

# Better Public Services Advisory Group Report

November 2011



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# Foreword from the Chair

New Zealand's state services have an enviable reputation internationally, and are generally well-regarded domestically. We are consistently rated highly by organisations like Transparency International for the absence of corruption. There is an embedded ethic of public service, a commitment to maintaining the rule of law and to sustaining impartial and accountable public institutions. The contribution of New Zealand representatives to the work of international organisations like the United Nations, the OECD, the World Trade Organisation, APEC, the Commonwealth and the Pacific Islands Forum, is well established. The practice of independent appointment of public service chief executives has been in place since 1912, which is unique internationally.

New Zealand's impartial public service is a critical component of our Westminster system of parliamentary democracy, one of the few anywhere in the world to have been continuously under the sovereignty of the people for more than a century and a half.

On the other hand, for a country as small as New Zealand, we have an inordinately complex and cluttered state sector, with literally hundreds of agencies, ministries, departments, Crown companies, Crown entities, state-owned enterprises and advisory organisations. There is a high number of ministerial portfolios, and a large number of public service agencies - many of which might not be judged to have critical organisational mass.

There have been numerous efforts over the years to improve the performance of the public service and wider state sector including, in particular, through the reforms of the 1980s, and the associated reforms of local government. Through those changes, New Zealand gained a reputation as a leader in public service reform. Some of the innovations that were first introduced to public sector management here have directly informed reforms adopted in other jurisdictions.

State sector reforms have normally been undertaken for the simple purpose of achieving better results for New Zealanders. Over time, of course, as economic and political circumstances and models change, and as technology advances, the role of the state needs to be progressively redefined. What was critical and possible in 1890, 1940 or even 1990 is not necessarily vital or possible in 2011. Different requirements emerge, and expectations change. The ability of the state to support or guide national aspiration alters. The role of defining the legitimate role of the state is one for Parliament, and the nation's political leadership, although the courts and public opinion must also be taken into account.

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. Issues such as our geographical isolation, small population scale and economic structure have been adduced as impeding our ability to succeed where others have. But that is what we have to work with – that is our hand of cards. Perhaps we also need to revisit some of our policy settings. In the long run, good policy really matters in the quest for good results.

The global financial crisis in late 2008 placed enormous – and continuing – pressure on economies and societies everywhere, including New Zealand. And, although the negative impacts of the crisis have been significant here, they have been worse in many other places. In New Zealand, the pressing needs have been to stabilise and restore the nation's economic fortunes, regain confidence and growth and, at the same time, improve the performance of the state sector in supporting New Zealanders in their lives and businesses.

The financial crisis only reinforced the prior need for a reassessment of the shape, extent and performance of New Zealand's state services, so that they are better able to support New Zealanders' aspirations. Good state services have a critical role in delivering jobs and growth, and improved environmental and social results. At the same time, it is essential that the New Zealand public service maintains its role as the custodian of the conventions of the Westminster system of government, the rule of law, the political impartiality of public servants and high levels of trust in government and its institutions.

The Better Public Services Advisory Group was established by the government in May 2011 to provide advice on state sector reform. This report sets out that advice. The goal is a public service and state sector that is achieving value-for-money, is innovative, provides high-quality services and manages change effectively. We trust that this advice will assist Ministers in the incoming government to make decisions on state sector reform that will ensure our state services perform to the highest possible standard, and are fit-for-purpose and affordable over the medium term.

We see this report as very much the starting point for an ongoing programme of reform over the next five years. The objective is better services for New Zealanders, of a type and at a scale that enables our society and economy to flourish. We are currently in a time of significant international uncertainty and risk. But there are also enormous opportunities available to New Zealand. This report is intended to ensure that the state services play their rightful role in ensuring those risks are mitigated and the opportunities secured.

I would like to thank the members of the Advisory Group, especially the external members, for their active participation in preparing this report, and for their many contributions, all of which have been constructive. The Group has been bound by a strong sense of purpose – doing better for New Zealand, by providing Ministers with some positive options for change.

My thanks also go to the Secretariat, led by Andrew Kibblewhite, Deputy Chief Executive, the Treasury, for their support for the Advisory Group and their suggestions and analysis. I am also grateful to the small group of Central Agency officials who were involved in the earlier reappraisal of our public service, and whose work provided for the foundation of this report.

Lastly, I wish to thank those chief executives in the public service and state sector, and those external advisers, who so willingly provided input and comment as the Group undertook its task. Your role was critical.

I have much pleasure in forwarding this report to Ministers for consideration, on behalf of the Better Public Services Advisory Group.

Maarten Wevers, CNZM

Chief Executive, Department of the Prime Minister and Cabinet

and

Chair, Better Public Services Advisory Group

**Members:**

Sandi Beatie, Deputy Commissioner, State Services Commission

Mark Ford, CNZM, Chief Executive Officer, Watercare Services Ltd

Jacqui Graham, Founder and Chief Executive, Wise Group

Professor Peter Hughes, Victoria University of Wellington, School of Government

Gabriel Makhoulf, Secretary to the Treasury

Iain Rennie, State Services Commissioner

Vanessa Stoddart, Group General Manager, People and Technical Operations,  
Air New Zealand

# Executive Summary

It is no over-statement to say that New Zealand faces the most challenging international economic environment in generations. That environment is placing significant pressures on our economy and society domestically. All over the world, governments are looking to their state services to support and sustain quality public services, whilst containing or cutting costs. It is no different in New Zealand. Although New Zealand entered the global economic downturn with a stronger financial position than most OECD countries and has weathered the storm better than many, we face essentially the same imperatives for fiscal consolidation, service realignment, and an economic recovery that will deliver jobs and growth. The adjustment process is already well underway in New Zealand, reflecting the work of many individuals. But more will need to be done to lift economic performance, and to reduce the cost of the public service, by improving the system's efficiency and effectiveness – in short to do more and better with less.

Quite apart from the economic, fiscal and debt imperatives, citizens are expecting better public services, delivered to them in more immediate, responsive and flexible ways. New Zealanders and their representatives in Parliament are looking to gain better traction on the thorniest issues that constrain our living standards, our export performance, our levels of educational attainment, the safety of our children, and the management and protection of our natural environment.

Against most international benchmarks New Zealand has well-regarded state services<sup>1</sup>. They tend to respond reasonably well to Ministers' needs, provide reasonable services to citizens, are trusted to be impartial and ethical. To a large extent, they have shown they can step up to the mark in times of crisis such as immediately after a natural disaster.

But maintaining reasonable standards is no longer good enough – if ever it was - in light of the scale of the challenges before us. The evidence is that, notwithstanding the quality and commitment of New Zealand's public servants, they have been working in a system that has not brought out their best. New Zealand's state services are some way from being the best in the class. We can and must do better.

The good news is that the actions needed to make significant improvements are clear. Change is needed 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

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<sup>1</sup> See, for instance, New Zealand performance in the KPMG report, *Benchmarking Australian Government Administration Performance*, November 2009.

- 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.

The state sector's small absolute size, and therefore its ability to mobilise leaders quickly, is an advantage New Zealand has compared to other countries. There is no reason why New Zealand cannot have one of the best regarded state sectors in the world. The current combination of circumstances means that now is a good time to act.

## Delivering better results

The first significant change proposed in this report is to reconfigure the system much more directly around those results or outcomes that matter most to New Zealanders – something that the state services have struggled to deliver collectively over the years. State services should be both a trusted source of advice on what the Government's priorities for action should be, as well as a proactive mobiliser of people and resources to deliver the priorities set by the government of the day.

A clear conclusion of the work of the Better Public Services Advisory Group is that, provided the government's priorities are clear, the state agencies responsible for providing or funding services can do a much better job of delivering them. The Advisory Group 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.

An emerging example of this can already be seen in the justice sector, where the three biggest departments are increasingly seeking to organise themselves to better leverage their individual policy, financial and physical resources to reduce costs and achieve better results. In this case, it may make sense to go further and hard-wire these arrangements by, for example, bringing the balance sheets of all three agencies together under one sector-wide chief financial officer, or having a justice sector-wide policy framework. Similar opportunities undoubtedly exist in other sectors, although the Advisory Group assesses that any changes to existing practices should always reflect sector-specific circumstances.

If adopted as this report suggests, a focus on results would have implications for Ministers and their roles as well. Priorities are more likely to be achieved if there are not too many of them. The more clearly Ministers narrow down and specify the few things that matter most to the government of the day, the more effectively the state services will be in ensuring those services are delivered. Choices matter.



## Better services and value-for-money

Getting better outcomes for New Zealanders – within appropriate legal and constitutional settings - is the highest calling for government and the state services. Improving the quality, responsiveness and value-for-money of state services comes not far behind.

One powerful driver to improve quality and cost is to make more information available to citizens. Citizens and businesses expect to have a say on state services: on what they need, how they want it and who they get it from. This needs to be a routine expectation of both agencies and third-parties that provide services. It means listening to – and being held to account for acting on – this feedback, probably using the internet as a principal channel of interaction. Amplifying the direct influence of citizens and businesses on service delivery is at the heart of state sector reform in the United Kingdom and in Australia.

Harnessing the power of choice is also a feature of the discussion of best-sourcing in this report. There are already good examples of gains in quality and price being captured through the outsourcing of service delivery (eg, in the Accident Compensation Corporation [ACC]). The Advisory Group considers that there is room to go further, in part by the state agencies responsible for funding services getting much better at contracting in innovative ways. There is currently a capability gap in contracting skills that needs to be addressed, alongside a clear requirement for government agencies to consistently demonstrate that they have tested their service offering against alternative forms of provision.

Much has been made of the proliferation of government agencies in New Zealand, with its consequences for diseconomies of scale, higher overhead and transaction costs, and protracted decision-making<sup>2</sup>. The Group supports this assessment. Some consolidation of agencies is desirable, particularly where current arrangements make it harder to gain traction on results. Disestablishing some functions is also worth exploring. The Advisory Group do not, however, consider that a sharp reduction of agencies across the board would necessarily deliver better performance. Restructuring is expensive and disruptive and can be counter-productive, at least in the short term.

But there are multiple opportunities to rationalise accommodation or to consolidate functions (such as corporate services or policy advice) across agencies which do not involve either the disestablishment of existing entities or wholesale restructuring.

State services need to be built on a culture where these sorts of opportunities are consistently sought out. Finding better ways to deliver value and better quality services needs to be front and centre for all state employees – leaders, managers and staff. The Advisory Group has seen sufficient examples of continuous improvement (eg, “lean” programmes at the Ministry for Social Development, the Inland Revenue Department and at district health boards) or channel consolidation (eg, at Land Information New Zealand) to be confident that further gains are available.

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<sup>2</sup> See, for instance, the Report of the Advisory Group of the Review of the Centre, November 2001.

## Leadership will be critical

The Advisory Group considers that the single most critical driver of successful change is leadership. This report proposes a legislatively-backed shift from leadership primarily being about agency chief executives to leadership which instead is oriented more to the needs of a system, focused on delivering the outcome priorities set by government.

Starting from the top, the Group considers that the State Services Commissioner needs to be unambiguously charged with leading the leaders: a clearly mandated Head of State Services. This report proposes that the Commissioner be given clear responsibility to appoint leaders, not just chief executives of agencies as at present, but also leaders of sectors and functions which cut across individual agencies (such as for ICT or best-sourcing).

And, unlike the status quo where these sorts of system-wide leadership roles hinge on the quality and attributes of individuals and their persuasiveness in getting things done, the Advisory Group proposes that the Commissioner be empowered to ensure system-wide leaders have the authority they require to make decisions and to be accountable for those decisions. This could, for example, extend to having a direct say over budgeting.

This responsibility to appoint should be supplemented with an ability to shift individuals between agencies as the system-wide needs of the day dictate.

The incentives and expectations on chief executives should support these shifts: towards long term goals, demonstrating value-for-money, leading and future-proofing the system. The right support also needs to be in place. Previous reforms, also undertaken in light of fiscal challenges, unleashed the potential for leaders and staff to innovate. There is no reason to believe that this can't happen again.

We recommend that the three Central Agencies work much more collaboratively together as a de facto "corporate head office" of the state services. For the Treasury, this would imply a much sharper focus on the Crown's overall balance sheet and operating statement, rather than focusing on individual agencies as has tended to be the default position. The Treasury needs to build on the good start made, for example, with the Better Administrative and Support Services programme and with the 2011 *Investment Statement of the Government of New Zealand*.

The Department of the Prime Minister and Cabinet could be charged to work more closely with Ministers as they clarify and prioritise the results they seek as a government. The State Services Commission could also give a sharper focus on results, talent management and development, performance improvement and ongoing system design. This requires a shift in the current direction and capability of the Commission, progressing at pace the changes that have already begun.

Taken together, the Advisory Group judges these changes will achieve better results for citizens and businesses. Any one of these elements alone will not be sufficient to drive change: they mutually reinforce and depend on each other. Only by making these changes together will a step change in state services performance be achieved.

## Quantifying the gains

The Advisory Group hopes that this report might mark a new start towards better state services for New Zealanders.

The report does not include detailed cost analyses of proposals as, for the most part, it suggests new directions and changes to the way the system works. It does, however, test judgements against pockets of best practice within the state services and private sector comparators. Should the suggested changes in the report be implemented, the Advisory Group believes significant cost reductions are feasible from a combination of further back-office savings, rationalisation and focusing of activities, strengthened innovation and continuous improvement programmes. Those savings would be available for redeployment as ministers saw fit, including, for example, to meet the increasing cost of service provision, ongoing investment in effective delivery platforms, or to sustain the necessary level of professional workforce capability.

The Advisory Group's assessment is that any cost reductions or efficiencies achieved through adoption of the recommendations in this report would be small in comparison to the gains that are possible from making progress in achieving the big outcome challenges facing New Zealand. Reducing welfare dependency, improving education, health or environmental outcomes, and creating a better environment for business investment and export success are all much more important for New Zealanders. That is where the gains are<sup>3</sup>. Those impacts will be much greater than any efficiencies achieved through better organising state services.

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<sup>3</sup> Refer Annex 1 for examples of potential opportunities.

# Summary of recommendations

## Better results

*Gear up state services to more actively focus on and deliver better results to New Zealanders, particularly on the complex, long-term issues that cross agency boundaries.*

- Ministers agree and align around a small number of critical, measureable sector-wide results, reflecting their priorities.
- Mandate the appointment of chief executives to lead sectors in delivering these results.
- Require the sector lead chief executives to organise themselves in the way that will best deliver results, including working with the State Services Commission, the Department of the Prime Minister and Cabinet, and the Treasury on any enabling, system-wide changes needed.
- Require sector lead chief executives to:
  - identify a small number of critical, measurable results that reflect Ministers' priorities, and
  - produce *Results Action Plans*, to set out how priority results will be delivered, including identifying new organisational arrangements as necessary.
- Require sector lead chief executives to formally, publicly and regularly report progress against *Results Action Plans*.
- Change the State Sector Act 1988 to provide for a broader suite of organisational forms for collaborative and joint action, including: mandated sectors with hard or soft-wired sector boards, joint ventures and executive agencies.
- Enhance financial flexibility (including by changing the Public Finance Act 1989) to better support a stronger focus on results:
  - allowing specified groups of departments to be accountable for financial management
  - adopting four-year budget plans for sectors as well as departments
  - reducing the number of Votes
  - managing across fiscal years, and
  - aligning and strengthening incentives for collaboration and a results focus across the system.

## Better services and more value-for-money

*Drive state services to deliver better quality, more responsive and better value-for-money services to citizens and businesses.*

### Reducing duplication and consolidation of activity

- Over time, by consolidating and disestablishing some public service and state sector entities, reduce their overall number to: better support a results focus; reduce fragmentation, duplication, and transaction costs; and capture economies of scale.
- Consolidate and improve policy capability through a combination of more flexible deployment of resources, common human resources arrangements and policy hubs.
- Strengthen and extend the use of functional leadership roles to drive best practice, set common standards, collect data, influence or control budgets and identify opportunities to increase value.
- Require chief executives to implement shared back-office services and real estate wherever this makes sense, starting in sectors.
- Change legislated reporting requirements to align with the results and sectoral focus and to reduce compliance costs.

### Best-sourcing

- Require agencies to market-test all of their roles, functions and services by looking to see where it would be more cost-effective to out-source to non-government organisations, private sector or other third-party providers.

### Greater use of technology

- Require the Government Chief Information Officer to drive a programme of standardisation of information across state services, and to develop a systematic, cross-government strategy for accelerating the shift to online channels.

### Innovation and continuous improvement

- Require agencies to:
  - drive continuous business process improvement through the use of 'lean' methodologies, and
  - drive innovation by benchmarking activity, identifying and implementing best practice from across the system.

### Information

- Require chief executives to proactively make plain English information available to citizens and businesses and actively seek feedback on services.
- Take advantage of the Christchurch re-build to trial more extensive use of interactive, web-based information technologies to provide information to and engage with citizens on the design and improvement of services.

## Stronger leadership, the right culture and capability

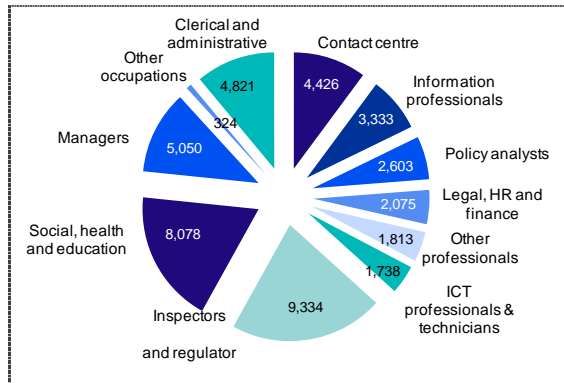
*The single most critical driver of successful change is leadership. Shift the overall balance of decision-rights in the state services away from individual agencies and towards the needs of the system: including sector leads for results, functional and system leadership.*

- Formally designate the State Services Commissioner as the Head of State Services accountable for overall performance of the state services and empowered to:
  - appoint sector leads
  - determine functional system-wide leadership roles and appoint chief executives into these roles; and
  - deploy chief executives and second and third tier leaders to critical roles across the system.
- Require the State Services Commissioner and the Chief Executive of the Department of the Prime Minister and Cabinet to bring together more closely the Government's overall priorities with the levers to make change happen.
- Change the State Sector Act 1988 to rebalance the accountability of public service chief executives more towards the delivery of better results and value-for-money, including requirements to collaborate where necessary, and away from the independent management and operation of departments. Change the Crown Entities Act 2004 to similarly rebalance the accountabilities of Crown entity boards.
- Require the State Services Commissioner to lead a culture-build process across the state services by:
  - defining the behaviours required of all state employees (for example, integrity, innovation, continuous improvement)
  - strongly communicating and reinforcing these expectations wherever they are displayed, and
  - aligning the formal parts of the system to incentivise, support and reward these behaviours (eg, recruitment, performance agreements and performance review processes).

# Chapter 1: New Zealand's current state services

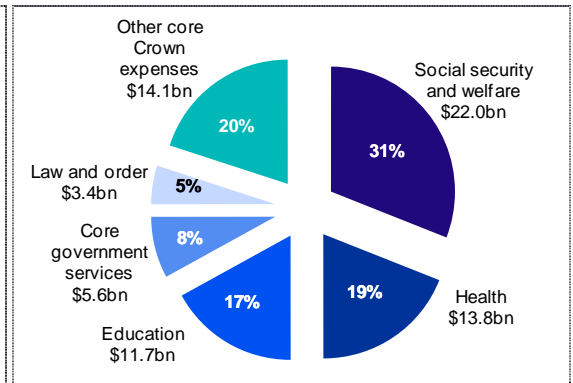
1.1 The state services are a big and diverse part of the New Zealand economy. They provide the underpinning foundations of law and order, support a stable and democratic society, supply a wide range of services to citizens and businesses and regulate how New Zealanders go about their work and recreation. At an annual cost of around \$70 billion, the state services make up over a third of New Zealand's economy. So the productivity of state services matters in its own right as well as for the impact the activities of the state have on others. The state services need to do the right things in the right ways at the right time – and they must be affordable.

What do public service staff do?



Source: Human Resources Capability Survey June 2011: State Services Commission. Excludes police, defence, parliamentary agencies and Crown entities

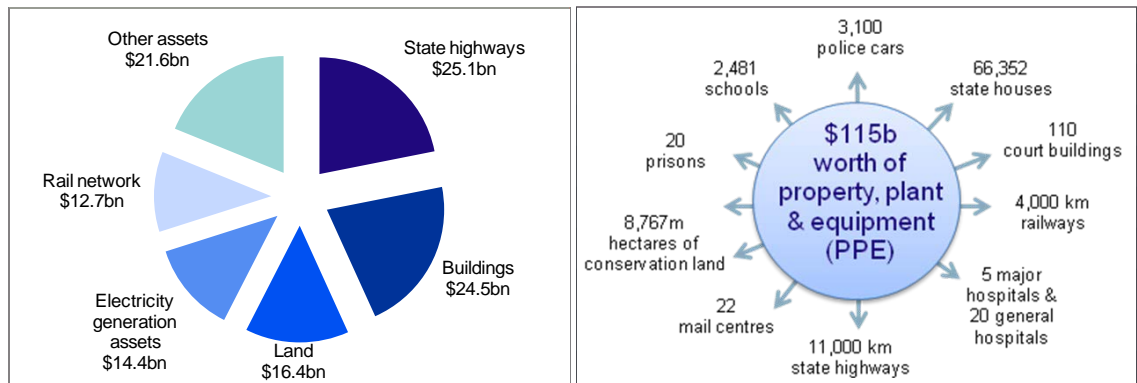
Core Crown expenses by function – June 2011



Source: The Treasury - Snap shot of 2011 Crown Financial Statements

What the government owns:

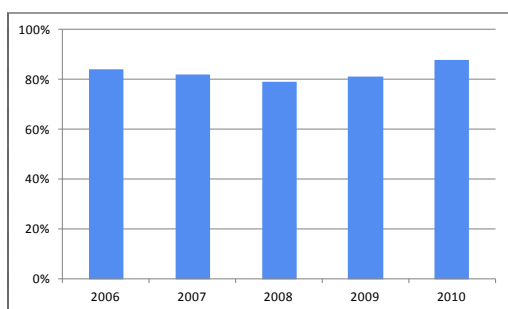
Core Crown, Crown entities and SOEs: Property, plant and equipment



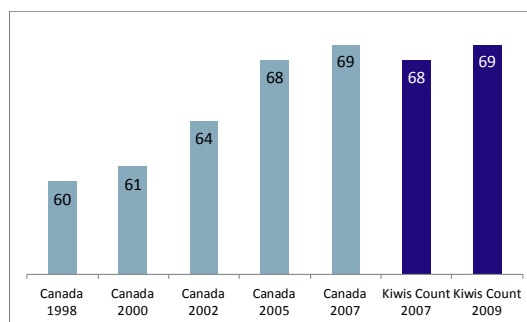
Source: Treasury - Snap shot of 2011 Crown Financial Statements

- 1.2 The primary focus of this report is on the state services (ie, government departments and Crown entities but not the university sector, state-owned enterprises or local government)<sup>4</sup>. Having said that, the way the state services interact with the wider public sector, non-government organisations, the business community and citizens is increasingly important and underpins a number of the proposals outlined in this report.
- 1.3 The Advisory Group acknowledges that there is much that works well about the New Zealand state services. As the Auditor-General notes<sup>5</sup>, New Zealand consistently ranks at or near the top in international and domestic surveys that measure public trust in government and the effectiveness of systems and processes that deal with fraud and corruption. And in the public services New Zealanders value most (health, education, safe communities, social safety net) recent *Kiwis Count* survey results show solid satisfaction scores, comparable with those achieved in Canada after a decade of service improvement effort in that country.

Transparency International  
Corruption Index (New Zealand's score)



Service quality scores: Canada / NZ  
1998–2009<sup>6</sup>



- 1.4 But reasonable foundations and worthwhile results are no longer good enough. The Advisory Group's clear judgement is the New Zealand state services need to perform much better in securing the outcomes that matter most to New Zealanders' wellbeing. And this higher performance needs to be achieved in a world where resources are increasingly scarce and restraint – even austerity – has become an unavoidable reality. The state services need to be reshaped so that they are fit-for-purpose – not just for the present, but for the next decade or more.

<sup>4</sup> Without doubt many of the suggestions made by the Advisory Group could have application more widely.

<sup>5</sup> <http://oag.govt.nz/2011/public-sector-fraud>

<sup>6</sup> Kiwis Count 2009: New Zealanders' satisfaction with public services: State Services Commission 2010.



## Better outcomes

- 1.5 One of the strengths of the “new public management” reforms implemented in New Zealand in the late 1980s and early 1990s is the sharp focus on delivering services (outputs) to citizens and business<sup>7</sup>. Unfortunately, performance has been less impressive in gaining traction on the big outcomes that matter. For example<sup>8</sup>:
- New Zealand spends nearly 20% more of its gross domestic product (GDP) than the average OECD country on law and order. But, levels of victimisation, burglary and assaults are still at least 40% above the OECD average.
  - Nearly one student in three leaves school without having gained the skills they need to succeed in a modern economy, and the education system underperforms for too many Māori, Pasifika and students from poorer homes<sup>9</sup>.
  - Total numbers on welfare remain stubbornly high. Even as progress has been made on reducing unemployment, numbers on the Domestic Purposes Benefit and Sickness and Invalids Benefits have increased.
  - Despite spending more than the OECD average on health, infant mortality rates are 4.92 per 1,000 live births and 6.1 for Māori, compared to the OECD average of 4.6.
  - Overall productivity growth has lagged that of comparable countries notably, but not limited to, Australia.
- 1.6 What happens in the state services has a significant bearing on all of these outcomes. This report attempts to identify the main impediments to better outcome performance and makes a series of recommendations designed to bring about better performance.

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<sup>7</sup> Refer Secretariat Issues Paper for comment on the 1980s state sector reforms: *The Core Elements of New Zealand's Public Sector Management Model as Originally Formulated*.

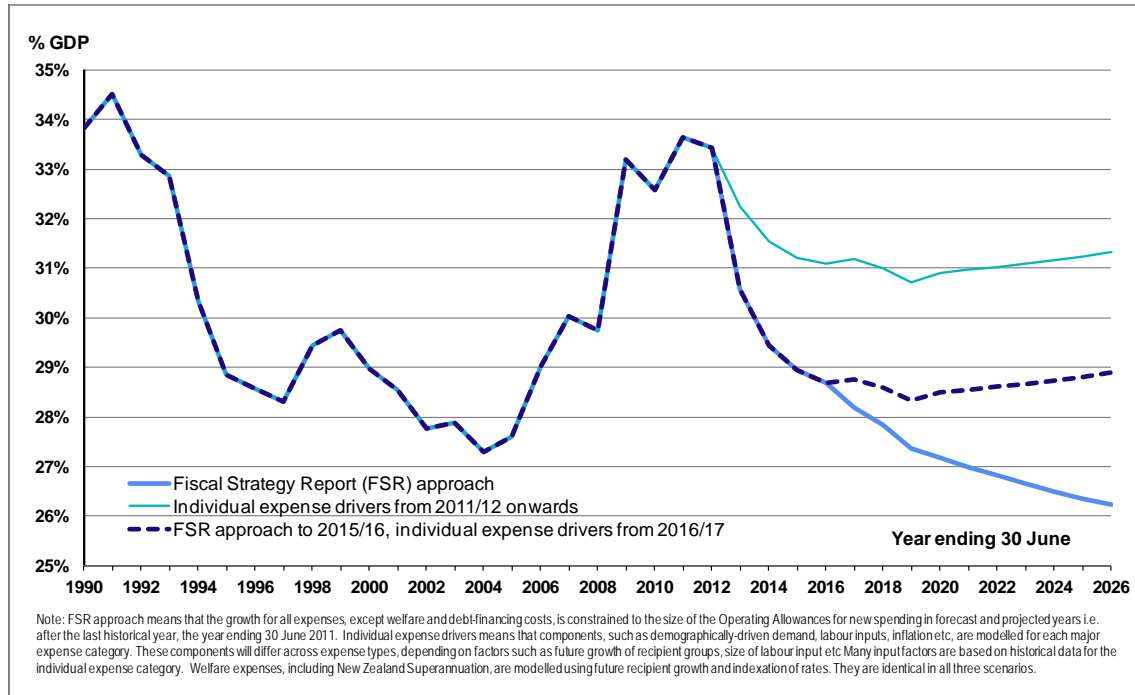
<sup>8</sup> Sources: Justice: OECD Factbook 2010; OECD Government at a Glance 2011; Ministry of Health Annual Report for the year ended 30 June 2011; OECD Health Data 2010.

<sup>9</sup> Source: [http://www.educationcounts.govt.nz/statistics/schooling/school\\_leavers2/highest-attainment-numbers-2009](http://www.educationcounts.govt.nz/statistics/schooling/school_leavers2/highest-attainment-numbers-2009)

## Affordability

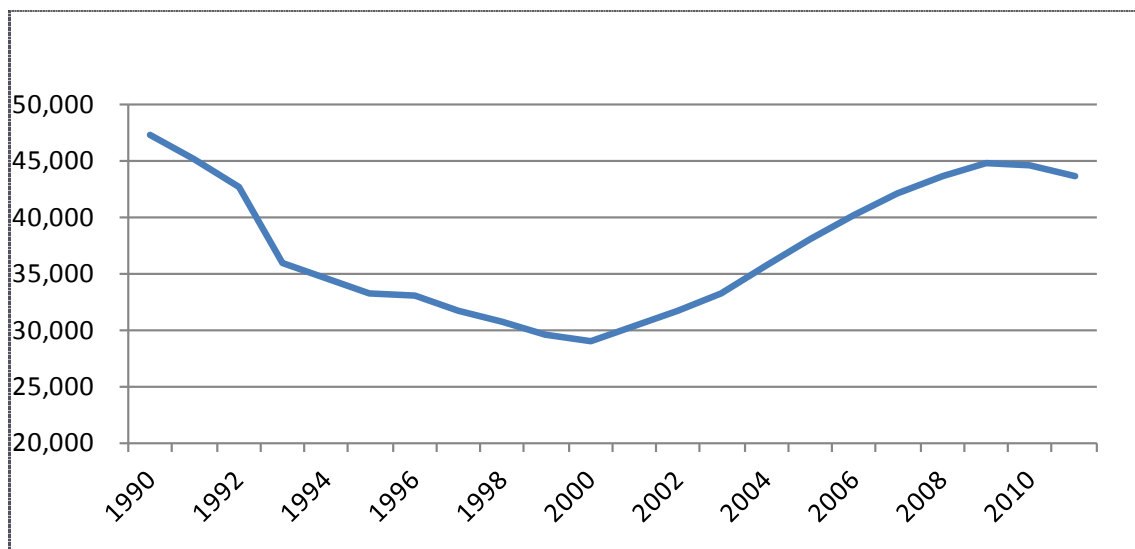
1.7 The state sector spends around \$70 billion a year<sup>10</sup>, and spending has doubled over the last decade<sup>11</sup>.

### Core Crown expenses excluding debt financing costs to GDP



Source: The Treasury

### Number of public service staff<sup>12</sup>



Source: State Services Commission

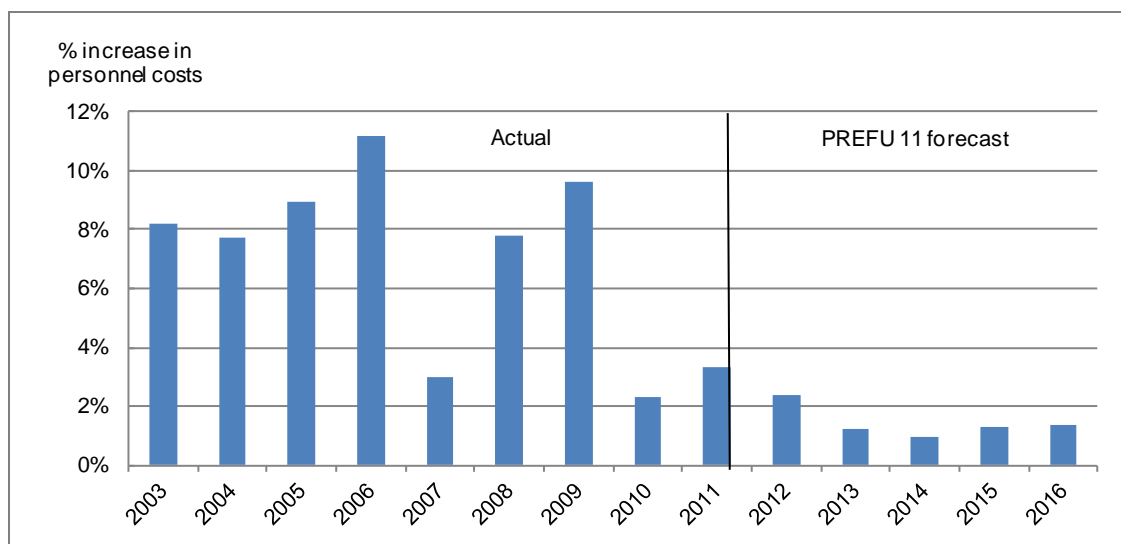
<sup>10</sup> Core Crown expenditure; Crown Financial Statements to June 2011.

<sup>11</sup> Core Crown expenses increased from \$34.8 billion in 2000 to \$70.5 billion in 2011, increasing core Crown expenses to GDP from 31.4% to 35.2%. Source: Crown Financial Statements to June 2011.

<sup>12</sup> Excludes police, defence and parliamentary agencies.

- 1.8 To facilitate a return to surplus by 2014/15, the previous government decided that there should be much smaller increases in budgets for the next three years relative to the last decade<sup>13</sup>. These budgets of course must fund any increases in the costs of delivering state services as well as the costs of any new initiatives. Living within tight budgets is a core but challenging part of ministerial responsibility and chief executives' accountabilities.
- 1.9 By way of illustration, if the historical trend of cost increases in public service provision from 1997 to 2008 were to apply at the same rate from 2011/12, there would be a gap of around \$4 billion by 2014/15 (and around \$9 billion by 2019/20) between the budgets available to departments and the cost of delivering those services at current levels. State sector personnel costs illustrate the magnitude of the challenge – they are forecast to grow at an annual average rate of 1.1% over the next five years, significantly less than the average in recent years.
- 1.10 Managing in this environment is a tough, but achievable, assignment. To manage fiscal pressures and deliver the fiscal strategy over the medium term, while maintaining service levels requires efficiency gains across the state services in the order of 3% to 4% a year<sup>14</sup>. This will require changes to the way services are delivered and to organisational arrangements. To the extent that efficiency gains alone are not sufficient to bridge the gap, choices will need to be made to discontinue lower value activity.

Growth in personnel costs (Total Crown)



Source: The Treasury

<sup>13</sup> Operating allowances of \$800 million p.a. in Budgets 2012 and 2013, then increasing to \$1.2 billion. A \$900 million capital allowance until the 2016 Budget, to be funded from the Crown's balance sheet.

<sup>14</sup> That is, across public service departments and Crown entities.

## Conclusion

- 1.11 The case for change is clear. New Zealand's state services are under pressure. Costs have continued to rise, but the results achieved have not always matched the expenditure incurred. The entire system needs to do more to deliver better outcomes for New Zealanders and to do it in more affordable ways. This report recommends some different approaches to making decisions about services and functions that should better enable those desired gains to be made. Effective state services need to contribute more effectively to lifting New Zealand's low rate of productivity growth. Currently the state sector can be seen as part of the problem. The status quo is not viable.
- 1.12 This report does not identify a single "silver bullet" solution to improving the results achieved by the state services. Rather, the Advisory Group suggests a number of improvement options for consideration by Ministers, which, if adopted, would have implications for the role of Ministers themselves, and for the expectations of public entities and public servants.

# Chapter 2: Current problems and future challenges

- 2.1 The next 20 years will be more challenging for New Zealand's state services than the 20 years just gone. Building from the issues set out in Chapter 1, this chapter identifies current barriers to meeting the challenges ahead. It provides the basis for the proposals for change set out in Chapters 3 to 5.
- 2.2 In the judgement of the Advisory Group, New Zealand's state services are not well geared up to meet many current challenges, let alone future ones. Several significant barriers stand in the way of attaining the level of service provision, flexibility of response and technological platforms needed to deliver really world-class public services.

## Weak customer focus

- 2.3 State services that understand customer needs well are more likely to do the things that matter most to their clients, in ways that make sense to users. This potential is not currently being fully tapped. Feedback mechanisms are not well developed, and it is not easy to reshape service delivery models drawing on new technologies or alternative modes of supply. Information on state services in New Zealand is not made available routinely, and citizens and businesses find government confusing and costly to deal with.
- 2.4 The impact of not listening and responding well to citizens and businesses is two-fold: less satisfied New Zealanders, and missed opportunities for providing better or existing services at lower cost. The state sector also tends to do too much itself, leaning towards the status quo and not always looking for opportunities where others could provide the same – or better – services at better value. The impact of these missed opportunities will increase as fiscal pressures rise.

## Lack of coordination

- 2.5 Running individual agencies well is important, but should not get in the way of progress on the complex, long term social and economic issues. The New Zealand public management model is founded on clear accountability: agencies have been structured to have clear and non-conflicting objectives. Chief executives have a much higher degree of operational autonomy than their counterparts in other countries. This accountability model has been one of the most lauded features of previous state sector reforms<sup>15</sup>.

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<sup>15</sup> Refer Secretariat Issues Paper for comment on the 1980s state sector reforms: *The Core Elements of New Zealand's Public Sector Management Model as Originally Formulated*.

- 2.6 But it comes at a cost. The result is a large number of agencies, with roles that can overlap or duplicate each other. And ministerial arrangements (the previous government had 78 ministerial portfolios) reinforce this. The most challenging social and economic issues facing New Zealand need action *across* agency boundaries, and currently this action takes too long. Having many agencies and a culture of high levels of consensus-seeking consultation between agencies slows progress down.

## Low incentives to capture economies of scale

- 2.7 An obvious consequence of having many small, focused agencies with operational autonomy has been a lack of economies of scale. Each department has tended to consider its own accommodation, ICT, processing and procurement needs in isolation. Over time, this has led to higher back-office costs and incompatible systems. There are currently few ways of tackling issues common across the state sector (such as prioritising investment in ICT). Duplicating activity and failing to capture economies of scale are inconsistent with meeting the current fiscal challenge.

## Slow pace and little innovation

- 2.8 As described above, some government agencies have become accustomed to relying on increasing government funding to meet cost pressures. Recent budgets have made it clear that those “cost plus” days are now over. If anything, the fiscal environment is likely to get harder still. So the state services need to find new and better and smarter ways of doing things. Innovation has become an imperative. Currently, however, in the New Zealand state services, innovation is being stifled by a lack of capability, an undue degree of risk aversion on the part of chief executives, boards and Ministers and little consideration of how to manage risk in this context.
- 2.9 More interaction with citizens, including via new technologies, will require a new level of ICT expertise amongst state services organisations. Looking at where government could better source goods and services, and capturing the potential gains, requires skills in commercial contracting. These sorts of skills are currently scarce.
- 2.10 New Zealand’s state sector laws were world-leading when introduced, and still are in many respects. But they, too, are now getting in the way of more responsive, flexible and cost-effective service provision. The Public Finance Act 1989 governs the use of financial resources, with clear delegation of financial decision-making to individual chief executives. Change is needed to allow resources to be applied to achieving results that span more than one department or that fall between the responsibilities of individual departments.

## Leadership

- 2.11 One of the defining characteristics of the current New Zealand public management system is how it concentrates decision-rights and accountabilities with the chief executives of agencies (or boards of Crown entities). These arrangements support a strong ability to deliver against the “vertical” commitments within a single agency but have constrained “horizontal” leadership – within sectors, across functional areas and for the system as a whole.
- 2.12 Whilst there is some good leadership capability and capacity within the New Zealand state services currently, a much better level of leadership is required. In the Advisory Group’s view, the results from recent agency reviews undertaken through the Performance Improvement Framework (PIF) process suggest that some of the most critical leadership capabilities are relatively weak.
- Leadership teams are focused on the components of the business, not on governance.
  - Leaders are responsive to Ministers but are weaker in their ability to provide more strategic advice that is robust over time and that will meet future needs.
  - Leaders do not work effectively across organisational boundaries.
  - Leaders struggle to manage the people and change elements of their role.
  - Leaders are not using information effectively to drive their business, and lack the metrics to determine the effectiveness and efficiency of their business model and operations.
- 2.13 The current New Zealand public management system has underperformed in driving results across departments, capturing economies of scale across agency boundaries, fostering scarce skill sets and talent for the benefit of the system, developing consistent interfaces for citizens and businesses and prioritising and planning across the whole public sector. For leaders to exercise effective horizontal leadership, the Advisory Group considers that decision-rights will have to be rebalanced to provide a clear mandate for leading across agency boundaries.
- 2.14 The State Sector Act 1988 supports a politically neutral public service, and devolves responsibility to chief executives for running government departments. Again, an over-emphasis on clear *vertical* lines of accountability can get in the way of flexibility across the state services.

## Conclusion

2.15 Putting together the present circumstances that New Zealand faces, the challenges ahead and the current barriers to addressing those challenges, the Advisory Group has concluded that a step change is needed in how New Zealand's state services are run. New Zealanders deserve better results and support from the state services. And those state services are capable of delivering more. This paper provides proposals for making this change. The following chapters are organised around three areas where the potential for change is pressing and achievable:

- better results
- better services and more value-for-money, and
- stronger leadership, the right culture and capability.



## Chapter 3: Better results

- 3.1 Alongside containing and reducing costs, the greatest challenge facing the state services is to gain more traction on achieving results: the complex and long term issues that cross agency boundaries<sup>16</sup>. This is hard territory as it requires cooperative action from Ministers, boards and agency leaders and staff, action that sometimes competes with those Ministers' and agencies' narrower objectives. Past efforts have not always overcome this barrier<sup>17</sup>. Recent work, such as that by the Welfare Working Group<sup>18</sup>, provides evidence of the pressing need for change.
- 3.2 And the potential gains make the effort worthwhile. If New Zealanders are better skilled, they are more likely to be in employment. If the range of agencies and non-government organisations that engage with troubled families can work more effectively together, they will better tackle the tragedy of child abuse, reliance on welfare and the need for children to be taken into care. If the causes of crime are better addressed, there will be less pressure on the courts and prisons. If the tax and regulatory environment for firms can be improved, New Zealand's export performance will be enhanced.
- 3.3 The chapter needs to be read alongside Chapters 4 and 5. Taken together, these chapters provide actions to improve quality and value.

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<sup>16</sup> The technically-minded reader will note this report uses the term "results" rather than the PFA term "outcomes". We have gone with the more open term as results can encompass outcomes, intermediate outcomes and outputs where necessary.

<sup>17</sup> These issues are well documented, such as in Allen Schick's *The Spirit of Reform: Managing the State Sector in a Time of Change*; previous work includes 'Managing for Outcomes' and the 'Review of the Centre'.

<sup>18</sup> Reducing Long Term Benefit Dependency: The Options, Welfare Working Group, February 2011.

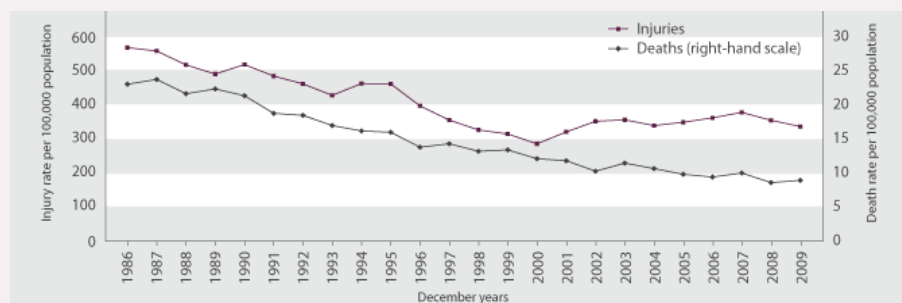
## How a focus on results can make a difference: Reducing the road toll

Since the mid-1990s, a series of government strategies have set out a comprehensive approach to promoting road safety, priority areas of focus and intervention, along with agency coordination and funding mechanisms to assist implementation.

The reduction in the road toll has not been achieved by one agency working in isolation. The key has been a single-minded focus on getting the number of deaths and injuries down. Better roads and better vehicles as well as legislation, enforcement and education aimed at reducing road casualties, have all contributed to an improvement in drivers' attitudes and behaviour.

The benefits to families and communities, and the nation, from a lower road toll have been real – first because a lower death toll and fewer injuries has meant fewer families and friends having to deal with the pain of grief, loss and trauma. In addition, a lower toll has meant lower hospital and ACC costs, and reductions in losses from work absence and rehabilitation.

Road user injury and death rates, 1986—2009



Sources: Ministry of Transport; Ministry of Social Development's 2010 Social Report.

## Focusing effort on results

- 3.4 Getting results requires focus. Trying to do too much has hampered previous efforts to achieve better results as it provides no guidance on how to prioritise scarce capability. Working for results requires flexibility. Past efforts have tended to fall into the trap of one-size-fits-all, without acknowledging different arrangements, capability and readiness. Getting results will require drive across the system: information to measure progress and people held to account for playing their part.
- 3.5 This report suggests the first step in lifting the game on results is for Ministers to agree a small number of critical, measureable results (no more than 10 to 12 across government, arguably less) reflecting the Government's top priorities. The Advisory Group considers that the list of priority results needs to be short enough to guide resourcing trade-offs and specific enough that the impacts of government action can be tracked.

- 3.6 Should Ministers agree with this approach, and then agree a set of priority results, the onus would be on the state services to demonstrate its commitment to achieving them and its collective impact in doing so. The Advisory Group suggests that lead departments be required to prepare sector-wide (ie, multi-agency) *Result Action Plans* for each of the Government's priority results. Those plans would identify the resources that need to be corralled behind the scenes and might propose new organisational arrangements as necessary to ensure traction. The Advisory Group judges that these plans are likely to be iterative, and should include clear expectations for – and evaluation of – manageable performance change.
- 3.7 The State Services Commission (lead), the Treasury and the Department of the Prime Minister and Cabinet would then work alongside clearly mandated sector lead chief executives to ensure *Result Action Plans* were driven forward, and were not constrained by status quo restraints (see Chapter 5 on leadership). Ministerial alignment over, and support for, the agreed priority results will also be a necessary component in driving change in the state sector, and in giving effect to achievement of the results.
- 3.8 Information on the agreed results, and progress towards them, should be made public as New Zealanders will expect to see, and are entitled to judge, evidence of progress. Other jurisdictions (Scotland, Singapore, parts of the US) already do this<sup>19</sup>. The Central Agencies would have an obligation to advise Ministers on whether the plans are working and, if not, what needs to be changed.
- 3.9 The Advisory Group considers that the potential impact of identifying key results for government action could be significant over the long term, allowing traction to be gained on some of the long-standing national challenges: a more prosperous country; more highly skilled people; less crime; fewer of our children being abused. And, with the costs of duplication of effort and lower priority activity stripped out.
- 3.10 To secure these gains, the Advisory Group suggests that a start be made in places where the potential gains are high, and/or where there is already momentum for collaboration. Trying to do everything at once will stymie progress. Arrangements should be tailored to fit the problem: so, club-up around a complex issue (eg, coastal environment) or activity (eg, interactions with business), and avoid trying to make all activity fit (some government activity is not about results and/or will not fit neatly into a sector).

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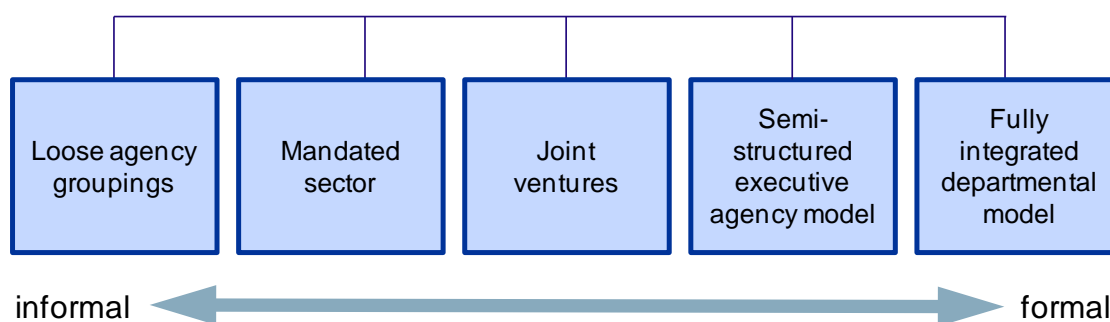
<sup>19</sup> For instance: <http://www.scotland.gov.uk/About/scotPerforms/indicators>.

## More flexible *results oriented* state services

3.11 The Advisory Group's assessment, supported by discussions with chief executives and Ministers, is that one of the main obstacles to the state services responding more effectively to cross-agency results is the inflexibility in current organisational arrangements. It tends to be too hard to divert staff from existing work plans. Multi-agency work is on occasion characterised by individual agencies protecting their own patch rather than focusing on solving the common problem.

3.12 This report suggests a broader spectrum of organisational arrangements is needed than is currently available. Between the current options of loose agency groupings and structural change, we propose a broader menu<sup>20</sup>:

Options for structural integration



3.13 This spectrum provides greater flexibility for Ministers, beyond loose arrangements that can be problematic owing to slow movers, and the option of moving to larger departments, which is often not appropriate:

- *“Hard” or “soft-wired” sector boards*: The system will get better traction on results if accountabilities are more clearly defined and all parties have some serious “skin in the game”. Sector-wide decision-making could be formally shared by agencies through establishing oversight boards and specifying clearly their responsibilities. These arrangements could be *soft-wired* by mutual consent between the agencies (not unlike some current examples) or *hard-wired* through more formal mandates, financial accountabilities and reporting arrangements.
- *Joint ventures*: As a way to organise around specific sector results, when they involve a significant, but not dominant, proportion of the sector agencies’ activities. This is a means of improving choices for Ministers and chief executives (and is already being successfully used in the social sector). Joint ventures could be between government agencies, or could involve partnerships with community groups. They would differ from current inter-agency working groups by having dedicated resource formally

<sup>20</sup> Refer Chapter 4 and Annex 4 for detail.

seconded into them and potentially their own appropriations. Whereas joint working groups typically tend to involve only 10 to 20 staff, joint ventures could be significantly bigger, incorporating both policy and operational capability.

- *Executive agencies:* As a new organisational form – to help avoid having either few large, multi-functional departments or many small agencies. Executive agencies would make most sense in relatively well-defined sectors with a clear lead Ministry and a desire to coordinate investment decisions as well as policy direction. These agencies would sit within the Crown (so are closer to Ministers than Crown entities), under the leadership of a larger department, but held to account for their own operational responsibilities. They would work to the strategy, policy and funding arrangements determined by the lead agency.

3.14 Examples of where these arrangements might be used are provided below.

3.15 Overall, and on balance, the Advisory Group considers that New Zealand is not well served by the high number of departments in the state services, particularly where there is a lot of overlap and duplication between separate agencies' briefs.

3.16 Similarly, the Advisory Group is not convinced efficient government is best served by the proliferation of Crown entities that currently exist. Not only do extra entities require extra back-office support, but the presence of an independent board can be confusing to stakeholders and unhelpful for ensuring coordinated action to achieve better results. Where independent functions that need protecting exist, this can often be done within the departmental framework,<sup>21</sup> or potentially by using the new executive agency form proposed in this report.

3.17 Determining the right organisational form needs to take account of factors such as scope of activities, critical mass and economies of scale as well as the impact on results. A degree of lateral thinking may often be required. In some cases regional and/or local government play a critical role in delivering results (eg, in transport or fresh water management), as do non-government organisations or firms. The Treasury and the State Services Commission need to ensure the interpretation or letter of the foundational pieces of legislation that govern the state services (Public Finance Act 1989, State Sector Act 1988 and Crown Entities Act 2004) do not impose unnecessary constraints on different parties working together.

3.18 The Advisory Group also considers that further flexibility in the way agencies organise themselves to deliver results would be useful. In particular, to better organise policy resources, and to move resources to where they can make the most difference:

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<sup>21</sup> For example, until recently the independent allocation of research funding was protected in a Crown entity, The Foundation for Research, Science and Technology, separate from the Ministry of Research, Science and Technology. Now this independence is protected by a statutorily independent allocation function within the Ministry of Science and Innovation: science and innovation advice is better informed as a result, with less bureaucratic churn between agencies.

- *Policy hubs*: One of the reasons the system has struggled to make traction on inter-agency results is the quality and alignment of policy advice<sup>22</sup>. One promising way to address this issue could be to consolidate policy teams working on agreed government results into a single policy hub – effectively a sector-based, policy shared services centre. The upside for results would be:
  - better alignment of policy capability with government priorities; easier to identify issues of lower importance and reduce effort on them
  - removing duplication across government and the costs of inter-agency consultative churn, and
  - improved capability: with a deeper dedicated pool of policy people it should be easier to devote resource to long term empirical research and policy development.
- *More financial flexibility*: To support the focus on results and some of the new arrangements outlined above. This should include a reduction in the number of votes (as a rule of thumb one per department makes good sense), using four-year budget plans more effectively, using multi-year appropriations for multi-year projects whose total cost is known, allowing groups of departments (as well as individual departments) to be accountable for financial management and allowing funding for results (as well as for outputs). Changes to both the letter and current practice of the Public Finance Act 1989 are needed to go further here<sup>23</sup>.

## Applying the results framework

3.19 As part of the Better Public Services programme, the Advisory Group invited sector-based groups of chief executives to collectively develop “1-4 key results that will bring about a step-change across the sector and around which the agencies will arrange their activities”. Five groups were established at the initiative of chief executives: *natural resources*; *social services*; *labour market and skills*; *justice*; and *business-facing services*. The criteria set for these proposed results were that they be: “important, difficult, tangible, and capable of becoming a central focus of activity across the sector”. The Advisory Group warmly welcomed the fact that the sectoral chief executives stepped up and accepted the challenge to identify critical and stretching results for their groups of agencies.

3.20 The progress made by the chief executives in seeking to shape some possible sectoral results under a policy framework such as this, is set out in Annex 2. The draft result areas are only that – possible areas of critical focus put forward for the purposes of discussion and consideration. If Ministers wished to take the step of focusing the work of the state

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<sup>22</sup> *Improving the Quality and Value of Policy Advice: Findings of the Committee Appointed by the Government to Review Expenditure on Policy Advice*, December 2010.

<sup>23</sup> Refer to Annex 4 on legislation including the Public Finance Act 1989 for detail.

services in this manner, as proposed by the Advisory Group, they would of course be the ones to shape and decide which actual results the government of the day might choose to pursue.

3.21 What the work undertaken by the chief executives shows, however, is that amongst the current leadership of New Zealand's state services, there is a common belief that our efforts are spread too thin, are not well coordinated and would benefit from a sharper focus on bigger challenges that are likely to make a bigger difference. Even within the constraints of the current system, some changes could be made to drive better results. The Advisory Group supports the chief executive groups' direction of travel, and the nature of their suggested sets of results, but considers that with further work on the sectoral results framework, and ministerial backing, significant improvements in performance could be secured. Some of the indicative thinking developed by the groups of sectoral chief executives is set out below. Should Ministers agree to consider or adopt this approach, further analysis of results options would be required.

- *Natural resources*<sup>24</sup>: Tentative results identified included the *quality, flow and availability of fresh water* and *value derived from the coastal and marine area*. The sector noted the importance of working with iwi and local government as well as other stakeholder and user groups in pursuing these objectives. Chief executives emphasised the importance of evaluating any programmes introduced and the need for tighter governance arrangements at both ministerial and agency level.

The Advisory Group concurs with this initial thinking, but believes that the current voluntary and consensus-based arrangements that guide the work of the natural resources chief executives' group may not be robust enough in the quest for results. Better traction would probably be made on one or both of these results by establishing, for example, a more formal joint venture arrangement that brings together staff and resources from a range of agencies into a single shared entity.

- *Social sector*<sup>25</sup>: A semi-formal social services chief executives' sector group has been operating for about 10 years. It has already established a track record of reporting jointly to Ministers and running pilot joint ventures focused on specific local issues. The critical two results that the social sector chief executives identified in this exercise were *improved services for children aged 0–6 from families with multiple issues* and *young people contributing and achieving*.

The chief executives judged that if significant efforts were made by their collective agencies to make an impact on just these two targets, much better social outcomes would be generated over the long term. The chief executives considered that there

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<sup>24</sup> The Natural resources group includes: Ministry for the Environment, Ministry of Economic Development, Ministry of Agriculture and Forestry, Land Information New Zealand, Department of Conservation, Te Puni Kōkiri.

<sup>25</sup> The Social services group includes: Ministry of Social Development, Ministry of Justice, Ministry of Health, Ministry of Education, the Department of Building and Housing.

might be merit in the establishment of a new joint venture for achieving social sector results, potentially formalised as a separate entity within the Crown; transferring resources from contributing agencies into a sector appropriation; and direct reporting from the joint board of agency chief executives to a responsible Minister. There have been recent changes in the leadership of the sector, with new appointments at the Ministries of Social Development, Education and Justice. Together with the chief executives of the Ministry of Health and the Department of Building and Housing, it will be important for these relationships to form and develop, with the support of Ministers.

Again, the Advisory Group supports this approach, noting that it will require agencies and Ministers to commit formally to provide significant resources (people and funding) in pursuit of the results. Given the level of devolution in the health and education sectors, a particular challenge would be to secure the commitment and resources from relevant Crown entities (eg, district health boards and schools).

### Social sector trials

Determined to improve results for young people in areas such as truancy, educational achievement, offending, alcohol and drug abuse, the Ministries of Social Development, Justice, Education and Health, and the New Zealand Police are working together to trial a change in the way social services are delivered in small communities. Governance is through a mutually agreed joint venture board comprising the chief executives of the departments. The board reports to a group of Ministers.

To ensure the response addresses the unique needs of the community, each trial has a local governance board, often chaired by the mayor. In some communities, the programme contract is led by a government agency; in others by a non-government organisation. The contractor reports to the board on results achieved against an action plan – public accountability is seen as important, and transparency to the local community essential.

The trials have been established to find ways to overcome the barriers to coordination faced by social sector agencies, including:

- accountability arrangements that favour agency autonomy and reward individual agency effort
- few incentives for joining up funding across agencies or providers
- inconsistent contracting arrangements between agencies
- lack of common information – information asymmetries, incompatible IT systems, privacy restrictions, and
- complex and differing administrative boundaries.

The experience of the social sector trials has been instructive to the Advisory Group in the preparation of this report.



- *Labour market and skills*<sup>26</sup>: Chief executives in the education and labour market agencies also identified principal draft results including: *businesses have the skills they need* and *New Zealand's labour productivity growth is doubled*. The group proposed a formalised cluster of agencies to be chaired by the Secretary for Labour. Over time, there could be further changes to bring functions and funding together.

The Advisory Group also commends this suggestion, noting that discussions across the education and labour agencies have not, hitherto, been very frequent or aligned. But, from the viewpoint of the longer-term future of the nation, a new approach to developing our human capital seems long overdue. The efforts to lift results from this sector have not yet proved amenable to the efforts of successive governments over many years. The lack of success in improving educational outcomes for a sizeable cohort of young Māori and Pasifika is a long-standing issue. It has to be tackled much more effectively. The Advisory Group's assessment is that other steps could be taken to lift performance in this sector, which might include:

- creating a single skills and education policy hub with a brief across the entire skills and education space. This would reduce some of the churn across the sector at the difficult boundary between skills and education advice, clarify accountability, improve linkages between different stages of the education and skills pipeline and build capability to do deeper, more empirical analysis,
  - converting several of the operational arms of the big departments into operationally focused executive agencies (eg, management of schools, immigration). This would sharpen focus on operational performance, but within the embrace of a parent department so as to avoid the limitations of a policy operations split, and
  - perhaps creating a hard-wired sector board to oversee and govern the steps above, or alternatively create a new Ministry of Skills, Education and Employment with a strategic leadership role for human capital development, incorporating a number of executive agencies. This would provide coordination and flexibility, while maintaining clear accountabilities.
- *Justice*<sup>27</sup>: The justice sector chief executives group has also been in existence for some time. The tentative sectoral results they identified were a *20% reduction in crime-related statistics*, a *15% improvement in time for disposal in the courts system* and a *10% reduction in reoffending*. This sector, particularly the big three agencies (Ministry of Justice, Corrections and New Zealand Police), has moved enthusiastically to better align their decision-making through the establishment of a Sector Leadership Board. They are now looking for ministerial support to: prepare a joint sector

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<sup>26</sup> The Labour market and skills sector group includes: Ministry of Education, Department of Labour, New Zealand Qualifications Authority, Education Review Office, Careers New Zealand, Tertiary Education Commission.

<sup>27</sup> The Justice sector group includes: Ministry of Justice, Department of Corrections, New Zealand Police, Serious Fraud Office, Crown Law Office.

Statement of Intent and a four-year budget plan; make collective decisions on capital investments; and collaborate more closely in shared services for back-office functions and leadership development. They are considering the implications of formalising the board as a separate legal entity and whether to combine strategic policy into a single policy hub.

The Advisory Group welcomes the closer cross-sector linkages that are already being developed across the justice sector, and believes that they have the potential to deliver improved outcomes. The Group cautions, however, that any meaningful sectoral action will rely heavily on the goodwill of chief executives and on securing alignment of ministerial interests. A more hard-wired solution would mitigate the risk of individual Ministers, vertical financial accountabilities and individual chief executives pulling in different directions<sup>28</sup>. Such a hard-wired solution – for example, establishing a justice sector board as a separate legal entity, as foreshadowed by the sector chief executives, or potentially moving to a single parent department (the Ministry of Justice) with operationally independent executive agencies, and an improved ability to prioritise across the sector (potentially including a common balance sheet for managing investment decisions) – would be a very significant change from current arrangements.

- *Business-facing services*<sup>29</sup>: Because lifting New Zealand's economic performance through developing more successful, internationally competitive firms is a critical requirement of government policy, a chief executives' grouping of business-facing agencies came together to look at how they might better achieve results for New Zealand. The result they identified as crucial was: *improving the effectiveness and reducing the cost to businesses of their interactions with government*. By making it easier for businesses to identify their regulatory obligations, access government support (say for research and development and export assistance) and generally transact, there is potential to reduce some of the \$1 billion of costs incurred by businesses each year<sup>30</sup>.

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<sup>28</sup> Each chief executive in the justice sector reports to a different Minister, with whom they have an agreed work programme and budget.

<sup>29</sup> The Business-facing services sector group currently includes: Ministry of Economic Development, Ministry of Agriculture and Forestry, Customs, Ministry of Foreign Affairs and Trade, Inland Revenue, Department of Labour, Ministry of Science and Innovation, Statistics New Zealand, Ministry of Transport, New Zealand Trade and Enterprise.

<sup>30</sup> The costs of meeting government compliance requirements are difficult to assess, particularly as they often include reporting costs. In 2008, the cost of complying with government requirements (reporting and compliance costs) was estimated at an average of \$728 per employee per business. The cost was larger – over \$3,000 per employee – for businesses with nine or less employees (which are over 90% of all New Zealand businesses). Extrapolating this, the total cost of complying with government is roughly \$1 billion a year, but some of these costs relate to health and safety regimes, or those associated with companies paying their share of tax. A 10% order of magnitude estimate of what improved systems would be worth to businesses is \$100 million per annum. Sources: KPMG survey and Statistics New Zealand data.

Sectoral efforts are something new in the case of business-facing services, although there have been steps recently to improve collaboration between the Ministry of Science and Innovation, New Zealand Trade and Enterprise, the Ministry of Economic Development and the Ministry of Foreign Affairs and Trade. The Advisory Group considers a stronger sectoral focus, through a sector board led by the Ministry of Economic Development, is necessary in driving meaningful change in this critical area and encourages concerted effort from the sector in finalising the detailed results and progressing the immediate next steps. The Group's view is that the sector needs to be better defined, and could potentially be split to more specifically address the critical issues, for example, regulation and information, and ease of doing business.

- 3.22 In the Advisory Group's view, these sectors are good places to capture existing momentum and to make progress at pace in areas where the potential for improvements in performance is large. Should Ministers agree to adopt this approach, other areas of subsequent priority could be considered – for example, the culture and heritage sector and work to support New Zealand's international linkages.

## Conclusion

- 3.23 The Advisory Group considers that the most important challenge facing the New Zealand state services is to achieve better results. As well as having a direct impact on New Zealanders' lives - on economic, environmental and social wellbeing – a sharp, urgent and determined results focus offers the best opportunity to make serious and long-run improvements in New Zealand's fortunes, and also generate fiscal savings.

## Better results: recommendations

*Gear up state services to more actively focus on and deliver better results to New Zealanders, particularly on the complex, long-term issues that cross agency boundaries.*

- Ministers agree and align around a small number of critical, measureable sector-wide results, reflecting their priorities.
- Mandate the appointment of chief executives to lead sectors in delivering these results.
- Require the sector lead chief executives to organise themselves in the way that will best deliver results, including working with the State Services Commission, the Department of the Prime Minister and Cabinet, and the Treasury on any enabling, system-wide changes needed.
- require sector lead chief executives to:
  - identify a small number of critical, measurable results that reflect Ministers' priorities, and
  - produce *Results Action Plans*, to set out how priority results will be delivered, including identifying new organisational arrangements as necessary.
- Require sector lead chief executives to formally, publicly and regularly report progress against *Results Action Plans*.
- Change the State Sector Act 1988 to provide for a broader suite of organisational forms for collaborative and joint action, including: mandated sectors with hard or soft-wired sector boards, joint ventures and executive agencies.
- Enhance financial flexibility (including by changing the Public Finance Act 1989) to better support a stronger focus on results:
  - allowing specified groups of departments to be accountable for financial management
  - adopting four-year budget plans for sectors as well as departments
  - reducing the number of Votes
  - managing across fiscal years, and
  - aligning and strengthening incentives for collaboration and a results focus across the system.

# Chapter 4: Better services and more value-for-money

- 4.1 Better state services will, in themselves, lead to better results for citizens and businesses. Better means being open and responsive to citizens and businesses; being clearly focused on user needs; doing the things that government needs to do and doing them well in effective, efficient ways. More value-for-money means less cost, time and effort are taken to generate the same – or a better – result.

## Information

- 4.2 Citizens and businesses expect to have a say on state services: on what services they need, when and how they might be improved. The processes for seeking public input to the provision of public services are well established in some cases – for example, via government discussion documents on policy options for a particular issue. The Advisory Group is of the view, however, that New Zealand state sector organisations need to get much better at engaging with the public in designing and reshaping the services they provide. This should be a routine expectation of both agencies and third-parties that provide public services. It means listening *and* being held to account for making appropriate changes, including in the use of new technology service channels. This approach is at the heart of state sector reform in the UK, Canada and Australia.
- 4.3 Done well, taking users' voices into account when re-designing and improving services creates opportunity for a co-production approach, where both users and providers work together on improving delivery. Technology, particularly the internet, is opening up exciting new possibilities for citizen involvement to happen earlier, more cheaply and in more meaningful ways. The Ministers of Finance and Internal Affairs recently announced the government's commitment to actively releasing high-value public data. This is a good start that can be built from.
- 4.4 The Advisory Group considers that the two main brakes on progressing engagement with state services clients are agency capability and a reluctance to open up areas of information and decision-making that have traditionally been out of bounds. The best way to pick up the pace is by real-time demonstration. Work on the Canterbury earthquake re-build provides the opportunity. A start has been made providing online information to Canterbury residents and businesses on the re-build. To date, this has been about information provision; in future it could support more substantial partnerships between citizens and agencies<sup>31</sup>.

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<sup>31</sup> Further work on increasing choices for New Zealanders between providers is not fully explored here and could be considered as a next phase of work.

## How the Canterbury earthquakes changed the way government works

In the extraordinary circumstances posed by the earthquakes in Canterbury, state services were required to make significant changes to service delivery and back-office arrangements to continue to provide much needed services to communities. They found innovative solutions to achieve this that may otherwise not have been identified. Although these new ways of working were originally driven by necessity, agencies on the ground have identified unexpected benefits to them and to the public. The result is that they now have experiential learning and evidence that doing things differently can provide better services to New Zealanders. Examples of this include:

- The Housing New Zealand Corporation (HNZC) had to provide customer service remotely during the earthquake emergency and response phases. Staff are continuing to work remotely, visiting customers in their homes. This has been so successful that it is likely to be adopted more widely by HNZC for service delivery nationwide.
- The closure of the Christchurch District Court building resulted in hearings being moved to other locations around Christchurch including the National Marae, Ngā Hau e Whā. This has strengthened community connections with courts, and demonstrated that stand-alone, purpose-built court rooms are not necessarily essential parts of the justice process.
- All three emergency services had to share facilities, land, resources and staff, and planning is underway for a CBD-based multi-agency facility for Police, Courts, Corrections and the Fire Service, as well as local and regional government emergency services. This will include a single communications centre for Police and Fire (and potentially Ambulance); and shared facilities.
- Maximising flexible working by challenging the traditional one person / one desk model, such as: hot-desking; double shifting; rostered access and remote working.
- Drop-in hubs to support remote workers and provide centralised points for team activity (eg, meetings, work allocations).

## Greater use of technology

- 4.5 Capitalising on new technology and ways of engaging, such as social media, will reduce costs and help meet citizens' and businesses' expectations for their dealings with government.
- 4.6 There is evidence of fragmentation and duplication here. Each agency makes its own decisions about service delivery approach, resources and channels. This leads to many fragmented and disconnected service delivery points. Evidence suggests that citizens like online services, which are cheaper<sup>32</sup>, but like access to other channels as well<sup>33</sup>. However, even a 5% reduction in the cost of a single service could save an estimated \$40 million a year<sup>34</sup>. It is also to be expected that, over the next 10 years, there will continue to be a major shift to electronic service provision, in place of the more traditional channels.
- 4.7 This report recommends that agencies align and optimise their service delivery resources and shift transactional services to online channels more rapidly. It also recommends that the Government Chief Information Officer develop a systematic, cross-government strategy for achieving this. This would provide citizens with an integrated set of services, better use scarce expertise and reduce costs over time.

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<sup>32</sup> For example, PricewaterhouseCoopers (PwC) estimates that, compared to online channels, call-centre services are 20 times more expensive, postal services 40 times more expensive and face-to-face services 200 times more expensive.

<sup>33</sup> *How New Zealanders Access Public Services: A Report on the Service Channels from Kiwis Count 2009*: State Services Commission 2010.

<sup>34</sup> Based on estimated cost-to-serve for transactional and compliance and entitlement services of \$798 million per year; Service Transformation Programme.

## Decision-rights: Potential to harness the benefits of technology to the state sector

Creating an Office of the Government Chief Information Officer has delivered gains through establishing a clear strategy for government ICT and consolidating common ICT capability.

But there is scope to go further: to deliver capability to plan on future five-year time horizons for changing ICT needs and provide the decision-rights to ensure individual agency projects are aligned with system needs and opportunities.

A key example of this is the potential to move common business applications to a cloud-based platform – a move that could deliver a step-change in efficiency, save millions and remove ICT boundaries across agencies.

Tapping this potential would require a radical increase in standardisation and the centralisation of decision-rights: to really create the scale to make cloud computing work as a game changer for New Zealand public services would require a major provider to be able to work effectively with New Zealand government as a whole.

Getting there will likely require a significant boost in the powers and capability of the Office of the Government Chief Information Officer. In addition to the ability to drive standardisation, the ability to directly influence or even control the ICT budgets of agencies would be required.

## Best-sourcing

4.8 As outlined in Chapter 1, the Advisory Group considers that ongoing fiscal pressures will almost inevitably mean the Government doing less over time. Ministers will be the ones to make the choices here, for example, by focusing resources on key results, demanding a more efficient provision of services, and more fundamentally, by making some tough choices about the best interventions (policy, regulatory, ownership). Chief executives should be actively advising Ministers on where government should continue, expand or exit in terms of ownership, purchasing and service provision. Where government continues to have a role, advice should be provided on whether or not to go to market, create a market or provide the required services internally. Examples of all of these types of service provision are already evident, but more variety is to be expected in the mix of provision.

4.9 For most things the Government does, there are potential gains from making active sourcing decisions. These gains are in better results for New Zealanders by benchmarking services and introducing competition to drive better value. For example, commercial contracting of the government electronic network (one.govt) is on track to save \$230 million over 10 years<sup>35</sup>. The commercial contracting of the Infrastructure as a

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<sup>35</sup> Source: Department of Internal Affairs.



Service project is expected to save between \$90 million and \$310 million over the same period. Both achieved this by leveraging scale in procurement and introducing commercial tensions to drive the market<sup>36</sup>.

- 4.10 Best-sourcing is about much more than just the back-office. Whānau Ora is an example of best-sourcing that creates value by channelling government assistance to families through whānau intermediaries rather than directly from Government agencies. And in Corrections, the privately managed Mount Eden prison has already provided a valuable opportunity to benchmark and improve departmentally provided prison services. As best-sourcing extends into front-line services, the opportunities for innovation expand. This is difficult but rewarding terrain. Contracts for front-line services tend to be harder to specify and rely on longer-term relationships and earned trust. Conventional contracting expertise needs to be matched with experience in providing the service to get the best results.
- 4.11 The Advisory Group considers much more use could be made of best-sourcing to drive improved performance. The main obstacles tend to be a bias to the status quo and, as best-sourcing extends into front-line services, a lack of sophisticated contracting expertise. This report suggests a much clearer requirement for government agencies to market test their services, starting in areas where competitive pressure is likely to offer significant benefits (eg, where there are interested alternative providers, or where the scale of change is potentially large). The Ministry of Economic Development's functional leadership in procurement could be expanded to support agencies in best-sourcing and to drive a step change in commercial sourcing capability across government.

## Innovation and continuous improvement

- 4.12 In the view of the Advisory Group, sharply improved state sector performance will require a culture that supports and actively encourages innovation and continuous improvement. Innovating involves continuously re-designing services and processes to create something different and better. The views of customers and clients, managers and staff, and relevant external parties, can all contribute to this goal, and should be drawn on. An innovation culture also requires some tolerance of failure and a focus on learning from that failure. Recent work demonstrates the potential gains.
- 4.13 Innovation in service delivery in ACC – intervening early and contracting private providers to manage clients – has clearly contributed to improved financial performance<sup>37</sup>. The Defence Force has saved over \$100 million so far this financial year, and is now required to increase that to \$150 million by the end of the financial year by stopping non-essential activities, outsourcing others and changing the way it organises itself.

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<sup>36</sup> Source: Cabinet paper ECC (10) 52.

<sup>37</sup> ACC reported a loss of \$2.4 billion in 2007/08; in 2010/11 it ran a surplus of \$3.5 billion.

- 4.14 Innovation also drives out cost by getting the best outcomes in more efficient and effective ways. For example, Courts are using new technology to make courtrooms a more positive experience (also saving up to \$850,000 a year in outsourcing costs). The Canterbury District Health Board's home support initiative enables earlier hospital discharges (and saves \$36 million a year in residential care purchasing). Using proven innovation models to approach the re-design of services could produce even greater savings. International evidence shows consistent savings of 20% to 60% in service costs.
- 4.15 Treasury analysis has revealed that there is large variation in service performance across government and value-for-money will improve if all activity is brought up to the higher standards evident in some agencies. For example, higher performance in back-office processes could save more than \$200 million a year, and in programme and project management could avoid costs of \$120 million a year on capital projects alone<sup>38</sup>. This is the same cost as around 14,000 cancer patient treatments<sup>39</sup> or annual salaries for 4,400 secondary school teachers.
- 4.16 Work by the Ministry of Social Development to improve value-for-money has saved over \$250 million, with a further \$211 million expected over the next four years. Use of process efficiency and operations management tools at Inland Revenue has saved \$10 million and improved productivity by 10%.
- 4.17 The Advisory Group believes that the Central Agencies should be expected to offer stronger support to chief executives in driving innovation. Chief executives should also be held to account for looking for and implementing new service delivery models. The recently introduced PIF has made useful headway in assessing agencies' capability and ways to improve, but more is needed in embedding a culture of continuous improvement and innovation in all agencies. Managers and staff have a key role to play here.

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<sup>38</sup> See KPMG Project, Programme, Portfolio Management (P3M) Capabilities in Government; Increasing Success Rates and Reducing Cost, March 2011.

<sup>39</sup> Savings of \$315 million per year could fund 14,000 cancer patients per year through 6 years of treatment at average cost.

## Sustainable work systems in district health boards

Sustainable Work Systems (SWS) is a productivity improvement programme developed by the New Zealand Public Services Association, in association with a training provider, which brings employees, their union and management together to identify and implement ways to reduce waste and improve services. It uses tools and approaches from Lean methodologies, adapted for use in the public sector workplace. A key point of emphasis is the full and equal engagement of staff in the programme, as well as their managers and team leaders.

Pilots are underway in two district health boards (Bay of Plenty and Counties Manukau), with scoping work starting for programmes in local government (Auckland Council) and the public service (Ministry of Justice and Ministry of Social Development).

Bay of Plenty District Health Board: The SWS programme is in the area of scheduling hospital clinic appointments, and aims to improve the booking service and to reduce the number of “do not attends” – people who don’t show up for appointments. Using Workplace Improvement Teams:

- they have reduced (and sustained) the time taken for scheduling acute appointments from five hours to 1.5 hours; and for elective appointments from two hours to 50 minutes. This represents a considerable time saving
- by working with doctors to ensure that doctors’ leave is recorded well in advance, they have significantly reduced the need to rebook appointments at short notice
- patients can now choose their appointment times (a “patient-centred” booking approach) so they are much more likely to turn up, and
- the IT system is now much better used and adapted to support these results, with applications such as an electronic leave calendar, SharePoint and screen cast movies all implemented.

## Reducing duplication and consolidation of activity

4.18 State services currently duplicate many activities (eg, multiple audits of non-governmental organisation contracts), use inconsistent practices (eg, in back-office functions) and can be slow to make decisions (eg, owing to extensive inter-agency consultation). The costs of this churn could be reduced by establishing:

- *functional leadership roles*: to drive best practice, set common standards, collect data and identify opportunities to increase value (see Chapter 5)
- *tailored reporting requirements*: to reduce the transaction costs of reporting where current arrangements do not fit a particular agency's characteristics, such as size, functions and risk, and
- *policy hubs*: as discussed in the previous chapter, establishing some cross-agency policy hubs has the capacity to improve performance on results. Such hubs should also enable cost savings as well, through:
  - reduced coordination churn
  - reduced policy overlap
  - equipping the system to fill capability gaps without recourse to expensive consultants
  - better exposing relatively less important work which can be discontinued, and
  - reducing the fixed costs of small policy units (eg, via shared services).

Currently, 41 public sector agencies provide policy advice to government, with an estimated cost of around \$500 million a year and employing over 2,600 policy staff<sup>40</sup>. Better management of this policy resource could enable both significant savings, which could be allocated to priority areas, and better policy advice. Combined with shifting towards a shared and flexible policy workforce, common human resources arrangements, flexible deployment and "mutual accreditation", an attainable medium-term goal could be a 20% saving (or reduction in cost pressures) over five-years.

4.19 The Advisory Group proposes that the state sector seek economies of scale (ie, consolidate) where activities have a common function, value chain or customer. A number of opportunities for greater consolidation have been identified:

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<sup>40</sup> This is out of step with international comparators: the United Kingdom and Australia both have around 20 policy agencies. And the return on investment is poor: half the agencies surveyed by the NZ Institute of Economic Research Inc. in 2010 were assessed as providing low-quality advice. The Review of Expenditure on Policy Advice recommended the pooling of a 2% efficiency dividend for the next three years (\$10 million p.a.) to fund cross-agency medium term policy advice and capability and to review policy expenditure with a view to seeking savings through targeted baseline reviews with a focus on areas of growth and generally low-quality spending.

- *Regional offices:* Rationalising office space in Wellington and the regions could also save money. There is potential for agencies to reduce their collective footprint, improve mobility and co-locate with non-government organisations. Unnecessary cost, for government agencies and those who interact with them, could be reduced by requiring all agencies to use consistent regional boundaries. Currently these are defined variously, undermining the opportunities for cooperative use of resources and confusing service delivery organisations, citizens and businesses.
- *Front line offices:* For example, the Ministry of Social Development's Community Link consolidation is expected to save the Housing New Zealand Corporation over \$0.5 million a year.
- *Agencies:* The optimal size of state entities is debated, but evidence, including from the Better Administrative and Support Services programme, indicates that having many small agencies generates diseconomies of scale. The gains from consolidating go beyond efficiencies in running costs: they include more co-ordinated activity, pooled expertise, lower transaction costs and fewer and easier points of interaction for citizens and businesses. Whilst the Advisory Group does not advocate a first principles machinery of government review, its judgement is that there is opportunity to realise worthwhile gains from practical, considered steps to:
  - better align agencies around results
  - reduce duplication and fragmentation<sup>41</sup>, and
  - re-assess whether Crown entities can be incorporated back into the core Crown, in some cases as executive agencies; and

*Back-office operations:* There is already a drive for smarter and leaner back-offices, through initiatives such as the Better Administrative and Support Services project<sup>42</sup>. The 33 agencies surveyed in 2010 reported spend of \$1.85 billion on administrative and support services, representing nearly 10% of organisational running costs. The breakdown of costs by activity is set out in the table below. Whilst considerable variation between agencies was apparent, there is a clear conclusion that economies of scale drive down costs with smaller agencies being the least efficient: although, as the bulk of costs are in medium to large agencies, they provide the opportunity for the greatest cost reductions. The Ministry of Economic Development and Department of Internal Affairs' consolidation of procurement is expected to generate savings of more than \$500 million over the next five years. The leadership changes in Chapter 5 will drive this faster.

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<sup>41</sup> Refer Annex 6 for a list of current agencies.

<sup>42</sup> See the Treasury, *Administrative & Support Services Benchmarking Report for FY 2008/09 and FY 2009/10*, April 2011, available at: [www.treasury.govt.nz/statesector/performance/bass/benchmarking/2008-10](http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2008-10)

## Costs of administrative and support services in government

Activity	Average cost as % of ORC	Amount (\$ million)	How much higher are costs in small and medium agencies compared to large ones?	
			Small	Medium
<b>Overall A and S</b>	<b>9.8%</b>	<b>\$1,849</b>		
ICT	5.6%	\$1,051	15%	47%
Property	1.1%	\$205	56%	15%
Corporate and executive services	1.1%	\$201	104%	49%
HR	0.9%	\$174	163%	56%
Finance	0.8%	\$152	629%	229%
Procurement	0.4%	\$67		

## Conclusion

4.20 Better public services means more satisfied citizens (who can see results and have access to timely information) and lower costs.

4.21 Experience within New Zealand and internationally tells us that gains from productivity improvements and back-office changes will vary significantly within and across sectors. Nevertheless, the potential gains from better value-for-money when applied across the entire state sector are large, encompassing productivity improvements (tens of millions); shared back-offices (hundreds of millions); reduced duplication in policy (scope to reduce spending); and lower compliance costs from more flexible financial and reporting arrangements. Achieving these savings may require upfront investment in some instances and may take time to be fully realised. However, the potential is significant. For example<sup>43</sup>:

### Greater use of technology

- Savings in the order of \$200 million over five years would be possible if the cost of even a single transaction service were reduced by 5%.

### Best-sourcing

- Savings in the order of \$300 million to \$500 million over 10 years are expected from the government electronic network and Infrastructure as a Service projects alone.

<sup>43</sup> Refer Annex 1 for further examples. The chart showing what public servants do in Chapter 1 shows the number of people working in particular roles, including back-office functions such as HR, finance and ICT.

## Continuous improvement and innovation initiatives

- Benefits in excess of \$500 million over five years could be achieved through applying programme and project management practices to capital projects, given that departments and Crown entities are expecting to spend over \$24 billion on such projects over the next five years.
- Estimated savings of around \$1 billion over five years are possible through all departments lifting the performance of their back-office functions. Greater savings would be possible if the lessons from the benchmarking exercise were applied across all Crown entities.
- Significant additional savings would be achieved if the continuous improvement and innovation practices were applied across all the activities of departments and Crown entities. For example, even a 1% year-on-year saving could produce savings to the Crown in the order of \$4.5 billion over five-years once the initiatives were fully implemented.

## Consolidation of agencies and functions

- While the Advisory Group suggests that the primary focus of restructuring should be to align structures with results and enhance capability, the potential exists for savings as evidenced by the consolidation of procurement activities which is expected to realise savings in excess of \$500 million over five years.
- Further potential savings in the order of \$100 million over five years may be possible through consolidating / reprioritising policy advice<sup>44</sup>.

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<sup>44</sup> Refer footnote 39 above; this includes potential efficiency savings, savings through targeted baseline reviews and policy consolidation.

## Better services and more value-for-money: Recommendations

*Drive state services to deliver better quality, more responsive and better value-for-money services to citizens and businesses.*

### Reducing duplication and consolidation of activity

- Over time, by consolidating and disestablishing some public service and state sector entities, reduce their overall number to: better support a results focus; reduce fragmentation, duplication, and transaction costs; capture economies of scale.
- Consolidate and improve policy capability through a combination of more flexible deployment of resources, common human resources arrangements and policy hubs.
- Strengthen and extend the use of functional leadership roles to drive best practice, set common standards, collect data, influence or control budgets and identify opportunities to increase value.
- Require chief executives to implement shared back-office services and real estate wherever this makes sense, starting in sectors.
- Change legislated reporting requirements to align with the results and sectoral focus and to reduce compliance costs.

### Best-sourcing

- Require agencies to market test all of their roles, functions and services by looking to see where it would be more cost-effective to outsource to non-government organisations, private sector or other third-party providers.

### Greater use of technology

- Require the Government Chief Information Officer to drive a programme of standardisation of information across state services, and to develop a systematic, cross-government strategy for accelerating the shift to online channels.

### Innovation and continuous improvement

- Require agencies to:
  - drive continuous business process improvement through the use of 'lean' methodologies, and
  - drive innovation by benchmarking activity, identifying and implementing best practice from across the system.

### Information

- Require chief executives to proactively make plain English information available to citizens and businesses and actively seek feedback on services.
- Take advantage of the Christchurch re-build to trial more extensive use of interactive, web-based information technologies to provide information to and engage with citizens on the design and improvement of services.



# Chapter 5: Stronger leadership, the right culture and capability

- 5.1 This is already a demanding time to be a leader in the state services. But the pressure will not subside in the foreseeable future – indeed, the pace of change will only increase from here. Challenges that will need an accelerated response include: unrelenting fiscal pressures; a low carbon economy; fast-paced technological developments; ongoing changes in the international environment; a changing workforce; and increasing citizen expectations.
- 5.2 In the Advisory Group's opinion, the New Zealand state services are light on many of the skills that its leaders will need to meet these challenges. This chapter sets out proposals to build leadership, including future talent, capability and critical mass across the state services. These proposals are founded on a shift in the public management model: from decision-rights usually at agency level, to more cases where decision-rights sit at sector or system level.

## Sector leadership

- 5.3 In the future, the Advisory Group assesses that current agencies will more often be grouped into clusters or sectors to tackle difficult issues that the Government faces. As discussed in Chapter 3 above, if Ministers concurred in this analysis, it could be envisaged that a single chief executive in each sector be charged with lead responsibility for delivering the Government's priority results and for preparing a *Results Action Plan*. This leader would work alongside other sector chief executives and Central Agencies to make sure the system is optimally configured to deliver. The performance expectations of the respective chief executives would be aligned to the result areas.
- 5.4 Boards could also be used to support chief executives in leading a sector, and are already being used (eg, in the justice sector; refer Chapter 3). More use of sector boards could support collective responsibility for results, including use of resources and stakeholder management. Within sectors, boards could also support joint ventures between departments working on a shared activity (eg, student loans) or a result.
- 5.5 Different sectors will require different leadership arrangements. At different times more or less formal arrangements will be appropriate. Sector leaders will need to be able to front sector-wide issues with Ministers or at times with the public. They will need to have a clearly defined mandate to lead their colleagues and the support of Ministers and Central Agencies – especially the State Services Commissioner.

## Functional leadership

- 5.6 Leadership across functions – such as the Government Chief Information Officer, the lead role for government procurement or the recently established Government Property Office – can harness economies of scale across agencies, develop scarce expertise for the benefit of the system and support the development of consistent interfaces with government for citizens and businesses.
- 5.7 The State Services Commissioner should be empowered to identify where significant gains could be made from system-wide functional leadership and issue much stronger mandates to appointed individuals to take strong and decisive leadership. Clearly mandated leadership could drive improvement in performing common functions. Chief executive (or other senior official) leads for ICT and best-sourcing, for example, could:
- identify opportunities to make improvements across government (eg, standardising systems) including where those opportunities cut across agencies' current decision-rights
  - consolidate part of agencies' budgets under the functional leader's control – or oversight
  - provide expert advice to chief executives and Ministers (eg, in setting investment strategies and priorities)
  - provide deeper skills, and development paths to attract expertise, and
  - provide a clear point of contact within the public sector to engage effectively with those outside, including non-government organisations.
- 5.8 Some functions already have a lead, but engagement is voluntary and progress could be quicker. For example:
- on procurement, the Ministry for Economic Development has more than 200 government organisations signed up to all-of-government contracts, generating hundreds of millions in savings. But it took nine months and more than 3,000 briefings to achieve it
  - the Ministry of Social Development's oversight of property requirements following the Canterbury earthquakes has demonstrated value by preventing agencies from driving up property prices through competition and brokering shared accommodation arrangements, and
  - Land Information New Zealand is making some progress with establishing a Spatial Data Infrastructure, which will improve the benefits from the use of spatial information (estimated to be worth \$500 million a year).

But these sorts of benefits need to be achieved more widely. Other initiatives are just getting started, such as the Government Legal Services initiative. This will generate benefits through the collaboration of government lawyers and shared legal resources across departments. The expected result is more robust risk identification, reduction and management.

- 5.9 Trade-offs between what each agency might choose to do if left to its own devices and what is best from a system perspective arise in ICT systems, default terms and conditions for contracts (including audit requirements) reporting templates, etc. In the future, functional leaders should have clear decision-rights over these sorts of issues; a clear departure from the current situation.
- 5.10 Once functional leads are decided, they may be assigned to current or new chief executives, depending on capability and capacity. Leaders should be supported with a clear mandate and resources. The functional leader's overall performance should be assessed, in part, on their performance in this role.

## Agency leadership

- 5.11 In the future, chief executives will increasingly have to work across government, as well as leading their own agencies. They will face pressure to lead transformational business processes within the tight fiscal environment. As well as continuing to deliver on their more traditional vertical responsibilities, chief executives will need to reorient themselves to horizontal considerations:
- Stronger functional leadership will cut across the independent decision-making capability of agencies in areas like ICT and procurement.
  - Stronger system leadership means chief executives will be expected to develop staff to take on leadership roles outside the core department and to lose some independence in where those staff are deployed.

## Leadership from the centre

- 5.12 This report recommends a number of changes that will lead to stronger system-wide leadership, across results and by function. For the most part, this stronger system-oriented leadership will not need to be exercised by “the centre” (ie, by the State Services Commission, the Department of the Prime Minister and Cabinet or the Treasury). Rather we anticipate that all chief executives and other senior staff will be challenged and empowered to step up into stronger, system-wide leadership roles.
- 5.13 The centre will, however, have a critical part to play in identifying where system-oriented leadership is needed, in initiating, expediting and sometimes imposing a system-wide response and in ensuring rewards and sanctions reinforce system-oriented behaviours. The three Central Agencies – the State Services Commission, the Treasury and the Department of the Prime Minister and Cabinet – hold a range of leadership

responsibilities. Current mandates could be strengthened to allow them to fulfil the roles which will be required in future. Clarity on the respective roles and responsibilities of Central Agencies is critical.

5.14 Strengthening Central Agencies' focus on system-wide leadership as above is a necessary but not sufficient step. To a large extent it continues the current arrangements whereby leadership of the state sector is held loosely and somewhat jointly between the three Central Agencies. This has two implications:

- No one agency can be held accountable for overall performance of the state sector, which in turn limits the mandate any agency has to act decisively in defence of that performance.
- Where system-wide action is called for that impacts outside each agency's direct responsibilities it typically requires a consensus to be reached between the three. Consensus may take some time to reach.

5.15 One way forward would be to formally designate the State Services Commissioner as Head of the State Services (responsible of course to the appropriate Minister and to Cabinet). This would clarify and strengthen the leadership mandate of this role, authorise the Commissioner to make calls where agencies can't agree (on matters that don't require ministerial decision) and provide the Prime Minister and Ministers with a single point of reference to ensure that the state services respond quickly and decisively to ministerial priorities and overall system performance.

5.16 The Central Agency members of the Advisory Group acknowledge that all three Central Agencies need to raise their game and act in more determined and complementary ways.

#### Department of the Prime Minister and Cabinet

5.17 The Department of the Prime Minister and Cabinet is best placed to support the effective conduct of executive government by the Prime Minister, the Governor-General and members of the Cabinet. The Department's principal roles are leadership and coordination of agencies' contributions to the Government's programme, and provision of advice, on a daily basis, to the Prime Minister and Cabinet on the wide range of complex issues that confront the Government.

#### State Services Commission

5.18 The State Services Commission needs greater influence over the development of leaders and more active management levers to make the system more responsive. The State Services Commissioner, as Head of State Services<sup>45</sup>, would need to be supported by greater powers and authorities than at present, in particular to:

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<sup>45</sup> This ambit would capture departments of the public service and Crown entities (except Tertiary Education Institutions).

- advise Ministers on where sectors would help achieve results, and the governance arrangements behind them
- define and assign functional leadership roles
- proactively deploy chief executives and specified second and third tier staff to anywhere within the state services in response to system needs, and
- designate some positions as fixed-term developmental roles and jointly agree appointments with chief executives.

5.19 The Head of State Services would need to be able to require Crown entities to provide information and, as appropriate, to participate in initiatives to standardise activity across the system. The legislative implications of this will need to be worked through to ensure this is done in a way that does not impact inappropriately on Crown entity independence.

5.20 Given the Commission's proposed role in advising Ministers on how sectors can help achieve results, and the Department of the Prime Minister and Cabinet's proximity to Ministers on policy priorities, it is worth considering merging the Department of the Prime Minister and Cabinet with the State Services Commission in time. The other distinct and important activities (such as intelligence sector coordination, and trust and integrity work) would need to continue to get appropriate focus in a bigger, more diverse agency.

### The Treasury

5.21 The Treasury will continue to have a critical role testing the logic of results and proposed actions and questioning cost benefit analyses. However, this report anticipates a more proactive role as well, working alongside the sector leads, facilitating innovation and keeping a sharp focus on the priority results specified by government. The Treasury will also need to work closely with the Head of State Services to bring about change.

5.22 More generally, the Treasury will need to act more like a chief financial officer of a corporate head office than it does at present, with more emphasis on managing system-wide resource allocation rather than primarily responding to agency by agency proposals. The Treasury should build on the work already started with the publication of the *Investment Statement*, for example, using information on the balance sheet to more actively manage depreciation flows and ensure outstanding receivables (currently around \$8 billion) are managed down.

### Leading culture change

5.23 Leaders and leadership behaviour do not exist in a vacuum – but are shaped by the culture and features of the overall system in which they work.

5.24 Making a step-change in leadership in the public sector requires a systemic and consistent set of mutually-reinforcing changes. Many components must be aligned. It

will be important for Ministers and state services leaders to clearly signal, communicate and reinforce the desired leadership styles, behaviours and expectations.

- 5.25 Our current and future public management challenges will require a greater onus on citizen voice, innovation and calculated risk-taking – not just because these cultural dimensions are valuable in their own right, but because they will be the only way to achieve improved results for New Zealanders while attaining year-on-year efficiency and effectiveness improvements. Chief executives, and their Ministers, will have to be able to effectively manage risk and distinguish those low-risk environments from areas where a willingness to provide “room to fail” is critical to fostering a culture of innovation.
- 5.26 Achieving this major shift in the leadership culture needs to be driven by clear and frequent communication of the leadership behaviours required, reinforcing the behaviours through positive, specific, immediate and personal feedback, and taking a systematic approach to reconfiguring the expectations, incentives and support for leaders.

## Conclusion

- 5.27 Better state services will require more effective leadership in the short term, with leaders driving improvement by taking on roles across the system as well as within their individual agencies. Leaders must be focused on clear, long term goals, with incentives aligned to support them. Again, the potential gains (leadership to drive results and value-for-money) are worth the effort this will take.

## Stronger leadership, the right culture and capability: Recommendations

*The single most critical driver of successful change is leadership. Shift the overall balance of decision-rights in the state services away from individual agencies and towards the needs of the system: including sector leads for results, functional and system leadership.*

- Formally designate the State Services Commissioner as the Head of State Services, accountable for overall performance of the state services and empowered to:
  - appoint sector leads
  - determine functional system-wide leadership roles and appoint chief executives into these roles, and
  - deploy chief executives and second and third tier leaders to critical roles across the system.
- Require the State Services Commissioner and the Chief Executive of the Department of the Prime Minister and Cabinet to bring together more closely the Government's overall priorities with the levers to make change happen.
- Change the State Sector Act 1988 to rebalance the accountability of public service chief executives more towards the delivery of better results and value-for-money, including requirements to collaborate where necessary, and away from the independent management and operation of departments. Change the Crown Entities Act 2004 to similarly rebalance the accountabilities of Crown entity boards.
- require the State Services Commissioner to lead a culture-build process across the state services by:
  - defining the behaviours required of all state employees (for example, integrity, innovation, continuous improvement)
  - strongly communicating and reinforcing these expectations wherever they are displayed, and
  - aligning the formal parts of the system to incentivise, support and reward these behaviours, (eg, recruitment, performance agreements and performance review processes).

## Chapter 6: Capturing the gains

- 6.1 This report responds to the challenge of improving social, economic and environmental outcomes for New Zealanders and doing so in more affordable ways. Meeting that challenge will require action on a range of fronts, with implications for Ministers, public servants, non-government organisations, business partners and citizens. Leadership will be critical, organisational change inevitable, some up-front investment essential.
- 6.2 Current budget settings already require the state services to look for significant efficiency gains to offset ongoing cost increases. The proposals set out in this report, particularly those relating to best-sourcing, back-office and productivity improvements, should enhance chief executives' and Ministers' toolkits. Stronger system-wide leadership should better enable system-wide efficiencies to be made.
- 6.3 Meeting cost pressures is just the beginning. The bigger gains for New Zealand will come from getting better traction on results. The intention of this report is that ministers will have greater choices over time: to reallocate scarce resource to improved services or reduce further the overall level of government spending. Annex 1 sets out where government spends and invests and provides an indicative assessment of how and where this report's proposals will have their impact.
- 6.4 The Advisory Group has been heartened by departmental chief executives' enthusiasm to engage in this work. The ambition of this report will only be realised if that enthusiasm persists and if it is backed by ministerial support.





# Annex 1: Where the Crown spends and what it owns

Crown spending	\$ billion	% of total spending
<b>Core public services<sup>46</sup> (ie, departments, Officers of Parliament, Crown)</b>		
Labour market and skills (Ministry of Education, Department of Labour, Education Review Office)	\$4.6	5%
Justice sector (Ministry of Justice, Department of Corrections, New Zealand Police, Serious Fraud Office and Crown Law Office)	\$3.8	4%
Social development and housing (Ministry of Social Development, Department of Building and Housing)	\$2.6	3%
Administration and business of government (Inland Revenue Department, Department of Internal Affairs, Parliamentary Services, Clerk of the House)	\$2.5	3%
External relations and national security (Defence, Ministry of Foreign Affairs and Trade, Government Communications Security Bureau, New Zealand Security Intelligence Service)	\$2.7	3%
Natural resources (Ministry for the Environment, Department of Conservation, Ministry of Agriculture/Fisheries, Land Information New Zealand)	\$2.0	2%
Health	\$1.6	2%
Business-facing services (Ministry of Economic Development, Ministry of Science and Innovation, Statistics New Zealand, Ministry of Transport, Customs)	\$1.2	1%
Earthquake payments from Canterbury Earthquake Recovery Authority	\$1.0	1%
Other	\$1.8	2%
Eliminating expenses charged within core public services (capital charge & NZSF taxes)	-\$3.7	-4%
<b>Total core public services</b>	<b>\$20.1</b>	<b>23%</b>

## Examples of opportunities for outcome and fiscal gains

- Opportunities exist to reduce costs and manage within current baselines as a result of falling crime, a 7% forecast reduction in the prison population by 2020, and through greater efficiencies, (eg, in court processes).
- Work by the Ministry of Social Development to improve value-for-money has saved over \$250 million; a further \$211 million is expected over the next four-years.
- Use of process efficiency and operations management tools at Inland Revenue has saved \$10 million and improved productivity by around 10%.
- The Defence Force is on track to save between \$130 million and \$150 million by June 2012 by stopping non-essential activities, outsourcing others and changing the way it works.
- The Ministry of Economic Development and Department of Internal Affairs' consolidation of procurement is expected to generate savings of \$500 million over five years.

*The greatest gains will come over time from realising results. However, across the core public service there are opportunities for significant gains to be realised from:*

- implementing continuous improvement programmes, and
- increasing value and reducing variation in cost and quality across functions.

<sup>46</sup> While agencies' activities may fall across more than one sector, for the purposes of this Annex, each agency is allocated to one sector only.

<b>Wider state sector (Crown entities)</b>	<b>\$ billion</b>	<b>% of total spending</b>
Insurance (ACC, the Earthquake Commission)	\$15.8	18%
Health (District Health Boards)	\$11.7	13%
Education (schools)	\$6.3	7%
Education (tertiary education institutes)	\$4.2	5%
Transport (New Zealand Transport Authority)	\$2.0	2%
Other	\$5.1	6%
<b>Total wider state sector</b>	<b>\$45.1</b>	<b>51%</b>
<b>Transfers</b>		
Superannuation	\$8.8	10%
Family Tax Credit	\$2.1	2%
Domestic Purposes Benefit	\$1.8	2%
Invalid's Benefit	\$1.3	1%
Accommodation Supplement	\$1.2	1%
Other Benefits	\$5.4	6%
KiwiSaver subsidies and official development Assistance	\$1.5	2%
<b>Total transfers</b>	<b>\$22.1</b>	<b>25%</b>
<b>Interest and finance expenses</b>		
Eliminating expenses between core public services and the wider state sector (ACC charges, capital charges and taxes)	-\$1.4	-2%
<b>Total expenses (core Crown/Crown entities)</b>	<b>\$88.6</b>	<b>100%</b>
Less Crown entity activities funded from third parties and Crown entity operating deficits	-\$18.1	
<b>Core Crown expenses (excluding losses)</b>	<b>\$70.5</b>	

### Examples of opportunities for outcome and fiscal gains

- ACC turned around a \$2.4 billion loss in 2007/08 to a \$3.5 billion surplus in 2010/11 through reforms to policy and operations which focused on clear targets.
- Health Benefits Ltd, in conjunction with various regional shared services organisations and PHARMAC, is developing major change plans for: (1) finance, procurement and supply chain, and (2) facilities management and support services with a goal for savings of \$700 million over five-years.
- A suite of reforms to the education sector, including raising high quality ECE participation and lifting average teacher quality, could generate a level increase in GDP of 3% to 15% by 2070 (or at a rate of 0.1 to 0.4% per annum once policy reforms have been fully implemented).

*As above, there are opportunities for significant gains to be realised across the wider state sector, including from:*

- channel consolidation (eg, a 5% reduction in the cost of a single service could save around \$40 million a year);
- rationalising regional office space and frontline presence (eg, the Ministry of Social Development's Community Link consolidation is expected to save the Housing New Zealand Corporation over \$0.5 million p.a.);
- co-location with other services, or non-government organisations also offers potential benefits in more coordinated activity, improving access for citizens and businesses and encouraging innovation.

- The Ministry of Social Development estimates that an investment approach to welfare (ie, recognising the value of investing early to reduce the long term social, economic and fiscal costs) will cost \$130 million per annum to implement, some of which may come from re-directed expenditure, with estimated savings in benefit expenditure of \$1 billion over 4-years.
- A results focus enables the government to far more effectively leverage its priorities through the existing bureaucracy, and beyond for example, into joint ventures with non-government organisations, public private partnerships.

## Crown ownership

### Overview

	\$ billion	% of total spending
Social assets (eg, student loans, conservation estate)	\$113.6	46%
Financial assets (eg, NZ Super Fund, Reserve Bank, Earthquake Commission, ACC, Debt Management Office)	\$73.5	30%
Commercial assets (state-owned enterprises)	\$58.1	24%
<b>Total assets</b>	<b>\$245.2</b>	<b>100%</b>

### Breakdown of social assets:

State highways	\$25.1	22%
Housing properties	\$15.1	13%
School property	\$11.5	10%
Tertiary education (the Crown's net investment in tertiary education institutes and student loans)	\$15.5	14%
Receivables for taxes, social benefits and levies/fines/penalties (excluding ACC receivables)	\$7.8	6%
Conservation estate	\$6.2	5%
Other land, buildings and equipment (eg, vehicles)	\$5.6	5%
Defence property and equipment	\$5.2	5%
Hospitals	\$4.7	4%
Corrections property and equipment	\$2.1	2%
Other Culture and Heritage assets (eg, Te Papa, Archives)	\$2.1	2%
Computer software and other intangible assets (eg, Air New Zealand goodwill and net Kyoto credits)	\$1.4	1%
Other (eg, trade receivables, cash and inventories)	\$11.3	10%
<b>Total social assets</b>	<b>\$113.6</b>	<b>100%</b>

### Additions to property, plant and equipment:

Core public service	\$1.5	38%
Wider public sector	\$2.5	63%
<b>Total capital expenditure</b>	<b>\$4.0</b>	<b>100%</b>

## Examples of opportunities for outcome and fiscal gains

- Proposals to encourage greater involvement of third-party providers in the provision of social housing offers opportunities to: grow the overall quantum of social housing; improve efficiency and value-for-money through greater innovation, diversity and specialisation; and provide access to additional sources of capital.
- Pressure to find more cost-effective ways to manage demand is beginning to reap rewards (eg, the recent sale of 24 ageing but high-value properties freed up \$19 million to be reinvested in higher priority areas).
- The Government is facing cost pressures of over \$2 billion to manage the portfolio of state schools and assets over the next decade (above forecast funding of \$5 billion). Drivers of this include the need for repairs, to accommodate more pupils and to invest in broadband technologies. Fixing damage from the Canterbury earthquakes adds further pressure still. Making decisions at a system level, rather than at board of trustee level, would help to prioritise investment decisions, drive prices down by aggregating demand and coordinating maintenance work and free up principals, boards and public servants to focus on raising student achievement.
- Improved asset utilisation of the existing school network will reduce the need to construct new schools and reduce currently unfunded cost pressures. Very preliminary indications from the Ministry indicated that the programme could reduce unfunded future costs in the low hundreds of millions.
- Of every dollar the Crown lends on student loans, only 55.3 cents can be considered an asset. This means that of the \$1.56 billion lent in 2011, \$708 million was written down, with the average new loan being subsidised by \$3,300. A results-based approach would help Ministers in considering whether the ease of access to borrowing and the student loan scheme is the best way to achieve their education and equity goals. A pilot targeting 1,000 Australia-based student loan borrowers is currently being scaled up, with targeted returns of \$37 million on a \$12 million three-year investment.
- Integrated revenue management in British Columbia has improved outcomes, customer service and operational efficiency in the management of receivables. Benefits of this approach included an increase in gross revenue of CAD\$905 million and 65% reduction in collection agency fees over the life of the project.
- The Defence Force administers real estate with an estimated replacement cost of \$2.2 billion. It is considering consolidating its property management activity which could include outsourcing some or all functions.
- Defence Forces are also reducing the defence housing stock which would free up capital for reallocation, as well as reducing capital-related operating costs such as capital charge, depreciation and maintenance by around \$25 million p.a. by 2015/16.
- With the most recent stand-alone elective surgery facility costing about \$40 million, continuing recent improvements from DHB's in elective surgery productivity will save tens of millions of dollars through avoiding or postponing capital costs (assuming no changes to the current target of 4,000 additional elective surgeries).
- Improving Project, programme, portfolio Management (P3M) practices in capital management could help avoid nearly \$120 million a year in unnecessary expenditure and duplication.

# Annex 2: Chief executive-led work on results

## Introduction and context

The Advisory Group found it very useful to engage with public service chief executives on this work. This is the first time that chief executives collectively have been formally asked to consider options for improving cross-agency working on challenging and complex areas. The Advisory Group was grateful for the open, and, at times, challenging engagement from chief executives, and for their suggestions and support.

The Chair of the Better Public Services Advisory Group, Maarten Wevers, asked chief executive sector leaders to develop, with their colleagues, “1-4 key results that will bring about a step-change across the sector and around which the agencies will arrange their activities”. The criteria set for these proposed results were that they be: “important, difficult, tangible, and capable of becoming the central focus of activity across the sector”.

Interactions within and between the natural resources, economic and social sectors are difficult to account for, create value but have no price, change over time, and the issues require adaptive and smart policy and operational responses drawing from the most robust evidence available. These sector groups also demonstrate the breadth of organisational readiness for this approach, including: well established – the justice and social sectors; policy focused – natural resources; no formal structure – business-facing services; and a combined policy role and service delivery role – labour market and skills. Therefore, the five sectors that are responsible for these areas, with a lead chief executive each, were chosen as a means to test and demonstrate a results-based approach to public sector management.

On this basis, chief executives have tested live examples of results and supporting arrangements, as set out below. Results developed through this exercise are what chief executives collectively support in their sectors; they are not the final result areas. Should the Government wish to pursue this approach, results will be finalised in accordance with the Government’s priorities. That said, it is hoped the draft results offered here give a strong sense of the potential of this way of working and the kinds of results that could be agreed.

Proposed results with suggested organising arrangements are outlined below.

## Labour market and skills

It is most important that the education system, at both school and tertiary level, responds efficiently to skill shortages, particularly in high-value areas. Chief executives in this sector have used the results challenge to offer a new way forward to meet this challenge based on a “life cycle” approach. Interestingly, since the start of this exercise three other agencies have joined the chief executives’ sector group: the Education Review Office, Careers New Zealand and the Ministry of Economic Development.

	Results (measures/targets and timelines to be developed)	Immediate steps (early 2012)	How the sector will operate by mid-2013
<p><b>All New Zealanders have the skills to succeed</b></p> <p>All New Zealanders have at least the minimum education standard needed to fully participate in the economy and society.</p>	<p>Would include annual targets to achieve the longer-term goal by a specific date. Provisional:</p> <ul style="list-style-type: none"> <li>■ All 18-year-olds leaving the education system achieve NCEA Level 2 or equivalent. Targets likely to be based on: <ul style="list-style-type: none"> <li>■ currently 28% of school leavers leave without achieving the level, and</li> <li>■ add targets for general population and Māori.</li> </ul> </li> <li>■ Share of adults with no qualifications is halved from 30% to 15% by a specific date.</li> </ul>	<ul style="list-style-type: none"> <li>■ Brief Ministers and work to identify appropriate ministerial group.</li> <li>■ Establish a Chief Executive Cluster Board with Department of Labour as Chair (<i>chief executives to nominate appropriate agencies</i>).</li> <li>■ Identify and allocate resources.</li> <li>■ Work with Central Agencies to identify the key enabling legislative changes.</li> <li>■ Identify and work towards the key accountability documents that will need to reflect the cluster approach.</li> <li>■ Develop cluster work programme including sector monitoring function.</li> </ul>	<p>Accountability:</p> <ul style="list-style-type: none"> <li>■ experienced, collaborative and joint decision-making ministerial group, and</li> <li>■ experienced, collaborative and joint decision-making Chief Executive Cluster Board that is accountable for cluster results.</li> </ul> <p>Funding:</p> <ul style="list-style-type: none"> <li>■ fund the board through a cluster appropriation.</li> </ul> <p>Policy:</p> <ul style="list-style-type: none"> <li>■ effective cross-cluster policy capability that has already delivered significant policy changes that meet cluster results, and</li> <li>■ effective sector monitoring and performance reporting.</li> </ul>
<p><b>Businesses have the skills they need</b></p> <p>People are equipped with the skills needed in a dynamic business sector.</p>	<p>Measures could be built on labour market matching, (eg, vacancy rate relative to unemployment [Beveridge curve]). Targets would be specified on a long term and annual basis.</p>		
<p><b>New Zealand’s labour productivity growth is doubled</b></p> <p>New Zealand businesses achieve accelerated productivity growth, as the platform for higher incomes.</p>	<p>Work is required to develop appropriate measures, particularly the appropriate labour productivity definition (eg, measure sector vs. whole of economy) and over what time period (annual vs. period of years). In general a 1% increase in labour productivity equates to a 1% lift in GDP. Measures could include:</p> <ul style="list-style-type: none"> <li>■ Sustained labour productivity growth of at least 2% p.a. (vs. average over period); and</li> <li>■ Targeting a group within the OECD.</li> </ul>		

## Business-facing services

This is essentially a new sector grouping, though its members share many common customers and come together from time to time to coordinate their work. Higher-level results for improving New Zealand's overall economic performance are being developed separately so the current focus is on creating the best possible environment for starting and growing businesses in New Zealand, encompassing both the support and compliance elements of the interactions between business and government. More joined-up and streamlined business-facing government services provides potential real benefits and opportunities for the hundreds of thousands of New Zealand businesses; however, given the early stages of this sector grouping, additional diagnostic work is required to properly identify how business-facing services could be most improved for businesses, including interactions with small and medium-sized entities; to develop metrics and business cases and identify the best organisational arrangements to support these results.

	Results (measures/targets and timelines to be developed, subject to diagnostic and business case work)	Immediate steps (early 2012)	How the sector will operate by mid-2013
Government interactions with businesses are modern, responsive and effective, making it easy for firms to understand and act on their regulatory responsibilities and exploit new business opportunities.	<p>Detailed results have yet to be finalised. Illustratively, concepts discussed include:</p> <ul style="list-style-type: none"> <li>■ Firms understand what regulatory requirements mean without having to hire advisers to explain.</li> <li>■ Government uses its knowledge of businesses to help them comply and grow – information and services “find” businesses.</li> <li>■ Government can share information, allowing businesses to submit/update information through one contact point.</li> <li>■ Businesses experience comparable and complementary services from across government agencies that are easy to access, easy to use, cost-effective and are trusted for accuracy and security.</li> </ul>	<ul style="list-style-type: none"> <li>■ Organising the participating agencies to support collective ownership of the overall challenge and expected results (the best possible environment for doing business) and for developing those initiatives that cross agency boundaries (such as simplified interface mechanisms and simplifying regulatory regimes that intersect in their impact on businesses)</li> <li>■ This could involve an overarching sector group, led by MED, that is flexible in terms of working in smaller agency groupings depending on the issue (eg, those that interact with all businesses, those that interact with the primary sector, those involved with border security).</li> <li>■ Refining the results and developing a set of metrics/indicators to measure progress and achievement of the results.</li> <li>■ Charting a path towards a more firm-centric approach that would be organised around a set of sequenced steps, each of which would make sense in its own right and create the option of going to the next step. This includes further engaging with businesses to better understand their preferences and developing business cases to support the specific steps.</li> <li>■ Integrating business-facing services results with wider economic sector results following completion of the economic growth strategy.</li> </ul>	<ul style="list-style-type: none"> <li>■ Effective governance arrangements (including ministerial and agency level) are in place.</li> <li>■ Implementation is well underway, following the sequenced approach, with initiatives such as use of a single business number being progressed.</li> </ul>

## Natural resources sector

Given the need to balance economic productivity and protection of the environment, the challenges posed by New Zealand's natural resource issues are bigger than any one agency can tackle. The natural resources sector was established in 2008 in response to the need for consistent and high-quality policy advice on natural resources. It consists of seven core agencies (Ministry for the Environment, Ministry of Economic Development, Ministry of Agriculture/Fisheries, Land Information New Zealand, the Department of Conservation, Te Puni Kōkiri and the Ministry of Science and Innovation) which actively work together on natural resource policy supported by the three Central Agencies.

The potential results outlined below demonstrate the greater effectiveness from a sector-based approach with stronger governance of significant presenting issues, in this case using the examples of water and marine environments:

	Results (measures/targets and timelines to be developed)	Immediate steps (early 2012)	How the sector will operate by mid-2013
Water	<p>The quality, flow and availability of fresh water are improved. This means the long-run returns and productivity are increased and the health of our waterways is improved for New Zealand Inc.</p> <p>Measured by, for example:</p> <ul style="list-style-type: none"> <li>■ By end 2014, 90% of water use is measured and reported on for better management of increasing water demand.</li> <li>■ Technical efficiency and productivity of water use increases, resulting in up to a 1% increase in GDP by 2035.</li> </ul>	<ul style="list-style-type: none"> <li>■ Review governance arrangements (including ministerial and agency) to drive the policy process.</li> <li>■ Clear governance arrangements with iwi are in place.</li> <li>■ Continue to work alongside and support the Land and Water Forum.</li> <li>■ Continue the ongoing dialogue with Chief Executives' Environmental Forum (CEEFs) to improve the role of regional councils in water policy implementation.</li> <li>■ The natural resources sector takes a sector approach to allocate resources and appropriate capability for water policy.</li> <li>■ Programmes are in place and delivering – such as the Irrigation Acceleration Fund and Clean Up Fund.</li> </ul>	<ul style="list-style-type: none"> <li>■ Effective governance arrangements are in place.</li> <li>■ Continue to work alongside and support the Land and Water Forum and other stakeholder groups.</li> <li>■ A system approach to the policy on water management (not agency driven) is in place, and has the appropriate regulation, joined-up advice, support and information.</li> <li>■ Existing programmes such as the Clean Up Fund have been evaluated and arrangements for ongoing investment considered.</li> </ul>

<p>Marine resources (including minerals)</p>	<p>New Zealand's marine areas are a productive resource where environmental effects and competing interests are understood and managed and major economic opportunities can be realised and the environment safeguarded.</p> <p>Measured by, for example:</p> <ul style="list-style-type: none"> <li>■ Increased value derived from New Zealand's coastal and marine area (including the EEZ) (eg, increasing aquaculture value up to \$1 billion by 2025).</li> </ul>	<ul style="list-style-type: none"> <li>■ Establish governance arrangements (including ministerial and agency level).</li> <li>■ Engage and consult with iwi.</li> <li>■ Develop collaborative decision-making mechanisms to address perceptions that may be hindering resource development and facilitate Māori engagement.</li> <li>■ Identify opportunities to gain greater integration in legislative and institutional governance arrangements to improve resource management and reduce transaction costs (link to VUW work).</li> <li>■ Enact enabling legislation such as the Exclusive Economic Zone Bill.</li> <li>■ The lessons from Rena have been explored and understood.</li> <li>■ Build agency capability to work on this issue.</li> <li>■ Improve marine information procurement and management to facilitate national and commercial decision-making.</li> </ul>	<ul style="list-style-type: none"> <li>■ Effective governance arrangements (including ministerial and agency level) are in place.</li> <li>■ Implement decision-making mechanisms using a collaborative model.</li> <li>■ The Economic Zone legislation is in place around which a broader marine management framework is being built.</li> <li>■ A cross-agency work programme on the marine environment is signed off by Ministers, and has dedicated resources allocated.</li> <li>■ Pilot and test spatial planning and management responses to address marine pressures.</li> <li>■ Implement any action from the Rena review (working with CEEFs)</li> </ul>
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## The social services sector

The social sector has been operating for about ten years and has a clear understanding of the challenges it faces. At times, progress has been slower than it may have been as it has struggled to work as a coherent whole in the absence of an appropriate authorising environment. Therefore, the proposed results in this area include strengthening how this sector can be more effectively run.

	Results (measures/targets and timelines to be developed)	Immediate steps (early 2012)	How the sector will operate by mid-2013 (assumes legislative change)
Improved services for children aged 0 to 6 from families with multiple issues	<ul style="list-style-type: none"> <li>■ Reduced rates of substantiated child abuse.</li> <li>■ Increased participation in quality early childhood education.</li> <li>■ Increased number of children achieves National Standards after their first year of school.</li> <li>■ Increased numbers of children do well at the B4 school check.</li> </ul>	<p>Chief executives will have agreed the best structural vehicle for achieving sector results. May include a Sector Leadership Board, including the chief executives of Ministry of Social Development, Health, Education and Justice (based on a Memorandum of Understanding).</p> <p>In agreeing the best model, chief executives will have to agree transfer (between agencies) of the resources necessary to achieve sector results and to:</p>	<p>If a board structure is adopted, the chief executives may consider formalising the Sector Leadership Board by:</p> <ul style="list-style-type: none"> <li>■ establishing the board as a legal entity within the Crown, accountable for sector results through a statement of intent</li> <li>■ funding the board through a sector appropriation, and</li> <li>■ reporting to a Responsible Minister (or joint Ministers if necessary).</li> </ul>
Young people contributing and achieving	<ul style="list-style-type: none"> <li>■ Fewer 16 to 17-year-olds move on to benefits.</li> <li>■ Reduced rates of apprehension of children and young people.</li> </ul>	<ul style="list-style-type: none"> <li>■ develop coherent policy for the result areas</li> <li>■ recommend allocation of resources to achieve sector results, and</li> <li>■ oversee individual chief executive's delivery of the required services and activities from the constituent departments and/or third parties.</li> </ul>	

## The justice sector

This sector has been operating for some time; however, pressure has intensified in recent years owing to a combined need to modernise the justice system and contribute real savings, which is testing service delivery. The solution will be a combination of the right policy settings, careful implementation, including resource re-allocation, and addressing significant fiscal pressures. Therefore, the proposed results focus on these areas and improving leadership and ways of working to deliver these.

	Results (measures/targets and timelines to be developed)	Immediate steps (early 2012)	How the sector will operate by mid 2013 (assumes possible legislative change)
Justice sector (targets are indicative only at this stage)	<ul style="list-style-type: none"> <li>■ 20% reduction in crime-related statistics</li> <li>■ 15% improvement in time for disposal in the courts system, and</li> <li>■ 10% reduction in re-offending</li> </ul>	<ul style="list-style-type: none"> <li>■ Establish Sector Leadership Board (chief executives of Justice, Corrections and Police).</li> <li>■ Establish Interagency Sector Strategy Group to support the sector board's work programme.</li> <li>■ Strengthen sector policy team through secondments from Police and Corrections.</li> <li>■ Develop joint sector statement of intent and four-year budget plan.</li> <li>■ Change organisational cultures from working as individual agencies to working as one sector.</li> <li>■ Collective decision-making on capital spending/footprint.</li> <li>■ Use of an investment model/tool for prioritising investment decisions across the pipeline.</li> <li>■ Increased collaboration in: shared services, based on existing centres of excellence; back-office; senior leadership development.</li> </ul>	<p>Accountability:</p> <ul style="list-style-type: none"> <li>■ Consider establishing the Sector Leadership Board as a legal entity, accountable for achievement of sector results (individual chief executives continue to be accountable for individual agency results).</li> </ul> <p>Funding:</p> <ul style="list-style-type: none"> <li>■ Appropriation for the sector through a Responsible Minister (or joint Ministers). A single, shared decision-making and prioritisation process across the sector's appropriations and Votes.</li> </ul> <p>Combined function:</p> <ul style="list-style-type: none"> <li>■ Consider further combining strategic policy capability in the sector into a policy hub within the Ministry of Justice. Other shared functions could include legal services, back-office services, intelligence and surveillance activities, etc.</li> </ul>

# Annex 3: Legislative change detail

## Public Finance Act 1989<sup>47</sup>

### Why change is needed

- Based on individual departments as the sole administrative unit within the legal Crown<sup>48</sup> which creates barriers to inter-agency collaboration<sup>49</sup>.
- Prescriptive, one-size-fits-all – hinders flexibility and innovation in management.
- Reporting on a large number of outputs, using metrics – high compliance costs in reporting low-value information that does not tell a performance story (not meaningful accountability).
- Financial responsibilities of departmental chief executives is prescriptive about reporting responsibilities for departmental expenditure, but provides little direction in respect of other financial responsibilities (eg, achieving objectives at lowest cost) or more strategic aspects of financial performance (either longer term or across the sector/system).

### Proposed changes

#### Additional reporting and accountability units within core Crown

- *Collective governance board* – coverage could range from activities for a specific purpose (eg, for a joint venture) to coverage of all the activities of constituent departments (eg, for a “hard-wired” sector).
- Executive agency.

#### More flexibility in appropriations

- Review the types of appropriations to better support a focus on achieving results and collaborative arrangements between departments to achieve economies and improve efficiency. Specifically, consider adding:
  - an expense appropriation contributing to an outcome, purpose or result, and
  - a consolidated operating expenses appropriation (for small departments).

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<sup>47</sup> Has flow-on implications for the Crown Entities Act 2004. As separate legal entities from the Crown, many of the relationships between Ministers and Crown entities need to be prescribed by legislation.

<sup>48</sup> Applies equally to the State Sector Act 1988.

<sup>49</sup> Crown entities, which are legally separate from the Crown, can also create barriers to inter-agency collaboration.

#### More tailored reporting

- Flexibility to enable more meaningful evidence-based information for Parliament and the public on what has been achieved with government expenditure, including a better balance between narrative and metrics. Enable sensible choices on the basis for reporting, in terms of impacts/outcomes, output delivery or both.
  - For some appropriations, allow a focus on impacts/results and less reporting on output delivery.
  - Some service-delivery agencies not required to report on outcomes/impacts.
  - Generally less detailed, low-level information on output delivery.
  - Specific performance reviews used where a richer performance story is needed.

#### More strategic financial management responsibilities of chief executives

##### Require chief executives to:

- develop and update a financial strategy that covers at least four years, and takes account of/fits with financial strategies for the relevant sector(s) and the state services system, and
- be able to provide information on financial performance of the department's business covering management of cost pressures, whether programmes achieve results for reasonable costs and new ways of doing things ( including looking at new business models).

## State Sector Act 1988

#### Why change is needed

- The focus in the current Act on vertical responsibilities between departmental employees, the chief executive and the Minister does not foster whole-of-government interests.
- The role of the State Services Commissioner to provide leadership to the state services is not explicit, and there are limited levers to shape the state services.
- The State Services Commissioner has limited ability to plan succession or develop future chief executives through influencing second tier appointments or shifting people to development opportunities.
- The mandate for the State Services Commissioner to collect performance information to assess performance of agencies and the system is not clear.

#### Proposed changes

- Add a section setting out the purposes of the Act, along the lines of:

- to provide for administrative arrangements that support whole-of-government interests and collaborative action between departments and other agencies.
- Include a section setting out the role of the Commissioner that includes:
  - provide leadership to the state services so that they are well led and trusted, and
  - provide advice on the design and operation of the system of government so that it supports the delivery of improving services over time at a reasonable cost.
- Add a section that sets out the role of the State Services Commissioner as the Head of State Services. In the public service, the Commissioner will:
  - advise Ministers on the definition of leadership roles at a higher than agency level. This will include providing advice on the constitution of sector leadership boards and functional leadership roles
  - with the agreement of ministers, mandate the exercise of these leadership roles by designating sector and functional leaders
  - require departmental chief executives to participate in these arrangements, and determine the governance arrangements (eg, informal clustering or formal leadership boards) which are to be put in place
  - recommend to ministers the financial and other arrangements needed for the effective functioning of sectors
  - decide on the deployment of second and third tier staff within and between departments, and
  - be able to designate positions in departments as key developmental roles. Appointments to these roles would be for a fixed term, would form part of a developmental path for the individuals appointed and would be filled by the State Services Commissioner following consultation with the relevant chief executives.
- Amend the public service chief executive provisions to include chief executives' responsibilities:
  - in cross-agency arrangements
  - for whole-of-government interests, and
  - for the stewardship of their department, and for services to the public.
- Provide for sector "entities" legally comprising a board of participating public service chief executives with governance and accountability for the work and results of the entity. The board could be established under different conditions, including:

- it is a board of equals
  - there is a lead-agency chair
  - it is responsible for activities for a specific purpose (eg, a joint venture), and
  - it is responsible for all the activities of constituent departments (eg, a “hard-wired” sector).
- Provide for the establishment of departmental (or executive) agencies, located within a department but with direct responsibility to a Minister.
  - Provide the State Services Commissioner with a stronger mandate to collect agency, sector and system performance information.

#### Extension of the State Services Commissioner’s powers to the Crown entity sector

Some, but not all, of the Commissioner’s powers with regard to the public service will be extended to the Crown entity sector. It is intended that the Head of State Services be able to:

- require the provision of information by Crown entities, and
- with the agreement of the entity’s Minister, require participation in initiatives aimed at putting in place common or standardised inputs or infrastructure across the system (ie, to participate in functional leadership arrangements aimed at increasing the efficiency or cost-effectiveness of the system overall)<sup>50</sup>.

Enabling Crown entities to become part of the process of defining results and collaboratively delivering results as part of a sector is difficult because they are located outside the Crown. It may be necessary to change Crown entities into Executive Agencies if they are to be full participants on sector boards.

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<sup>50</sup> This is contentious, given that Crown entities are not part of the Crown and operate at arms-length from Ministers.

## Annex 4: Spectrum of structural arrangements

	Soft-wired sector (eg, justice)	Sector Specific Purpose (or Joint Venture) Board [Requires legislation]	Sector Leadership Board (hard-wired sector) [Requires legislation]	Sector-based on Department with Executive Agencies [Requires legislation]	Sector-based on a single department (eg, MSD)
Characteristics	<ul style="list-style-type: none"> <li>▪ Sector Leadership Board comprising department chief executives established under Terms of Reference.</li> <li>▪ Interagency Sector Strategy Group/ Secretariat to support the sector board's work programme.</li> <li>▪ Increased collaboration in: shared services; back-office; senior leadership development.</li> </ul>	<p>(Used when sector results involve a small proportion of the activities of the component agencies)</p> <ul style="list-style-type: none"> <li>▪ SSA to provide for Board to be a separate entity within the legal Crown.</li> <li>▪ Board comprises chief executives (or their delegates) of all agencies responsible for sector results within the scope of the joint purpose.</li> <li>▪ Joint venture board responsible for strategic policy and purchase decisions for defined sector results.</li> </ul>	<p>(Used when sector results involve most of the activities of the component agencies)</p> <ul style="list-style-type: none"> <li>▪ SSA to provide for Board to be a separate entity within the legal Crown.</li> <li>▪ Sector agency chief executives comprise the board, either as equals, or one appointed chair with right of veto.</li> <li>▪ The sector board responsible for strategic policy and financial decisions for the sector (both purchase and ownership).</li> <li>▪ Component department chief executives responsible for operational management within the policy/financial boundaries agreed by the board, plus all operations <i>not</i> part of the sector board.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Sector agencies merged into department.</li> <li>▪ Established as Executive agencies, accountable directly to Minister for delivery of services, with full operational decision-rights.</li> <li>▪ Heads of EAs appointed by/performance reviewed by SSCr in consultation with chief executive of department.</li> <li>▪ Chief executive of the department is the employer, but delegates employment decisions to EAs as appropriate.</li> <li>▪ Heads of EAs on management team/ board responsible for strategic policy and financial decisions for the sector (both purchase and ownership).</li> <li>▪ EAs responsible for operations.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Sector agencies merged into department.</li> <li>▪ Managed as distinct business units.</li> <li>▪ Business unit heads on the management team (or "board") at discretion of chief executive.</li> </ul>
Policy function	Policy hub for sector results in host department staffed with secondees from component agencies.	Policy hub for sector results hosted by one department and staffed with secondees from component agencies.	Strategic policy hub (hosted by one department). Operational policy units continue in component agencies.	Strategic policy consolidated in department. Operational policy units located in executive agencies.	All policy consolidated in department.

	Soft-wired sector (eg, justice)	Sector specific purpose (or Joint Venture) Board	Sector Leadership Board (hard-wired sector)	Sector based on Department with Executive Agencies	Sector based on Single department
Administration of appropriations (departmental and non-departmental)	<ul style="list-style-type: none"> <li>Component departments have separate appropriations.</li> <li>Sector Leadership Board agrees to joint Four-Year Budget Plan.</li> </ul>	<ul style="list-style-type: none"> <li>Sector board administers appropriations for sector results on basis of Sector Four-Year Budget Plan.</li> <li>Delegation for parts of appropriations to component agencies.</li> </ul>	<ul style="list-style-type: none"> <li>Sector board administers appropriations on basis of Four-Year Budget Plan. Allocation to component agencies.</li> <li>Component agencies may also receive direct appropriations for operational activities that are <i>not</i> part of the sector board.</li> </ul>	<ul style="list-style-type: none"> <li>Department administers appropriations on basis of Four-Year Budget Plan.</li> <li>Allocates funding to EAs through an annual budgeting process.</li> </ul>	<ul style="list-style-type: none"> <li>Department administers appropriations on basis of Four-Year Budget Plan.</li> </ul>
Accountability and reporting	<ul style="list-style-type: none"> <li>Joint sector SOI. Component agencies contribute, but also have separate SOI.</li> <li>Annual Reports by each department cover sector activities.</li> <li>Each department chief executive remains accountable to their responsible minister for sector results.</li> </ul>	<ul style="list-style-type: none"> <li>JV sector SOI and Annual Report. Component agencies contribute, but also have separate SOI and Annual Reports to cover activities outside the sector joint purpose arrangement.</li> <li>Chief executives on the board report JV results to Ministers and jointly accountable for sector results.</li> </ul>	<ul style="list-style-type: none"> <li>Sector SOI and Annual Report which consolidates component agency requirements to report to Parliament.</li> <li>Chief executives on the sector board are jointly accountable to Parliament and Minister(s) for sector results, and report jointly to Minister(s).</li> <li>Chief executives separately accountable to Minister(s) for operational issues.</li> </ul>	<ul style="list-style-type: none"> <li>Departmental SOI and Annual report includes activities of EAs in separate sections. EAs with significant operational activities may also report to Parliament.</li> <li>Department chief executive reports to minister(s) on sector results. Accountable for sector results.</li> <li>EA heads report to their minister on operational issues, and accountable to Minister for these.</li> </ul>	<ul style="list-style-type: none"> <li>Departmental SOI and Annual report.</li> <li>Chief executive reports to minister(s). Accountable for all departmental results.</li> </ul>
Balance sheet (Asset control)	<p>Component departments have separate balance sheets.</p> <p>Board agrees to collective decision-making on capital spending/footprint.</p>	<p>Generally balance sheets administered by separate departments, unless the JV has an ownership interest, in which case would have a separate balance sheet.</p>	<p>Sector board administers full balance sheet and decides on strategic asset allocation. Allocates capital budgets to component agencies.</p>	<p>Department chief executive administers full balance sheet and decides on strategic asset allocation (in consultation with management team/board). Allocates capital budgets to EAs to manage.</p>	<p>Department administers full balance sheet.</p>



## Annex 5: Summary of Agencies as at 30 June 2011

Departments	Gross Expenses (\$m)		No. Of Staff (FTE)	Percentage of <sup>51</sup>			
	Dept	Managed for the Crown		Total Dept expenses	Total Crown expenses	Departmental FTE	all FTE staff
Audit	74	0	367	1%	..	..	..
CERA	3	1,042	5	..	1%	..	..
Clerk of the House	18	0	112	..	..	..	..
Conservation	315	25	2,039	2%	..	3%	..
Corrections	1,115	0	7,290	8%	..	11%	3%
Crown Law	71	0	184	1%	..	..	..
Culture and Heritage	25	336	115	..	..	..	..
Customs	134	0	1,161	1%	..	2%	..
Defence	10	0	61	..	..	..	..
Economic Development	151	729	733	1%	..	1%	..
Education	1,647	9,518	2,467	12%	13%	4%	1%
Environment	60	917	306	..	1%	..	..
ERO	28	0	216	..	..	..	..
GCSB	73	0	282	1%	..	..	..
Health	204	12,592	1,122	1%	17%	2%	..
Building and Housing	71	1,205	355	1%	2%	..	..
Internal Affairs	327	273	1,964	2%	..	3%	..
IRD	643	5,147	5,646	5%	7%	8%	3%
Justice (Ministry)	680	897	3,285	5%	1%	5%	2%
Labour	302	1,229	1,821	2%	2%	3%	..
LINZ	103	35	425	1%	..	..	..
MAF	379	192	2129	3%	..	3%	..
Maori Development	59	130	336	..	..	..	..
MFAT	364	574	841	3%	..	1%	..

<sup>51</sup> Numbers do not add as only showing values of 1% and greater.

MSD	1,198	18,334	9,210	9%	25%	13%	4%
MSI	317	720	116	2%	..	..	..
NZ Super Fund	1,040	0	50	7%	..	..	..
NZDF	2,195	159	11,996	16%	..	17%	6%
Ombudsmen	9	0	56	..	..	..	..
Parliamentary Services	68	56	600	..	..	..	..
PCE	3	0	14	..	..	..	..
PCO	19	0	80	..	..	..	..
PIA	7	2	42	..	..	..	..
PM & C	17	3	108	..	..	..	..
Police	1,465	2	11,984	11%	..	17%	6%
Reserve Bank	419	0	250	..	..	..	..
Serious Fraud	11	0	33	3%	..	..	..
SIS	38	0	215	..	..	..	..
SSC	28	195	108	..	..	..	..
Statistics	132	0	853	1%	..	1%	..
Transport	52	2,217	151	..	3%	..	..
Treasury	66	16,888	363	..	23%	..	..
Women's Affairs	5	0	20	..	..	..	..
<b>Total Departments</b>	<b>13,944</b>	<b>73,416</b>	<b>69,511<sup>52</sup></b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>32%</b>

<sup>52</sup> Note: FTEs of public sector staff, including police, defence & parliamentary agencies.

Crown entities	Gross expenses (\$m)	No. of Staff (FTE)	Percentage of <sup>53</sup>		
			Total Crown entity expenses	Crown Entity FTE	all FTE staff
ACC	4,047	2,551	9%	2%	1%
AGMARDT	2	2	..	..	..
AgResearch Limited	153	780	..	..	..
Alcohol Advisory Council	13	30	..	..	..
Arts Council of NZ (Creative NZ)	43	55	..	..	..
Asia NZ Foundation	5	18	..	..	..
Career Services	16	169	..	..	..
Civil Aviation Authority	106	204			
Commerce Commission	35	187	..	..	..
Crown Fibre Holdings Ltd	24	13	..	..	..
Crown Health Financing Agency	94	8		..	..
District Health Boards	11,633	52,259	26%	36%	25%
Earthquake Commission	11,816	1,163	26%	..	..
Electricity Authority	84	55	..	..	..
Energy Efficiency and Conservation Authority	113	120	..	..	..
ERMA	11	100	..	..	..
ESR	49	327	..	..	..
Financial Markets Authority	19	47	..	..	..
GNS	70	344	..	..	..
Health & Disability Services	9	55	..	..	..
Health Research Council	90	35	..	..	..
Health Sponsorship	12	27	..	..	..
Housing New Zealand Corp.	939	1,069	2%	..	..
Human Rights Commission	10	66	..	..	..
Industrial Research Ltd	61	316	..	..	..
Landcare Research	61	397	..	..	..
Law Commission	5	23	..	..	..
Lottery Grants Board	196	117	..	..	..
Maritime New Zealand	37	108	..	..	..
Mental Health Commission	3	15	..	..	..
NIWA	116	750	..	..	..
NZ Antarctic Institute	12	44	..	..	..
NZ Artificial Limb Board	8	45	..	..	..
NZ Film Commission	21	21	..	..	..
NZ Fire Service	325	2,270	1%	2%	1%
NZ Historic Places Trust	17	108	..	..	..
NZ Lotteries Commission	702	123	2%	..	..

<sup>53</sup> Numbers do not add as only showing values of 1% and greater.

NZ On Air	130	12	..	..	..
NZ Qualifications Authority	79	391	..	..	..
NZ Symphony Orchestra	19	118	..	..	..
NZ Tourism Board	108	120	..	..	..
NZ Trade and Enterprise	176	519	..	..	..
NZ Transport Agency	1,953	1,294	4%	..	..
NZ Venture Investment	4	6	..	..	..
Office of Film and Literature Classification	3	28	..	..	..
Pharmaceutical Management Agency	22	54	..	..	..
Plant and Food Research	113	834	..	..	..
Privacy Commissioner	4	30	..	..	..
Public Trust	94	492	..	..	..
Radio New Zealand Limited	39	284	..	..	..
Retirement Commissioner	5	11	..	..	..
Schools - TAMU	6,320	47,511	14%	33%	22%
Scion -NZ Forest Research	42	330	..	..	..
SPARC	108	94	..	..	..
Standards New Zealand	7	50	..	..	..
Te Papa	59	355	..	..	..
Te Reo Whakapuaki Irirangi	56	11	..	..	..
Te Taura Whiri I Te Reo Māori	5	19	..	..	..
TEC <sup>54</sup>	54	198	..	..	..
Telarc Limited	10	34	..	..	..
Tertiary Education Institutions	4,254	28,394	9%	20%	13%
Transport Accident Invest	4	19	..	..	..
TVNZ	366	908	1%	..	..
<b>Total Crown Entities (inc TEIs)</b>	<b>44,991</b>	<b>146,137</b>	<b>100%</b>	<b>100%</b>	<b>68%</b>

Notes:

- 1 For recently merged entities, expenses and FTEs reflect combination of the individual agencies prior to mergers without adjustment.
2. Gross expenses for each agency are not adjusted for transactions between departments and Crown entities.

Sources:

*Department and Crown Entity:* FTE numbers are estimates based on SSC's Human Resources Capability and Chief Executive Remuneration Surveys, and agencies' annual reports and statements of intent.

*Schools (state and state integrated) and TEIs:* From [www.educationcounts.govt.nz](http://www.educationcounts.govt.nz) for 30 April 2011 and 2009 respectively.

<sup>54</sup> TEC's own operational funding only.