

RESEARCH AND EVALUATION

New Millennium, New Public Management and the New Zealand Model

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Recently the much-discussed 'New Zealand model' of new public management (NPM) has become significantly revised. It now lacks the theoretical coherence and the market-led focus that it relied on between 1987 and 1996. Labour-led governments since 1999 have undertaken gradual and pragmatic – yet significant – changes in public management structures and principles, refining and sometimes reversing the model implemented in the late 1980s and early 1990s. This article 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 market-led NPM. Some NPM principles have been refined, but others have been quietly abandoned. The new National-led government appears unwilling to undertake radical reforms, and, while it may seek a greater role for the private sector, looks set to continue with the 'gradual and pragmatic' approach adopted since 1999.

Key words: *public management, reforms, New Zealand*

In one heady decade beginning in 1986, 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 these formed the 'blueprint' or model that gave the subsequent organisational re-design processes consistency and coherence, as 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 (2004:280), for example, in a comparative analysis of the public management changes effected in 13 jurisdictions, described New Zealand's efforts as 'probably the most comprehensive and radical set of public management reforms of any OECD country'.

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; and
- A rapid process of corporatisation, frequently followed by full privatisation, 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 directed towards price control, was established by the Reserve Bank Act 1990.

The Bolger–Shipley Years (1990–1999)

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 organisational 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, and subsequently highlighted by Chapman and Duncan (2007), 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, Department of Prime Minister and Cabinet, and the State Services Commission(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 – ie, the organisational 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; and
- 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 shortcomings in organisational capacity and performance had emerged in many quarters in the public sector. The Cave Creek disaster of 1995, in which 14 people were killed in a national park when a poorly

constructed viewing-platform collapsed, was 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-ridden concern for social-service quality (Duncan 1995).

Unfavourable critiques of the New Zealand model (eg, Easton 1995; Kelsey 1995) were appearing even before Boston et al. (1996:3) 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.

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 organisation, 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 de-

livery. This move to revise the NPM reforms, which began after 1996, accelerated under the subsequent Labour-led Clark governments.

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' which reported in 2001. It identified three priorities for change:

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

This review partly addressed the concerns raised by Schick, it crystallised 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 programs (and the non-financial targets and other performance information associated with the programs) 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 coordinated systems approach. Agencies must consider the interests of government as a whole and how their particular programs 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 programs 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; and
- 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 were left untouched, or have been enhanced (details below), the Labour-led government so significantly modified the 'New Zealand model' (Boston et al. 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 could 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-nationalisations of previously privatised 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-nationalisation 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, warned insurers entering this new market of its intention to re-nationalise, 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-nationalisations, however, were in response to perceived problems arising from special circumstances. But the Labour-led government seemed to prefer re-nationalisation 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 organisational 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.

Moreover, 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. However, in nearly all such cases, departments carrying out both policy and operational functions preserved such splits divisionally, within their departmental structures. A good example of this was the Ministry of Economic Development, which had a wide range of functions under nine ministerial portfolios. It 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 incorporated both functions – although the governance, purchasing of services, and in-house service delivery (public hospitals) remained separate, 'ring-fenced' budget items. So, to some extent, the principle of keeping policy and operational functions, and funder and provider, separate was preserved. But these functions were organisationally 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 contracted out to private-enterprise and not-for-profit organisations. These contracts were normally issued 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 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 organisations, and too frequently mistrust became the dominant 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 coordination, 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 governments, efforts were made to bring some common sense and coordination 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, sought 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 had arisen from dealing with several government agencies. A key feature of this shift was the determination of the outcomes to be achieved by a particular NGO in the services

it provided to its clientele, whoever was the funder. This appeared to have led to a more holistic approach to contracting out the delivery of social services to particular groups (eg, Maori, disability support), while retaining the responsibility of each agency for its own portfolio, accountability and relationships (Pomeroy 2007). So, contracting out still occurred under this model, but there was more focus on social outcomes and on inter-agency coordination. Furthermore, funding in areas such as scientific research (in Crown Research Institutes) now became 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' from 2005, the SSC initiated a set of 'Development Goals for the State Services'. These applied to departments, offices of parliament and Crown entities and were revised annually. The overarching goal, as set out in 2008, was 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 emphasised, among other things, networking through new technologies, system-wide coordination, responsiveness, service and trust (SSC 2008a). This illustrated the SSC's strengthened coordination role within the state sector, 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 coordination and to the 'spirit of service', whereas the public-choice theory-driven NPM reforms tended to emphasise competitiveness and utility-maximisation (Boston et al. 1996), thus also reflecting the ongoing revision of NPM.

The SSC lost its centralised 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 meet the needs of public organisations 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).

With its new statutory mandate, the SCC has taken a much stronger role in promoting good employment practices in the state services, enhancing outcome-focussed coordination among agencies, seeking to raise public trust in public services, and advancing standards of conduct and integrity based on a unifying sense of values. The latter requirements are embodied in a new code of conduct, issued by the SSC in 2007, and based on being 'fair, impartial, responsible and trustworthy'. Even though New Zealand consistently rates very highly in terms of integrity on Transparency International's corruption perceptions index, the SSC's development goals show no sign of complacency. The themes of leadership by example, ethical conduct and integrity are receiving rigorous attention and promotion throughout the state sector.

In contrast, therefore, with the individualism of public-choice theory, the state sector has seen a return to notions of public service and shared 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 blind 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 quality service to the public. This approach is premised 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 applied a 'quango' model that sought to devolve certain responsibilities to 'arm's-length' organisations that would operate relatively independently of ministers and departments, with their own governing boards, and yet with clear

statutory objectives. In New Zealand, such organisations became known as Crown entities that included a wide range of functions (advisory, regulatory, service, funding) and structures. The Labour-led government aimed to address some politically contentious matters that had arisen from some Crown entities, but this implied reducing their independence in order to ensure compliance with ethical standards. These reforms were encapsulated in the *Crown Entities Act 2004*. A more uniform governance and accountability model was deemed to be the best way to ensure consistency in how these entities were 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 more clearly specified. This now means greater clarity regarding 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 clarifies arrangements for the appointment and removal of members of their governing boards. So, while this was a prudent reform to ensure greater certainty and discipline, it also reduced ‘freedom to manage’ and organisational independence.

Preservation of Some NPM Principles

The Labour-led governments did not change all of the fundamental principles underlying the NPM reforms. They did, however, amend and enhance the key Acts of Parliament that empowered the reforms. In 2004, after extensive consultation with the opposition, the government 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 pub-

lic service to the whole state sector, and to provide for a stronger role in leadership development and public-service ethics; and

- 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 determined should remain in public ownership were still constituted under the *State-Owned Enterprises Act 1986*. The essential objective of that Act was explicitly commercial, rather than social; while the cost of any social responsibilities imposed on State-Owned Enterprises (SOEs) were to be reimbursed by government. Despite the renationalisations 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.

Organisational 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

Table 1. Comparative Numbers of Public-Service Departments, 2008

Jurisdiction	# of Cabinet Ministers	# of Other Ministers	# of Departments
UK	23	66	24
Australia	20	22	19
Ireland	15	20	15
Sweden	22	Nil*	13
NZ	20	8	39

*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.

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 reorganisation 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 coordination between agencies. But are there still too many agencies and departments? And has there been a consistent approach to organisational change and development?

It is instructive to make some rough comparisons with similar jurisdictions. Hence, Table 1 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.

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 centralisation 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 centralised (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 organisations provide up-and-coming leaders with fewer opportunities for advancement.

Admittedly, some progress has been made towards consolidation since Schick's report. However, all of the countries referred to above have also adopted agency models 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. The executive agency 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 organisation.

Another significant application of the SAB model is in the overseas development assistance program, for which the organisation NZAID was 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. 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 were preserved, as there was a shared services agreement made between the two organisations, and MAF provided 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 (2008a, 2008b) 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 (2008a, 2008b) sees as undesirable and unproductive.

Other steps were taken to coordinate 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 coordination 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 was organised into four sub-sectors (Health, Education, Social Services and Justice), with each sub-sector having a lead ministry. Overall coordination of the sector was 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, focussed on ensuring that cross-sectoral action was occurring where it is needed, and also that the delivery of social services by community, voluntary and private organisations was coordinated 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 coordination 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 coordination 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. Amalgamations 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 organisations.

Assessing the Labour Legacy

The succeeding 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 redressed. 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 might actually be 'the revised New Zealand model' – 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 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 coordinated, 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, privatisation 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, 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.

While wishing to maintain current levels of 'front-line' services, National also intended to roll out a program 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 government would be forced to reconsider its plans and budgets under these circumstances. Moreover, to form a government with long term prospects of remaining in office, National negotiated support agreements with the far-right ACT Party as well as the more centrist Maori Party. This gave National options in both directions for seeking support for any legislative program.

It may be too early (at the time of writing, January 2009) to comment confidently on the new government's program for the management of the public sector, but there have been a few changes in specific areas of the state sector foreshadowed by the National 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); and
- 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 a mandate for that.

Conclusion

So it looks unlikely 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 Clark-led Labour governments of 1999 to 2008 – to the extent that the market-led mechanisms of the classic model of the 1986–96 era were no longer considered appropriate. And there is little likelihood that the new centre-right government will swing back to that radical market-driven model. While cost-control and some changes of direction may influence the agenda, the National-led 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 sanguine 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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