BOOK REVIEW ESSAY

PUBLIC SECTOR MANAGEMENT IN NEW ZEALAND: LESSONS AND CHALLENGES

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Graham Scott, 2001. *Public Sector Management in New Zealand: Lessons and Challenges*. Wellington, Australian National University, 407 pages.

It seems paradoxical that Graham Scott should dismiss as ideological some criticisms of New Zealand's reformed public sector management system when the system itself appears designed to pursue an ideological agenda. It seems equally paradoxical that Scott, a former public servant who promoted, then helped drive through and embed New Zealand's extreme neo-liberal reforms, should emphasize the need for other public servants to be non-political. Scott's book Public Sector Management in New Zealand: Lessons and Challenges, which provides his account of New Zealand's public sector reforms and public management system, is remarkable reading. On one hand, and in the absence of detailed knowledge of New Zealand's public management system, the book may seem "clear, precise and balanced in the judgements expressed" (Mendez Martinez, 2003, 93). This is especially so because Scott does outline and comment on views of some critics of the system. On the other hand, and with a little more knowledge of how the system operates, the book could equally be regarded as a "sales pitch" which is both selective in its evidence and, at times, disingenuous (Kelsey, 1999, 90). Regardless of the view adopted, Scott's book provides an important overview of New Zealand's reformed public sector and is essential reading for intending reformers and interested observers, critics and supporters alike. The fact that the book is partial does not detract from its significance, but Public Management in New Zealand should not be used as the sole source of information about New Zealand's reformed public sector.

Scott observes that other countries have emulated New Zealand's reformed public management system and it is, therefore, no longer world leading (67-69). New Zealand's system shares many features with the reformed systems now being adopted elsewhere: decentralization of authority, a re-examination of the role of government, including what it "should both do and pay for, what it should pay for but not do, and what it should neither do nor pay for", downsizing, corporatization and privatization of the public service, increased contracting out and other market processes including user charges to improve cost effectiveness, improved customer orientation, benchmarking and performance measurement, and regulatory reforms to simplify and reduce regulatory costs (68). Scott acknowledges that some academic critics regard New Zealand's reformed public management system as a "key element of a wider programme of liberal economic reform in New Zealand, which they see as a local adaptation of the so-called 'Washington Consensus'" (57). He also acknowledges criticisms that the contract-like features, in New Zealand's reformed public management system, including performance specification, performance agreements and contract specifications bias governments towards "downsizing, contracting out, corporatising or privatising government functions", but he regards those criticisms as ideological (30). Only indirectly does Scott admit that the system he helped to design, promote, implement and embed may itself be ideologically driven: “Government and public management is ultimately about where power arises and how it is used and so deeper forces drive systems of public management and constrain the influences of management techniques” (69). As Secretary to the Treasury from 1986 until 1993 and, in the ten years before that, as Assistant Secretary to the Treasury responsible for economic policy and a senior adviser to the Prime Minister (www.lecg.com), Scott should have some knowledge of those “deeper forces” but, especially in the early part of the book, he offers no further explanation.

Later in the book Scott states that post election briefings “provided the one opportunity for officials to develop their own views about policy free from the pressure of daily interactions and policy preferences of their ministers” (338, emphasis added). New Zealand’s reformed system of public management has been closely linked to developments advocated by the Treasury in its post election briefings, especially those of 1984, 1987 and 1990. Those briefings have long been recognized as representative of an extreme neo-liberal ideology (Easton, 1997), that supports shedding “all that it is remotely possible to shed” in an attempt to create government structures which do no more than “arrange for private organization to provide public services” (Newberry, 2003b, citing Mintzberg, 1996, 81). The extent to which Treasury officials’ “own views” coincide with the changes should by the “deeper forces” Scott mentions is not discussed.

Institutional theories are important in New Zealand’s reforms, and Scott explains the difference between institutions and organizations. Institutions are constraints, especially various rules and codes of behaviour, whereas organizations are groups of individuals pursuing a common purpose. Institutions and organizations interact: “institutions are the rules.... organisations are the players [and] over time the players can influence the rules” (Scott, 2001, 26). Thus, organizations take advantage of opportunities provided by the institutional framework and the wider environment, and this requires ongoing adjustments to the rules. Scott believes, however, that in this regulatory game a government’s central agencies “can institutionalise the principles, values and practices of the public management system” (373). This process may be seen in New Zealand.

New Zealand’s reforming legislation merely provided a supportive framework for the public sector reforms, while the more detailed rule making process were delegated to the central agencies, especially the Treasury, but the SSC and the Department of Prime Minister and Cabinet also have some responsibilities. When public and, arguably, fellow ministers’ opposition to then Minister of Finance Ruth Richardson’s obviously ideological privatization intentions could no longer be ignored in New Zealand, the Treasury’s advice to Richardson was for “increased sophistication” in analysis and advice (Newberry, 2002). The detailed system developments which followed progressively increased the system’s bias towards reducing the public sector by shedding both assets and functions.

Accrual accounting and costing requirements meant that public sector costs were biased high. This bias disadvantages public sector entities in any dollar-based comparison with private sector operations, and thus tilts (or predetermines) the likely results of the benchmarking exercises Scott advocates (225). At the same time, financial resources provided to fund the production of outputs in government departments were reduced and new ways were found to extract financial resources from them, thus running down their financial resources and impairing their ability to provide outputs of an acceptable standard or to continue in operation (see Newberry, 2003a and 2003b for a description of these processes). This financial resource erosion and extraction process also tilts the likely outcome of the performance measurement processes Scott advocates (250-251). These systematic running-down processes, designed into the system at the delegated secondary regulatory level, seem to exemplify Scott's belief that the government's central agencies can indeed institutionalize the "principles, values and practices of the public management system" (373).

The Treasury and the State Services Commission (SSC) jointly commissioned Professor Allen Schick (1996) to review New Zealand's reformed public management system. Schick identified a short term emphasis on the purchase interest and output pricing, and warned that it would result in under-capitalized departments. Schick wrote the foreword to Scott's book, and Scott outlines and discusses some of Schick's (1996) criticisms in Chapter 3, then devotes Chapter 8 to ownership issues, including the potential for under-capitalization.

According to Scott, the ownership interest is "about the capacity of a department to deliver outputs in the future" (212), and it is more important "where there are few or no practical opportunities to acquire the services in question by contracting out to other suppliers" (206). Scott acknowledges reason for concern about under-capitalized departments failing to build either human capital or organisational culture (53), but argues that only "patchy" evidence supports claims that the asset base and capability of the public sector are being run down because of "short term fiscal stress and a lack of attention to gauging the ownership interests of the government" (212). Scott believes that experienced ministers are capable of balancing the "price" of a department's outputs today against the quality and availability of outputs tomorrow. That "price" is determined by details from the financial management system which, presumably, produces information of a quality adequate for that purpose. The system, however, does not produce information of a quality sufficient to conclude that the system is biased towards the purchase interest and against the longer term ownership interest. Scott argues that, even if the system is biased in this way, it contains two "safety valves" in the form of the annual budget round and output price reviews (OPRs) (213).

Whether the annual budget round and output price reviews function as safety valves or as further pressure-increasing devices is arguable. As outlined above, the financial management system contains features which bias it towards shedding functions by running down both the asset base and capability. It does this by making fully-costed outputs appear expensive and therefore making contracting-out arrangements seem efficient, by preventing access to financial resources, and by extracting financial resources from departments (Newberry, 2002). The processes Scott calls "safety valves" have been institutionalized as means of reducing resources provided to departments (budget process), and deterring chief executives from seeking additional resources by imposing onerous conditions for implementation of an OPR and then using the review process to reduce departmental functions (Newberry, 2002).

Following the harsh budget cuts of the 1991 budgeting round, known colloquially as the "mother of all budgets", those cuts were locked in place through the establishment of a budget baselines regime which disallowed output budget increases and sought to impose annual across the board percentage cuts known euphemistically as efficiency dividends (Newberry, 2002). When these percentage cuts were no longer politically sustainable, the nominal dollar amounts were locked into the budget baselines regime thus facilitating inflationary erosion of departmental output budgets, and other means were found to reduce departmental resources (Newberry, 2003). The OPR introduced in 1996 required extreme conditions (near collapse) before implementation, and the process was described to me by Treasury staff as going in with their big boots on to inflict an unpleasant process. The OPR functions as a privatizing “clear the decks” process, largely in the manner described by Osborne and Plaistrik (1997, 93-95). By 2001, when only three such reviews had been conducted, and differences of views had emerged between the SSC and Treasury officials who conducted these reviews jointly, partly because the SSC officials opposed the tendency for privatizing developments to be the only remedy, the OPR process was described to me as “broken”. Since then, the Treasury has developed another review process which it conducts on its own as part of the budget process. This “value for money” (VFM) review process is based on exactly the same “clear the decks” logic as the OPR, and both the OPR and the VFM review processes are consistent with the review processes proposed in 1984 (Treasury, 1984, 204-205).

The budget baselines regime incorporated in the annual budgeting round and the OPR are design features of the financial management system. The first locks in financial resource erosion processes, while the second provides an excuse for central agency officials to intervene and apply supposedly “rational” processes which include benchmarking the biased full costs of outputs and output components against possible private sector alternatives. That Scott, a key architect of this system, should describe these system features as safety valves suggests he does not understand the system he helped to design. However, the possibility of inadequate understanding does not fit well with Scott’s explanation of instructions to departments on introduction of the purchase agreement review process: “departments were encouraged by central agencies to imagine that their department did not exist, and they were assigned a budget to acquire the same services through contracts” (179). Is Scott’s requirement for more evidence before he will admit that the system is designed to erode departmental asset bases and capability an example of disingenuousness?

Scott thinks that responsibility for financial monitoring of the ownership interest should remain in the Treasury, but that the SSC should take responsibility for such non-financial aspects of ownership monitoring as human and intellectual capital and information systems (217). He suggests that work underway in the SSC and Treasury using “more sophisticated methods and changes in … approach” (227), but without changing the underlying system, will address the various concerns about the ownership interest. In the absence of fundamental change to the system, if this separation of responsibilities proceeds, the Treasury’s financial monitoring seems likely to continue to run down the asset base while ignoring the inevitable deterioration of capability which would be regarded as the SSC’s responsibility.

According to Scott, “the concepts of chief executive/ministerial accountability are basic to the whole philosophy of public management” (165). In chapter 6, “The Hard Edges of Accountability”, Scott focuses on the relationships between ministers and departmental chief executives and discusses several controversial cases with implications that he regards as important to the refinement and development of the public management system. Those cases inform decisions to “embed or change the accountability requirements of chief executives as necessary” (123). One of those cases is a disaster in 1995 at Cave Creek, a remote scenic location on the west coast of the South Island.

Scott outlines the events leading to the 1995 Cave Creek disaster where 14 lives were lost following the collapse of a viewing platform constructed by the Department of

Conservation (DOC). He comments on the findings of two inquiries into that disaster, one by a specially-established Commission of Inquiry, the other by the SSC. Scott disagrees with the Commission of Inquiry's findings which attributed the disaster to "substantial systemic failure" (138) brought about "within a culture developed to do more with less" (139). The Commission opined that the disaster occurred "against a background of an under-funded and under-resourced department" (141).

Scott argues that lack of funding was not the issue in this case although he does acknowledge that the Minister of Conservation continued in his role only long enough to secure additional funding for the department (145). Scott points out that a bag of bolts of the type needed to secure the platform was taken to the site[1], and believes that responsibility for this disaster lay with specific people somewhere in the agency theory-stylized hierarchy created by the public management system: the Minister of Conservation, the chief executive of the Department of Conservation, and those within the department all of whom were responsible, either directly or indirectly, to the chief executive. According to Scott, the Commission's findings of systemic failure ran against the evidence, and consequently "shifted much accountability to whoever was responsible for this organisational culture, which has pervaded the entire public sector for many years and is likely to remain" (139).

The idea of systemic failure and responsibility for organizational culture must surely raise questions about the nature and intent of the public management system within which the whole of New Zealand's public sector is required to function, and why Scott expects that culture to remain. These are questions that Scott does not entertain. Is it possible that the resource and capability-eroding features designed into the public management system and/or the zeal with which central agency staff have applied the system's logic contribute to this culture? After all, if Scott believes that the central agencies "can institutionalise the principles, values and practices of the public management system" then it seems reasonable to suggest that the culture is a function of the system, especially because the Cave Creek disaster was not an isolated incident.

Scott mentions (155) a consumer rights inquiry into a series of deaths in 1996 in the accident and emergency department at the government-owned Christchurch Hospital. This inquiry raised, but did not pursue, questions about the behaviour of an arm of the Treasury responsible for the government's ownership interest, the Crown Company Monitoring and Advisory Unit (CCMAU), especially during 1995 and 1996, and during the inquiry when CCMAU failed to produce documents that were important to the inquiry. This outcome of this inquiry demonstrated how the reformed structures seem to expose relatively powerless, low level players in the system to considerable risk of failure and public opprobrium while shielding from accountability the relatively powerful higher level players, as well as the system's designers and the central agency officials who institutionalize and enforce the system (Newberry, 2001, 266). And in early 1997, in the midst of the controversy which prompted the Christchurch Hospital inquiry, and long before its outcome, the terms of reference for yet another Christchurch-based inquiry specifically excluded sufficiency of resources from consideration. This inquiry was into the lack of psychiatric treatment available over the 1996-97 Christmas holiday period for a psychiatric patient in the community for whom help had been sought. In the absence of the necessary care, this patient raped and murdered an elderly woman. These inquiries and other similarly disastrous events that have followed might be expected to raise questions about whether, and if so to what extent, New Zealand's reformed public management system has contributed to the public sector's capacity to manufacture disasters (Rhodes, 1997). Chapter 6, *The Hard Edges of Accountability*, fails to consider whether the concept of accountability which is so basic to the whole philosophy of public management should apply to the system's designers and the central agency officials who Scott expects to institutionalize and enforce the system's values.

According to Scott, reforms of the type implemented in New Zealand "build governance and management institutions that feature transparency, accountability, multi-year planning, responsiveness, quality of service, comprehensiveness in budgeting and financial reporting, and devolution of authority to subsidiary levels" (69). Scott states in the preface that:

At the core of this book is an assertion that public management has an influence on the life of a country that is significantly independent of political ideology and, to a lesser extent, the policies that governments set in place. While it may seem implausible to career public managers, there are a significant number of academics who are not persuaded that management alone has more than a marginal influence on public policy outcomes. These academics claim that what matters is the policy rather than the management and point to the lack of systematic evidence that executives, and the functions they perform, make a difference to the success of public policy. (xxiii).

With Public Sector Management in New Zealand: Lessons and Challenges written around the core assertion that the public management system alone is highly influential on policy outcomes, it seems patently obvious that transparency and accountability should be demanded from those who create the system, institutionalize its values and enforce the rules, as well as from those required to function within the rules. Scott does not entertain such a possibility.

As a key architect of New Zealand's revolutionary public management system, Scott cannot reasonably be expected to provide a complete account of it or to undertake a balanced assessment (Mendez Martinez, 2003). His work is, at heart, promotional, and it may be unfair to expect it to be anything else. That does not make Scott's book any less important; he is indeed well-positioned to tell about New Zealand's transformation and his viewpoint should be read and understood. Despite its partiality, Public Management in New Zealand: Lessons and Challenges provides an excellent overview of New Zealand's reformed public sector and must be recommended as essential reading for those interested in public sector reforms, but so too is it essential for readers of Scott's work to read other reviews of New Zealand's reforms and the policy outcomes. In many ways, Scott may have understated both his contribution as system designer and promoter and that of the central agency institionalizers. Their contributions to policy outcomes, both positive and negative, deserve greater attention.

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[1] Of course that assumes that the department employed adequately skilled staff and possessed the resources to train them.

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