3. History of strategy stewardship in the New Zealand public service, 1980–2015

3.1 Introduction

To understand the current arrangement of strategic instruments in the public service, it is necessary to trace their movements over time. The Institute acknowledges that a significant amount of work has already been done on mapping the development of the New Zealand public service. We have attempted to carry out research in areas where we have seen gaps. This section will do the following:

- present an illustrated timeline of the most important trends and events in this area (focusing particularly on the extent to which measurability, integration, long-term focus, transparency, accountability and cost-effectiveness have featured in the strategy stewardship system over time);
- examine key eras of change in the strategy stewardship system; and
- identify lessons that can be applied to strategy stewardship going forward.

3.2 Timeline of key events

The illustration in Figure 1 provides a record of the key strategic management initiatives implemented in the public service since the 1980s to illustrate the changing narrative of reform in this sector. It also identifies a wide range of publications and legislative reforms contributing to this narrative. However, due to the historic nature of this material, this illustration (and chapter) may not form an exhaustive list of all reform initiatives. Rather, we seek to provide a summary of key events and initiatives that we believe are relevant to this report.

As part of our research, the Institute discussed the history of strategy stewardship with officials in the public service. These discussions provided insights from the perspective of individuals working within the service during times of change and in the present. Where we were unable to find published sources, observations from these discussions have been used instead, referenced as personal communications. The Institute acknowledges that there may still be gaps in the following summary.

3.3 Five major eras

The following is a brief summary of the major reform periods that have taken place in New Zealand's strategy stewardship system since the 1980s, showing how the current system has evolved.

Era 1: Early 1980s – The start of the restructuring

The public sector underwent significant reform in the 1980s, which earned New Zealand the label from some as a world leader in public management (Hughes & Smart, 2012). In the last part of the decade (and the beginning of the next) a suite of legislation was introduced, including the Official Information Act 1982, the State Sector Act 1988, the Public Finance Act 1989, the Reserve Bank Act 1989 and the Fiscal Responsibility Act 1994. This new framework of legislation cemented a new era in public sector management in New Zealand.

Before the reforms implemented in the late 1980s and early 1990s, a major shortcoming of New Zealand's public management system was the lack of clarity around government's strategic objectives. During this time, Budget statements had a short-term (usually one-year) focus and acted as the main vehicle for articulating the overarching strategic intention of the Government (State Services Commission [SSC], 1988).

Part of the new system included a central 'outcome statement' issued by the Government. These statements provided a long-term view of the high-level results the Government wanted to see achieved, and were the result of consultations with ministers. However, they were very general documents and they failed to provide the authority and ministerial commitment needed to ensure their effectiveness. Departments were to provide outputs to satisfy one or more of the Government's outcomes. However, the 'outcome statement' that was envisaged was not produced in the first few years of the system and consequently departments found it necessary to fill the gaps and make estimations as to the outcomes in their particular focus area. This resulted in a lack of 'coordination and comprehensiveness' across the board. (SSC, 1998)

In 1988 *Implementation of Accrual Accounting for Government Departments* (by Wendy McGuinness) was published by Treasury. This represented the public sector's move from a 'system based on compliance with detailed and restrictive rules and budget cash limits, to a performance and accountability-based regime' (The International Federation of Accountants, 2015). The changes in public sector accounting in this era closely mapped the changes in public sector management occurring at this time. The introduction of the Public Finance Act 1989 was evidence of the connection between these two fields.

At this time, as per the requirements of the Public Finance Act 1989, government departments were formally required to publish annual reports.

Although there was significant reform during this decade, early strategic thinking lacked measurability and did not map out relationships of accountability. The systemic change saw a reorganisation of the framework of the public sector which paved the way for more government-wide strategy in the years that followed.

Era 2: Early 1990s – The first attempt at improving strategy stewardship

In 1990 the Public Service Code of Conduct was issued by the State Services Commissioner under the new 1988 State Sector Act (SSC, 2009: 4). This identified the core principles of conduct required by public servants (SSC, 2014).

In 1991 the Logan Review – known as the Logan Report – was published by the Steering Group Review of the State Sector reforms. This led to the development of strategies that the Government could use to inform and prioritise decision making, which appeared in the Government's Budget documentation. This is said to be one of the first modern attempts at a government strategic process in New Zealand (Warren, 2000: 4). This report 'emphasised concerns over the strategic capabilities of the government and the collective interests of the government' (Scott, 2001: 346).

In 1992 Statements of Intent were introduced as reporting requirements under the 1992 Public Finance Amendment Act. Section 41F of the Act required government departments to annually lay a copy of their Statement of Intent (SOI) before the House of Representatives (LexisNexis, n.d).

In 1993 *Path to 2010* was published by the National Party, which evolved into *Towards 2010 - Investing in our Future* (a government document). The latter accompanied the 1995 Budget policy statement (Scott, 2001: 340). The document was designed to set out the Government's long-term objectives.

After this, *Strategic Result Areas for the Public Sector, 1994–1997* was published. This contained a strategy focusing on economic development and social cohesion. From 1994 to 1997, the following Strategic Result Areas (SRAs) were put in place:

1. Maintaining and accelerating economic growth

2. Enterprise and innovation
3. External linkages
4. Education and training
5. Community security
6. Social assistance
7. Health and disability services
8. Treaty claims settlement
9. Protecting and enhancing the environment (Matheson, Scanlan & Tanner, 1997: 17)

A number of agencies contributed to each of these SRAs. The coordination of their development was overseen by the Department of the Prime Minister and Cabinet (Office of the Auditor General [OAG], 1999: 47). SRAs were designed to 'shape the priorities of the agencies of government' (SSC, 1998). Each SRA was required to impact more than one department. They were supported in turn by key result areas (KRAs), which set departmental priorities for each of the above areas. These priorities included measurable targets that allowed ministers to track progress. The State Services Commissioner and relevant ministers assessed performance of departments and of chief executives using KRAs (OAG, 1999: 47). These assessments, in the form of annual documents, were usually conducted at the end of each chief executive's performance agreement. This completed the 'loop', as feedback from this process contributed to the next performance agreement. The term 'result area' endured after this period, with expanded result areas such as the Better Public Service Result Areas.

Shaw and Eichbaum (2008) discuss this area of reform:

> Cabinet government appeared to be rather more fragmented than was desirable, with individual Ministers involved in purchasing arrangements which were not always linked to a strategic, whole-of-government vision. (p. 81)

They explain that the SRA/KRA matrix was an attempt to build a whole-of-government strategic outlook:

> In an attempt to connect the government's policy objectives with the implementation activities of departments and agencies, the framework created Strategic Result Areas (SRAs) and Key Result Areas (KRAs). The former codified Cabinet's policy priorities, and the latter established the departmental/agency contributions to achieving those objectives … However, even though these developments revealed a growing awareness that effective implementation demands coordination across policy portfolios and domains, by 2004 neither the SRA/KRA matrix nor ministerial teams featured in the strategic armory of government. (Shaw & Eichbaum, 2008: 81)

However, as it was put into practice, the SRA/KRA matrix came to be utilised more as a set of 'checklists' rather than guiding substantive and tangible improvements to department outputs. This system was eventually abolished without any replacement framework in place (Warren, 2000: 4).

In 1996, New Zealand's first MMP election took place. In the same year, Allen Schick wrote *The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change*, which become known as The Schick Report. This report was commissioned by the State Services Commission to reflect on the changes made to the public sector's management framework.

Strategic management at this time was not integrated across all departments. The surface-level strategic instruments in place lacked measurability. Further due to a strong internal focus they were not sufficiently transparent to the general public.

Era 3: Late 1990s to early 2000s – Establishing broader priority areas

In 1998, after work initiated by ministers to revise the government approach to strategy, the SRA/KRA matrix was supplemented with 'a reduced set of ''strategic priorities and overarching goals'' (SPOGS) that were promulgated by the Government on 9 December 1998' (OAG, 1999: 47). The Auditor General's third report for 1999, *The accountability of Executive Government to Parliament* paper, described these SPOGS and KRAs as 'a comprehensive statement of, at least, the Government's strategic priorities' (OAG, 1999: 48). This report also highlighted the issue of using SPOGs or SRAs and KRAs as outcome statements in the *Estimates* or as substitutes for outcome statements in situations of 'fundamental constitutional importance' as their form and usage was unregulated and not 'specified with any greater precision than any other outcome statements' (OAG, 1999: 48).

In 1996 the National and New Zealand First parties formed the first coalition government in New Zealand since the 1930s. This saw the drafting of an extensive coalition agreement. However, the level of detail in the document was excessive and made the agreement inflexible and ineffective. It is now generally regarded an example of 'what not to do' during post-election strategising (personal communication, 18 May 2015).

In 1997 the National Government released its priorities as part of its government Budget policy statement (Treasury, 1997). Since then government priorities have been published at the start of every Budget policy statement.

In 1999 the newly elected Labour Government established seven key priority areas. These were listed in the 1999 Budget Policy Statement:

1. We want a strongly growing, internationally competitive enterprise economy; an economy which generates trade, employment, income and social opportunities in which all New Zealanders can participate.
2. We value innovation and our ability to build on new ideas and technologies. Our future prosperity depends on our ability to adapt, and we must be prepared to create and take advantage of new opportunities.
3. We place a high value on the pivotal role and contribution that individuals, families, communities and the private sector make to building an economically strong and socially cohesive New Zealand.
4. We want to focus our social assistance in welfare and housing on those most in need; making a difference by breaking cycles of disadvantage.
5. We treasure our clean, healthy and unique environment and will ensure it continues to sustain nature and people's needs and aspirations.
6. Recognising the importance of the Treaty of Waitangi, we will ensure that through the Government's policies and actions we continue in good faith to build relationships between the Crown and Maori.
7. We are proud of our New Zealand identity and will celebrate, foster and protect our cultural, historical and environmental heritage. (Treasury, 1998)

There was however difficulty in using them as drivers of change. Up until this point, incoming governments tended to produce manifestos that set out their desired policy goals. However, this was not effective, as policy goals were sometimes rendered unattainable when incoming governments discovered that 'the books' were in worse shape than expected. As a response to this issue, political parties began setting broader policy positions.

A number of reviews of New Zealand's public sector occurred between 1996 and 2001. Of particular influence was the *Review of the Centre* published by the State Services Commission in 2001. It contained the findings and recommendations of the review of the New Zealand state sector undertaken in 2001 by a Ministerial Advisory Group. This report labelled the public sector as highly fragmented, which resulted in a number of work streams. One of the report's recommendations was that the Government set high-level priorities to drive the outputs of departments. This idea was adopted by the Clark Government and continued by the Key Government. The report stated:

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

Weaknesses include:

1. The lack of a systematic approach to setting outcome goals and priorities and identifying the services and other interventions that will achieve the goals;
2. Problems with policy advice, including the availability of information on practical service delivery and the effectiveness of government activities;
3. Variable standards of planning by government agencies;
4. Linking government objectives to resource allocation decisions. This has implications for Budget process and for the way Ministers collectively decide priorities.
5. A tendency towards a short term focus;
6. The difficulty of stopping doing things which are ineffective;
7. The fragmentation of the State sector – the large number of agencies, portfolios and votes makes it more difficult to agree and actively pursue cross cutting objectives, and provide integrated service delivery;
8. Varying requirements for information production by Central Agencies and other groups leading to costly compliance and unread reports. (Ministerial Advisory Group, 2001: 14)

Additionally the *Review of the Centre* contained a summary of recent reviews of the public sector, which all identified the need for greater clarity around strategic intentions (Ministerial Advisory Group, 2001: 45).

Era 4: Mid to late 2000s – Incorporating long-term thinking and the creation of performance improvement frameworks

In 2004 the Public Finance Act 1989 was amended to respond to the core issues identified by the *Review of the Centre*. The intention of this amendment was to bring the Fiscal Responsibility Act within the Public Finance Act. It did not substantially alter the Fiscal Responsibility Act but it did introduce the requirement of long-term fiscal reports. Arguably, this paved the way for departments to demonstrate more long-term thinking in their strategies.

In 2005, the former section of the Public Finance Act 1989 that governed Statements of Intent was repealed by the Public Finance Amendment Act 2004 (LexisNexis, n.d). The 2004 Amendment Act introduced the concept of 'future operating intentions' under section 38 of the Public Finance Act 1989. Under section 38, before the start of each financial year (and not later than the date specified by its responsible Minister) each department was required to provide information on its future operating intentions. Although this legislative provision concerned the strategic intentions of the department, the new amendment did not specify that this had to be contained within a separate 'Statement of Intent' document (LexisNexis, n.d).

The 2004 amendment to the Public Finance Act also resulted in the introduction of Budget Policy Statements (Public Finance Act 1989, section 26M).

2004 also saw the introduction of the Crown Entities Act. This clarified the relationships of accountability between Crown entities, the board members of these entities, their responsible Ministers and the House of Representatives (Treasury, 2014). It also enabled departments to follow General Accepted Accounting Practice (GAAP) by accounting for bodies that were directly related to their activities, not merely bodies that were tangentially connected to their department.

Also in 2004, *"Managing for Outcomes" in the New Zealand Public Management System* by Anna-Luis Cook was published as a Working Paper by Treasury. The paper analysed the moves being made towards a results-based style of public management and asserted that aspects of the wider management system must be amended to support these moves (Cook, 2004).

In 2009 the Performance Improvement Framework (PIF) was proposed to Cabinet by the Minister of State Services, adopted from a model used in the United Kingdom. This is a joint Central Agency initiative allowing consistent evaluation across agencies. It was implemented in part to address concerns about a perceived lack of accountability in the public sector in terms of improving departmental performance. There are many aspects of the PIF that focus on departmental improvement, but a PIF analysis extends also to consideration of how well an agency is responding to government priorities and how it will deliver outcomes both now and in the future.

In 2010 A Review of Expenditure on Policy Advice was commissioned by the Government, resulting in the publication of *Improving the Quality and Value of Policy Advice*. This report put forward thirty-six recommendations to the Government based on the report's findings that policy was neither well-planned nor well-managed (Scott, 2014). This resulted in 16 recommendations:

1. Reorganise policy-related appropriations
2. Generate savings through reviews of policy advice-related appropriations and policy advice expenditure targeted at growth and/or low value spending (e.g., regulatory policy advice)
3. Develop and use management information systems and tools to manage policy work programmes
4. Generate an efficient dividend by reducing spending and recycle the savings on cross-agency policy challenges.
5. Agree explicit and costed multi-year policy work programmes between ministers and agencies
6. Make government overall goals clear
7. Organise portfolios and agency policy functions in clusters
8. Review the policy advice function of Crown entities
9. Commission work on cross-portfolio and/or long-term issues and/or investment in policy capability/infrastructure
10. Develop and use processes to ensure that policy analysis and advice is of high quality
11. Strengthen the policy advice-related skills of chief executives and policy leaders
12. Improve the process of developing policy advice
13. Improve the management and dissemination of data and information
14. Improve management structures and capability
15. Professionalise analytical capability
16. Build analytical capability (Committee Appointed by the Government to Review Expenditure on Policy Advice, 2010)

This period saw a renewed focus on long-term thinking and strove to create more integration across departments. This demonstrated an increasing desire to formulate standardised, measurable ways of analysing progress towards strategic objectives.

Era 5: 2010 onward – Introducing the concept of stewardship in legislation

In 2011 Treasury published the *Living Standards Framework* to act as a guide for policy analysis (Treasury, 2011: 1).

Further in 2011, the Four-year Excellence Horizon was introduced as part of the PIF process discussed above. This is said to have added an element to the PIF process which, rather than being purely managerial, focused on institutional capacity for the future (personal communication, 3 December 2015).

In May 2011 the Better Public Services Advisory Group was established (Ryan, 2012). In March 2012 the Advisory Group's report was officially published by the New Zealand Government. This report led to the Better Public Services programme which aims to create a state sector that delivers 'high-quality, flexible and cost-effective public services' (Ryan, 2012). The report identified the fragmented nature of the state services and advised that government priorities need to be clarified so that 'state agencies…can do a much better job of delivering them' (Better Public Services Advisory Group, 2011: 6).

In 2013 the Government responded to recommendations made in the Better Public Services Advisory Group report and introduced its Better Public Services initiative. This is a set of 10 overarching results or goals to be achieved by the public sector as a whole by 2018. The results are general and cross-departmental and aim to contribute to a reform of the state sector that would see it less become less siloed and more integrated. This collective approach to improving the delivery of public service results is in line with the recent reforms that enable this kind of departmental integration. Some commentators have noted that these 'results' fulfil the same function that 'outcomes' attempted to in the mid-2000s, but they have been renamed due to the need to distance these instruments from the managing for outcomes approach (Ryan, 2012). The results are summarised by the State Services Commission, stating that the government aims to:

1. Reduce the number of people who have been on a working age benefit for more than 12 months.
2. Increase participation in early childhood education.
3. Increase infant immunisation rates and reduce the incidence of rheumatic fever.
4. Reduce the number of assaults on children.
5. Increase the proportion of 18-year-olds with NCEA level 2 or equivalent qualification.
6. Increase the proportion of 25 to 34-year-olds with advanced trade qualifications, diplomas and degrees (at level 4 or above).
7. Reduce the rates of total crime, violent crime and youth crime.
8. Reduce reoffending.
9. New Zealand businesses have a one-stop online shop for all government advice and support they need to run and grow their business.
10. New Zealanders can complete their transactions with the Government easily in a digital environment. (SSC, 2013a)

Also in 2013, the State Sector Amendment Act saw the introduction of 'careers boards': a system to develop leadership across the public sector. Eighty roles were identified as key positions in the delivery of operational services or of emergency response. Now, under the State Sector Amendment Act 2013, a sign-off from the State Services Commissioner must be obtained before appointing one of these key positions (SSC, 2013b).

The amendments also emphasised the importance of stewardship and collective interest in the public sector. A good description of the concept of stewardship in the public sector can be found in the Treasury's factsheet about the state sector and Public Finance Reform Bill 2012:

> The stewardship responsibility reinforces that chief executives administer their departments on behalf of others, notably current and future Ministers and ultimately all New Zealanders. The responsibility requires chief executives to plan actively and manage for the medium and long-term interests. This applies to a whole range of things including departmental sustainability, organisational health, capability, the capacity to offer free and frank advice, the stewardship of assets and liabilities on behalf of the Crown and legislation administered by the department. Ultimately, a chief executive should leave the department in better shape than when he or she took office. (Treasury, 2013: 10)

The State Sector Amendment Act 2013 saw the implementation of the concept of stewardship in Section 1A ('Purpose') and Section 4A ('Role of the Commissioner'). Section 32 ('Principle Responsibilities'), which describes the responsibilities of chief executives under the State Sector Act 1988, now includes stewardship as one of the key accountabilities.

The Public Finance Amendment Act 2013 replaced the section 38 requirement for departments to provide information on future operating intentions with a requirement that they provide information specifically on their strategic intentions (LexisNexis, n.d). The information regarding a department's strategic intentions must relate to the forthcoming financial year, and at least the following three financial years (PFA, section 38(2)(a)). The department must provide this information at least once every three years (PFA, section 38(4)(a)). This section is the current form that strategic intentions (or SOIs, if departments chose to continue with the older format) must take under the Public Finance Act 1989.

In 2015 the Auditor General indicated that integrated reporting in the public sector would continue to be explored as a way to streamline finance and accountability reporting (Controller and Auditor General, 2015: 11).

Increased integration across the public sector has consistently been recommended since the early 2000s. The most recent set of amendments to the core state sector suite of legislation (Public Finance Act, State Sector Act and Crown Entities Act) puts this issue front and centre. The emphasis has been on ensuring that government departments operate as a collective system rather than a set of fragmented agencies. The increased focus on integration encourages a holistic view of services to the public rather than one that isolates them within departmental boundaries, and has seen the introduction of numerous new initiatives in the last few years.

A key observation from this period is that legislation now mandates government agencies to pay heed to stewardship throughout the public service. However, a clear map of the accountability relationships within this framework is missing, as is a thorough integration of strategic narratives. To conclude, while a great deal of work has been done in this area, there is still room for improving the strategy stewardship system going forward.

3.4 Summary

What we expected to find:

- That the history of the strategy stewardship system in New Zealand would be peppered with efforts to reform and streamline strategic management at the whole-of-government level.
- That there would be an overall vision of what the strategy stewardship system should look like as well as a high level of ownership and management by SSC, Treasury and DPMC.

What we found:

- That the strategy stewardship system is a collection of instruments and tools, each representative of certain stages and phases of government reform.
- That the current system is arguably too flexible; delivering little shape to strategy development and alignment across the public service.
- That legislation has been the instrument of choice to bring about change (as indicated by the number of amendments to the two key acts – the State Sector Act and the Public Finance Act).
- That alternative instruments to improve the strategy stewardship system were not apparent. Some such methods we hoped to find would have been a current map of the strategy system, concise guidance documents and examples benchmarking best practice.
- That there exists a significant opportunity to improve public service outcomes.

What we suggest:

- That the number of instruments and tools in the strategy stewardship system should be trimmed down so that the weak spots may be identified and the useful instruments strengthened and connected.
- That a map of the strategy stewardship system is created, alongside guidance documents for departments and examples of best practice.

Please note that a full reference list for the citations in this document is available from the McGuinness Institute on request.