



**The State Sector Act is now 23 years old, and is showing its age. It was a cornerstone of the New Public Management revolution that swept the public sector in the 1980s and 1990s. With the growing sense that we are moving into a post-NPM era, it is timely to reflect on should happen now.**

# Past its use-by date?

Reshaping and refocusing the state sector



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Published September 2011

## Modern Public Services

Modern Public Services is a PSA project setting out our vision for how the state, and the services it delivers, can best serve New Zealand in future.

The PSA has published a series of policy papers that discuss the challenges facing the state, which include giving citizens more control over policy-making, encouraging public servants to be more innovative, and restructuring the laws and practices that govern the public service.

The policy papers will ultimately be the foundation of a comprehensive, authoritative and influential plan for the structure of the New Zealand state, to be published before the 2014 election.

This year, they will be the basis of our Public Services Charter, a powerful statement of the core values of public services that will be used to judge parties' policies leading up to this year's election.

We hope you find the papers useful and stimulating, and we welcome your feedback.

Please e-mail any comments to [policy@psa.org.nz](mailto:policy@psa.org.nz)

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- A mood for change: ideas for public management renewal in New Zealand
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- Making a difference: public entrepreneurship and public value
- Past its use-by date? Reshaping and refocusing the state sector
- Realising public value: engaging citizens in government
- Respective roles: the public sector and the community and voluntary sector
- Staying in control: public assets for the public good
- Value for money: the power of the public dollar



## Contents

Introduction	5
The last quarter century	5
The current challenges	6
A new approach is needed	7
What needs to happen?	9
References	11



## Introduction

In the February 2009 publication *State of the Future: strong public services for tough times*<sup>1</sup>, the PSA argued for an imaginative and bold response to the then-unfolding global financial crisis, one that would meet both the immediate economic challenges and the need to adapt to meet future demands. Two years later, we repeat that call. The fall-out of the financial crisis continues to resonate in the everyday lives and workplaces of PSA members and their families. This paper looks at what is needed to refocus the public sector so that it can deliver what government and citizens want – a public service that is resilient and fit to meet 21st century challenges.

## The last quarter century

The State Sector Act is now 23 years old, and is showing its age. It was a cornerstone of the New Public Management (NPM) revolution that swept the New Zealand public service in the 1980s and 1990s. At a time when there is a growing sense that we are moving into a ‘post-NPM’ era<sup>2</sup> and that this approach can be taken no further, we need to reflect on both what has happened and what needs to happen.

NPM is based on a number of theories – agency, public choice and transaction-cost – which generated a system with the following features:

- A systematic programme of corporatisation, privatisation and commercialisation
- A greater reliance on competitive tendering and contracting out
- The devolution of human resource management to chief executives of individual agencies and departments
- A generic model of managerialism, moving away from the model of career specialists
- Improved systems of budgetary control
- A greater reliance on financial incentives
- Major changes in institutional design, including the placement of service delivery functions in separate, non-departmental agencies (to enable purchaser/provider split, and minimise provider and bureaucratic ‘capture’)
- Greater use of contractualist devices to manage these relationships and drive accountability

While successive governments have tinkered around the edges of NPM, essentially it remains embedded in the DNA of the public service, particularly its upper echelons. The legislative foundations of NPM are provided by the State Sector Act, the Crown Entities Act and the Public Finance Act. The State Sector Act allowed successive governments to corporatise, commercialise, and privatise functions and agencies that were previously the domain of the public service, and bequeathed us a model increasingly unable to adapt to the future. The act is

the default setting for chief executives, and the framework through which they must operate to deliver the priorities of ministers.

The Labour-led government, committed to rebuilding the capacity and capability of the public sector, set up in 2001 an advisory group on the Review of the Centre<sup>3</sup>. The review looked at how well the public management system responded to the needs and expectations of ministers and citizens, be they individuals, communities, businesses or Maori. The group concluded that the “public management system ... provides a reasonable platform to work from, but some significant shifts in emphasis are needed to better to respond to the needs of the future”.<sup>4</sup> The review identified three main issues that required attention: integrated service delivery, particularly on cross-cutting issues; tackling fragmentation (and proliferation of agencies and ministerial portfolios) and improving alignment; and people and culture. It sought a culture shift in the state sector – more dynamism and innovation more regional focus, more balance between outcomes, outputs and capability and a longer term focus – and an emphasis on staff and leadership development.

The review team stopped well short of recommending any change to the State Sector Act, and explicitly avoided proposing any fundamental change to employment arrangements for the public service. But they recognised the need “to create a more flexible and resilient public management system that will perform in the 21st century”<sup>5</sup>. We think that the challenge now is more urgent than ever.

However, changes around the margins of a 20th century model will not be sufficient. The previous Labour-led government passed laws such as the Crown Entities Act 2004 and the 2004 amendments to the Public Finance Act. Other initiatives included the Machinery of Government programme, the State Sector Development Goals, and the SSC’s integrity and conduct work. All tackled to some extent the fragmentation and alignment issues identified in the Review of the Centre, but ultimately reinforced the current public management paradigm.

A more inspiring example is the Institute of Policy Studies’s ‘Future State’ project, which is subtitled ‘meeting the challenges of the 21st century’<sup>6</sup>. Commissioned by public service chief executives, it will “consider the current public management system and its capacity to perform in a much more dynamic world and an increasingly complex policy environment”. It argues that although New Zealand “was well served by its public management system in the latter part of the 20th century, the evidence suggests that the system is less well designed for the challenges of the 21st century”.

## The current challenges

The global financial crisis has changed the landscape for public services. The focus is now even more sharply on value for the public tax dollar invested in public services, and on the quality of services delivered. The National-led government has tried to create support for public spending cuts by, firstly, citing the level of government borrowing necessary to offset (mainly private) debt; secondly, talking up a crisis in public finances; and, thirdly, painting a picture of a bloated and inefficient public service, overly focussed on the 'back-office' to the supposed detriment of frontline services.

None of these bear close examination. The PSA's analysis of the public finances<sup>7</sup> (updated in October 2010 after the first Canterbury earthquake and the South Canterbury Finance bail-out) concludes that:

- (a) While there is a need for prudent management of the government's affairs, there is no "fiscal crisis". The stimulus packages introduced in 2008 and 2009 in response to the global recession have (like elsewhere) resulted in a (small) structural deficit in the public accounts, which will need to be addressed when economic conditions normalise and temporary measures are unwound.
- (b) Extreme measures and major cuts to social programmes and public services are not justified by imbalances in the books. Any changes need to be defended on the merits of the case, not by reference to some unavoidable fiscal imperative.
- (c) Unwinding the stimulus needs to be balanced: it should involve measures on the revenue side of the equation and not concentrate exclusively on spending.
- (d) Government debt is relatively low by international and historical standards, the rate of increase in that debt has been overstated, and controlling debt is not a justification for excessive spending cuts or privatisation of public activities or of public assets.

The National-led government has chosen not to follow the path of other countries above New Zealand in OECD league tables on almost every economic indicator of productivity. Australia, Sweden, and Denmark, for example, chose to invest in public spending in 2008, recognising that it sustains and supports the wider economy<sup>8</sup>. This is not to deny that the fiscal situation is difficult (the second Christchurch earthquake has made it more so) and that choices have to be made; the argument is with the failure to build the platform for a recovery that will enable better public services for all.

The government has left existing structures in place and focused on 'lifting the performance' of the public sector, using mechanisms such as the cap on core public service headcount and setting a limit on spending, as well as being clear that they expect chief executives to deliver value for money and innovative solutions. The Minister of Finance has been clear that the government is "stress testing the existing devolved model of public sector management"<sup>9</sup>.

Recent change includes programmes such as the Performance Improvement Framework (PIF) and Better Administrative and Support Services (BASS), as well as a focus on centralised ICT and other procurement. It remains to be seen whether these programmes will deliver the step-change that the government is seeking, or significant savings.

In a speech to government chief financial officers in August 2010, Treasury secretary John Whitehead said:

Many of our core systems and ways we operate have been in place for several years – or even decades. We need to keep asking questions, keep challenging the status quo, keep looking for new and better ways of tackling problems in order to stay at the top of our game. We need to regain and strengthen our reputation for innovation and new thinking, and guard against complacency.<sup>10</sup>

It is doubtful, however, that continuing to make changes around the margins, as ministers are doing, will deliver public services fit for 21st century purposes.

### A new approach is needed

The Treasury Secretary has also called for a challenge to the status quo, and a move out “of our traditional comfort zone”<sup>11</sup>. However, the comfort zone for ministers and senior public servants is the State Sector Act 1988 and its focus on the individual chief executive.

By establishing the chief executive as the employer, the act set up one of the main mechanisms by which the old public service was broken up from the mid-1980s onwards. The devolution of HR and employer responsibilities was a key element in the fragmentation of the state; the creation of many new agencies, portfolios and votes made the development of whole of government objectives and integrated service delivery more difficult. The literature on improving collaboration in government generally identifies agency ‘silos’ as one of the main obstacles to working together. It is not clear that the move towards a shared outcomes framework made a significant improvement, and the jury is still out on the impact of the recent marginal changes such as shared services initiatives and common agency performance frameworks.

The PSA would argue that a model so strongly based around individual chief executive autonomy was found to focus staff on a narrow set of organisational goals and objectives, often short term in nature, that reflected the chief executive’s employment arrangements. The fundamental problem cannot be resolved by attempts to achieve greater alignment and synergies, which may well founder on the State Sector Act.

The PSA is not alone in thinking that a new approach is needed. The Institute of Policy Studies’s ‘Future State’ project has found that, “The current New Zealand public management model does not preclude working on emerging, complex and wicked issues ... but neither does it encourage such ways of working.”

Overseas jurisdictions are also thinking about their public management models. The Australian government's 2010 Moran review

seeks to position the APS [Australian public service] to address challenges such as an ageing and growing population, shifting global economic relationships, pressure on education and skills, Australia's vulnerability to environmental issues and national security.<sup>12</sup>

The government has adopted all its recommendations. The New Zealand government has an ambition to catch up to Australia; this is usually stated as an economic goal – but should it not also be a public management goal?

Another source of ideas is the New Synthesis project, an influential and highly regarded international partnership of institutions and individuals<sup>13</sup> who “share the view that public administration as a practice and discipline is not yet aligned with the challenges of serving in the 21st century”.<sup>14</sup> It is still a work in progress, but has identified a number of suggestions for the way forward: “The struggle [of governments] is nothing less than a new exploration of how to reconnect public institutions, the political process and a broadening public domain.”<sup>15</sup> Contrast this with the New Zealand government's ‘stress testing’ of a 23-year-old, 20th century public management model.

## What needs to happen?

Firstly, we must re-imagine and rewrite the State Sector Act, as well as the Crown Entities Act and the Public Finance Act. This suite of legislation is incapable of supporting the development of a public service fit for the 21st century given the pervasiveness of the discredited and out of date NPM paradigm. The constant restructuring of recent years undermines the stability of the public service and takes up energy and resources that should be used to support innovation. For inspiration, we might look to the Local Government Act 2002, which sets out a vision based on engaging communities and allowing government to promote economic, social, cultural and environmental well-being. Although the act is imperfect, and could not in any case be directly translated to the state sector, it is worth thinking about the absence of a vision at the heart of the State Sector Act – and what that vision could be.

Secondly, a recession presents an opportunity to achieve sustainable change. Crisis has a way of galvanising action, and as noted above, other jurisdictions above us in the OECD economic league tables have fought the crisis by investing in public services and thus stimulate and their economies. Enduring social partnership models in Ireland, South Africa and Germany have emerged from various crisis periods in those countries' histories (and while Ireland is at present in dire straits, there can be no question that the successive social partnership agreements from 1987 – which had all-party support – contributed greatly to the economic success of the Celtic Tiger). Political consensus and cross-party agreement on a new model for public management

is needed if the challenge of shaping and delivering public services to meet 21st century needs is to be met – and sustained.

Finally, a proper and effective role for central agencies must be part of any reform. We are not well served by the current mix of excessive power (the Treasury), a narrow focus on chief executive performance (the State Services Commission), and an invisible watching brief and ‘minding’ role (the Department of Prime Minister and Cabinet). These are the agencies that should be leading the work of the renewal of public management, and articulating and modelling the vision. Reforming the way they work will be vital to creating the public service we need.

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