

# The ongoing pursuit of state sector performance [Background paper]

February 2008

## Purpose

This paper is background for John Whitehead's 28 February 2008 speech<sup>1</sup> on state sector<sup>2</sup> performance. It outlines Treasury's perspective on state sector performance and planned areas of further work by Treasury in collaboration with other central agencies. The paper offers a stocktake and is not intended as 'new thinking'. Nor is it intended to assess either the current system or the performance of any specific agency. The comments in this paper focus on what is changing or could change at the margin, with correspondingly less attention paid to areas where there is no pressure for change.

## Summary

The current New Zealand public sector management system changed fundamentally in the 1980s and has continued to evolve. As a result, the public service has become more responsive and innovative, and delivers better services. However public expectations are such that gradual improvement is often not good enough. Twenty years down the track from the major reforms of the 1980's system level pressures are emerging. As well, Treasury's current view is that agency performance is decidedly mixed, with scope for improvement in most agencies and considerable scope in some.

Determining Treasury's work programme requires careful consideration of the external environment and the emerging issues within the system. Changes in the external environment, when compared to the 1980's, includes an improved fiscal situation, the MMP electoral system, greater complexity in some policy issues and greater public expectations for service quality and consultation. Emerging issues within the system include a tendency to over-emphasise current-year issues and outputs while under-emphasising outcome achievement over the longer term, gaps in performance measurements and reporting, and the tension between individual accountability for each entity's performance and cross-agency collaboration.

Recent reviews have concluded that the public sector management system is soundly based and have not established a case for fundamental change. While Treasury continues to monitor system-wide performance, its work programme does not currently involve development of a whole new approach. Instead, Treasury's current work involves:

- 1 ***Addressing specific challenges to fundamental principles.*** Treasury remains committed to maintaining fundamental principles that underpin the public sector management system, such as officials' political neutrality and Ministers' access to free and frank advice

---

<sup>1</sup> "Continuity and Change: The Ongoing Pursuit of State Sector Performance" - symposium hosted by the Institute of Public Administration of New Zealand and Victoria University School of Government, Duxton Hotel, Wellington

<sup>2</sup> This paper uses "public sector management" to refer to arrangements that apply to all of the New Zealand state sector (i.e. including Crown entities and State-Owned entities as well as the government departments that comprise the core public sector).

- 2 ***Implementing and utilising recent system-wide changes.*** This includes using Crown entity reforms and the Public Finance Amendment Act 2004 to drive performance improvement, implementing the Review of Accountability Documents project (ROADS) and the capital asset management project (CAM), and further strengthening the relationships between central agencies
- 3 ***Searching for further system-wide improvements.*** Treasury's current focus involves seeking ways to:
  - Better link together existing tools and levers. For example, there could be a clearer linkage between the results from existing outputs and decisions in the budget context about their continued funding
  - Help the government to develop enduring and sustainable long term policies in areas such as long term fiscal management and environmental sustainability
  - Give greater effect to the collective or whole-of-government interest. This includes promoting accountability arrangements that reflect wider collective interests.
- 4 ***Promoting agency-specific improvements.*** Treasury's contribution includes:
  - Developing and using performance management tools
  - Looking for cost-effectiveness improvements through higher productivity, better contestability and improved organisational structures.

Treasury is continually looking for ways to improve public sector performance, at both sector-wide and specific agency levels. Improving performance will require contributions from all agencies, including central agencies. External commentators can also help. As one of the central agencies Treasury can offer leadership and direction.

## Context

Public sector performance matters because it affects New Zealander's lives. Performance is important to Treasury because of its impact on the economy and society through the services delivered to citizens. Serious thinking about public sector performance is a vital component of improving New Zealanders' living standards, which is why it sits alongside Economic Performance and Macroeconomic Stability as one of Treasury's three major work areas. Treasury is interested in the impact the state sector has on economic performance and so has particular interests in results delivered and in cost-effectiveness.

Structuring policies in ways favourable to growth will give the country greater choices in managing the future fiscal challenges. This includes achieving a good balance between regulation and service provision, and ensuring that public services are cost-effective. Better quality spending means that tax burdens can be lower and can contribute to a stronger economy. The way the government uses its resources, and how it raises revenue, have a significant impact on overall economic performance.<sup>3</sup>

Achieving performance gains involves continually seeking improvements. Along with SSC, Treasury is a "guardian" of the public sector system. That system is fundamentally about performance management.

Achieving sound public sector performance is not solely Treasury's and central agencies' quest - all public servants should be interested in public sector performance. A willingness to review, report and be assessed on performance in using the resources and powers of the state needs to be seen as an ethical matter just as serious as not acting for personal gain. Performance management isn't treated in that way at present, for example, too often performance reporting obligations are treated as a compliance exercise, or a source of risk to be avoided or minimised.

Academics and other commentators also have an important role because they can bring an external perspective to help those involved in designing and operating the system. Fulfilling that role effectively requires criticisms to be well founded and not drawn solely from anecdote and hearsay. While central agencies will always be open to receiving any critiques, it is helpful to receive suggested solutions as well.

Any performance management and accountability system will necessarily be based on a model that is a simplification of reality because of the complex environment, both political and social, that it operates in. Institutions really do matter, but in reality any system design can only go so far. Despite the need to use simplified system descriptions, Treasury does seek to be pragmatic in how the public management system operates and to recognise the underlying complexity.

---

<sup>3</sup> For further information see "New Zealand's Fiscal Policy Choices - The Big Picture", speech delivered by John Whitehead, Secretary to the Treasury, 13 December 2007:

<http://www.treasury.govt.nz/publications/media-speeches/speeches/fiscalpolicychoices/index.htm>

## **Overview of the New Zealand public management system**

This section describes the main elements of New Zealand's current public sector management system, beginning with the underlying principles.

There are a number of key principles underpinning the New Zealand public sector that need to be preserved and enhanced. These principles are constitutional in nature, and form the foundation on which the public management system is based. These key principles include:

- Professionalism of public servants. Public servants generally have motivations that are wider than a simple profit motive. These extra motivations include serving the public and acting professionally
- Political neutrality of public servants
- Appointment and promotion on merit
- Ministerial accountability to Parliament.

The reforms of the late 1980s and early 1990s built on this pre-existing platform. It is highly desirable that any future changes to sector settings also preserve and promote these principles because they are essential to achieving good performance.

### ***The 1980s reforms***

New Zealand's current public sector management arrangements were established in the late 1980s. They were part of a wider economic reform programme that responded to poor performance in the economy as a whole over a long period. At their heart, the public sector component of the reforms sought to move on from notions of 'public administration' that over-emphasised avoidance of mistakes and compliance with rules about using resources and powers. The reforms sought to encompass efficiency and effectiveness in achieving desired goals.

The main public sector reforms implemented in the 1980s were:

- Agency managers were given freedom to manage with clear vertical accountability. Freedom to manage includes the right to make decisions on personnel and other inputs (State Sector Act 1988)
- Budgets were based on agreements to deliver specified outputs instead of the previous focus on funding inputs (Public Finance Act 1989)
- Greater emphasis on accurate performance and cost information, including a move from cash-based to accrual accounting techniques (Public Finance Act 1989).

In essence, the reforms devolved management responsibility to departmental managers in exchange for accountability for performance. Hence individual departmental CEOs are employers, and have considerable freedom in how things are done. This devolution is sensible because it gives the person who is accountable for performance the freedom to determine how the agency they manage actually performs. The main idea behind these changes was simple: if people know what they are expected to do, and if incentives are aligned, they are more likely to meet those expectations.

### ***Developments since the 1980s***

While the fundamental aspects of the system have not changed since the 1980s, there have been a range of system design developments since then. For example:

- the Fiscal Responsibility Act 1994 codified obligations on the government to responsibly manage and accurately report on the Crown's fiscal situation
- The 'Managing for Outcomes' project, led by central agencies, augmented the focus on specification and delivery of services (outputs) with a focus on results (outcomes) and a clearer understanding of how particular outputs contributed to particular outcomes
- Crown entity reforms in 2004 provided the platform to improve governance and performance of Crown Entities
- The Public Finance Amendment Act 2004 clarified the way classes of outputs are specified and increased flexibility, for example by creating multi-class output expense appropriations.

Overall, these developments have sought to reinforce rather than change the high-level system settings that were determined in the 1980s.

## Current performance

This paper does not attempt to analyse or assess each agency's overall performance. Instead it offers a view on overall performance at a high level.

Treasury's view is that performance across the state sector is mixed, with scope for improvement in most agencies and considerable scope in some, particularly in the aspects of performance that involve delivering results and achieving value for money.

## Drivers of Treasury's work programme

Designing Treasury's work programme involves a careful consideration of the external changes and pressures emerging within the system, as described below. In particular, it is worthwhile to consider changes since the 1980s to judge whether a model designed then remains the preferred approach for the future.

### *Changes in the external environment*

There are a number of significant changes since the 1980s that are external to the public sector management system. These include:

- ***Changes in the fiscal situation.*** At least in part, the 1980s reforms were a response to the difficult fiscal situation of the time. The particular pressure created by large annual operating deficits has eased. Instead there are now emerging issues about the long term fiscal sustainability of some policy settings
- ***Changes in the nature of government expenditure and assets.*** The number of departments and Crown entities has increased since the 1980s reforms, contrary to expectations at the time, with a related increase in the number of Cabinet portfolios. The mix of Crown assets has changed, with a greater proportion in financial assets
- ***Relationship between the executive and legislature.*** MMP has altered the relationship between the executive and legislature. In particular, MMP has led to a more important role for Parliament, with added complexities for the public sector management, such as how chief executives deal with select committee processes and with political parties that have a support relationship with the Government
- ***Complexity of policy questions.*** The need for collaboration between state agencies is increasing in response to the more complex nature of some policy issues. Sometimes called 'wicked problems', these cannot be addressed just by one agency, and need action across the public service, and often with agencies outside of the government. Examples of such policy issues are climate change and obesity
- ***People expect high quality services and to be consulted on service changes.*** There is now greater expectation that the government will engage with citizens and respond rapidly to demands for new and enhanced services. These trends have also been seen internationally, with increased importance given to the involvement of citizens in government, and changing demands as a result of more participative democracy. This results in a much more connected and citizen-focussed view of performance. Interpretations of the Official Information Act have also led to a stronger presumption of access to information, including sometimes access to advice which its authors deem to be free and frank or sensitive in other ways
- ***Other factors.*** These include technological changes, advances in international thinking and management techniques, demographics and environmental issues (including climate change and resource use).

## ***Emerging issues within the system***

Resulting at least in part from the external factors listed above, there are issues emerging within the public sector management system itself, as follows.

- ***Weak longer-term focus.*** The 1980s reforms, while enduring by nature, arose specifically from concerns of that era, such as managing performance in the shorter term and the need to achieve annual fiscal control. Examples of this shorter term perspective include the focus on current year's outputs, one-year budgeting and the annual performance management cycle. There is relatively less built into the system that manages the government's longer term interests in matters such as agencies' capability and strategic direction. Differing views between Ministers and officials on the relative importance of current issues versus future objectives can also impede effective strategic planning
- ***Performance reporting gaps.*** The intention inherent in the system is for agencies to have incentives to transparently report their performance and enable observers (including clients, Ministers and central agencies) to readily understand the performance and if necessary take remedial action. In practice, agency performance is often difficult to observe for a variety of reasons, notably measurement difficulties and weak specification. It is difficult to accurately compare performance of a New Zealand public sector agency with other similar agencies, because there is limited contestability and because there are some important differences between agencies in New Zealand and similar agencies elsewhere. Despite the heightened focus on current year performance, there is still inadequate information on non-financial aspects of performance, such as:
  - output delivery
  - how outputs contribute to desired outcomes and outcome achievement
  - how Government decisions relate to outcomes
  - cost effectivenessOn financial performance, a specific current concern is that forecasts of the Crown's financial flows are too often inaccurate.
- ***Performance measurement issues.*** Central agencies have sought to achieve clear linkages between results and agency outputs, but these linkages remain opaque in many cases and in other cases it is difficult to clearly attribute performance gaps to particular agencies because one result area frequently involves multiple contributing agencies. Many public sector outputs are hard to specify and measure accurately. It is problematic to use challengeable information as the sole basis of informing accountability relationships. Problems in performance measurement include:
  - Encouraging a focus on what can be measured, not what is important
  - Targets can create perverse incentives
  - There is a cost in producing information that is not used.
- ***Accountability arrangements.*** The assumption that vertical accountability would incentivise collaborative behaviours (if Ministers wanted them) has proved to be optimistic. As well, cooperation between agencies is harder now, partly because some organisations have been split. Responsiveness to the public has also been somewhat problematic because the critical accountability relationship is from the department to Parliament through its responsible Minister
- ***Weak focus on outcomes.*** The shift from reporting on an inputs basis to an outputs basis was a major element of the reforms. The improvements in output information

helped the government to prioritise and restore sound fiscal control. However, fiscal control is no longer an immediate problem and the focus is shifting towards the tools Ministers need to make gains in achieving outcomes. That shift of focus was always envisaged but only given momentum recently. Outcomes are not always well specified, the link between the agencies' outputs and the Government's desired outcomes is often unclear, and it is often difficult to measure and attribute the contribution of outputs to outcomes.

- **Quality of advice.** There is a concern that officials can sometimes be (or be perceived to be) other than politically neutral and might sometimes be constrained from offering Ministers their best advice on a free and frank basis because such advice might be subsequently released publicly and expose the officials to criticism.

These issues are inter-related and there is generally no simple mapping between each issue and the measure or measures designed to remedy it. The Annex contains a table that seeks to link the issues outlined above with the work programme outlined below. While the table indicates that the work will make progress against each issue, it is an open question as to whether that progress is sufficient.

### ***Is there a need for fundamental system redesign?***

There is little value in 'tinkering' with a system that needs fundamental change, so in considering Treasury's work programme, it is first necessary to identify whether there is a need for fundamental system redesign. The 1980s reforms have attracted academic critique on the underlying ideas, the nature of the changes themselves, and the lack of evaluation of the reforms. The reforms have not achieved all that was hoped for, and in hindsight were perhaps not always realistic about what could be practically achieved. In addition, some assumptions have turned out to be more problematic than envisaged, particularly in the area of performance management, and perhaps there could have been more consideration of the implementation details.

It is not possible to accurately compare what is with what might have been. Nevertheless, it is likely that the reforms have contributed to some performance gains, such as greater efficiency of output production and transparency of reporting.

This paper is not intended as a thorough assessment of the current system compared to potential alternatives and so does not look to make or disprove a case for fundamental system redesign. In determining whether Treasury should work towards a major redesign we have instead drawn on the conclusions of the most recent system-wide reviews<sup>4</sup>. While each recent review has reached slightly different conclusions, the overall conclusion the reviewers have drawn is that the current system is soundly based and it is unlikely that any alternative would offer sufficient improvement to justify a fundamental redesign.

For that reason, Treasury considers that the environmental changes and internal issues outlined above are best managed through fine-tuning how the public management system operates and how specific agencies operate, rather than through designing a whole new approach. Accordingly, Treasury is not currently actively reviewing the public sector model. This is not to imply a view that the current system is optimal, but rather the greatest gains are likely to come through enhancements rather than fundamental redesign. Treasury welcomes further comment on the system and is willing to reconsider fundamental redesign of the system in the light of further experience.

---

<sup>4</sup> See Appendix 3: recent reviews of the public management system, Review of the Centre – Report of the Advisory Group, SSC 2002 for a list of recent reviews.

## Treasury's current work

As outlined above, Treasury is not contemplating fundamental redesign of the system, so it is worthwhile to consider improvements within the current high-level settings. This section outlines Treasury's current areas of activity, grouped under the headings of:

- 1 Addressing challenges to underlying principles
- 2 Implementing and utilising recent system-wide changes
- 3 Seeking to improve system-wide processes
- 4 Working with agencies

### 1. *Addressing challenges to underlying principles*

The principles that underpin public sector management are outlined above (page 4 refers). Treasury actively supports these underlying principles by ensuring that people understand and play their respective roles in the system, and that the system is being used as intended. A precursor to high performance is ensuring Ministers receive free and frank advice from a politically neutral public service. Current challenges which Treasury is working to address are as follows.

- ***Political neutrality.*** Inevitably the public sector is under the spotlight for what it does or doesn't say to Ministers and it is important to understand the basis of those engagements. Doing the job well involves officials actively telling Ministers what officials think in as persuasive ways as possible. Being free and frank is not enough – agencies also need to be responsive. Treasury will continue to promote and protect political neutrality, both in its own work and across the public sector
- ***Implications of how the Official Information Act is interpreted.*** The OIA has had a number of very positive impacts, for example it has increased public engagements with the policy-making process and made policy advice open to peer review. Recent commentary<sup>5</sup> has identified some potentially negative impacts such as constraints on officials' willingness to supply genuinely free and frank advice, to explore new ideas and pursue more lateral solutions. If used properly, the necessary mechanisms are in the Act to reinforce and protect the processes necessary to good government, including confidentiality where that is justified. The Office of the Ombudsmen is obliged to balance the public interest in access to information with the public interest in good government. Good government can at times depend on confidentiality to achieve ongoing access to free and frank advice. Treasury welcomes a continuing engagement with the Office as it strikes this balance. A particular issue is how precedent applies in the official information setting. While each case needs to be looked at on its own merits, there is an unnecessary constraint created if senior officials cannot rely on previous official information complaint decisions and decide to limit their advice to Ministers as a result.

### 2. *Implementing and utilising recent system-wide changes*

A range of recent system-level changes are either at an implementation stage or are implemented but not yet fully used. Examples are as follows.

---

<sup>5</sup> "Free and Frank: Making the Official Information Act 1982 work better", Nicola White, Institute of Policy Studies, Victoria School of Government, Wellington, 2007

**(a) The Review of Accountability Documents (ROADs) project.** This project is currently being implemented. It will provide better performance information by reducing the 'gloss' in current accountability documents and concentrating on saying what and how well agencies do. It will make performance information more useful to Ministers, Members of Parliament, select committees and the public.

**(b) Capital asset management project (CAM).** In this project central agencies including Treasury are leading work to raise awareness of the benefits of improved asset management, reduce the risk of fiscal and operating 'surprises' arising from asset management and reporting, and secure measurable gains from capital expenditure. CAM relates to all asset classes and will require better quality information to be available for decision making, financial planning and performance monitoring purposes.

**(c) Using the flexibility in the Public Finance Amendment Act 2004.** This Act has enabled departments to modify the way their appropriations are scoped so they can more easily direct resources to where they are needed. For example, departments can seek a single appropriation for multiple classes of outputs which lets them transfer resource between output classes during a financial year without the delay and cost of seeking an amended parliamentary approval.

**(d) Using a 'sector' approach.** In recent years Treasury, working with other agencies, has made useful progress in explaining performance using a 'sector lens' and has sought to draw together agency performance, outcomes and cost effectiveness to facilitate a dialogue with agencies and Ministers about possible areas of focus for improving overall performance. Examples are as follows.

- *Health sector:* Treasury has led work on productivity measurement and supported the Ministry of Health's initiative to develop benchmarking tools for District Health Boards. Treasury also investigated the use of national targets to motivate health sector performance and supported the health targets which the sector has now put in place
- *2005 Effective Interventions project:* Effective Interventions involved all the Justice sector agencies and central agencies working together on substantive policy responses to New Zealand's crime rate and imprisonment rate. The Justice sector is notable for its linkages - both within the Police/Courts/Corrections 'pipeline', and more widely with health, education and social development agencies' contributions to reducing crime. While the policies emerging from Effective Interventions will make a difference, there is clearly more to be done - as signalled in the recent debate about Raising Youth Potential
- *Housing affordability.* This entailed a project team involving central agencies and housing agencies under DPMC leadership drawing together a story about the housing system and drivers of house prices, and from that developing policy work and options for Ministers. This work culminated in the Prime Minister's recent announcements at the opening of Parliament.

**(e) Coordinated central agencies.** Following the 2006 Central Agency Review<sup>6</sup>, the three central agencies have been working more closely to align and integrate their work where this will lead to stronger state sector performance. The central agencies are currently engaged in a planning process for 2008/09 which is identifying short-term central agency priorities around policy outcomes, engaging with agencies and public management system improvements. As part of this planning process, the central

---

<sup>6</sup> 2006 Central Agency Review, 14 September 2006, on Treasury's website:  
<http://www.treasury.govt.nz/publications/informationreleases/exgreviews/>

agencies are also looking at changing how they work to support the achievement of shared outcomes over the medium term. Central Agencies have a shared purpose in lifting performance across the State Services to realise the Cabinet's vision of:

*A high performing, trusted and accessible State sector, delivering the right things in the right way at the right prices.*

To deliver on this vision, staff across the central agencies are increasingly working closely together and coordinating their engagement with other agencies. The central agencies have identified the following priority areas for their work:

- **Policy Outcomes** – to better coordinate resources and support multi-agency initiatives to gain traction on the Government's highest priority policy areas.
- **Agency Engagement** – to improve the effectiveness and efficiency of our engagement with senior leaders in the Public Service to support them in lifting the performance of their agencies and the State Services as a whole.
- **Public Management System Improvements** – to better coordinate our work to transform the State Services through our joint leadership of the Development Goals for the State Services and our efforts to enhance performance information and reporting across the system.

### **3. Searching for further system-wide improvements**

Every complex system requires maintenance to reflect external and internal changes and pressures. The three most prospective areas of work at the systems level are:

- (a) Linking together the existing tools and levers
- (b) Helping the government to develop ensuring and sustainable long term policies
- (c) Giving greater effect to the collective or whole-of-government interest.

Each of these is described in more detail below.

#### *(a) Linking together the existing tools and levers*

It is important to keep challenging the thinking about how to use system levers. The budget process is a good example of an existing lever that could be better linked to agency performance management. The focus of the budget process has been primarily on managing inputs and achieving fiscal control. There are opportunities for it to become a stronger lever for demanding better performance information, and aligning resources with Ministers' priorities. Treasury, as manager of the budget process, is increasingly focussed on ways to link the budget process with performance. Ways in which might can be done include:

- Using the budget to set clear performance expectations
- Focusing more on existing expenditure– not just on new expenditure
- In some areas funding could be linked to the achievement of performance targets.

Other tools and levers for central agencies to consider are:

- Aligning management of the chief executive's own performance more closely to the budget process and the achievement of results

- Strengthening management of capital assets so there are consistent decisions that actively prioritise across the whole public sector. The Capital Asset Management project has begun this work
- Strengthening reporting obligations so actual performance is observable
- Decision rights on inputs. While agency managers have decision rights, they are sometimes constrained by centrally imposed rules. While such rules can have a place, they can restrict managers freedom to manage and in doing so weaken managers' accountability for performance.

*(b) Helping the Government to develop enduring and sustainable long term policies*

Agencies can do more to take account of the government's longer-term interests across a range of policy areas. In part, this is about the quality of information the public sector can provide Ministers to inform their longer term decision making. Examples of the very difficult issues that Ministers will need to grapple with are around inter-generational equity and climate change. Treasury is particularly concerned that, under current forecasts and current policies, the long term fiscal position will come under considerable pressure in 20 to 30 years time as health and superannuation expenditure increases in response to an aging population<sup>7</sup>.

Agencies have begun to improve how they support the government as it develops enduring and sustainable longer-term policies. There is also a need to join up the advice across the public sector on how agencies see the future playing out.

As well as supporting the government, agencies also need to assist the public to better understand the trade-offs in policy decision making. Addressing some of the really hard long-term policy issues may require trade-offs from shorter term objectives. An example of such trade-offs is the issue of allocating health expenditure between current and future time periods. Money spent now on preventing future health issues (and hence reducing future expenditure) comes at a cost to what can be spent to address health issues now.

In general, agencies could do more to support Ministers and the public to understand these trade-offs and which policies are most likely to be effective over the longer term. Making progress may raise important capability issues for some agencies.

*(c) giving greater effect to the collective or whole-of-government interest.*

To develop the collective or whole-of-government interest Treasury is looking to:

- **Facilitate agencies working jointly.** Sector-wide and cross-sector approaches are becoming more important as agencies focus on larger, more intractable problems. For example, achieving gains in health requires involvement of a range of agencies, many from outside the health sector. This also applies in areas like housing, as well as current issues such as Realising Youth Potential. Public sector leaders increasingly need to work collectively on enhancing the collective interest. Treasury and other central agencies are well-placed to make connections between agencies and sectors. As well, some agencies, with government and Treasury's support, have instigated joined-up budget processes. This is notably the case in the Justice sector
- **Improve accountability for shared results.** An area where further thinking is required is how to reconcile this collective interest in cross-cutting results with the

---

<sup>7</sup> See Treasury's Fiscal Strategy Report 2007 (<http://www.treasury.govt.nz/budget/2007/fsr/06.htm>)

strict accountability of each agency's CEO for that agency's performance. Issues that lie between agencies can be difficult to allocate and there are only weak incentives built into the system for CEOs to consider issues beyond their direct area of responsibility, although in practice most CEOs actively do so

- **Enhance sector level information.** Agencies, working with central agencies, can build on the thinking behind the Review of Accountability Documents (ROADs) project to further develop the information available to Ministers, Parliament and the public on performance at a sector level.

#### **4. Promoting agency-specific improvements**

Architectural improvements can only go so far – getting real performance improvements needs a focus on the players within the system at least as much as on the system itself. Irrespective of whether the public sector management system should change, there is much that can be done to improve agency and sector performance within the overall settings.

In particular, the current level of connection and client focus is short of where it could be; there is not the performance information needed to drive a performance focus and limited measurement and assessment of cost effectiveness in public service provision. There is a sense that performance measurement and assessment is treated by some as a compliance exercise or a risk to be avoided or minimised. As discussed above, the behaviour of the players is key to raising performance, probably more so than the system design.

Every public sector agency has obligations to:

- Deliver sound performance
- Report honestly on performance
- Seek improvements over time.

Treasury, along with the other central agencies, will continue to work with and support agencies and sectors as they move to lift and report on their performance, with Treasury's efforts directed toward the areas where performance could be significantly improved. In particular, Treasury will focus on areas where there is considerable fiscal pressure, where Ministers have genuine strategic choices, and where agencies are particularly important for living standards. The nature of Treasury's specific involvement with particular agencies will depend on a range of agency- and sector-specific factors, but can be described under the headings of:

- Applying performance management tools
- Testing cost effectiveness.

##### *Applying performance management tools*

There are a range of tools and techniques that agencies can use to improve performance. Treasury and SSC have roles in developing and encouraging the use of these tools, which include:

- The public sector development goals which articulate an ambition beyond mere compliance across the management disciplines (information technology, human resources, etc). The development goals have been expanded to include a cost effectiveness goal to give an important signal about the need for gains
- Intervention logic tests how well an agency's mix of services is aligned with achieving desired results and creates a framework for measuring and assessing progress.

##### *Testing cost effectiveness*

Part of Treasury's role is to help the government ask the "hard questions" about effectiveness and efficiency. Current issues include:

- **Productivity improvement.** Agencies can do more to demonstrate the productivity of providers in their sectors, using benchmarking and other techniques

- **Contestability and consumer choice.** There may be opportunities to make greater use of contestability and consumer choice in the provision of services and acquisition of resources. Countries that have had success or failure in areas such as public/private partnerships or contracting out services may have useful lessons for New Zealand
- **Organisational design.** New Zealand has many departments and Crown entities. Compared to some overseas jurisdictions the structure appears to be relatively fragmented. This is not necessarily the best way to organise effort for achieving the Government's objectives, not only because of the barriers to working across agencies but also because there are capability issues from spreading the limited pool of human resources too thinly across multiple agencies. There will always be boundaries irrespective of how the public sector is structured. There is a need to find more effective ways to work across those boundaries to tackle the kind of complex problems and opportunities public policy and delivery faced today.

## **In conclusion**

We have every right to celebrate the gains of recent decades. The public service has become more responsive and innovative, and delivers better services. However public expectations are such that gradual improvement is often not good enough. Twenty years down the track from the major reforms of the 1980's there are a range of system level pressures emerging. While these are challenging they are far from insurmountable and in Treasury's view require a continuing evolution rather than a fundamental change of direction. To effectively drive performance, system-wide processes require regular refreshing. Addressing state sector performance needs to move beyond debating models – all state sector agencies have a responsibility to achieve better performance and value for money in service provision.

There are areas of the public management system that we need to protect, build on and enhance, just as there are areas of weakness that we can and must remedy. There are also areas where the system needs to be reconsidered in the light of experiences over the last 20 years. None of these necessarily involves a fundamental rethink or significant change of direction – but they do involve all participants developing a much more connected and client-focussed view of performance. It is important that desired results are defined around genuine needs rather than what the system can currently deliver.

Treasury is continually looking for ways to improve public sector performance, both at agency level and across the public sector. Treasury cannot achieve the potential gains in performance by itself but, as one of the central agencies, it can offer leadership and direction.

## ANNEX: LINKAGES BETWEEN THE ISSUES AND THE ACTIONS

The issues identified in the body of the paper are complex, inter-related and of varying magnitudes. Often there is no simple single corrective action that would resolve an issue. Similarly, the particular actions in Treasury's work programme as described in the body of the paper are frequently intended to help with addressing more than one of the presenting issues. The following table seeks to explain the main linkages between the issues and Treasury's current and planned actions. The table shows that there is work either underway or envisaged that focuses on each of the issues. Whether the work is sufficient to adequately "resolve" the issues (to the extent that resolution is possible) remains a much harder question.

Actions	Issues					
	Weak long term focus	Reporting gaps	Perf. measures	Accountability arrangements	Weak outcomes focus	Quality of advice
<b>Address Challenges</b>						
Political neutrality						✓
OIA						✓
<b>Recent changes</b>						
ROADS	✓	✓	✓		✓	
CAM	✓			✓		
PFA flexibility		✓		✓		
Sector approach	✓			✓	✓	
Central agencies	✓				✓	✓
<b>Further system wide improvements</b>						
Linking tools and levers	✓				✓	✓
Long term policies	✓				✓	✓
Collective whole of govt interest	✓				✓	
<b>Agency-specific improvements</b>						
Performance management tools			✓		✓	
Cost effectiveness	✓					