You Say You Want a Revolution ...

The Next Stage of Public Sector Reform in New Zealand

Over the past 30 years New Zealand’s system of public management has seen a number of positive changes, both systematic and incremental. That process made New Zealand a world leader in public management. Despite this, it remains difficult to gain traction on some of the most complex problems in society. Further, citizens have begun to demand more from their public service than just outputs and efficiency. In order to continue the positive trend of the previous decades, the system must evolve to appreciate the importance of outcomes and effectiveness.

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A brief look at the evolution of the public management system in New Zealand shows the need for further reform. Two periods in its history are highlighted: the emergence of a classic bureaucratic model in the early 20th century, followed by the managerial reforms in the 1980s and 90s. They laid the groundwork for future development, but also show the current constraints against which public servants are struggling.

Where the system has come from

In the early 20th century the bureaucratic model was seen as the most efficient system possible for any public service, notably by Max Weber (Gerth and Wright Mills, 1991). As this model became the norm for public services around the world, it proved effective in reducing patronage and corruption. In New Zealand, political patronage was a particular motivating factor in the adoption of the model, a process that resulted in the Public Service Act of 1912 (Walsh, 1991). Prescribing a rigid set of processes, rules and hierarchies achieved equity, integrity and procedural due process in the public service.
In practice, this meant hard constraints on managers. Control was centralised at the top of a strict hierarchy, with input control as a strong focus (Norman, 2003). As the Treasury argued (1987, 58), 'the tendency [was] to keep managers’ discretion to a minimum.' Strictly enforced procedures for the state sector to follow were set out in Treasury instructions and the Public Service Manual, which would sit alongside other procedural instructions. For example, the Department of Social Welfare had its own set of internal manuals for staff. Centralisation was so extensive that even simple tasks, such as approval for staff promotions, involved long delays.

• decision making pushed down closer to clients.

After the reforms of the late 1980s were implemented, state services became more efficient, productive and responsive. With the bureaucratic model’s constraints largely discarded, human potential within the public sector was freed up, fostering creativity and innovation. New performance management methods delivered significant improvements in the services provided to New Zealanders. For example, in the newly-formed Income Support Service, one performance indicator was turnaround time: this combined with a new information technology system to reduce the average processing time from 13 days to 24 hours within two years. Similar methods used at the New Zealand Employment Service increased job placements threefold between 1988 and 1992 (Norman, 2007). Two decades on, this model continues to be leading-edge around the world.

The case for reform

The managerial reforms were a resounding success in delivering outputs with high levels of efficiency. As a result, they continue to have enduring appeal. However, government is about more than simply providing good customer service and delivering products and services efficiently. If that was all, then in many areas the private sector could do the job. But governments get involved in service delivery because citizens demand that complex problems are resolved effectively. They want better results, or outcomes.

Outcomes have always been a part of the theory behind the current system. However, in practice the current system prioritises the efficient delivery of outputs to such a degree that in some cases it comes at the expense of better outcomes. This is particularly true when public finances are tight (Ryan, 2011). Performance improvements since the 1980s have created the opportunity to evolve the system further by complementing managerial efficiency with efectiveness. Although not an academically robust concept, the difference between ‘bottom line’ and ‘top line’ demonstrates what efficiency and effectiveness look like in practice. This approach strongly resonates with frontline staff.

The bottom line is about delivering outputs as efficiently as possible and being accountable for that delivery. Work and Income case managers, for instance, work to get good job matches for their clients and make placements. Benefit payments should be of the right amount, made on the right day and to the right person. The top line, however, speaks to effectiveness and outcomes. From the Work and Income case manager’s perspective, success at the top line depends on whether a particular job placement leads to sustained employment. Achieving that ‘intermediate’ outcome lets clients get on with life.

Moore’s (1995) concept of ‘public value’ justifies attention to the top line. Legitimacy and support for public service activity comes from the value it provides to citizens and their representatives. Public value may be difficult to quantify, but we know it when we see it. For example, neighbourhoods appear safer, people move from welfare to work, or more children are immunised. The challenge for public managers is to establish what interventions are required to achieve those outcomes and then implement them.

Efficiency at the bottom line increases the public service’s capacity to achieve better outcomes. If benefits are not paid on time, then it becomes harder to alleviate poverty. If individuals are not matched to jobs, then it becomes harder to reduce unemployment. At present, however, the importance of a top-line focus is not fully understood. Efficiency and customer service only go so far in ensuring that interventions are effective. A swift job placement that does not result in sustained employment cannot be considered a good outcome for that individual. Ensuring effectiveness requires

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By the 1980s the public service was seen as oversized and inefficient (Boston et al., 1996). Customer service was poor, human talent was stifled and innovation was near zero. The ‘new public management’ reforms of the 1980s and 90s introduced managerialism to the public service. Notable legislation included the State Sector Act 1988 and the Public Finance Act 1989. The reforms retained core components of the bureaucratic model, such as the merit principle and due process, but added features such as:

• a performance management system aimed at improving efficiency and customer service
• redefined ministerial roles: the selection of outcomes, purchase of outputs from appointed chief executives
• chief executives having control over inputs within prescribed budgets to deliver outputs in the form of products and services
• structural change that clarified objectives, primarily by separating policy from operations, and encouraging competition where possible
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a longer-term view than the current system encourages. Solving complex societal problems often requires a range of interventions centred on a particular individual, family or community. This almost always requires collaboration between agencies.

At present the public management system restricts ‘joined-up’ work, that is, long-term initiatives involving the cooperation of two or more government agencies. To change this, the current output focus should be complemented by an equally strong focus on outcomes; efficiency should be complemented with effectiveness. This requires agencies to collaborate with each other while keeping the efficiency gains achieved through managerial reforms (see Figure 1). Doing that entails a change in the capabilities required in the public service. It is not only management along lines of vertical accountability that is needed, but also leadership across sectors where straight-line authority would otherwise be an impediment.

Agency silos and the bottom-line focus constrain public servants because they prevent effective collaboration. This prevents them from tackling complex problems effectively. Instead, they rely heavily on remedial interventions such as benefit payments. That means societal problems are not reduced in scale and demand ongoing government expenditure. These implications are demonstrated in the social sector, which includes health, education, justice, social security and benefits. Expenditure in this sector made up approximately 75% of core Crown expenditure in 2010-2011 (Treasury, 2011a), or around a quarter of overall GDP. A large proportion of this is targeted at servicing the symptoms of underlying problems. Often this does not address the causes of the problem, meaning that delivering those services even more efficiently is unhelpful beyond marginal gains. Surprisingly, little progress has been made in tackling social problems early in life.

Partially at fault is the incentive structure of the present financial model. It encourages a patchwork quilt of interventions from different agencies that are short term and remedial (for example, building more prisons). Instead, longer-term sustainable gains can be achieved by investing early in the life of the person or the problem. To do this investment should be seen from a longer-term perspective. For example, the public service should think not only about more efficient ways of operating a prisons service (the bottom line), but about what measures are required to lower crime (the top line) and avoid having to build as many prisons in the first place.

The Integrated Service Response, an initiative operated under the responsibility of the Ministry of Social Development, applies a joined-up approach to deal with the problems affecting at risk individuals and families.

Implications for public management system design

Organisational design

Attempts to improve effectiveness have already been made in the social sector. The Integrated Service Response, an initiative operated under the responsibility of the Ministry of Social Development, applies a joined-up approach to deal with the problems affecting at-risk individuals and families. The response is operated through centres known as Community Links, which bring together a range of support agencies around a client. Community Links provide those agencies with a common view of the client’s requirements, avoiding duplication and increasing intervention effectiveness.

The Integrated Service Response shows the benefits of cross-agency collaboration. However, it also demonstrates the constraints imposed by the current system. Parties do not have ownership of joint work, or a genuine shared stake. The integrated approach evident in Community Links is possible only because of the willingness of frontline staff to work together in this way. Ownership, and hence accountability, continues to reside within a single agency.

Through the social sector the government is also trialling a new joined-up approach to social service delivery. These trials let an individual or non-governmental organisation decide how best to use government funds to improve the outcomes of young people. In theory, this devolution should join up both funding and decision making across agencies, and they then improve outcomes that are the focus of other departments, such as Education or Justice. However, in practice all responsibility is transferred to a single minister and a single appropriation in the Vote of a single agency. For social sector trials, that agency is the Ministry of Social Development. Any attempt to join up accountability has no legal grounding under the current system. This suggests a lack of organisational options.

Indeed, ministers face a binary choice: loose collaboration, or full structural integration. Loose collaboration is heavily dependent on the personal commitment of individuals involved, and ownership is seldom shared effectively. That issue is only crudely resolved by the current alternative, full structural integration. Effort spent merging and de-merging agencies is often out of proportion to the problems being addressed. Hard structural solutions also serve to reinforce the limits of vertical accountability.

The private sector does not face this dilemma. Where firms require other firms’ expertise to achieve a shared outcome, they are able to turn to models such as joint ventures or consortia. They do not need to resort to mergers or sharing information. This ensures that risks and benefits are shared, and each firm’s stake is proportionate to the level of collaboration required.
Achieving effective outcomes in the public sector requires similar flexibility. This requires, notably through amendments to the State Sector Act, the provision of a range of options ranging between the extremes of loose collaboration and full structural integration:

- loose collaboration
- mandated sectoral grouping
- joint venture
- semi structural integration
- full structural integration.

Loose collaboration describes most joint work currently undertaken in the public sector. This includes establishment of officials’ groups and working groups. and accountability through a legally-binding board structure. This would enable subsidiary departments, which could be ‘real’ (parent departments collectively funding a separate business arm) or ‘virtual’ (capacity provided jointly), pooling investment, risk and accountability. An ideal scenario for this model is one where the issues are interconnected, investment needs to be shared and the outcomes are shared by different agencies.

Semi structural integration involves establishing operational units under larger parent departments, with the operational units enjoying some degree of autonomy. Separate boards, including independent directors, would have responsibility for governing those business arms. While this would be a new option for the New Zealand public service, in the United Kingdom such arms are known as executive agencies. This reduces fragmentation and improves economies of scale without sacrificing flexibility.

Finally, full structural integration would involve the structural merger of related functions into a new or existing department. This is warranted in situations where significant change is needed to bring different capabilities, leadership and expertise together for the foreseeable future.

Accountability

In the current output-driven system, accountability is based on vertical silos. Opening up to joined-up work calls for a change in the way accountability is approached. As these arrangements change incentive structures, a new model should encourage horizontal integration and collaboration.

This is evident in the private sector. Consortia and joint ventures

[In the private sector] ... consortia and joint ventures allow for shared investment, risk and responsibility; boards enable collective legal accountability for the governance of the enterprise.

Performance management

Performance frameworks inform accountability. A well-functioning framework ensures that all parties have clear expectations set and understand what is expected of them (Ryan and Walsh, 2004). Indicators of performance also inform decisions about resourcing and the scaling of activities. Currently the focus is on performance reporting; in an outcomes approach this would be complemented by evaluation.

Previous attempts at establishing an outcomes focus, such as ‘managing for outcomes’, were not sustained because performance measures were not as rigorous as measurements for output production. An outcomes approach will require a different kind of performance framework, incorporating the main

Information is shared between separate agencies, which allows for coordination, although their work remains separate. Accountability and priorities remain separate and remain with individual agencies and their respective ministers. This option is particularly useful where there is a clear lead agency and investment need not be shared.

Mandated sectoral grouping is an emerging new approach. This involves grouping individual agencies into sectors, with individual chief executives established as sector leads. Formal expectations and performance assessment set by the state services commissioner would include a specific reference to both their sector and their individual agency, encouraging collaborative work. The sector leader would be involved in the setting of expectations and reviewing the performance of other departmental heads within their sector.

Joint ventures would be possible where a greater level of integration is required. This option is currently unavailable in the public sector. Under this option, chief executives would join up ownership

The current financial management framework acts as a further impediment to ownership of joint work (see Boston and Gill, 2011). The single agency Vote system over-emphasises bottom-line concerns and does not have the flexibility required for collective accountability. As the financial management system works along vertical lines, there is little incentive to work horizontally, particularly where it affects the production of outputs.

Funding on a short-term basis encourages agencies to focus only on the efficient production of outputs. A financial management system that takes outcomes equally seriously needs to recognise the longer-time horizon required to achieve effectiveness. Taking a multi-year approach is likely to highlight benefits missed under the current system. Agencies seeking funding for a suite of interventions should collectively be able to borrow in the short term against the downstream benefits that result when better outcomes are achieved.
features of output measurement in an outcomes model. The key differences between the current system and outcomes-based performance management are elaborated in Table 1.

New ways of tackling performance management will require the public sector to:
- develop strategy across sector groups
- describe outcomes so they can be reliably measured
- improve the use of evaluation as a tool to inform performance frameworks and measure success.

This requires a change in the way success is understood at present. The outcomes currently presented in agency Votes are often lofty and seldom achievable. Examples from the 2011 Votes include: ‘a fairer, more credible and effective justice system’ (Justice), ‘improved quality of life for older people’ (Social Development), ‘dynamic and trusted markets’ (Economic Development), and ‘maximise the potential of all New Zealanders, by ensuring they have the skills and knowledge needed to succeed’ (Science and Innovation) (Treasury, 2011b). These remain well beyond the capability of any reasonable performance management framework.

‘Intermediate outcomes’, such as reducing truancy or youth offending rates, have practical meaning that allows them to be measured in real time across specified periods, complementing ex ante output specification with ex post evaluation. However, this forces public managers to change their understanding of why accountability is necessary and how it should work. This speaks to a wider issue in New Zealand public management.

**Culture**
System-wide reform is likely to meet resistance. It challenges beliefs that are deeply embedded in the current system: sirens and red lights go off, and the antibodies kick in. This is entirely understandable. A large number of people spent a considerable part of their careers advocating and implementing changes that created the current management system. The organisational culture in the core public service reinforces the current system. At the middle level there is a reluctance to engage in joined-up work because of the incentive structures currently present: parties are averse to integrated working if it threatens agency output delivery, funding or autonomy.

There is good reason to fear a stalling of progress. The greater the attachment to the current system, the harder it becomes to see beyond it. ‘Reform’ becomes little more than buffing and polishing the current system. Progress on outcomes cannot be made if the public service is attached to vertical accountability, with a single individual in charge of individual agencies. That requires a cultural change, particularly in Wellington.

This concept is largely accepted by front-line public servants, and innovations such as the Integrated Service Response are a result of their motivation. Yet this is not being mirrored in Wellington, frustrating front-line staff. Stifling innovation at the front line impedes the customisation of services to clients and blocks progress on outcomes. Part of the cultural change needed can be achieved through legislative amendments that signal a change in accountability arrangements. While the current Public Finance Act supports funding across time periods, amendments would encourage public managers to think beyond annualised output delivery. State Sector Act amendments, as described earlier, would similarly change the incentive structure of public managers.

**Making the most of technology**
Horizontal integration is highly dependent on the information base from which it operates, and can only work if information is freely available. This requires information ‘pooling’ and using information and communication technology (ICT), which is a step up from the current information-sharing process. Under the current model, the focus is on matching data for administrative efficiency and compliance. This approach is useful only if you already know what data you are looking for; hidden problems continue to go unknown and intervention effectiveness is reduced.

It is important in effective collaboration for involved agencies to share a common client view, which information pooling enables. Agencies would take information from other agencies’ data sets and apply it to their own needs, which provides managers with a more complete picture of a client, allowing for otherwise hidden problems to emerge. Good information is critical if long-term investment to solve complex problems is taken seriously; with it, interventions can be delivered earlier.

ICT will enable the transformation to joined-up working, but for two reasons its adoption at present is insufficient. First, while the focus of the Privacy Act supports the matching of data, which will still be necessary for administrative efficiency and compliance, a joined-up approach requires information pooling. Second, pooling of data is inhibited by a lack of common ICT standards across agencies. Addressing these issues will enable ICT to support a citizen-centred approach by creating virtual organisations centred on individuals, families and communities. In Community Links, off-the-shelf case management software was adopted and data from relevant agencies, including non-governmental ones, were put onto the software. Each of those agencies had the same view of the client, the plan and the interventions being applied. This shifted the problem to interfacing their legacy systems with that common system, a much better problem to have than the absence of a shared client view. Under this approach, ICT defines the boundaries of organisations, rather than their physical organisational structures.
Implementing these changes will be difficult technically, managerially and individually. But there are good reasons to persevere with them. Ministers and citizens are demanding better services for less. Citizens are also demanding that they have a greater say in the services they receive. This does not mean more consultation; it means greater service personalisation and co-production. ‘Efficiencies’ and cost cutting, while sometimes necessary, do not address citizens’ demands because that approach fails to remove barriers to effectiveness in the public service.

In many cases, joined-up working is far more effective than working in agency silos. This insight is already becoming accepted among front-line public servants, but to progress further it needs mandating from the centre in Wellington. Among other things, it requires a cultural change, possibly the toughest obstacle to overcome. Nevertheless, it will allow for greater front-line creativity and innovation, and build public value.

For social services, reform would let the public service act as a large network focused around clients. With a stronger information base, supported by ICT, ‘virtual’ organisations will be built around individuals, families and communities. When clients’ needs change, the network will respond seamlessly. The social sector has already begun this transition. Community Links are integrating non-governmental organisations, schools, district courts and primary health care providers into a single, joined-up response. However, the public management system currently limits potential in this area.

The fruits that come from success will make the struggle worthwhile. It will unlock a huge amount of human potential and creativity in the public service that can be applied to problems in New Zealand that have long remained intractable. Progress on these issues will make a huge difference to tens of thousands of New Zealanders, their families and their communities. That makes it worth struggling with.

References


Managing for Efficiency

Lessons from the United Kingdom’s Efficiency Agenda 2004–2010

Introduction
The call for greater efficiency in public spending is not new, but today has additional force: how can we deliver more for (even) less? A combination of high public expectations about service quality and prolonged fiscal constraint requires New Zealand government departments to focus on the highest spending priorities, find more innovative ways to deliver services, and create efficiencies wherever possible (State Services Commission, 2010a, 2010b). The urgent need to refocus on providing smarter, better public services for less was a consistent theme over the past few years in public statements made by the previous secretary to the Treasury, John Whitehead. Whitehead identified developments in the public sector in the United Kingdom as a potential model for New Zealand, particularly the speed with which ‘new thinking [was] converted into action’ in the pursuit of efficiency (Whitehead, 2010), and referenced in particular a programme launched in the UK in 2004 as an innovative public reform initiative from which New Zealand might learn (Whitehead, 2009a).

The dissertation on which this article is based (Robinson, 2010) considered some applicable lessons from the implementation of the efficiency agenda to which Whitehead referred. The focus was on four major aspects of the reform agenda:
• central control of the reform programme
• targets as a performance management tool
• quality of performance data; and
• leadership issues.

Much further work could be done, for example on the use of e-government and...
other IT initiatives in securing efficiency savings, but these fall outside the scope of this article.

The Blair–Brown administration of 1997–2010 was strongly results-focused, and introduced a number of public sector financial management reforms, which put the UK among world leaders at the time (Scheers, Sterck and Bouckaert, 2005). Following a number of smaller initiatives to improve value for money incrementally, Sir Peter Gershon was asked in 2003 to conduct a review of public sector operations across government and to make which aimed to continue the impetus of the original efficiency reform agenda. This introduced a Value for Money programme (VfM), setting out new targets to be achieved between the end of Gershon programme and 2010–11 with the intention of achieving a further £35 billion in efficiency savings.

The Labour administration was replaced in May 2010 by a Conservative–Liberal Democrat coalition with its own efficiency agenda. The coalition announced an end to Labour’s focus on centrally-mandated efficiency targets in favour of reducing waste and improving what Wright described as an ‘endemic tension’ between the strong control exerted by the centre, as a means of enforcing progress towards a coherent and coordinated set of efficiency goals, and departments’ concern that a too-controlling centre interfered unnecessarily with their capacity to run their own business in pursuit of those same goals (Lawson, 2009). This is broadly consistent with developments throughout the OECD during the period, where efforts in other jurisdictions to decentralise power had exacerbated problems of public sector coordination and coherence (Peters, 2008).

The extent to which central control was exerted varied as the efficiency programme progressed, with greater latitude for departments being permitted in the later VfM iteration. This was the result of a deliberate trade-off decision by the Treasury, to assuage departmental concerns that it had been interfering in ‘every nook and cranny of every department’ in their management of their efficiency targets (PAC, 2010b, Q26, 34). Neither approach was ideal, however. The central control initially exerted by the Treasury had enabled much better coordination of the programme, albeit by significantly increasing the administrative and reporting burden on departments.

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recommendations about expenditure and efficiency. His report (Gershon, 2004) proposed specific areas in which efficiency savings could be made, and urged that a culture of efficiency should be instilled throughout the public sector. A new efficiency programme, based on Gershon’s findings, was announced to begin in April 2005. It aimed to achieve £21.5 billion of efficiency gains by 2007–08. Departments were each assigned an efficiency target and responsibility for apportioning the target across a range of projects. The programme was regarded as more broadly-based, and more ambitious, than any previous attempt to tackle efficiency in the British government sector. In the complexity of the reform agenda, in the universality of its aims, and in the close personal attention paid to it by both Prime Minister Tony Blair and Chancellor of the Exchequer Gordon Brown, this was a new, and unique, public management reform initiative for the UK (PAC, 2006, Q.15).

In 2007, Brown published a Comprehensive Spending Review, procurement, and it set up a new Efficiency Reform Advisory Group. The close of the Labour era therefore provides a tidy end point to the efficiency reform issues considered in this article.

Central control
In initiating its efficiency programme, the Labour government was explicit about the need to incentivise the public sector towards greater efficiency (Gershon, 2004). Targets were already being used by the administration as a key tool to motivate the public sector to pursue its most highly prioritised objectives with the rigour desired (Mandelson, 2010). Using targets to reinforce the importance of the efficiency objectives would thus have been natural. According to the then chair of the PAC, Tony Wright, the prime minister firmly believed that it was wrong to have permanent secretaries operating independently, without strong central control, and that accountability and improvement of standards should be driven from the centre. The deployment of centrally-imposed targets to effect the efficiency agenda gave rise, however, to
heads to ensure that successes could be reported swiftly – and, doubtless, that failings did not lead to adverse attention. The National Audit Office (NAO) reported early on that the six-monthly progress reports to the prime minister and chancellor were ‘ensuring that efficiency remains a priority for senior management in departments’ (NAO, 2006, 7). But preparing regular briefs at this level represents a substantial burden for those from whom the data must be sourced; feedback from departments and central agencies alike suggested that finding the balance between appropriate levels of reporting to meet ministerial requirements and not overburdening departments was not easy.

Departments had not previously been involved in such a complex or wide-ranging programme, and looked to central bodies for guidance. An efficiency team within the Treasury was set up for this purpose but struggled, particularly early on. Frequent turnover of key personnel affected its ability to help departments grapple with the complexities of the new programme, and hindered the team in winning departments’ trust to allow operating as the ‘critical friend’ that had been envisaged (NAO, 2006, 6). Departments found themselves, for example, instructing their relationship managers instead of the other way round: ‘At the beginning it seemed they were coming and going every month …’ [1] it would be really helpful to have someone with a consistent view of the old stories’ (NAO, 2006, 48). Had the importance of a stable efficiency team been recognised, more could perhaps have been done to prioritise forward planning by staff.

There was also a difference of opinion between the centre and departments about the use – and usefulness – of relevant guidelines. Departments complained that long delays in publishing guidelines jeopardised effective delivery (NAO and Audit Commission, 2006), and expressed concern that at least one Treasury-approved methodology for measuring savings was not robust enough to produce defensible reporting (NAO, 2006b). Central agencies, meanwhile, felt that formal guidance was often disregarded. The Treasury, for example, had produced a ‘clear and comprehensive framework’ for measuring efficiencies, but assessed that departments were not applying it effectively and therefore remained weak in a number of key areas (PAC, 2007, 2008).

A good dialogue did develop at senior levels between the Treasury’s Office of Government Commerce and the permanent secretaries of key departments. This close dialogue was credited with the openness with which, for example, the Department for Work and Pensions had felt prepared to disclose to the Treasury certain shortcomings regarding the calculation of its efficiency baseline, thereby enabling swift action and rectification (PAC, 2007). There is evident value in building relationships which facilitate this degree of trust, although of course they require resourcing, commitment and time if they are to develop effectively.

**Targets and incentives**

The use of targets and performance indicators to steer the behaviour of the public sector and assert control had been much advocated in Western countries from the 1980s onwards (see, for example, Pollitt, 1986 and Carter et al., 1995). In the UK, the implementation of the efficiency agenda primarily used the same quantitative, time-limited targets for controlling and monitoring departmental performance as had been a key factor of UK public management since the late 1990s.

This approach obviously relies for its effectiveness on the extent to which departments are motivated to comply. Professor Christopher Hood of Oxford University argues that the ‘element of terror’ involved in the targets in UK public sector management made it a ‘distant cousin’ of the system in the USSR (Hood, 2006, 2007; Hood, Emmerson and Dixon, 2009).

These assumptions were probably exaggerated. The summary dismissal of senior officials is generally not easy to accomplish, and, despite seeming agreement about a ‘P45 targets’ system, there is no evidence to suggest a significant increase in the incidence of sackings or other similarly severe forms of punishment among senior UK civil servants at any stage after targets were introduced – such as should certainly have been expected if the penalties for failure were as harsh as popularly supposed. Nor, in fact, were there any formal or legal sanctions available to ministers or to the Treasury if departments did not fulfil their objectives (Hood 2006; Norman, 2008). To an extent, though, whether or not officials’ belief in the willingness of their masters to ‘hang’ those who failed them had any basis in reality is not important. What matters is that the belief in the threat was genuine enough to have incentivised behaviours in a certain way, so that achievement of...
the targets did indeed become the highest priority of senior officials. One of the problems in a target approach to performance management is determining whether, as well as motivating the pursuit of certain desired objectives, it is at the same time having a perverse or unintended effect by incentivising unwanted behaviours, or by disincentivising work towards non-targeted outcomes. There is a degree of risk in relying too heavily on targets to motivate performance, in that an organisation may start to treat the achievement of its targets as its raison d’être and, as a result, disregard or abandon activities which do not contribute directly to them. Outcome-focused management thereby loses ground to the output-focused, where activity can be more easily quantified.

Naturally there are circumstances where targets offer the most direct and effective way of achieving a goal. For example, it seems unlikely that a dramatic reduction in waiting times for hospital treatment in England would have come about without extremely specific targets (Hood, 2007). But there are also many UK examples of unintended consequences: such as training which was started but not necessarily completed because the target measured only commencement. Studies also suggested that departments overly focused on efficiency targets did not evaluate the impact of efficiency-motivated changes on service provision quality as experienced by clients. For example, an initiative which measured improvements in the time taken to answer ringing telephones in a customer contact centre was not able to confirm whether customers’ problems were actually resolved during their first contact (PAC, 2007; for further details, see Robinson, 2010).

The Treasury and the NAO both reported that departments were consistently planning for efficiency-related changes that could be delivered within a three-year reporting period, rather than anything more innovative, because the latter might have taken longer than three years and would not be rewarded (see NAO, 2010b, 7, 27-9.) The efficiency programme was thereby judged to have failed to incentivise departments to take a long-term approach to tackling the efficiency challenge by focusing them too intently on their targets (PAC, 2010a).

Devising good performance indicators, particularly to measure quality of service provision, is difficult; certainly harder than measuring financial data. Spectacular results were reported for the initial tranche of efficiency targets. Against an original target of £21.5 billion in savings over three years, the public sector achieved an impressive £26.5 billion, an over-delivery of approximately 23%. Every department reported that it had not only met, but in almost every case exceeded, its target. The Department for Business Enterprise and Regulatory Reform claimed efficiency savings of 71% over its original target (HM Treasury, 2009). The original targets were admittedly intended to be realistic rather than stretch goals; this may go some way to explaining why departments seem to have found it so easy not just to meet but to exceed them. But that alone cannot satisfactorily explain such a preponderance of success stories. Either the targets allocated were so easily achievable that they were meaningless, or the performance reporting was suspect (or, perhaps, both). Whatever the case, the suspicion that, as so often in an environment of high-pressure expectations, an element of gaming may have played a part in the initial selection of the targets, or in the selection and interpretation of the data used to report results, cannot be dismissed.

The NAO did not find evidence of deliberately dishonest gaming. It did, however, raise questions about calculations of efficiency gains, particularly the use of estimates and projections rather than hard data to record efficiencies, and the use of projected rather than real figures to report headcount reallocations (NAO, 2007). Meanwhile, a study of senior officials’ attitudes to targets concluded that ratchet effects and other similar forms of gaming were common. The officials interviewed for the study felt that some departments would ‘play the targets game to their advantage’ by negotiating undemanding targets that were hard to miss. They condemned the production of fictional performance data as dishonest, but felt that achieving reportable performance improvements by redistributing service was acceptable (results reported in Hood, 2006). The responses point to a feeling, at least among senior Whitehall officials, that gaming was not insignificant; while deliberate dishonesty seems unlikely, it may be assumed that creative use of performance data and other gaming techniques may have contributed to the startlingly successful results claimed against the first tranche of the efficiency targets.

Departments appeared to struggle to realise similar levels of performance under the VfM tranche of targets as had apparently been achieved under the Gershon programme. By March 2010, two years into the programme, only £15 billion of the £35 billion total had been reported, leaving £20 billion for the final year. A key difference between the former and VfM had been that, although there was more direct involvement of the central agencies under Gershon, the reporting requirements themselves were comparatively more relaxed and less complex. This was recognised and tightened up during VfM. Without being simplistic, it could be suggested that the strong pressure on departments to demonstrate quick wins against the Gershon targets, coupled with a relatively relaxed reporting environment, may have had some bearing on the disproportionately good results which departments were able to report.
Performance information

Devising good performance indicators, particularly to measure quality of service provision, is certainly harder than measuring financial data. Effective performance measurement for efficiency programmes can be particularly elusive (Griffiths, 2006). But good performance measurement is crucial in effective performance management. Representing new territory, the efficiency agenda involved complicated reporting and accountability parameters. Accurate performance measurement, while important, was difficult, not least because departments were attempting to use long established information systems designed for other purposes to collect and analyse new and more detailed forms of data. (NAO, 2006; PAC 2006, 2010a).

Ongoing concern was expressed by the NAO, by independent commentators and by the PAC about the quality of the UK public sector’s performance data (see Robinson, 2010 for details). The impact of generally poor performance information on stakeholders’ capability to accurately assess the progress of the efficiency programme was frequently identified as a major issue. Indeed, the PAC repeatedly queried whether any reliance could be put on any of the efficiency claims made by departments, or by Treasury on their behalf (PAC, 2006, 2010).

Despite the highly controlled way in which the programme was run, it must have been difficult to accurately gauge the real success of the efficiency projects given a lack of robust performance data. It is hardly a surprise, however, noting the high political importance assigned to success, that where performance data was unreliable or incomplete there should be strong motivation to put the best possible reflection on whatever data was available. It also seems likely that decisions in managing the programme must sometimes have been made on the basis of old or unreliable data.

Many efficiency projects were not stand-alone initiatives, which made it more difficult to capture the overall benefits brought about by changes in one area. For example, in its service improvement project, the Department of Health set out to measure efficiency gains from certain improvements in patient care. Accurate performance reporting would have had to take account of the complex network of relationships within the National Health Service, the continuous changes to the various patient services offered, and the requirement for ongoing new investment. Attempting to capture accurately the real relationships between inputs and outputs proved complicated and hard to quantify for several departments. In some cases, efficiency gains were being realised only after many years of investment in complex programmes with many benefits, some not associated with the efficiency projects themselves (NAO, 2007).

Leadership

Some of the deficiencies identified in implementing the efficiency agenda were linked with issues of institutional capacity, such as internal capability weaknesses (especially financial expertise); poor knowledge and information management; and problems with inspiring commitment to the programme. Effective and engaged leadership is critical in building institutional capacity and making a difference in the public sector.

The efficiency agenda was introduced into a public management environment characterised by political impatience,
Strong strategic leadership was intended to be a key factor in changing this.

A distinct change in attitude at senior levels was certainly evident. Senior departmental officials contributed meaningfully, and demonstrated an active interest and involvement in the programme, thereby confirming to staff that this initiative was different (NAO, 2006). It may be surmised that this noticeable change in attitude may have been due, at least in part, to the prime minister’s strong interest:

The ambitious attempt to combine a long-term public management reform programme with a series of short-term resource re-allocation projects essentially did not work.

Two years into the programme, I cannot go into any Department in Whitehall without finding that efficiency is discussed frequently, regularly and at main Board level. It is a key topic on the agenda and an essential part of the business planning process of every Department. Two or three years ago you would not have seen that in most Departments in Whitehall; it is a significant shift in attitude and culture … All Departments are on a journey that they were not on before the Gershon Report was written. … We would not have achieved that without an efficiency programme. (PAC, 2007, Q44, 79)

But senior officials’ engagement with the efficiency reform project was not alone sufficient to effect the fundamental changes expected in their departments. Departments reported mixed results in securing full engagement in the efficiency programme, and there was evidence that many staff viewed it as just another economy drive. A 2007 set of case studies found that frontline local government staff felt that the efficiency programme had only added to their bureaucratic burden, while efficiency to them translated as cuts or job losses (Office for Public Management, 2007).

The same study found that agencies which demonstrated high performance in achieving efficiencies were characterised by regular communication with all staff groups; openness to new ideas; and a devolved approach which allowed individual areas to come up with their own strategies within broad parameters. This was seen as being critical in winning the backing of middle managers and more junior staff. Lower-performing entities, on the other hand, had generally adopted a more centralised and top-down approach, which was predominantly concerned with ensuring tight control over key efficiency-related funding and prioritisation decisions.

The culture changes which it was imagined the efficiency programme would establish will not, paradoxically, flourish under the sort of management strategies deployed to ensure that the programme demonstrated quick wins. Creativity flourishes when there is a free flow of ideas around the organisation, when there is a culture of listening and engaging with new suggestions, and when people are encouraged to join up their thinking with that of others in different parts of the organisation (Bichard, 2000). But the environment into which the efficiency agenda was introduced tended to reward performance by recognising those who had completed tasks or met targets. The task-oriented way of acting that such a system encourages is generally not conducive to fostering creativity or risk-taking (Bichard, 2000), and has been criticised for detracting from attention needed to improve the overall performance of people and organisations or to harness the energy and insights of operational staff (Haldenby et al., 2009). Targets and indicators promote adherence to established routines and organisational processes. Motivating staff to effect comprehensive culture change had been a key factor in the efficiency reform narrative, but evidently more needed to be done in enabling staff to engage more creatively with the programme for themselves, thereby beginning to embed the desired orientation towards efficiency more decisively into the culture.

Conclusion

New Zealand and the UK are ordinarily considered to have been among the leading examples of the reforms of the 1980s and 1990s, and the UK experience in introducing a comprehensive and pan-government efficiency reform agenda was specifically referenced by the secretary to the New Zealand Treasury as a valuable lesson for New Zealand (Whitehead, 2009a). Although different in scale, the two nations share some important institutional characteristics in executive government. New Zealand does not, perhaps, have the same degree of strong central control over the public sector as was evident during the Blair–Brown administration: central agencies are described as having rather to ‘cajole, nudge [and] inspire’ departments into implementing new initiatives (Norman, 2006). As in the UK, however, the variable quality of performance information and reporting (which has already been identified as an issue on which firm action must be taken (State Services Commission, 2009, 2010a, 2010b)) would have to be addressed. Were New Zealand to follow the UK lead, meanwhile, energetic commitment from internal leadership would be very important, and thus confidence that senior officials had the necessary support for a certain amount of risk-taking in pursuit of the desired objectives (Ryan et al., 2008) would be as significant in New Zealand as in the UK context.

Efficiency reform is challenging for any administration. The Labour government in the UK made a sustained effort to make a real difference in the efficiency of the management of the UK public sector during its period in office. Its efficiency
agendas were comprehensive in approach and complicated in operation. Progress was undeniable. Financial management capacity in public sector departments improved; some savings were certainly achieved; and improvements to both quality of services and efficiency in their provision were recorded. A genuine focus on and attention to the aims of the efficiency agenda were also noticeable (at least at senior levels).

But many of the spectacular early gains reported against efficiency targets were later dismissed as implausible. Quality of performance data was so poor that it proved unreliable in achieving the required reforms; concerns about goal displacement, gaming and other dysfunctional effects of a highly target-focused performance management regime were also an issue. The right balance between maintaining a level of central control while permitting operational latitude in the pursuit of efficiency goals seems rarely to have been achieved.

The ambitious attempt to combine a long-term public management reform programme with a series of short-term resource re-allocation projects essentially did not work. The use of targets to achieve the programme’s aims may have been a suitable approach to the latter objective, but could not incentivise the former; if anything, it stifled rather than encouraged culture change. While Gershon had initially envisaged steady rather than rapid progress towards efficiency goals as the way to ensure sustainability, this was overtaken by the political importance assigned to the programme, resulting in pressure to produce rapid wins. Ultimately, this strongly directive central oversight – which wanted to ensure that the programme was a success – was a major factor in its failure.

Coherent direction and robust oversight from the centre is of course extremely important. The UK experience teaches, however, that balance and proportionality are critical. The desire to strengthen central control cannot become so pervasive that it becomes restrictive. Flexibility and freedom extended to operational agencies will enable them to pursue efficiency objectives in a way which is relevant to local contexts, even if this involves taking risks. Achieving the right balance represents a complex set of relationships and is tricky to achieve; but is important to get right.

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