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**New Public Management, New Millennium, New Zealand**

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The much-discussed ‘New Zealand model’ of the new public management (NPM) has become significantly revised in recent years, and it now lacks the theoretical coherence and market-led focus that it had between 1987 and 1996. The Labour-led minority governments since 1999 have undertaken gradual and pragmatic – yet significant – changes in public management structures and principles, including legislative amendments in 2004. These changes have refined, and sometimes even reversed, the model implemented initially by the fourth Labour government in the late 1980s and then under the National government in the early 1990s.

This paper does a ‘stock-take’ of public management developments in New Zealand from 1999 to 2008, and argues that New Zealand can no longer be viewed as a leading exponent of privatization, competitive contracting-out, policy–operations splits, and other such reforms as prescribed by public-choice and agency theories. Some NPM principles have been strengthened, while others have been quietly abandoned. But there has been no theoretical blueprint laid out to replace that produced by the Treasury in 1987. Given the change to a centre-right government in November 2008, the paper concludes with an indication of likely future developments. While eager to make further changes in public management, the National-led government is unwilling to return to radical, market-driven reforms, and looks set to continue with the ‘gradual and pragmatic’ approach adopted by Labour since 1999.

Within the decade beginning 1986 (the year of the State-Owned Enterprises Act), New Zealand’s public sector underwent rapid and thoroughgoing reforms using the precepts of what has become known as the ‘new public management’ (NPM). The theoretical principles of New Zealand’s institutional reforms were clearly set out by the Treasury (1987) in a post-election briefing paper; and the results are well documented and analysed by Boston et al. (1996). One of the effects of this decade of reform was that New Zealand made a name for itself as an international leader. Pollitt and Bouckaert, for example, in a comparative analysis of the public management changes effected in thirteen jurisdictions, describe New Zealand’s efforts as ‘probably the most comprehensive and radical set of public management reforms of any OECD country’ (2004, p. 280). Some of the outstanding features of the so-called ‘New Zealand model’ were:

* The appointment of departmental chief executives on a five-year fixed term, with annual performance agreements with the relevant minister, but also with greater managerial authority and discretion.
* The consistent application of accrual accounting practices.
* The disaggregation of former multi-purpose, vertically integrated state bureaucracies into smaller, single-purpose agencies – following the public-choice theoretical principle of splitting policy from operational agencies, and funders from providers, in order to avoid policy capture and to enable contestability.
* A widespread use of competitive contracting out of many public services to private-sector and community-service agencies.
* A rapid process of corporatization, frequently followed by full privatization, of many state-owned assets, resulting in a large number of redundancies.

The legislative framework for these dramatic changes had been constructed by the fourth Labour Government (1984–1990) in the State-Owned Enterprises Act 1986, the State Sector Act 1988, and the Public Finance Act 1989. In addition, the independence of the central bank, and the requirement that its monetary policy objective should be solely price control, was established by the Reserve Bank Act 1990.

**The Bolger–Shipley Years**During the 1990s, the National governments, under Prime Ministers Bolger and Shipley, did not make any significant changes to these basic governing principles and the relevant legislation. They did, however, refine the ‘New Zealand model’ by introducing the Fiscal Responsibility Act 1994 which established a framework of transparency in the preparation and presentation of the government’s Budget, a process which binds governments to discipline in strategic fiscal policy, and to generally accepted accounting practice (GAAP) in all financial reporting to Parliament, including the Budget. From 1993, they began a major overhaul of the public health-care system that, in many respects, applied public-choice organizational principles, including a separate policy ministry and a contestable funding system.

The tide of reform turned in 1996, however. A major review of the reforms conducted by Schick (1996) did, as expected, draw many positive conclusions, but also raised questions about whether the ‘New Zealand model’ had perhaps been applied too zealously in some respects. Some specific points made by Schick were:

* Given the high transaction costs of accountability arrangements, the large number of small departments should be reviewed with a view to consolidation into larger departments, or conversion into Crown entities, to reduce the percentage of departmental expenditure allocated to overheads.
* Changes needed to be made to the way Crown entities were held to account for operations and finances, with government balancing risk against independence in determining whether an activity should remain with a Crown entity or be absorbed back into a department. In discussing this point and the previous one, Schick questioned the ‘slavish’ acceptance of agency theory and the purchaser–provider split.
* The central agencies (Treasury, DPMC and SSC) should focus more on government-wide tasks, given the unique perspective that they could bring to public policy-making.
* The ‘contractual’ base of the reforms led to a neglect of ownership issues – i.e., the organizational capacity of departments to serve government. Greater emphasis should be placed on the ownership role through a realignment of ministerial portfolios and more detailed specification of ownership interests in chief executive performance agreements.
* The concept of a Senior Executive Service (SES) should be re-activated to provide a pool of talented, public-spirited managers. The provision made for an SES in the State Sector Act 1988 had not been successfully implemented.
* Each department should be required to look beyond annual outputs to strategic issues affecting the department’s responsibilities, and financial planning models should be adapted for non-financial matters.
* The ‘contestable market’ accountability arrangements for determining the purchase of outputs is unsuited to many governmental activities.

Schick’s questions were accompanied by academic critics of the reforms, and by wider public concerns. Indeed, several incidents in the 1990s did suggest that a serious lack of organisational capacity had emerged in many quarters in the public sector. The Cave Creek disaster of 1995, in which fourteen people were killed in a national park when a poorly constructed viewing-platform collapsed, was perhaps the most tragic example. The circumstances surrounding the accident were closely investigated and publicly reported, but there was little final consensus about who should be accountable for it (Gregory 1998). Similarly, a series of deaths resulting from maltreatment of children led to doubts about the capacity of social services to cope with demand, and it appeared that fiscal goals had over-turned genuine concern for social-service quality (Duncan 1995).

Substantial critiques of the New Zealand model (e.g., Easton 1995; Kelsey 1995) were appearing even before Boston et al. published the following very sanguine comment:

Almost without exception, those who have studied the bureaucratic ‘revolution’ in New Zealand have come away favourably impressed. . . [and] most assessments have been extremely positive (1996:3).

In addition to the concerns raised by Schick and others, however, a major change to New Zealand’s electoral system affected the political capacity to give effect to rapid reforms. Elections based on mixed-member proportional representation (MMP) – beginning with the 1996 election – resulted in coalition and/or minority governments, thus making it less likely that rapid, experimental reforms could continue to be forced through, as it would be unlikely that a single political party would have a majority in the House of Representatives. This political development did not change the basic structure of relationships between ministers and the public service, but it has had an effect on the NPM reforms.

Nonetheless, some important administrative modifications to the New Zealand model began under the Bolger and Shipley governments. There was a desire to overcome the ‘silo’ effect created by the new accounting systems which purchased specified outputs from each organization, and held its chief executive accountable for meeting those – and only those – objectives. To counter this effect, top-level political planning resulted in the setting of strategic objectives that would guide the activities of individual departments, with the intention of achieving a more whole-of-government approach to policy development and service delivery. This move to revise the NPM reforms, which began after 1996, accelerated under the subsequent Labour-led government.

**Labour-led Governments 1999–2008**When it came into office at the end of 1999, the Labour–Alliance coalition government took on the leadership of a public sector that had lost a great deal of public confidence due to a perception of its being under-resourced and motivated largely by cost-cutting, to the detriment of effective service to the public. Their intentions were to restore the public’s trust in public services, to rebuild capacity in the state sector, and to avoid any further plans for rapid or radical changes. Their approach was thus to improve funding in the state sector – while at the same time taking a conservative line on fiscal policy, with consistent budget surpluses – and to make pragmatic refinements and adjustments, as necessary, rather than to seek a major overhaul or redesign.

The Labour–Alliance government commissioned a ‘Review of the Centre’ (in 2001) which identified three priorities for change:

* better-integrated, people-focused, service delivery;
* reducing fragmentation and improving the alignment of public services;
* enhancing the people and culture of the state sector.

This review partly addressed the concerns raised by Schick, it crystallized a number of needs for improvements in ‘the New Zealand model’, and it resulted in the following changes:

* Focussing strategic management on outcomes, rather than only the production of outputs. The purchase of outputs was to be directly related to their contribution to broader outcomes. Departments must now produce an annual Statement of Intent that demonstrates the links between government’s high-level outcomes and specific departmental outputs; and funds are allocated in the Budget process to whole sectors, with Ministers competing for funds within those sectors. The funding of programmes (and the non-financial targets and other performance information associated with the programmes) continues, however, on the basis of Ministers purchasing a given level of outputs at a given unit price to a level of predetermined quality standards.
* Movement from ‘pure’ agency theory to a co-ordinated systems approach. Agencies must consider the interests of government as a whole and how their particular programmes relate to that. This has meant strengthening the role and powers of the central agencies (Department of Prime Minister and Cabinet, State Services Commission and Treasury) to ensure that integrated programmes are successfully implemented, though without ‘micro-managing’ departments from the centre.
* Abandonment of a ‘slavish’ adherence to the policy–operations and purchaser–provider splits, maintaining them only where it is considered necessary in the interests of efficient and effective delivery of public services.
* Re-establishing throughout the state sector (that is, in departments as well as non-departmental agencies) a culture of ethical, consumer-focussed, politically neutral, effective, efficient and equitable public service.

Although many of the original NPM reforms have been left untouched, or have been enhanced (details below), the Labour-led government so significantly modified the ‘New Zealand model’ (Boston 1996) that it now only exists in a revised form (Chapman and Duncan 2007). The remainder of this section, therefore, provides some specific examples of the complex mixture of revision, change and continuity in the ‘New Zealand model’ of the new public management since 1999.

**The Reversal of Privatisation**The rash of privatisations that occurred up to 1999 ceased – and even went into reverse – under the subsequent Labour-led governments. To some extent, this was because the remaining state-owned enterprises would not have been so easily disposed of in a financially profitable manner, without political risk. But, more significantly, during the three terms of the centre-left government, there were some re-nationalizations of previously privatized enterprises. The most prominent were Air New Zealand and the railways. Also, the government used its regulatory powers to prevent Auckland International Airport from falling into the hands of overseas private interests. But these decisions were made in reaction to circumstances (such as the need to inject capital into Air New Zealand to save it from bankruptcy) rather than being driven by an anti-business ideology or electoral manifesto.

The exception to this was the re-nationalization of workers’ compensation. In this case, the previous National-led government had opened the work-injury account of the accident compensation scheme to competitive provision in 1999. Six competing insurers underwrote the employers. But the Labour Party, well before the passage of the relevant legislation in 1998, had warned insurers entering this new market of its intention to renationalize, if elected. Once in power, Labour (and its coalition partner, the Alliance Party) moved quickly to carry out this ‘promise’ (Duncan 2002).

All of the other re-nationalizations, however, were in response to perceived problems arising from special circumstances. But the Labour-led government seemed to prefer re-nationalization to other remedies, even when officials were advising that other options were available. Their policy seemed to be that these were ‘strategic assets’ which needed to remain in New Zealand hands – even though no definition of what constituted a ‘strategic asset’ was ever publicly stated.

**Reintegration of Policy–Operations and Purchaser–Provider Splits**Among the main principles for public management laid out by the Treasury (1987) at the initiation of the reform process, was the requirement for clarity of objectives, leading to a preference for disaggregated organizational structures with larger numbers of relatively small, single-purpose agencies. In order to reduce the opportunities for ‘policy capture’, policy-advisory ministries were to be separated from agencies tasked with service delivery. In addition, the creation of competitive quasi-markets for publicly-funded services necessitated the separation of funding agencies from service-providers. The health-sector reforms of 1993 (Ashton 1999) were a good example of this form of restructuring.

Now, while the Labour-led government never produced an explicit policy announcing the end of the policy–operations and purchaser–provider splits, its actions did suggest that these structural principles no longer strictly applied in Wellington. Examples of mergers of policy and provider agencies under Labour were: the former Department of Courts into the Ministry of Justice, the Special Education Service into the Ministry of Education, and the Child Youth and Family Service into the Ministry of Social Development. But, in nearly all such cases, departments carrying out both policy and operational functions have preserved such splits divisionally, within their departmental structures. A good example of this is the Ministry of Economic Development, which has a wide range of functions under nine ministerial portfolios. It has incorporated the Ministries of Consumer Affairs and Tourism, but kept them as distinct units. In the health sector, the formal separation of funding from service delivery, effected in 1993, was collapsed by the Labour-led government’s creation of District Health Boards, which incorporate both functions – although the governance, purchasing of services, and in-house service delivery (public hospitals) are separate, ‘ring-fenced’ budget items. So, to some extent, the principle of keeping policy and operational functions, and funder and provider, separate has been preserved. But these functions have been organizationally reintegrated.

**From Contracting-Out to Funding for Outcomes**  
One of the outstanding features of the New Zealand model, commented upon by Schick (1996), was the extent to which public services (especially in health and social services) were being contracted out to private-enterprise and not-for-profit organizations. These contracts were normally on a competitive basis, and were for specified non-departmental outputs. They included performance criteria in regard to volumes and quality of service, and they entailed information requirements from the agencies for accountability purposes. The New Zealand experience of this ‘new contractualism’, however, has not always been positive. Many agencies, especially smaller community and Maori agencies, found the contracting process imposed heavy transaction costs due to their complexity and their accountability requirements. This often conflicted with the values and culture of those organizations, and too frequently mistrust became a feature of principal–agent relationships. Furthermore, any single community agency could find itself having to contract with more than one government department to provide diverse services, with little co-ordination, but with duplication of contracting and accounting activities. Otherwise independent agencies felt that they were forced to comply with the policy objectives of government, including the provision of detailed information, but often with inadequate funding that still left them having to meet their needs through charitable donations (Stace and Cumming 2006).

Under the Labour-led government, efforts were made to bring some common sense and co-ordination into these complex relationships and networks. One recent development was the introduction of integrated contracting for services provided to departments and Crown entities by non-government organisations (NGOs). This project, called Funding for Outcomes, and led by the Ministry of Social Development, seeks to integrate the many different contractual arrangements that NGOs have with departments and Crown entities, to provide standard contract templates and reporting requirements, and to break down the ‘siloed’ approach that arises from dealing with several government agencies. A key feature of this is the determination of the outcomes to be achieved by a particular NGO in the services it provides to its clientele, whoever the funder may be. This appears to have led to a more holistic approach to contracting out the delivery of social services to particular groups (e.g. Maori, disability support), while retaining the responsibility of each agency for its own portfolio, accountability and relationships (Pomeroy 2007). So, contracting out still occurs under this model, but there is more focus on social outcomes and on inter-agency coordination. Furthermore, funding in areas such as scientific research has become less competitive and more concerned with the maintenance of institutional capacity and long-term stability of resource streams.

**Ideals of Public Service and Leadership**As part of its responsibilities for ‘strengthening the centre’, the State Services Commission, from 2005, initiated a set of ‘Development Goals for the State Services’. These apply to departments, offices of Parliament and Crown entities and have been revised annually. The overarching goal, as set out in 2008, is to develop ‘a system of world class professional State Services serving the government of the day and meeting the needs of New Zealanders’, while the specific goals emphasise, among other things, networking through new technologies, system-wide coordination, responsiveness, service and trust (State Services Commission 2008a). This illustrates SSC’s strengthened coordination role within the state sector. That role was reinforced by legislation in 2004, and thus contrasts with the ‘back-seat’ position, in relation to the Treasury, that it took in the reform era of the late 1980s and early 1990s (Chapman and Duncan 2007). These new goals refer to co-ordination and to the ‘spirit of service’, whereas the public-choice theory-driven NPM reforms tended to emphasise competitiveness and utility-maximization (Boston 1996), thus also reflecting the ongoing revision of NPM.

The SSC lost its centralized public-service role in industrial relations after the implementation of the State Sector Act 1988, when it was assumed that a competitive labour market would efficiently supply organizations’ needs regarding skilled employees, including senior managers. But SSC’s present activities suggest a more proactive approach to workforce development, especially regarding the development of the next generation of chief executives. To that effect, it has instituted a Leadership Development Centre, which describes its role as ‘senior leadership management and development in the public sector’ (Leadership Development Centre 2008).

In contrast, therefore, with the individualism of public-choice theory, the state sector has seen a return to notions of public service and ethics, with a more strategic development of the workforce, particularly future leaders. While this by no means represents a diminution in the responsibilities of departmental chief executives as employers, it does represent a shift away from a faith in ‘the market’ to supply the necessary skills, away from individualism and competition as drivers of accountability, and back towards notions of collective ethics and service to the public. This approach is premised also on the goal of raising public trust in state services – trust which, it is implied, may have been corroded by the competitive, market-driven model of earlier years.

The NPM reforms in New Zealand had also frequently applied a ‘quango’ model that sought to devolve certain responsibilities to ‘arm’s-length’ organizations that would operate relatively independently of ministers and departments, with their own governing boards, and yet with clearly mandated statutory objectives. In New Zealand, such organizations are known as Crown entities, and they include a wide range of functions (advisory, regulatory, service, funding) and structures. The Labour-led government came into office with the aim of addressing some politically contentious matters that had arisen from some Crown entities, but this would mean reducing their independence to some degree in order to ensure compliance with ethical standards. These reforms were encapsulated in the Crown Entities Act 2004.

Two principles were adopted. First, the concept of a uniform governance and accountability model was deemed to be the best way to ensure consistency in how these entities are established, governed, managed and held accountable. Thus the responsibilities and relationships between responsible minister, board (or statutory officer, in the case of the few entities constituted as corporations sole), chief executive and staff were laid down in a more uniform manner. Secondly, all Crown entities were classified under four categories: Crown agents (agencies implementing government policy); Autonomous Entities (agencies conducting statutory responsibilities within the framework of government policy); Independent Entities (agencies carrying out statutory functions on an independent basis); Crown companies (agencies constituted as companies and generally having a mixture of commercial and social responsibilities).

This classification determines the extent to which the governing boards of these entities may act independently of the government, and the extent to which Ministers can issue directions to them, and it provides for different arrangements for the appointment and removal of members of their governing boards (depending on the extent to which board members’ independence from ministerial control is considered necessary). These reforms have ensured that all parties have certainty over the governance and accountability arrangements to be adopted. So, while this was a prudent reform to ensure greater certainty and discipline, it also reduced ‘freedom to manage’ and organizational independence.

**Preservation of Some NPM Principles**The Labour-led government has not changed all of the fundamental principles underlying the NPM reforms. It did, however, amend and enhance the key Acts of Parliament that empowered the reforms. In 2004, after extensive consultation with the opposition, it passed an omnibus Bill that resulted in amendments to the State Sector Act 1988, Public Finance Act 1989, and Fiscal Responsibility Act 1994. The main effects of these amendments were:

* To allow for greater flexibility in sharing appropriations across ministerial portfolios and for one department to deliver or contract services on behalf of another.
* To widen the mandate of the State Services Commissioner beyond the core public service to the whole state sector, and to provide for a stronger role in leadership development and public-service ethics.
* To extend public-sector standards of accountability to Crown entities.

These changes amount to significant refinements, rather than major changes to the basic NPM model itself.

Effectively, large parts of the NPM reforms have remained in place. The practice of hiring chief executives on five-year fixed-term contracts (with no expectation of automatic renewal) continues, and they continue to be accountable for the performance of their agencies. The chief executive is still the employer of all other staff, as enshrined in the State Sector Act; and there is still an ‘open border’ between the public service and the rest of the labour market for recruitment purposes.

The principles of accrual accounting and fiscal responsibility, originally legislated for in the Fiscal Responsibility Act 1994, have now been enshrined in the Public Finance Act, the central legislation governing the financial operations of the state sector. Those commercial operations that the government has determined should remain in public ownership are still constituted under the State-Owned Enterprises Act 1986. The essential objective of that Act is still explicitly commercial, rather than social; while the cost of any social responsibilities imposed on SOEs are still to be reimbursed by government. Despite the re-nationalizations mentioned above, there was no suggestion that successful SOEs (such as New Zealand Post) should be folded back into the public-service model – but neither was any move made under Labour to sell their assets or to create a more competitive environment than already existed.

**Organizational Structures**A reasonable criticism of New Zealand’s NPM reforms of the 1980s and early 1990s is that, in disaggregating large multi-purpose bureaucracies, the result was a large number of smaller, single-purpose agencies, each with its own overhead and transaction costs, and each creating more of the ‘gaps’ through which things might fall due to a lack of integration and coordination. In an apparent effort to address this, the Labour-led government was willing to break down some of the policy–operations and purchaser–provider splits, once considered to be essential principles of the re-organization of state agencies, and to shift the focus of public sector accounting more towards the desirable outcomes aimed for by multiple agencies, thus to be more in line with the broad aims or themes of the government of the day. This has helped to address a lack of co-ordination between agencies. But are there still too many agencies and departments? And has there been a consistent approach to organizational change and development?

It is instructive to make some rough comparisons with similar jurisdictions. Hence, the table below compares the number of government departments in Wellington with those in Canberra, Dublin, London and Stockholm. Other jurisdictions could also be cited, but these four include the essential features of the Westminster model (UK and Australia), political values similar to those in Wellington, and, in the cases of Dublin and Stockholm, electoral systems with proportional representation.

Jurisdiction  
# of Cabinet Ministers  
# of Other Ministers  
# of Departments  
UK  
23  
66  
24  
Australia  
20  
22  
19  
Ireland  
15  
20  
15  
Sweden  
22  
Nil(but see note below)  
13  
NZ  
20  
8  
39

(NB: Swedish ministries have two to four top officials who share management, and half of these may be political appointees who change with any change of Minister. Hence, they could be seen as the equivalent of ministers outside cabinet. Figures for Australia are for the Commonwealth Government. Sources used are the latest available figures on the relevant country’s central agency’s website.)

Before drawing any conclusions from the above figures, we need to exercise some caution. Although there are some similarities between the different jurisdictions, there are also considerable differences. These differences include population, constitutional structure and the degree of centralization of services in central or federal government. Allowing for functions carried out by the New Zealand Government which are only carried out at the State level in Australia, the total number of government agencies (whether classified as departments, statutory agencies, statutory authorities or Crown entities) may be little different between the two jurisdictions.

Nonetheless, although New Zealand’s public services may be relatively centralized (that is, there is less devolution of social services, public health and education to local or regional levels), it is extraordinary that Wellington should have more than twice as many departments as some other capitals. This suggests that the arrangements in Wellington are, in some respects, quite different from the others, and that little has been done to take up the suggestion made by Schick (1996) that the government consider some adjustments to departmental structures, possibly including some consolidation. Having numerous small departments may generate diseconomies of scale.  In addition to accountability and reporting burdens, each department must allocate staff resources to internal management, such as running its own budget and dealing with personnel matters.  After these and other responsibilities – which may include monitoring Crown entities – have been spoken for, a small department may have meagre resources left over for policy advice. Perhaps this is the reason why some small departments appeared to Schick to be listless (Schick 1996:29). Schick also argued that small organizations provide up-and-coming leaders with fewer opportunities for advancement.

Admittedly, some progress has been made towards consolidation since Schick’s report. (Examples have been cited above). But all of the countries referred to above in comparison with New Zealand have, to some extent, adopted a model of service-delivery agencies, with relative operational autonomy, incorporated under the structure of a department – for example, the executive agencies in the UK that are a product of the ‘Next Steps’ initiative. This approach has been adopted on some occasions in New Zealand, but with apparent reluctance and not always consistently. The term used in New Zealand for an operational agency within a department, but with some managerial freedom, is ‘semi-autonomous body’ (SAB). One example was the absorption of the Ministries of Consumer Affairs and Tourism into what is now the Ministry of Economic Development (MED).  While consumer affairs and tourism still have their identities inside the larger ministry – and they still have their corresponding ministerial portfolios at the Cabinet table – in managerial terms, they are simply divisions of a larger organization.

Another significant application of the SAB model is in the overseas development assistance programme, for which the organization NZAID has been created, under the aegis of the Ministry of Foreign Affairs and Trade (MFAT). A ministerial review of the establishment of NZAID had the following to say:

The SAB model is basically a New Zealand model of the UK Next Steps Executive Agency model and similar models used to varying degrees in Canada and Australia. The model assumes that discrete businesses of a particular portfolio will be siphoned off to an agency operating relatively autonomously but still within the overall framework of the Department to which it is attached. The SAB is different from either a Crown entity (where the governing body is directly responsible to the Minister and the department merely acts as an adviser to the Minister in the [Minister’s] roles of funder, owner and purchaser of outputs) and the normal operating division of a Department where staff are employed under the same terms and conditions of employment and…may move freely within the divisions of the Department. The SAB is envisaged as an autonomous agency that, while still under the umbrella of its parent Department develops a separate organisation, staffing, funding, policy development and operational structure (Waring 2005:45).

There has not been a consistent approach to the use of this model across the public service, however. In 2001, the SSC made a strong case in favour of an SAB for NZAID, and in 2002 a similar stance was taken for the case of the food safety authority (NZFSA). However, in 2006, apparently due to political pressures, the SSC came to the conclusion that an SAB would not be satisfactory in this latter situation, and hence NZFSA was taken out of the Ministry of Agriculture and Fisheries (MAF) and established as a separate department. Even so, some elements of an SAB have been preserved, as there has been a shared services agreement made between the two organizations, and MAF provides some of NZFSA’s corporate services.

Such ad-hoc planning was perhaps a natural feature of Labour’s desire to avoid wholesale restructuring, in favour of a more gradual and pragmatic approach that only adopted changes as circumstances and needs dictated. As Gill (2008 a, b) has argued, New Zealand has always had a large number of departments and non-departmental agencies (Crown entities), even before the NPM era. He points to evidence that there are significant costs associated with restructuring, and hence is sceptical about the assumption that amalgamations of departments would lead to greater efficiency or effectiveness. He further states: ‘All Governments have significant arms-length entities which need an integrated governance regime’ (Gill 2008b:10), and hence an apparently large number of agencies is not necessarily a cause for alarm. Arrangements such as NZFSA (see above) where a separate department (rather than an SAB) has been established, but with a shared services agreement, may help to reduce some of the duplication of overheads and ‘diseconomies of scale’, without entailing the major restructuring costs of amalgamation, which Gill (2008 a, b) sees as undesirable and unproductive.

Other steps have been taken to co-ordinate policy advice, policy implementation and service delivery within sectors. In addition to the normal Cabinet Committee process, in 2008 the allocation of funding to Ministers for the purchase of outputs from departments and other agencies was done on a sector (or ‘theme’) basis. A funding pool was allocated to each sector, with the responsible Ministers meeting together to divide this funding between them. Each theme had an appointed lead Minister (Treasury 2007). At the officials’ level, various co-ordination processes were put in place. For example, in the social sector, there are 38 agencies (10 departments and 28 Crown entities) that either provide advice to Ministers, implement government policy and/or deliver services. The sector is organised into 4 sub-sectors (Health, Education, Social Services and Justice), with each sub-sector having a lead Ministry. Overall co-ordination of the sector is achieved by regular meetings of the lead Ministries, chaired by the chief executive of the Ministry of Social Development. These meetings, called the Social Sector Forum, focus on ensuring that cross-sectoral action is occurring where it is needed, and also that the delivery of social services by community, voluntary and private organisations is co-ordinated with government agency initiatives (Ministry of Social Development 2008). The SSC (2008b) also issued advice to state agencies about effective coordination.

While these processes address some of the co-ordination issues raised by Schick (1996), they do not deal with the high ratio of overheads to total operating costs which he also commented on. Perhaps such co-ordination plus shared service arrangements (as described above) may deal with these issues more successfully and less disruptively than amalgamations. Either way, there may yet be further scope to reduce duplication in ‘back-office’ operations. The signals conveyed to departmental chief executives by the new Prime Minister (see below) may well prompt further innovative thinking in this area. But the extent to which economies of scale – let alone improvements in ‘front-line’ service quality – can actually be achieved by changes to the sizes or numbers of departments is a moot point. Almagamations may still leave the larger departments with inter-divisional coordination problems, and so the question of effective coordination and networking may be more critical than the size and number of organizations.

**The Labour Legacy**  
The incoming centre-right National-led government thus inherited, at the end of 2008, a public service that had undergone considerable NPM reforms during the 1980s and 1990s, and which had, in the first years of the new century, refined and modified those reforms to an extent that saw a ‘pendulum-swing’ back to a middle ground, compared to the radical market-driven ethos of the late 1980s. The ‘high tide’ of the radical ‘New Zealand model’ came around 1996 when the Schick Report appeared and the country switched to elections by proportional representation. Since then, rapid reform without wider consultation has been politically impossible, and some obvious problems with the model have been identified and addressed. Since 1996, no new ‘blueprint’ for public management reforms, along the lines of the Treasury’s 1987 paper on government management, has been produced. Hence, there is no longer any specific document that one can cite to show what ‘the revised New Zealand model’ might actually be – that is, if there is one now. Indeed, some of the structural arrangements that now exist in Wellington appear to be inconsistent and ad-hoc, and they lack an overarching set of guiding principles. But one can at least trace some significant and deliberate changes that have occurred, which all together do amount to a significant evolution away from the now-classic ‘New Zealand model’ that has been frequently referred to in the international public-management literature.

The developments under Labour since 1999 have seen a much more co-ordinated, outcome-oriented approach, and a return to the collective ethics of public service. Ideas derived from rational economic theories no longer predominate, and the competitive quasi-market model is no longer applied. Moreover, privatization was not at all favoured by the Clark government. This represents a considerable shift away from the orthodoxy of the oft-cited ‘New Zealand model’.

**The National-led Government’s Agenda**While in opposition, the National Party argued that the Labour-led government had been too ‘tax-hungry’ and that the spending of that government had often been of ‘low quality’ due to ‘an overly-large and poorly-focused bureaucracy’ (Key 2008a:1). National’s strategy, according to its leader, John Key, was to provide for tax-cuts, while not reducing front-line service capacity in education, health-care, etc., partly by achieving cost savings in the core policy-advice ‘bureaucracy’. It was suggested that, while numbers of ‘front-line’ workers in health, education and social services had increased under Labour, the rate of increase of employee numbers in the respective ‘bureaucracies’ had been much greater. The National Party’s 2008 Election manifesto on the state sector made the following claim:

Survey data from the Quarterly Employment Survey shows that since 2000 the number of people who are employed in central government administration has grown from 25,900 to 39,400. These are people who are mainly engaged in formulating and administering government policies rather than frontline service delivery (New Zealand National Party 2008:2).

Naturally, such claims were disputed, with the Public Service Association (PSA), the major public-sector trade union, counter-arguing that such figures included classes of public-sector workers who were, in fact, performing essential ‘front-line’ services, such as prison officers employed in new facilities and inland-revenue call-centre operators employed to advise people about the new retirement savings scheme. The PSA thus raised the spectre of a ‘razor-gang’ that would cut government spending, but do so in a way that could harm essential public services (Pilott 2008).

However, Mr Key also said, in a later speech to the PSA, that his party had no intention of undertaking any radical structural reforms (apparently alluding to the rapid NPM reforms of the late 1980s and early 1990s), nor did they intend to depart from the pragmatic approach taken under Labour:

Just as Labour has done, we will take opportunities to make changes to some agencies as part of the usual business of government. However, there will be no wholesale reorganisation or restructuring across the public sector.

Neither are we interested in winding the public management clock back. New Zealand’s public management model has evolved to where it is now, and though some improvements are no doubt possible, I do not believe there is any need for extensive reforms (Key 2008b).

So, the National Party’s election policy was to cap public service employee numbers, not to cut or to radically restructure. Further, they sought to undertake a close ‘line by line’ scrutiny of public-sector budgets in order to make savings in central administrative or advisory roles, and to shift resources to ‘front-line’ services. This was intended to contribute to expenditure control without the need to sacrifice public services.

The remainder of this paper considers indications of the National-led government’s plans for public management in New Zealand. One can see early signs of the public service reacting to the new political climate in, for example, the Ministry of Social Development’s Briefing to the Incoming Minister. The briefing outlines a ‘Value for Money’ initiative, which includes a commitment to ‘reducing the number of staff we employ by upwards of 5 per cent over the next four years’ (Ministry of Social Development 2008:33). Moreover, the briefing takes some trouble to illustrate that ‘80 per cent of all [MSD] staff have frontline roles’, while a further 7 per cent ‘directly support frontline services’ (2008:16). As government’s largest and biggest-spending department, MSD clearly is a target for the new Cabinet’s interest in controlling costs and capping the numbers of ‘bureaucrats’. The new Minister for Social Development stated in response to MSD’s briefing paper: ‘I aim to hold the department to that [5 per cent] target’ (Bennett 2008).

At the same time as wishing to maintain the current levels of ‘front-line’ services, National also intends to roll out a programme of tax cuts, and relevant legislation was introduced as soon as Parliament sat after the Election. Overshadowing their whole policy strategy, however, was the unprecedented global economic turmoil of 2008, and a recession in the domestic economy. Any incoming government would be forced to reconsider its plans and budgets under these circumstances. For example, if the rise in unemployment (and hence welfare rolls) continues, how feasible would MSD’s plan to cut staff numbers be?

The pre-Election economic and fiscal update (issued by the Treasury under the Public Finance Act) indicated that the deteriorating world economic situation would result in lower economic growth than forecast earlier, thus seriously affecting government revenues and expenditures, and causing the surpluses forecast in Budget 2008 to be converted to substantial deficits for the subsequent 5 years. This update was prepared in August 2008, and later forecasts were revised further downwards in terms of revenue, and upwards for benefit payments.

Higher unemployment may mean more front-line staff in social agencies. If an economic stimulus is to be partly by way of increased expenditure on public programmes and infrastructure, then this too will require new staffing. But, the National-led government will also want to show that the state sector is – at the very least – not expanding. Apart from any reduction in particular programmes which may result from political changes in direction, it can be expected that, through the use of static or reduced funding baselines, chief executives will be forced to curb staff numbers and salaries.

**Politics of Expenditure Control**In order to form a centre-right government, the leading National Party has had to seek support on confidence and supply votes from minor parties. The most obvious supporting party was the ACT Party, which has the potential to move National’s priorities to the right, and which alone would have provided National with a majority in the House of Representatives. But, presumably with an eye to greater flexibility in achieving legislative goals and to longer-term political partnerships, National also sought support from the Maori Party, which has the potential to shift National’s priorities more to the left of centre.

A significant feature of the agreement between National and ACT is the requirement for an extensive review of government expenditure. National’s pre-Election promises to cap the number of bureaucrats will do little to achieve significant cuts in expenditure, and so pressures could emerge to reduce, eliminate or substitute whole programmes. ACT will be ready for this, ideologically. Whether they can convince National’s Ministers, who have waited nine years to control the levers of power, to curtail programmes, remains to be seen. As part of the parliamentary support agreement, the ACT Party’s leader was given the portfolio of Minister (outside of Cabinet) for Local Government. In this new role, he has stated that he would be ‘rooting out those practices that lead to needless expenditure . . . [and] demanding higher standards of accountability, less risk-taking with ratepayers’ money and a focus on core areas of council operations’ (Hide 2008).

Given the National Party’s statements on the state sector before the Election, and given also the global recognition of the need for governments to avoid radical spending cuts in the face of economic recession, it appears unlikely that the present National-led government will seek to undertake an about-face and turn public management back to the days of the so-called ‘New Zealand model’ of the late 1980s and early 1990s. Clearly there will be some changes and shifting of priorities, especially in controlling costs. National has committed itself to reducing perceived bureaucratic excess at the centre, but it is unlikely that this will mean a wholesale ‘slash and burn’ – rather, capping of budgets and maybe some attrition in numbers, and/or some shifting of staffing priorities towards ‘front-line’ service, assuming that the ACT Party’s influence is kept in check. There have been a few changes in specific areas of the state sector foreshadowed by the incoming government, for example:

* Criticism of the number of District Health Boards, of which there are 21 for a population of less than 4.3 million; and discussion of the potential to reduce the numbers of middle managers in this sector.
* An interest in competitive provision of workers’ compensation (presently covered by a universal scheme and a state monopoly provider).
* The possibility of a new prison being managed by a private-sector agent.

The National Party has not ruled out state-asset sales, but said that these would only be proposed for its second term in office, if it wins the mandate for that.

**Conclusion**  
So, while there will no doubt be changes, it looks unlikely that the National-led government will deviate radically from the pragmatic approach initiated by their predecessors. The widely renowned ‘New Zealand model’ of NPM, implemented during the period 1986 to 1996, was fine-tuned, modified and revised by the Labour-led government of 1999 to 2008 – to the extent that the market-led mechanisms of the classic model of the 1986–96 era are no longer considered very useful. And there is little likelihood that the incoming centre-right government will swing back to that radical market-driven model. While cost-control and some changes of direction are, of course, on the agenda, the incoming government seems determined to continue with Labour’s pragmatism, as distinct from public-management reform modelled upon economic rationalism.

International commentators who have cited ‘the New Zealand model’ of NPM have generally referred to Boston et al. (1996) as the authoritative reference. A lot of water has passed under the bridge in Wellington since that text was published, however, and authors in the field need to reconsider the evolving culture of public management in New Zealand. Some of the original NPM practices have been preserved, some refined and some improved upon; but others have been quietly abandoned, or even reversed. The former influence of economic rationalism on public management reform has given way to a wider concern for public-service ethics, collaboration and social outcomes.

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