weft of the state agencies in question. Managing for outcomes cannot be layered over the top like a new budget process or a new Human Resources system. Getting this right is very hard. There are independent reports of the progress of these initiatives, which point to lack of progress in places and disappointments, although the desire to do better and willingness to innovate remain in evidence.

6.3. Policy capability

The term of the current government has seen several significant initiatives in relation to policy capability, which together indicate both a higher level of concern about capability and a willingness to do something about it.

In 2010 the government commissioned a committee chaired by the author to investigate the cost and performance of the policy-making units across the central ministries (Scott, Faulkner, & Duignan, 2010). The report of the committee provided evidence of significant weaknesses in the way in which policy capability was being managed at that time:

- excessive variation in the unit costs of similar policy products,
- weaknesses in the management of policy capability,
- poor budgeting and financial management of policy resources,
- policy resources wasted on low-level administrative tasks,
- weaknesses in the way ministers prescribed the policy services they want,
- poor processes for aligning the use of policy resources with government's strategic priorities and the long-term strategic responsibilities of ministries,
- cluttered processes for delivering policy advice,
- poor engagement with non-government stakeholders,
- declining standards of advice about drafting legislation,
- lack of attention by managers to specifying the needs for policy capability and embedding these in HR strategies and
- in particular, the ministries were seen as being weak in controlling the quality of advice about regulations.

The government accepted the thirty six recommendations of the review. Specifically the Treasury undertook to refine its systems for financial management of this resource. Other recommendations included raising standards for policy leadership and management, appointing heads of crosscutting professions to lead professional development of economists, scientists and others across the ministries. Improvements in knowledge management practices, more effective consultation processes and better multi-year strategies for building capability were also among the recommendations. Some of the recommendations re-emerged in the Better Public Services initiative.

The Productivity Commission was formed following legislation in 2010, which stated that "The principal purpose of the Commission is to provide advice to the Government on improving productivity in a way that is directed to supporting the overall well-being of New Zealanders, having regard to a wide range of communities of interest and population groups in New Zealand society." It was formed in part as a response to an underlying concern about the depth of policy advice available to ministers on big national policy issues. Unlike ministries it has the luxury of statutory independence and time to focus on its mandates and consult widely about them. It would be difficult for a ministry to work in this way (Productivity Commission).

Over the range of topics, which the Productivity Commission has been asked to explore, a common theme in its conclusions has been to point to inadequate capability in state agencies to carry out of their responsibilities. The most specific recommendation regarding capability weaknesses are found in the report on Regulatory Institutions and Practices, which pointed to quite serious issues in the policy analysis and implementation of regulatory instruments (Productivity Commission, 2015b). In fairness to these ministries, semiautonomous agencies and local government where these criticisms have been made, it must be said that the challenges that most of them face have escalated in complexity in the last 10 years or more. In particular most of the serious challenges faced by public agencies today require them to think in terms of delivering customer focused services through networks, which in technical terms are complex adaptive systems and not easily amenable to central direction and control.

All the big problems the country faces today lie across the boundaries of state agencies and need to be addressed within networks that also typically cross the boundaries set by the national border. The disruptive forces working on the economy and society cannot be creatively addressed from within the rigid structures of service production and regulation that were appropriate to the past. The series of reports from the Productivity Commission are specific about how this is playing out in areas of public policy from the environment, urban planning, and the use of regulatory tools, developments in the service sector, social services and even the economic relationship between New Zealand and Australia. The Commission has presented the evidence that traditional ways of building capability for policy-making and service delivery is falling short of the escalating and disruptive changes New Zealand faces. The Commission itself represents one of the responses to this challenge.

The 'Better Public Services' review in 2012 also joined the long running chorus of worry over whether the policy capability in the ministries was up to the challenges the country faced.

Following the 2010 review of expenditure on policy advice, the SSC appointed the head of the Department of Prime Minister and Cabinet to be the "head of the policy profession". Working initially from the advice of the review the DPMC developed an ambitious program for reform and upgrading of the policy capability across the ministries. Under the leadership of DPMC policy staff and their managers across the ministries were engaged in the development of a strategy to lift policy capability, covering capability, skills and quality (Dept of Prime Minister and Cabinet, 2016).

It is significant that at the time the Policy Project was publicising its work, the Prime Minister made a speech which stated more clearly than ever before the obligation on policy advisors to provide advice that is free, frank, fearless and forward-looking (Key, 2016). That speech also spelled out the requirements under the 2013 revisions to the State Sector Act the obligation on ministries to build and preserve policy capability. The passage is worth quoting:

> In 2013 we took an important step towards embedding this type of thinking in public service departments through the amendments we made to the State Sector Act, passed with the support of the Opposition. A key change we made was to make stewardship a formal responsibility of public service chief executives. Chief executives are now responsible to their minister for the stewardship of their department, defined as the active planning and management of medium and long term interests. That includes their department's ability to offer free and frank advice to successive governments. It underlines the importance we attach to deep, robust, politically neutral advice. To be able to fulfil this responsibility, public service chief executives will need to

be able to advise their ministers on future risks and opportunities in their portfolio areas. This will require them to invest an appropriate amount of policy, research and strategic resource in exploring options and solutions. They will also need to be thinking about what priorities a future government may have. This means that they will need to have a depth of knowledge about issues which might not be on their minister's current agenda. While I hold ministers to account for delivering the priorities of today, they also have a responsibility to ensure their departments are thinking about the challenges of tomorrow.

It is too soon to evaluate what lasting benefits are flowing from the attention that the present government has given to policy capability but the initiatives that have been taken in the last few years are the most promising that have been tried to date.

7 /
Social Investment

The latest initiative in the New Zealand story of public sector reform goes by the name of "Social Investment". It stands to the side of the historical narrative above, as it is not one more top-down initiative, but rather a number of streams which converge and separate, but together amount to innovations in ways of thinking about and implementing government social policies. Its origins go back years and there are several of them in terms of concepts and locations.

Social investment is particularly prominent in the New Zealand political agenda today because the Prime Minister, Bill English, has made it a personal priority at the top of his agenda.

The most common definition of social investment comes from the Social Investment Unit (SIU) and has been endorsed by the Cabinet (Social Investment Unit, 2016):

- "Social investment is about improving the lives of New Zealanders by applying rigorous and evidence-based investment practices to social services. It means using information and technology to identify those people for whom additional early investment will improve long term outcomes, better understanding their needs and what works for them, and then adjusting services accordingly. What is learn through this process informs the next set of investment decisions.

- Social investment puts the needs of people who rely on public services at the centre of decisions on planning, programmes and resourcing, by:
  - Setting clear, measurable goals for helping those people.
  - Using information and technology to better understand the needs of people who rely on social services and what services they are currently receiving.
  - Systematically measuring the effectiveness of services, so we know what works well and for whom, and then feeding these learnings back into the decision-making process.
  - Purchasing outcomes rather than specific inputs, and moving funding to the most effective services irrespective of whether they are provided by government or non-government organisations (NGOs)."

"Implementation will vary and may include:

- A particular focus on vulnerable or high-risk groups
- Investing up front to support people most at risk of poor outcomes later on in life
- Greater input from outside the public sector in analysis, innovation and service provision
- Working with local organisations to purchase outcomes for, and on behalf of, communities
- New citizen-based services that cut across existing departmental service channels"

Social investment is investment, in the sense that it seeks to shift the balance of government social policy from spending on people, once their situation qualifies them for state support, more towards expenditure on preventative measures, which achieve better social outcomes and can result in lower expenditure later on the same people. Whereas expenditures on infrastructure have always been evaluated as investments with costs now and benefits later, large areas of social spending have not. However it would be a mistake to suggest that this is entirely new, as there is a long history of conceptualising spending on the welfare state in this way. But what is new are databases and analytical methods that have appeared for the first time and which enable calculations to be made that assess the longer term impacts of current expenditures on social supports.

Also a feature of current interest in social investment is a new open-mindedness by the government towards using innovative ways of funding service providers with the objective of blending services to meet the needs of various population groups in ways that are not biased towards particular state institutions.

The Productivity Commission recently wrote a report, which showed that the most vulnerable families have multiple, complex and interrelated needs together with diminished capability to address those needs and access sources of support (Productivity Commission, 2015a). It recommended that the social investment approach could provide new and more effective ways of supporting these people, families and their communities. An important message from the Productivity Commission's report was that the effort over many years to increase the coordination of ministries in the pursuit of cross sectoral objectives was failing to meet the needs of people with complex needs and low capacity. These are the so-called "long tails" in all the social statistics.

The social policy landscape can be characterised as a complex adaptive system, and with all such systems, it resists top-down direction and control. The social investment approach aims to facilitate decentralised adaptive innovation, close to the recipients of the services and taking account of their particular circumstances and capabilities. It is intended to support what are called "collective impact" models of service design and delivery. There are numerous practical examples to illustrate a collective impact approach. Some of these are described in the accompanying paper by the author and James Mansell. An example is the program that eliminated homelessness in the city of Hamilton, wherein an NGO and several government agencies collaborated in the work of addressing the situation of people sleeping in public places in the city. How the government relates to these collective impact vehicles requires reform of the systems of funding and accountability, recognising that the centre cannot impose detailed controls on these vehicles without distorting and constraining the characteristics upon which their success relies.

Social investment is therefore a change in strategy, structures and processes to produce better results in areas where the conventional system is most weak. Characteristics of this approach are targeting, support for decision makers and agility with respect to learning, innovation and reinvestment.

- Targeting is based on new data and analytics to reduce misallocations of resources due to errors identifying successful interventions.
- More attention to capabilities, infrastructure and incentives and ethical issues about the use of machine learning algorithms. This also includes 'commissioning', meaning to develop alternative models of resource allocation and service delivery especially for high and complex needs. This involves 'collective impact' models, which are those involving partnerships of service providers that support directly the target populations e.g. integrated services in support of mental health sufferers.
- Innovation through better knowledge leading to more effective at decision making, followed by 'reinvesting' based on new insight from experience. This requires being adaptive to make changes at low cost to new targeting opportunities.

The targeting involves both the individuals, families and communities, which receive the services and also the tailoring of those services to the specific characteristics of the recipients.

While social investment can develop in directions that fundamentally change policy, analysis and service delivery, it is neither entirely new nor does it need to set out to be fundamental change. It begins with linking administrative data the government already has and using it for insights in the way it manages current operations. Analysis using administrative data have provided some ministers with much improved support for decisions about the welfare programs. An example involved the analysis in 2009 of two thousand 6-9 year olds who were in the welfare system whose forward liability for welfare payments was estimated to be $.75billion. When shown the possibilities for lowering this projected expenditure through better targeting of services the Prime Minister commented that the opportunity was too good to miss.

7.1. Social and fiscal returns

The Treasury is supportive, but challenged, in thinking about how its role should respond to these new possibilities. In particular how is it to distinguish an investment with a fiscal rate of return from a proposal which simply increases total spending? The response so far has been twofold. Firstly, Treasury has introduced an earmarked funding stream in the budget process, which is exclusively for social investment proposals that meet a very high standard of evidence and analysis. This budget category is uncapped, or more accurately, funding is limited by the standard that is set for the quality of the proposals. This was done in part to encourage ministries into social investment with the possibility of funding in addition to their normal budget allocations. It also addressed the problem from a previous experiment, where proposals that involved a lot of effort to prepare were crowded out in the budget process by cost pressures and other government priorities. Secondly Treasury has promulgated an updated and refined version of its long-standing cost benefit analysis requirement, which is adapted to the characteristics of social investment.

Beyond this, it has to be accepted that there are forms of social expenditure which may have very substantial benefits to citizens and society but not produce a fiscal return. Suicide has a high social cost but preventative measures may have a low fiscal impact. Similarly some aged care has a low forward fiscal pay-off. But the social investment approach can still be suitable to better target efforts to improve outcomes in both cases. Citizens have rights to social services even if there is no fiscal return or, in some cases, not even better outcomes for them. So it can be seen that social investment is not a universal tool to guide all social expenditure. Nevertheless in places it can produce large payoffs in terms of both social outcomes and fiscal policy.

Social investment therefore should be seen as a means for better decision-making about allocating resources and not just about achieving a fiscal return. But for the Treasury the distinction between programs that yield a fiscal return and those that don't, is significant for budgetary purposes. It cannot fund expenditure proposals that it would otherwise have turned down just because they are labelled as investments. Hence the new methods need to distinguish between - and to balance - fiscal savings with improvements in social outcomes. This is a fundamental issue the authorities are still grappling with and is to be addressed in the evolving governance of social investment. There has been a spirited debate about the relative weight to put on fiscal calculations in social investment, but in the writer's view the duality between fiscal and non-fiscal costs and benefits has to be nuanced case by case. Still, there is some truth to the comment by Minister of Finance after seeing some of the early social investment initiatives to say "what works for communities works for the Government's books".

7.2. Integrating administrative data

A crucial reason for the timing of the wider initiative for social investment is the tsunami of more useable data that is coming available to analyse social policy – not just from the Government's administrative data, but across the whole social sector beyond the Government and internationally. Further there has been rapid growth of stores of information and of networks of people globally concerned with evidence of the impact of interventions impact on social policy outcomes. Policy advisers today have vast and previously unavailable intellectual resources to draw upon in developing advice.

In recent years, welfare reform has introduced actuarial methods to augment decision making about priorities. The government has always had administrative data and in the Children and Young Persons service, it began to be joined up longitudinally by client in 2004. Actuarial and other predictive modelling became possible. The Work and Income Service has used these to guide decisions on allocating effort to put people back to work.

In order to facilitate the diffusion of social investment methods through the government, a Social Investment Unit (SIU) was established as the centre of a community of practice and provider of advice, guidance and some infrastructure. In parallel with this the Department of Statistics has developed an integrated database of the government's administrative data across the social ministries and beyond, known as the IDI. This has created a longitudinal database drawing on all the individual records of users of the social services and related services that has been anonymized. The SIU has recently developed an "analytical layer" that goes across the IDI that will permit users to undertake research to help inform decisions about effectiveness and resource allocation.

An example of the kind of analysis that can be done using integrated administrative data is the following (with phrases in parenthesises add) (Crichton, Templeton, & Tumen, 2015)

> "The main analysis is a birth cohort analysis which focuses on those born between 1 July 1990 and 30 June 1991, who can be observed through to age 21 in the dataset. The future outcomes of this birth cohort out to age 36 are also estimated.
> The project generated a wide-ranging set of results on the outcomes of children who experienced one or more types of disadvantage in childhood, by ages five, 13 and 18 years of age. For example, considering children with multiple disadvantages, we found that the outcomes of children who by age five were known to CYF (a government department with responsibilities to support vulnerable children and young persons), had a parent or caregiver who had a Corrections (prison service) sentencing history, and had been supported by benefit for most of their childhood, were considerably worse than those of other children. About one percent of children in the 1990/91 birth cohort met all three criteria. Compared with all children they were significantly less likely to achieve NCEA (graduate from high school), around five times more likely to have had a CYF youth justice referral, five times more likely to have been on benefit for more than two years before age 21, and seven times more likely to have been in prison before age 21."

An interactive 'insights tool' with data visualisation was developed to permit analysts to show many interesting characteristics and correlations of different population segments (Treasury). For example one set of conclusions has been there are four key indicators for children that are associated with poor outcomes later in life:

- Having a finding of abuse or neglect (8% of children)
- Being mostly supported by benefits since birth (15% of children)

- Having a parent with a prison or community sentence (17% of children)
- Having a mother with no formal qualifications (10% of children)

If the Chilean authorities are inclined to take a step into the social investment territory, the place to start is the linking and analysis of the Government's administrative data and build from there in the search for better results.

7.3. Implications for public management

The explanation of social investment above is focused on the use of new data sources and methods by the ministries to improve the effectiveness of the services in achieving outcomes. Several ministries are incorporating social investment concepts in the way they conduct their operations. However, in addition to improving the performance of the central ministries, social investment involves a shift in emphasis from a top-down, centralised, rule-bound, decision-making towards adaptive management in a more decentralised approach. The focus shifts from efficiency within hierarchal chains of accountability to allocative efficiency and dynamic efficiency, including through the promotion of horizontally organised service delivery with an emphasis on learning and innovation.

These latter approaches draw on the global literature and local experience with collective impact approaches to supporting citizens to have better lives. These collective impact vehicles will only work if there is a change in the governance and funding arrangements between the state and non-state providers of social services. It will also involve a decentralisation within the State in order to facilitate the participation of state employees in collective impact arrangements, over which they do not have full control. Good progress is being made with developing these new governance and funding arrangements, but the designs are incomplete and there is little information available from which to judge progress. There are however numerous case studies of successful collective impact vehicles such as the program to resolve the problem of homelessness in the city of Hamilton referred to above.

7.4. Privacy issues

A very hot topic at the time of writing is about the privacy of citizen information being absorbed into state databases. The view of some at the centre seems to be that personal information is needed in order to target services to individuals. The contrary view is that central ministries only need such data as necessary for management and compliance purposes together with research and analysis, which can be done with anonymized data. While there is great benefit emerging today from the integration of government administrative data bases, in the future citizens will have large amounts of data of a personal nature, which they would not want shared with the government e.g. their genome, their location at all times, monitoring data from their smartwatch.

A government sponsored group has developed a policy framework for the protection of private data. (Data Futures Forum). It laid out principles for data protection, which emphasise the ownership by individuals of their own data and the principles for others to have rights or permission to access it. These principles are a promising foundation for resolution of the current controversies around data privacy in relation to social investment. But this resolution will be hard to find as the mindset of the state agencies today is to push hard against the boundaries of privacy.

8 /

Reflections on 35 years of change

From a perspective standing above the flow of events already described, this section of the paper reflects on thirty five years of change, by reference to the main enduring issues that emerged. As was foreshadowed in the introduction, these issues are: horizontal collaboration across state agencies, setting strategic and operational goals, capability and culture, strategies and pathways of change and sustaining trust.

A criticism emerged in the 90s that the focus on performance agreements was undermining cross-ministry collaboration in the service of whole-of-government objectives. Related to this, but conceptually distinct from it, were criticisms that such collaboration was also undermined by the use of outputs as performance measures and inadequate goal-setting by governments. The last point was part of the Logan critique in 1991. This section discusses collaboration while the next section explores the issues with setting operational and strategic goals.

8.1. Collaboration amongst ministers and public servants

Schick's concern about collaboration was nuanced and concerned public regarding values not just the processes of collaboration. But at the time of his review he did not see an erosion of these values. Other contributors to this critical narrative talked about the reforms having weakened a culture of collaboration. The evidence for this is hard to find and there is a question over whether the assertion is about culture or processes. It is certainly true that there always was, and their remained, effective collaboration around particular issues.

Sometimes consensus is unattainable in spite of goodwill and even determined efforts by officials to find common ground. An example is the reform of company law in the 1990s where competing visions in the Ministry of Justice on the one hand and in the Treasury and Ministry of Trade and Industry about the role of the state in regulating public companies were irreconcilable.

Complaints about inadequate collaboration can be subtle. When ministers make hard choices between contested views the losers can be inclined to complain about a lack of collaboration. Criticism about the responsiveness of the reformed management system to the collective interests of government was partly fuelled by the fact that some critics just didn't like the strategic priorities of the two reforming governments in the 1980s and 1990s.

Some insiders observed from their experience that the management system, both before and after the reforms, could be used to promote collaboration in the pursuit of pressing government strategic priorities. In support of this view is the fact that the Labour government in the 1980s and the National government until 1993 were highly strategic in pursuing ambitious – but not all popular - agendas of cross-portfolio change. The public management system responded to those two agendas with considerable energy – one before the reforms and one after them. Logan praised the new system as supporting the implementation of a budget in 1991, which had a sweeping and controversial implications across portfolios.

Seasoned observers said that system had been and remained about as coordinated as ministers wanted it to be. The insiders knew well that the public commitments to collaboration commonly belied the private directions of ministers to their ministries to put their own priorities first. It is a brave manager who will shift resources away from his or her minister's priority to work that is the priority of other ministers. So the question, of how collaborative the ministries are, should not be seen as concern over a general cultural orientation alone, but circumstantial and influenced by the clarity with which a government expresses what it wants by way of broad strategic priorities and how collaborative are the relevant ministers.

Also it is very unrealistic to expect that major strategic change, which will commonly be very disruptive to existing institutions, can be implemented without counterarguments and resistance from those being disrupted. This is not unhealthy in a democracy where the state is run by a collection of ministers, who do not always agree with each other and nor do their associated ministries. A Cabinet is not a board of directors. Ministries have perspectives, stakeholders and interests. That said, we cannot ignore the strong statement by Jenny Shipley when she was Minister of State Services (Shipley, 1997) that a minority of departments "put their territorial interests ahead of the collective interest", adding colourfully the despair ministers feel when "what is supposed to be an intelligent policy debate degenerates into a snarling-match between agencies". She concluded "The State sector must demonstrate that they can reflect and deliver on that same discipline that is required by the collective responsibility of Cabinet." She probably did not intend an ambiguous interpretation of her remarks, but it amounts to the old adage that the ministries will be about as coordinated as the Cabinet is. But plainly, she perceived a serious problem. However in the writer's view, having been a senior adviser before, during and after the reforms, such behaviours were in evidence before the reforms too. What changed was the realisation that the emerging agenda of complex social issues required greater cross-agency collaboration.

When Shipley became Prime Minister, she organised her cabinet to give effect to her views on collective responsibility by assembling groups of ministers in overlapping portfolios with mandates to design and deliver on programs that ran across portfolio boundaries. She adapted the budget process so that resources would be shifted at the margin between related ministries in pursuit of these jointly held objectives. She also cut back on the time ministers spent in cabinet meetings so as to promote this decentralisation of authority to these committees. In the writer's view this was a positive innovation that worked reasonably well in promoting collaboration by ministers and diminishing their incentives to just protect the interests of their ministries. Bill English, who was a minister in the Shipley Government and now Prime Minister, remarked wryly at the time on the consternation of officials at meetings where their departmental interest were traded amongst their ministers.

The general understanding of the issue about the collective interests of government was well captured by a document from the SSC in 1998 that put it this way (SSC, 1998):

> One of the concerns about devolved management on the scale of the State Sector Act was that it would risk an end to the concept of a unified Public Service. Chief executives took to their new independence with such relish that it seemed for a time that these concerns might be well-founded. As time has gone by, however, an equilibrium has been restored. Government remains after all a single business and departments and their chief executives clearly do need to work co-operatively in policy development, advice to the Government, and delivery of services - and need to share responsibility too, for 'collective interest' matters such as senior management development, human resource policies generally, and maintenance of ethical and professional standards. A unified Public Service continues to exist, although on a devolved and strategically co-ordinated rather than a centrally-regulated basis.

8.2. Changes in the machinery of coordination

Before the 1980s reforms, ministries always had collaborated through ad hoc arrangements in pursuing major strategic objectives at the direction of senior ministers. There had been collaborative arrangements run through inter-departmental committees of senior officials. An overlooked point in the narrative is that the Labour Government in the mid-1980s abolished the most powerful of these – the Officials Economic Committee. This committee was chaired by the Secretary to the Treasury who was required to sign any official advice going to the most powerful cabinet subcommittee – the Cabinet Economic Committee. The Prime Minister in the previous government was also the Minister of Finance and ensured that anything important went through this committee. This powerful coordinating machinery was abolished and not replaced with any similar arrangements. It was seen as putting too much power in the hands of the Treasury.

So it is important, in drawing a judgement as to whether the introduction of a performance oriented management system broke down coordination, to take into account that the most powerful arrangements for coordination from the past were abolished. And also to assess what replaced it.

The Cabinet Manual sets elaborate rules about the obligations on officials providing advice to the Cabinet to consult others with an interest and for the Treasury to provide advice where a proposal has economic and financial implications. This addresses the day-to-day flow of business as usual, but not the management of cross-government strategic issues that do not emerge in the normal flow of advice. Also there is a darker side to regulations attempting to impose coordination, as the regulations can be used to block advice going to ministers. The Labour Government in the 1980s insisted that significant differences between official advisers should be brought to ministers for resolution and not buried or glossed over within the circles of advisers. But under the later Labour Government the regulations on coordination were in some instances used to block certain advice reaching the Cabinet – an example was Treasury advice about health sector performance and funding[1].

Under the Clark Government (1999-2008), coordination tended to be more transactional than strategic and centred in various groups of

[1] Around 2004 the Minister of Health insisted that advice from the Treasury to the Cabinet had to be jointly agreed with the Ministry of Health – thus blocking Treasury's direct access to Cabinet on some health issues.

officials appointed to attend to particular issues. The Better Public Services (BPS) results in 2012, together with the strengthening of the role of the three central agencies in coordination, and finally the extension of the powers of the State Services Commissioner across the wider state services, can all be seen as an evolving system of coordination around chosen strategic issues. The extension of the time horizon of budgets and other features of the fiscal responsibility framework and related procedures also promoted more attention to big strategic issues.

The series of initiatives to improve coordination over three governments and four Prime Ministers have built on each other and exposed, and tried to attend to, weaknesses. Much has been learned while challenges remain, as the social investment initiatives display. But it can be concluded safely that these challenges cannot sensibly be blamed on reforms thirty years ago aimed at improving performance.

8.3. Setting strategic goals

The Logan review in 1991 recommended more attention be paid to setting strategic objectives within the processes of public management. His perspective reflected his long experience in the management systems and culture of IBM from which he observed that the Government lacked anything like the processes for setting strategic goals that he was accustomed to. The ministers of finance in the two reformist governments (Roger Douglas 1984-88 and Ruth Richardson 1990-93) would have been bemused by this, as they were skilled operators in the political system and knew well that a government does not set its goals like a big corporation. Both ministers were demonstrably able to achieve major changes in policy, governance and management notwithstanding the absence of a system of government-wide corporate strategic planning. But other influences were emerging that made the perspective of the Logan Review had presented in 1991 more compatible with the changing character of the Government towards more consensual politics, in the wake of heavy losses of electoral support in 1993.

When the early reform movements ended after 1993, the ministers who had led them were replaced by others who were not so driven by a sense of urgency about the problems they had to solve. Also they concluded politically that the mandate for disruptive change had expired and if there was to be any further change it was to be done differently. Recalling that both periods of reform had been substantially led by the finance ministers, coordination can be viewed as the re-assertion of control by the Prime Minister. The system of Strategic Result Areas and Key result Areas the mid-1990s sought to strengthen coordination at the centre of the Government in the pursuit of high level strategic goals. They had precedents in the early 1990s when teams of advisers drawn from across the ministries were tasked with developing policies and strategies for improvement in a small number of critical areas of government activity e.g. economic regulation. The SRAs were high level government goals while the KRAs specified and contributions to those from the ministries KRAs that flowed into the performance agreements of CEOs. The Schick report documents the development of these concepts (Schick, 1996) Ch5, which he wrote favourably about at the time. A review by the SSC (SSC, 1997) was also positive while pointing to the need for stronger linkages with the budget and more attention to progress in reaching government goals. Later reflections were less enthusiastic and on a second review by Schick (Schick, 2001) he concluded that that SRAs and KRAs had been only marginally successful in imposing strategic direction on government operations. He noted however the importance of the Fiscal Responsibility Act, supported by accrual accounting, in giving a strategic framework to fiscal policy.

The first election under Mixed Member Proportional Representation (MMP) in 1996 forced ministers to try to reach consensus with coalition partners. The coalition deals were about specific policies rather than strategic initiatives. For example the 1996 coalition agreement included having a referendum on compulsory savings. The first MMP government fell apart over an argument over privatising an airport. This new political environment was not favourable to government-wide agreement over broad strategic priorities, so the Shipley arrangements of her cabinet committees described above may be viewed as a response to this reality. It focused on coordination amongst ministers, whereas much of the effort at improved coordination over the years has focused on ministries.

The BPS initiative was driven by ministers within a Cabinet that that was not tightly controlled from the centre as the Clark administration had been. The initiative was also well-supported by senior public servants and peer reviewed by former ones. It went deeper than previous attempts to embed strategic goals into the public management system and had more 'grip on the levers'. The goals were clearer and there were incremental adjustments to the way human and financial resources were to be aligned to the goals. BPS sought to use the performance management system to focus ministries on these cross-cutting goals but while this provided new impetus, it did not solve some important challenges in coordination between some major state activities. One example was the tension between the role of the Chief Information Officer and the Chief Executive of the Tax administration (The Dept of Inland Revenue) over decision rights and accountability for the design and implementation of huge investments over ten years in upgrading the IT systems underlying the tax system.

So while the BPS initiative in 2012 represented substantial and overdue progress in promoting collaboration around cross-cutting strategic goals, it can also be seen as an incremental improvement on previous developments and not a definitive resolution of the long-standing challenges. Five years later the Government is still searching for ways to promote the deep collaboration and decentralisation that is essential for collective impact methods of social investment.

The conclusion from this long story about collaboration in the pursuit of strategic goals is that there is no general solution to the challenge of making a hierarchal system of governance and service delivery operate like a network – particularly one characterised by decentralisation and local empowerment and that is grappling with complex systems. That said, New Zealand has learned a lot about fine tuning control systems to permit flexible responses at the meso and micro levels of the state under the guiding pressure of high level strategic goals. But the solutions are more circumstantial than general. Importantly, what has been tried thus far looks inadequate to getting the full benefits of social investment methods. New approaches are needed to providing blended citizen-centred services to people with complex and disparate needs. These requirements go beyond the scope of this paper but are discussed fully in a recent report to the Government from a committee chaired by the author (Scott et al., 2016)

An early and persistent criticism of the early reforms is that they undermined collaboration among officials and their ministers in the pursuit of government wide policy objectives. However, officials who experienced both and in the writer's view, there never was a golden age of collaboration, but rather a history in which ministries collaborated on important national issues, especially external challenges, and this continued after the 1980s reforms. There always had been and continues to be differences between advisers over policy, which is not evidence of a lack of collaboration but, assuming the protagonists are competent advisers, of the system of Cabinet advice and decision- making at work. The Public Service has always been and remains responsive to implementing policies it advised against. It is the mark of a politically neutral public service. But it is unrealistic in any government to assume that where a collective goal threatens significant interests of a ministry, that it will make no attempt to defend those interests. It requires a nuanced judgement as to when this defence should cease in the common interest.

Ultimately, whether the reforms helped or hindered progress with government wide objectives, there is no disagreement that doing so presents a major challenge. The discussion of social investment illustrates this challenge and the complexity that accompanies effective responses.

8.4. Managing for outcomes

The evolution in setting strategic goals is tightly tied to the place of outcomes in the public management system, because the SRAs and what they changed into, were conceived not only as a way to impose high level priorities, but also as the way to make the whole system more driven to achieve better outcomes. These developments are described in a paper published by the SSC in 1998 (SSC, 1998) and its main points are noted and assessed here.

The Public Finance Act 1989 incorporated the requirement for outputs to be specified by reference to the desired outcomes they were to contribute to. As a reflection of New Zealand's constitutional structures, outputs were the primary responsibility of non-political managers while ministers were responsible for specifying what outputs they wanted and captured in the "purchase agreement" as it was called. It was implied that when they made those choices they expressed their views of the outcomes they desired, either through the exercise of their ministerial discretion, or as a requirement within the empowering legislation for the policy area in question.

This abstract constitutional foundation was necessary to support the delegation of decision-making about inputs to the managers in order to get the efficiency gains sought. It was also an important message from the Minister of Finance to his Cabinet colleagues that they were to take responsibility for what their ministries produced and not just be a spokesperson for the agendas and interests of their ministries. However, to make this abstraction a functioning reality ministers were given budgets in the late 1980s to engage "purchase advisors" to support them in specifying what outputs they wanted. This practice was used again in 2009.

From the beginning, the purchase agreements, backed by the accrual accounting system and output cost estimates, enabled ministers and the Treasury to become better equipped for questioning budget proposals in terms of what things cost and what purpose they are for. The underlying intent was to drive through the system a concern for better "intervention logic" to underpin fiscal decision-making. This, however, is about policy analysis and evaluation. So this nexus of issues about outcomes and strategic management links tightly to the issues of inadequate policy advisory capability discussed elsewhere in this paper.

In many areas the necessary investments in intervention logic were not made or inadequately made. Decision making in the budget was too short term in many portfolios because of a lack of strategic vision and multi-year planning – a point that Schick made. The SSC papers point to this weak alignment between the budgets and strategic plans and a short term horizon in many places, in contrast to the new legislative and operating frameworks of the Reserve Bank Act 1989 and the Fiscal Responsibility Act 1994 with their embedded a long term horizons.

From very early in the post-reform years, the evidence is clear that, to achieve the full potential of the concepts and structures in the Public Finance Act and State Sector Act requires a well-performing nexus of strategic management, policy analysis, purchase agreements, fiscal analysis, budgeting and performance management. In the absence of this nexus, output budgeting would be too short term, the system would lack strategic coherence and the justification for outputs by reference to associated outcomes would be weak. The Logan report(Logan, 1991), while noting the considerable success the reform had yielded in some respects, was early in pointing out broadly the need to address these weaknesses.

So it is not surprising in hindsight that success in using the system was patchy. The endeavour by public managers in New Zealand to implement managing for outcomes has been characterised from the beginning by a few breakthrough successes, but also by difficulty in installing a comprehensive approach across the state agencies. In the 90s for example the Department of Corrections oriented its management system towards the outcome of reducing recidivism by the prison population. From the mid-90s to the early 2000's an initiative known as the "Pathfinder" (Pathfinder) program ran, which exemplified leading examples of managing for outcomes. Pathfinder produced practical guidance to results based management for a wide range of government functions. This guidance was produced by eight diverse departments (Conservation; Child, Youth & Family; Corrections; Customs; Health; Labour; Inland Revenue, & the Land Transport Safety Authority), sponsored and actively supported by the State Service Commission and Treasury". The guidance material was developed by the Central Agencies and covered Statements of Intent, intervention logic relating outcomes to outputs and services and performance measurement. The guidelines applied to Crown Entities as well as ministries and departments. An extensive training document on measuring performance was developed (SSC-Treasury, 2008), based around the standard performance cycle and teasing out the linkages between:

- inputs and outputs (efficiency and economy),
- outputs and intermediate outcomes and also outputs and outcomes (effectiveness and distribution),
- inputs and outcomes (value for money).

Managing for outcomes comprehensively across the state sector anywhere is very hard to do. This aspect of the New Zealand story is important from the perspective of the international literature and experience regarding public sector reform. No government has succeeded comprehensively in using outcomes usefully as the primary mechanism for accountability within its public management system. In most circumstances the outcomes are not in reality easily attributed to actions by identified service providers.

Some international attempts to drive a state system by outcomes have proved to be largely cosmetic. Strategic documents in such cases have statements of outcomes that are intended to drive performance, but commonly these are so aspirational and vague that they would not discriminate between poor and excellent performance. In a New Zealand example, the Clark Government set three grand objectives of Economic Transformation, Families Young and Old and National Identity. These were so vague as to be little use in either budgeting or performance management. Less grandiose were the outcomes statements in the Australian Federal budget documents for defence spending at that time including "Australia's national interests are protected and advanced through the provision of military capabilities and the promotion of security and stability". Australia was regarded as a world leader in public management at the time but it is difficult to imagine how this outcome statement usefully informed either budgets or performance assessment.

The international conversation about performance management tended to be dominated by discussion of "performance budgeting" in the first decade of this century. There is a body of international opinion that performance budgeting has not yielded the high hopes of its pioneers. The writer's views were summarised in various speeches and papers (Scott, 2008). The evidence showed that much of it was largely cosmetic and that a budget system informed by performance was a necessary, but far from a sufficient condition, for an outcome oriented public management system. The budget can be a contributor to a performance management system but many other features are required for a comprehensive approach to performance management. This conclusion fits neatly with the New Zealand experience with managing for outcomes.

The concept of an outcome has a general common sense meaning of something valued, but falls apart under close examination of the questions it raises. By what authority is an outcome specified? What is known by the specifier about what has to be done to improve the outcome? What to do when the actions needed to effect outcomes are vague or unknown? What to do when the outcome specifier does not control all the players whose actions are needed to effect the outcome? The answers to these questions require the nexus described above to be functioning well. This nexus runs across the whole management system and to operate well, raises daunting challenges in the design of structures and processes and also requires organisational cultures that are not a natural occurrence in a traditional bureaucratic hierarchy. In this sense it is insightful to view the stream of initiatives from Logan onwards to the BPS, PIF and social investment as augmenting the nexus that is needed for making the system more infused with concerns for strategic coherence, efficiency and effectiveness in achieving outcomes over long time horizons. The BPS has sharpened the definition of, and the response to, strategic priorities that require elaborate collaborative processes. The PIF gets underneath the concepts of inputs, outputs and outcomes and high level definitions performance, by grounding all this in better strategic focus, intervention analysis, innovation and in better management within the state agencies.

8.5. The capability and culture of the public servants and wider state sector staff

Throughout the whole period, the authorities both at political and public service level fretted about the capability of the leadership of ministries and the wider state sector. A decentralised system of management requires advanced management capabilities as subordinate layers in the hierarchy cannot meet their performance requirements by just following the rule book. Over the 30 years since the State Sector Act was passed, there have been continuing expressions of concern about the shallowness of the pool of talent presenting for the top jobs. The intention of the designers of that act to produce a more diverse and talented group of top managers cannot be said to have been achieved to the full extent they hoped for, on the basis of paying market salaries and removing restrictions on outside applicants.

The Review of the Centre was just one of the reviews to devote much of its attention to inadequate development of leaders and staff more generally. While acknowledging the importance of diversity in human resource management across the wide range of state organisations that review saw a need for an overarching state sector human resources framework with guiding principles on training and development, workloads, Equal Employment Opportunities, culture, values and ethos, constitutional knowledge, the Treaty of Waitangi, responsiveness to Maori, leadership, workforce planning, and interagency exchanges and secondments. It also recommended a "partnership for quality" with the state sector unions.

Remember that the Minister of State Services at the time the State Sector Act was passed in 1988 was concerned about the "sameness" of the people in the public service. Today after multiple initiatives and reports, the diversity of the top management team remains narrower than was hoped for. That said, the management skills of the public service have demonstrably improved. Younger managers became eligible for top jobs and more women appear in the top ranks of the public service. From the author's experience of working internationally, the quality of management in the New Zealand public service compares well with other OECD countries. The extension of the powers of the State Services Commissioner following the BPS recommendations are expected to yield further improvements, but it is too soon see results.

On the question of culture, New Zealand began its reform program with a public service that had been grounded in legislated independence since 1912. It had also observed the merit principle in promotions, although this had become distorted by unwarranted protections for insiders and generally aligned with the values and views of the dominant male European culture. The opening up of the civil service to outsiders, while still beyond the reach of political interference, and the slow but steady change in HR practices to encourage diversity, have all been to the benefit of the culture and values of the public service.

With few exceptions the culture of the public service has always been honest, meritocratic, motivated by a sense of service to the public and steeped in the notion that ultimately the government is run by elected politicians, not senior bureaucrats. That said, bureaucracies everywhere have a tendency to be occasionally indolent, territorial and change resistant. They don't like change that erodes their power, reduces their budgets or allocates their functions to NGOs or the private sector. It is remarkable with hindsight the alacrity with which the senior public servants adapted to the radical changes encapsulated in the State Sector Act and the Public Finance Act in the late 1980s. The writer was one of these and recalls the enthusiasm with which the first crop of chief executives took to the task of managing their agencies and getting on top of the considerable challenges of taking responsibility for the first time for managing their finances, their people, their IT systems, the communications etc. Of course some made a few mistakes but surprisingly few, and today it is fair to say that the calibre of management in the public sector in New Zealand is high by comparison with other developed countries.

The fear by critics that this new managerialism would erode public service values appears to the writer not to have eventuated. The emphasis on codifying standards at the beginning of the Clark government reflected concern by the incoming ministers over second-order matters such as the use of consultants. The senior public servants demonstrably worked diligently and effectively through the various changes of government and ministers over 30 years.

The periodic complaints that the senior civil servants lack the impulse to innovate has some merit. This is perhaps grounded in typical bureaucratic cultural norms, which however, the writer has observed are far more entrenched in most other countries in which he has worked. But interviews with a number of ministers in recent years reveal frustration by some of the senior ones with a lack of responsiveness and creativity about emerging issues. Social investment has engendered a range of responses from enthusiastic innovators on the one hand to unresponsive and obstructive behaviours by some.

But although progress has been slow and sometimes cautious, it is fair to conclude that long tradition of political independence in the public service has been a positive influence on the quest for better performance. It is clear from New Zealand's narrative that performance improvement requires long term investments in systems and capability and programs of change that run over many years and multiple governments. Notwithstanding the persistent issues highlighted here, it would be near impossible to construct an argument that New Zealand would have been better off with a system of political appointments in the public service.

8.6. Policy capability

A recurrent concern has been about the capability of the ministries to provide deep and forward-looking advice on the major issues facing New Zealand. It is notable that in the speech by Jenny Shipley twenty years ago (Shipley, 1997) she said:

> "Having moved away from inputs to output purchasing and all that entails, the challenge now is to focus on the outcomes the community and Government of the day seeks to deliver………
> The first key platform to achieve the outcomes that the public and Government expect, is for the State sector to dramatically improve their policy advice in a relevant and meaningful way.
> Put bluntly, there needs to be a substantial improvement in the quality of policy advice available to Government.
> New Zealand still has some depressingly severe problems in social cohesion for example.
> Many, indeed, most New Zealanders, want us to have economic opportunities and social service programmes that provide prosperity, inclusion and social cohesion.
> This is the most difficult of public policy areas, but that cannot be an excuse for accepting or defending the status quo. "

Her point is as important today as when she made it. The current Prime Minister has been publically critical of the inadequacies of the policy advice coming to ministers. Capability for policy advice has, in too many areas, fallen short on major questions of concern to the society. Social policy across all its major components have been a continuing challenge going back a long way. Today, there are many social indicators that are reason for concern in the search for policies to improve these indicators. These are front and centre in political debates.

Like any small country New Zealand does not have the luxury of a "government in exile" and so policy advisers within the ministries are often the only ones with the resources needed to break open major policy issues. The report to the government by the writer in 2010 (Scott et al., 2010) offered some explanations as to why this capability often falls short of the demands upon it. And an important part of the story is that ministers have short time horizons and rarely ask for deep policy advice. So it needs to be protected and investments made in the capability of ministries to provide advice, not only to their current ministers but for foreseeable future ministers as well. A helpful feature of the BPS reforms is the requirement on senior managers to invest in future capability and be accountable for that. While the State Sector Act 1988 provided for this there were many organisations over long periods under budget constraints that led to the allocation of resources to current service delivery, at the expense of future capability.

In the writer's view, and as evidenced by what has emerged from the "Getting to Great" initiative noted above and also social investment, performance improvement by the state must also be about advanced policy capability to help set long-term directions and not just about short-term budget allocations and efficiency improvements. The budget system, which is capable of moving resources flexibly and dynamically, will not do so in reality, if the future oriented strategic work is not convincing enough to overcome the natural inertia in state institutions. Just pasting outcome statements and performance indicators onto budget documents will achieve very little by way of allocating serious resources to future priorities.

It is too soon to know how the Policy Project under the Dept. of Prime Minister and Cabinet is progressing and what difference it is making. New Zealand faces serious challenges in its economy, society and environment. It will be years before future observers can judge whether this initiative to improve policy capability has made serious contributions to resolving these issues. But in its own terms the project has brought more focus attention and conceptual thought to building policy capacity than has ever happened before.

8.7. Managing change

Thirty years of experience with public sector reform is a basis for some reflections on the processes. The reforms of the 1980s and early 90s, the Better Public Services reforms and the Performance Improvement Framework have several features in common. Each of these three reforms were responding to a recognised need for improvement with specific ends in mind. They had strong support from at least some senior ministers and the leadership of the bureaucracy was committed and engaged. In each case it was clear what kind of changes were being sought and the necessary investments were made in getting the architecture and the principles in place, which is also an essential basis for clear communications with those who must implement the reforms.

The early reforms were a major disruption to the way the State had been managed, whereas later reforms were more incremental. The BPS reforms built on more than 15 years of initiatives, both large and small, to improve the coordination across the ministries in the pursuit of government wide goals. These codified and embedded arrangements for collaboration and added a new dimension by way of responding to advances in information technology. While there are important differences between these reform initiatives, they have in common strong leadership and well-articulated goals and institutional architecture. In each case there was a need for the changes that was accepted by the leadership.

There is a large international literature on the "political economy" of public sector reform. This literature tends to be dominated by international organisations and large donors that are seeking mostly to assist developing country governments to improve the integrity and effectiveness of the public management systems. Historically, public sector reform was often used as a condition for loans by donors. The track record of this was very patchy and many of the associated reforms were cosmetic or minimally implemented. Laws got passed but necessary accompanying behavioral changes did not change to implement these as intended.

Advisers debated ways to do better, which spawned a literature on how to improve the fit of reform programs to country circumstances, including how to sequence public sector reforms. Various schemes were debated with the labels Doing Basics First, Platforms, Seven Hurdles and others. This is too large a subject to traverse here but, suffice to say, experts within the international organisations and donor programs have given much greater attention to the political economy of reform over the last 10 to 15 years. Sequencing models have lost favour in the light of sober realisation that public financial management systems have not been improving in developing countries over ten years, because they are very change resistant and that local political economy factors and the institutional environment constrain what is feasible in a program of reform (Allen, Hemming, & Potter, 2013) p5.

This warns against strategies that rely on trying to install "best practice" solutions without assessing how congenial the political and institutional environment is to these. That said, there are lot of tools and processes that can be applied across a range of situations. For example the underlying principles of effective accounting and finance are near universal. HR practices and management styles and methods are more influenced by local culture and therefore harder to graft onto circumstances that are significantly different from the cultures in which they were developed. A reform program needs to take into account how to get the necessary behavioural changes.

An important point to emphasise about New Zealand's periodic reform initiatives is that they have been spurred on by the desire to address real problems on each occasion. No country undertakes public sector reform for its own sake. Although solving a sequence of real problems can lead to a messy and organic evolution of the system over time, the change process is supported by political and administrative leadership, because the reform addresses issues of concern to them. Advisers can ensure that the next step along the way to better public management is not a two legged stool, but a well-functioning addition to the wider system. Best practice is a vague and dynamic concept and not sufficient alone to shape a reform program.

The social investment initiative in New Zealand is an exception to previous reform initiatives in several ways. While it has had the force of a powerful Minister of Finance and now Prime Minister behind it, it is not a single discrete reform to agendas, institutions and processes, but a multi-faceted 'movement'. There are top-down elements of the movement in respect of some concepts, processes and structures, but it has also evolved partly from the bottom-up and does not come with a blueprint or a manual of best practices. And while the technical aspects of the change are coming along reasonably well, the challenge is going to be to get the behavioral changes in the relationships with the citizens. This makes social investment a very challenging reform, which will encounter resistance as it will change the nature of the relationship between the State and citizens surrounding the services in question. The 1980s and 1990s reforms disrupted the public sector labour force in an unprecedented way, which led inevitably to resistance. However the government at the time was astute and generous in providing financial compensation for redundant workers. If it is to reveal the full potential of social investment then the Government will need to be similarly creative in some respects to focus on getting the necessary behavioural and relationship changes, especially for those applications aimed at delivering blended services to identified target groups within collective impact models.

A lesson from New Zealand is to do the legislation necessary for a management reform once and get the balance between too much and too little detail correct. It can be seen that the underlying theme in public management swung somewhat from decentralisation to a degree of re-centralisation and back again. But these changes had very little impact on the underlying legislative basis for the managing the state sector that had been put in place in the 1980s. The changes were more matters of ideology and ministerial managerial styles. Of particular interest in the narrative is the emphasis and experimentation with ways of using overarching strategic goals to drive government agendas, continuing concern about capability and in later years the evolution of social investment, which is powered by rapid advances in data integration and analysis.

8.8. Trust

New Zealanders have high expectations of their governments and state agencies. The international surveys show very low levels of corruption and the degree of cynicism about government in the population seems low by contrast to other countries.

New Zealand has always had and maintains high ethical standards. The fear by some commentators that the reforms would undermine these never materialised. The insulation of Public Service appointments from political interference is a long-standing feature of the system. If ministers are unhappy with their senior managers they can ask the State Services Commission to assess their performance or inquire into particular matters, but they cannot directly fire their top managers. Where ministers have concerns about the policy advice they are getting and it is not a demonstrable performance problem, there are other avenues for getting advice, including political appointees in the ministers' offices.

State enterprises and Crown Entities are kept clean due to New Zealand's tradition that ministerial appointments to the boards of state-owned enterprises and Crown entities should, by and large, not reflect political favouritism. The principal was established by the Labour government in the 1980s which saw that patronage appointments to the boards of the state-owned enterprises would put at risk the whole objective of its ambitious program of corporatisation. They chose board members almost entirely on the basis of their standing in the business world. Patronage appointments are more common with the Crown Entities, but a strong tradition has developed under which these appointments are made from shortlists with advice from the public service. Also the Treasury puts a lot of effort into the induction of newly appointed board members to both state enterprises and Crown entities and runs professional development activities for appointed directors. In the writer's view such arrangements, though unusual in many countries, are crucial to the performance of state entities.

New Zealand's reforms have from the beginning been based on deep delegations of authority for finance, human resources and to assets and liabilities. In many countries it is simply impractical to contemplate these levels of delegation. New Zealand ranks very high in the indices of global corruption and the government is committed to transparency principles, while having some distance to go in implementing some of them. New Zealanders take the situation for granted.

However every country starts somewhere and there are many methods for making progress in the absence of the high levels of trust that a full-blown application of the New Zealand system would involve. For example the freedoms in the New Zealand model can be constrained by limiting the items over which a delegation to managers applies. The shift in the nature of audit from being external to internal can be similarly constrained. Various other matters can require prior approval rather than ex-post reporting as in the New Zealand situation. An early Australian innovation was to bring together all the so-called "running costs" that could be treated differently from other kinds of expenditure with respect to managerial delegations.

Of course ultimately there is trade-off to be made over the balance of central versus delegated control over decisions. If central control was the most efficient way of running the state then there would be no need for this kind of reform. But it is not necessary for delegations to be uniformly applied everywhere across the state. Decisions can be made as to where deep delegations will produce net benefits and where they may not. They can be used as an incentive, as New Zealand did in implementing the Public Finance Act. Full delegations were not available until the Minister of Finance, on the advice of the Treasury, was satisfied that the systems were in place to support decentralised management ministry by ministry.

To conclude, New Zealanders have high expectations of their government and by global standards, quite high levels of trust in it. This has facilitated reforms based on extensive delegations of governance and management authority.

9 / Concluding comment

This paper was commissioned with the intention that it would support a discussion within Chile about how to improve the effectiveness of public sector management. It concludes with some final comments that might usefully be considered by the authorities and contributors to this discussion.

Where is the "felt need" in Chile for improvement in the performance of the State? Are important micro or macro level objectives not being met or are important problems not addressed? In the minds of the leadership, is the evidence of the need for change apparent? Are they willing to seek and implement improvements? What are the limits to this? In other words what is the political economy environment in which the discussion of reform is taking place?

From the perspective of global standards of good practice in public management where does the current system fall short and thereby contribute to the perceived problems? Public management systems have many dimensions and it is rare for any country to try to reform them all at once.

The writer is aware of the interest in the budget system as a possible area for change. That said, if there are weaknesses in the budget system, what are they and what is causing these? A good place to start is with the so-called Public Expenditure and Financial Accountability (PEFA) assessment, which is a tool used globally to assess the strengths and weaknesses of the budget and financial management systems.

Are there problems beyond the budget system, with the systems and culture of the public service, HR issues to do with appointment remuneration promotion tenure etc.? How do government strategic objectives emerge and get attended to? Does the government have a way of aligning the arms of the state sector with overarching government goals or areas of concern? If so how does it embed these in the performance requirements of ministers, senior officials and ministries? How does it allocate resources and other necessary support in order for government agencies to make the best available contribution to the overarching goals of the government?

How should the authorities think about budget reform in relation to performance improvement? A strong element in the New Zealand story is that the management system was conceived holistically from the beginning. This might seem an obvious point but many countries have focused heavily on improving the financial management system. While this is an essential element of a performance improvement program, it must go hand-in-hand with other changes within the total management environment if improved performance is the goal. Many reform initiatives have focused on adding performance information to the budget system without much by way of supporting changes elsewhere. This will fail if all that happens is that budget documents are decorated with performance targets for managers who have neither the means nor motivation to achieve them.

New Zealand pioneered the use of outputs in public management for the reasons described here, it continues to use the concept today, but outcome-oriented public management does not require a specific concept of budgeting or performance measurement. However it surely does require:

- A concept or concepts of performance that are precise enough to permit assessments as to whether progress is being made or not with respect to the results intended
- Timely information on what is being achieved and what resources have been spent in pursuit of those achievements
- Policy analysis and rich data sources to assess whether the operations are showing emerging success or failure – and risk analysis
- Agile internal process for making course corrections in response to current information
- External evaluation of performance for stakeholders
- Systems by which to reallocate resources at successive layers through the hierarchy without undue friction in order to keep tuning service delivery systems to be more efficient and effective
- Institutions and culture that can overcome confirmation biases and the protection of territorial interests both in terms of what is down, how it is done and by whom is it done

There will be many feasible paths towards better budgeting and wider public management in Chile. The writer hopes that there are useful insights from the New Zealand experience described and assessed here to assist in choosing the right path.

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