Real change happens where people meet policy – shaping it, deliberating upon it, participating in its delivery

DEMOS

Re-imagining Government

Putting people at the heart of New Zealand's public sector

Simon Parker
Duncan O'Leary

About Demos

Who we are

Demos is the think tank for everyday democracy. We believe everyone should be able to make personal choices in their daily lives that contribute to the common good. Our aim is to put this democratic idea into practice by working with organisations in ways that make them more effective and legitimate.

What we work on

We focus on six areas: public services; science and technology; cities and public space; people and communities; arts and culture; and global security.

Who we work with

Our partners include policy-makers, companies, public service providers and social entrepreneurs. Demos is not linked to any party but we work with politicians across political divides. Our international network – which extends across Eastern Europe, Scandinavia, Australia, Brazil, India and China – provides a global perspective and enables us to work across borders.

How we work

Demos knows the importance of learning from experience. We test and improve our ideas in practice by working with people who can make change happen. Our collaborative approach means that our partners share in the creation and ownership of new ideas.

What we offer

We analyse social and political change, which we connect to innovation and learning in organisations. We help our partners show thought leadership and respond to emerging policy challenges.

How we communicate

As an independent voice, we can create debates that lead to real change. We use the media, public events, workshops and publications to communicate our ideas. All our books can be downloaded free from the Demos website.

www.demos.co.uk

Re-imagining Government

Putting people at the heart of New Zealand's public sector

Simon Parker
Duncan O'Leary

DEMOS

DEMOS

Contents

Acknowledgements

Foreword

Brenda Pilott and Richard Wagstaff

The New Zealand 'experiment' is well known internationally. At its heart was the dismantling of the state in the 1980s and 1990s, born from neoliberal ideology. The concept of *the* public service all but disappeared as government departments were split up to operate as autonomous, narrowly focused businesses, distanced or removed from central government influence. The upheaval changed the landscape dramatically and public servants grappled with a new set of public accountabilities reflecting a private sector approach.

As citizens, and as state sector workers, we live this legacy. In recent years there have been steps taken to rectify the excesses of the New Zealand experiment but the fundamental model – and challenges – remains.

We think it's time for a new vision about public services.

The PSA commissioned Demos to work with us to develop a vision for public services in the future. Demos has a track record of generating challenging and innovative ideas about democracy, participatory governance and public service delivery. We asked them to take a fresh look at New Zealand's public services.

The result is provocative and pushes boundaries. We welcome that and intend this report to kickstart the discussion and spark new thinking. The challenge for us now is to consider what these ideas would mean in our unique New Zealand context.

A key theme of this report is a renewed democratic framework for

engagement. As the representative of workers, unions are central in the structure of this framework. The PSA's 55,000 state sector workers know the strengths and limitations of our public services. Drawing on this experience, the PSA is well placed to lead the debate on the future of the public sector.

Brenda Pilott and Richard Wagstaff are national secretaries of the Public Service Association.

Preface: The new challenge for government

Tom Bentley

The twentieth-century contest between state and market resulted in a triumphant victory for free-market economics, combined with a particular form of liberal democratic state. But despite the rhetoric, the most aggressive neoliberals rarely succeeded in shrinking the size of government.

Instead, the dominant ideas about how best to organise government emerged as the 'new public management', seeking to apply the focus of customer charters and the disciplines of 'quasi-market' competition to the structure of public agencies and the management of public services.

As a result, a set of changes including the creation of dedicated single agencies, contracting out of services, customer charters and measurement of 'key performance indicators' became the administrative twin of privatisation, liberalisation, deregulation and private financing of public infrastructure.

New Zealand was a pioneer of these changes, going further and faster than any other nation to reshape government around a 'new contractualism', which radically recast the function of the state. The effects, combined as they were with a distinctive economic agenda, were mixed for New Zealanders, combining new capabilities with growing fragmentation, and prompting a persistent sense of 'change fatigue'.

More broadly, the new public management approach survived the

transition from the Thatcher–Reagan era to the Blair–Clinton years, in which the tone of politics shifted from tax-cutting hubris to a contest for the balanced political centre. Al Gore championed 'reinventing government', but the underlying culture and focus of public administration has changed relatively little in the industrialised world.

So after a century in which the role and scope of government had been the anvil of ideological conflict, the governments that immediately followed the end of the cold war adopted a far more cautious and incremental approach to the management of government itself.

The model for much of this approach was established in Australia by the Hawke–Keating governments in Australia, who avoided the fate of 1980s democratic socialists by forging a tough combination of open-market economics and social investment.

Many centre-left reformers, from Britain to Brazil, have since adopted recognisable variants, while a new generation of centre-right challengers, from the UK's David Cameron to Sweden's 41-year-old Prime Minister Fredrik Reinfeld, have followed them into the centre ground of economic stability, social responsibility and cautious respect for existing health and welfare spending.

Yet, just as this highly pragmatic approach to government has become established, a new set of governing challenges has emerged. Perhaps ironically, the triumph of market economies has been swiftly followed by a set of risks to citizens that require collective action and effective government. They include the new security threats of terrorism and failed states, climate change and environmental catastrophe, and social cohesion and inequality arising from rapid economic change.

These are not about the size of the state, or even really about its shape, but about the ability of government to mobilise people and resources to solve problems and bring about long-term adaptation. How well citizens can thrive amid changing conditions and patterns of need depends partly on what is invested in their human capital, and on whether the organisations and institutions supporting them are fit for these new purposes.

The new challenges for government are about increasing the capacity of their citizens to thrive, by influencing the evolution of the complex social and economic systems which underpin competitiveness, environmental sustainability, learning, family life and so on. They involve recognising the value of particular outcomes, such as employment creation, and facilitating the success of other organisations to achieve them.

This means that trying to improve the 'core competencies' of government, operating within the organisational and sectoral boundaries inherited from the past, will produce diminishing returns. Increasingly, it means influencing complex sets of interactions between people and organisations that are not under the direct control of government.

That is why more and more governments are seeking to 'join up' their strategic aims and their ability to offer services, a goal first articulated by Perri 6 and Geoff Mulgan in the late 1990s.

But for a long time, the twin narratives of 'what people want from public services' and 'how to modernise government' have been pursued in parallel, with too little connection between them.

Better service in health, education, policing and transport would, it was hoped, lead to greater citizen satisfaction and greater legitimacy for governments. Restructuring government to make it more efficient, transparent and flexible was treated either as a technical exercise behind the scenes, or part of a political message about reducing bureaucracy.

This report, on the future of government and public services in New Zealand, draws on the country's history as a governance pioneer, and takes a major step forward in showing how the future capabilities of government and the democratic engagement of citizens are integrally linked to each other.

In doing so, it draws out and applies many of the new strands of thinking that are emerging around the complexity of governing in the twenty-first century, and the importance of involving citizens in doing so. This means thinking afresh about public service innovation, about the measurement of outcomes, about the motivations of public

servants, and about what it means to create what Mark Moore calls 'public value'.

The systems of organisation, funding and learning – of governance, for short – through which public services are organised need to work simultaneously at all levels of scale, from the nation state through to the neighbourhood, for long-term adaptation to succeed. Public servants depend on prime ministers, and vice versa, in making this happen. And unless public service workers are able to motivate and support citizens to share responsibility for making these gains, governments are unlikely to renew the legitimacy they need to justify ongoing fresh investment.

The challenge is to achieve coherence without over-centralisation – to mobilise a dance of change across agencies, services and communities, and to develop designs for government which learn how to create more outcome value for citizens without sacrificing the values of fairness, transparency, integrity or independence.

This is no small undertaking, but the report shows how it could be done through an evolutionary, rather than an unnecessarily disruptive, approach to structural change.

The thinking that stands behind it has been developing through Demos for a decade, and its authors have taken that work on a stage, in a synthesis that could be applied in practical ways across a whole country. I hope that this report will become a reference point for change in New Zealand, and an influence far beyond.

Tom Bentley is Executive Director, Policy and Cabinet, in the Premier's department of Victoria, Australia, and Director of Applied Learning at the Australia and New Zealand School of Government. He was Director of Demos from 1999 to 2006, and writes here in a personal capacity.

Introduction

Climb Mount Eden and you get a sense of the sheer scale of Auckland, its 1.2 million people sprawling around the natural beauty of the Hauraki Gulf. But head back into town with an Aucklander and you soon hear complaints about congestion, pollution and power shortages. Check out the newspapers and you can read about abortive attempts to start a debate over road user charging.

After 30 years in which New Zealanders often seemed to have lost faith in the power of their government to make a positive difference, you might expect officials at the Auckland Regional Council to be despondent about the scale of the challenges they face in planning a sustainable future. But they aren't. Instead, they are building 100-year plans for tackling the city's expansion and predicting a future in which the council gains new powers to coordinate, plan and organise their economic powerhouse of a city.

This is the situation in which many of New Zealand's public sector staff find themselves today. The long years of recession and febrile state sector reform are at an end. The future is starting to look brighter. The message we have heard over the past year in interviews and workshops with over 150 public servants, unionists, politicians and researchers is resolutely positive: the time is right to go beyond restoring the capacity of New Zealand's public sector. The next step is a full-scale renewal of its purpose, systems and ways of working.

New Zealand is well positioned to succeed in a new century; its economic, social and natural assets combine to make it a highly successful society. Its government ranks among the most effective in the world and is in the process of reforming itself from a position of strength. But there are daunting long-term challenges to be faced, and preserving the status quo will not guarantee success. The key under-pinnings of successful public services – economic dynamism to provide the funding and popular support for paying it – cannot be taken for granted. A better future is possible, but it will have to be fought for.

If New Zealand today finds itself at a crossroads, then this report is aimed at sparking a debate about which path the country's public services should take next as they face new and more complex challenges. We believe that the challenge for the state in the new century is to help people become the heroes of their own lives – public services helping citizens to shape their lives and communities in a democratic partnership.

Instead of shying away from the increasing complexity of people's needs and behaviour, governments need to redouble their efforts to re-engage with their citizens, working alongside them to solve their problems and meet their needs. This means injecting even more bottom-up pressure for change into a system that is used to taking its cue from contracts drawn up in Wellington. Public services have a vital role in helping to mobilise and shape that energy, supporting people at the frontline with a coherent picture of bigger change.

Putting communities in control

This may seem like a simple argument, but it could have profound consequences for the way governments are organised. Public sectors have traditionally been built to deliver services and allocate funds, not to create deep and democratic partnerships with their citizens. As Geoff Mulgan argues: 'Much of the machinery of the contemporary state is essentially pre-democratic . . . it was, and still is, designed around command rather than accountability.'[1]

The idea of a radically more democratic state has a powerful moral appeal – most governments have some degree of commitment to being 'by the people, for the people'. But it is also immensely practical. Democracy helps governments to secure buy-in to change, helping share responsibility with the people for economic and social success. A more democratic society ought to be better at identifying the challenges its citizens face, and mobilising those citizens to play an active role in their resolution.

However, a dose of realism is required in taking this path: participation does not come easily – it must be fostered and developed over time. Accordingly, we have generally suggested changes that the government can make in its own right that will help to build a culture of democratic participation over the long term. As Erik Olin Wright argues:

> *Self-fulfilling prophecies are powerful forces in history, and while it may be Pollyanna-ish to say 'where there is a will there is a way', it is certainly true that without 'will' many 'ways' become impossible.*[2]

Internationally, New Zealand is recognised as a governance pioneer, from the introduction of universal franchise to the 1980s import of market state principles. But this recent record has left a legacy of public suspicion, a natural caution against sudden change. Recent successes have helped create public optimism. The New Zealand government has started the process of positive change in the direction we advocate, often in the face of rigid organisational and administrative structures that pull in precisely the opposite direction. The question is how to take that progress and turn it into a full-scale renewal of the public realm.

We argue that this depends on the government taking mutually reinforcing action in three key areas:

○ *Democratisation*: Government needs to find radical new ways to create a more participative democracy, opening

up its services and policy-making techniques to public
involvement.

○ *Problem-solving*: Governments can make a real difference
to citizen's lives only if they are capable of joining up their
own services with the efforts of other players, including
the public, social partners and the voluntary sector.

○ *Empowering the frontline*: Public service workers need far
more freedom to tailor their services to the needs of the
people they serve, creating innovative new approaches
that can then be scaled up to inform and influence the
system as a whole.

This is not a plea for another round of structural reform. As Trevor
Mallard argued in 2003: 'No one is ready to revisit the major
restructuring excesses of the past.'[3] Our approach suggests a very
different model of change from the top-down restructurings that
used to be such a feature of the New Zealand public sector landscape.

But to meet the new challenges, government and public services
must become still more tailored to the diverse needs of individuals
and communities – an approach often termed 'personalisation'.
Government at all levels will need to find ways of continually
adapting and learning over time.

Inevitably, this will mean an evolutionary approach, based on
better policy design and practical experimentation, trying different
methods to meet different needs and seeing what works best in
partnership with communities and delivery organisations. For New
Zealand, it will mean a reappraisal of the relationships at the heart of
government – between ministers and public servants, and between
the policy-making centre of the state and the delivery systems it uses
to get things done on the ground.

Public services are human systems, in which change is at least as
likely to happen at the frontline interface between state and
individual as it is in a central policy department. This offers an
opportunity to create a genuine learning system within government,
which can in turn drive a more evolutionary model of reform and

management – trying lots of things serially, seeing which work best, doing more of them, repeating as necessary. Structural change will inevitably arise from this process over time, but the reforms will grow out of the needs of New Zealanders, not from grand theoretical designs. By helping citizens become more involved in the process of change, this organic and evolutionary approach should create its own legitimacy with the communities that take part in it.

This approach does not rule out radical change, but it does recognise that real, successful and sustainable change in human systems takes time and happens where the people are, not where the blueprint is drawn up. As Simon Caulkin argues of the business world: 'The invisible secret of the best companies is that they are always changing, because it is part of the job of frontline workers and managers to improve the system every day.'[4]

Building the new state

Ultimately, our approach points towards new ways of thinking about government. States develop in a sedimentary way – new models tend to be periodically laid over the old, and over time some elements are shed, others developed. Thus, New Zealand's government has its roots in the need to provide a legal framework for Pakeha settlement of the island, but from the 1890s onward also sought to extend the basics of a good life to as many people as possible, developing a significant public bureaucracy.

The new public management reforms of the 1980s and 1990s overlaid another layer of sediment by attempting to slim down the state and develop a more business-like culture of management. The reforms have been summarised by Jonathan Boston as involving 'commercialisation, corporatisation and privatisation; the devolution of management responsibilities; a shift from input controls to output and outcome measures; tighter performance specification; and more extensive contracting out'.[5]

The limits of this approach were neatly summarised in 2000 by the government's *Review of the Centre* report. The profusion of government departments in the 1990s, all of them with their own

output-based performance agreements with a minister, made it difficult to steer the system towards strategic goals that crossed departmental boundaries. Citizens found the fragmentation of the system baffling. Risk aversion was rife because of the cost of failure to chief executives, who faced losing pay and, ultimately, their job if they failed to meet their targets. Service delivery was undervalued and frequently disrupted by structural change.[6]

But in some ways, the new public management reforms were not all that radical. Although they changed the shape of the state, their critique of public services was largely limited to concerns about the size and efficiency of government. The drive for public service reform was never entirely about efficiency. As Alex Matheson, a former New Zealand public servant and past head of the Public Management Service of the Organisation for Economic Co-operation and Development, puts it:

> *The fiscal stress which triggered the modernisation movement was not mainly about government inefficiency. . . . The stresses were symptoms of governments out of fit with a changing society, and an educated and empowered citizenry looking to amend their social contract.*[7]

In other words, in order to adapt successfully in the long term, the underlying role of government must periodically be reappraised and refreshed. Today, the central challenge for governments is to renegotiate their contract with their citizens, creating a more flexible state infrastructure and a more interactive, democratic relationship between the state, markets, individuals and communities. The end goals of government increasingly need to be expressed, not in terms of departments and historic functions, but through a flexible and adaptive state, constantly reconfiguring itself to deliver the things citizens value most.

About this document

The science fiction writer William Gibson says: 'The future's already here. It's just unevenly spread.'[8] This report is very much written in

that spirit. As part of a partnership with the Public Service Association (PSA), we have spent the last year conducting interviews, workshops and focus groups across New Zealand. They have shown us how the country's public services are already beginning to develop innovative new approaches to reform in all of the key areas we discuss in this report.

And as Victoria University's Jonathan Boston and Chris Eichbaum have pointed out, the Clark government reforms since 1999 have already started to take New Zealand in the direction we advocate – making services more holistic, building their capacity and creating more space for innovation (table 1). The two academics argue that 'the framework of public management in 2005 is qualitatively different from that which was so enthusiastically embraced and vigorously promoted by some during the early-to-mid 1990s'.[9]

What is emerging is a third generation of governance renewal, slower and more subtle than either the Weberian hierarchies of the postwar period or the new public management of the 1980s and 1990s, but immensely powerful nonetheless. It has the potential to shape the economic dynamism generated in the last decade in ways that reflect people's values, secure their buy-in and harness their participation. This report sets out how the process of reform can be taken further, helping New Zealand prepare for the profound challenges it will face over the next 15 years.

We begin with the forces that are driving change in New Zealand, examining the changing demands of a more confident and assertive population and the external pressures that require a new approach from government. We argue that the state has to become better at engaging with an increasingly complex world, and set out some of the options for achieving this.

In chapter 2, we argue that the 2000s should be the decade in which the developed world rediscovers democracy. It is becoming increasingly clear that the simple growth of wealth and personal freedom provided by the market is not enough to fulfil people's needs or solve their problems. Democracy can help us develop a better picture of society's needs, and to share responsibility for finding solutions.

Chapter 3 sets out our evolutionary approach to change, looking at how systems thinking and learning organisation approaches might create more innovative public services that can adapt over time. We argue that creating a more adaptive public service that can systematically learn from its own practice and organically change over time is a more fruitful approach than the febrile and debilitating structural reorganisations of the 1990s.

Finally, in our last three chapters, we examine the practical changes that the New Zealand government can make to deliver this vision of reform. These chapters focus on the three themes identified above – making services more democratic, delivering them holistically and creating a new relationship between frontline staff and the people they serve.

We take a 'whole of government' approach throughout this report, seeing government not just in terms of the state sector, but also including local government and community groups in our analysis. Where possible, we spell out how change at the centre and across these wider organisations can be mutually supportive, amplifying long-term success.

Table 1 New Zealand state sector reform, 1984–2005

	Phase 1: 1984–1999	Phase 2: 1999–2005
Institutional design	Separation of funding, purchasing and provision, and of policy from operational delivery Problems associated with fragmentation and lack of horizontal integration	Some recoupling of policy and operational functions Focus on inter-agency collaboration and integrated service delivery
Accountability and governance	Problems with Crown Entity (CE) governance Problems in aligning political and managerial accountability	Statutory change (Crown Entities Act 2004) to improve CE governance and CE alignment with government goals Changes to accountability arrangements as one element in managing for outcomes
Purchasing–contracting	Crown's purchase function dominates at the expense of medium- to long-term ownership considerations	Better balance between purchase and ownership function
Constitutional issues	Limited devolution to the sub-national level Equivocal attitude to the role of citizens	Local Government Act 2002 Change to community level governance in district health boards Renewed emphasis on citizen rights and consent

Table 1 *continued*

	Phase 1: 1984–1999	Phase 2: 1999–2005
Ethical standards	State Services Commissioner mandate limited to core public service Diminution of notion of public service associated with aspects of managerialism	Statement of government expectations Change to the State Services Commissioner's mandate
Policy capability	Variable policy advice and diminished capacity Absence of evaluation culture	Investment in policy capability Focus on lifting programme evaluation capacity and capability
Service quality	Variable service quality and quantity	Focus on improvement in service quality and outcomes
Administrative decentralisation	Problems in aligning agency-specific and system-wide needs	Renewed focus on capacity and capability of the 'centre' Centre increasingly taking the lead on sector-wide capability issues
Organisational restructuring	Constant with negative consequences for capability and service delivery	No longer the default option – case-by-case basis used to address issues of fragmentation and poor vertical and horizontal coordination

Source: J Boston and C Eichbaum, 'State sector reform in New Zealand: lessons for governance', Oct 2005.

1. Governing for the future

In many ways New Zealand starts the twenty-first century in rude health. Its government is ranked the fourth most effective in the world and the country is performing well on many indicators of future readiness. The national mood is at its highest point in more than a decade, and the public is slowly recovering its belief that government can play a positive role in driving growth and innovation. The country has a strong international brand, and is the easiest environment in the world in which to do business.[10]

Economically, years of relative decline have been brought to an end as workforce participation and productivity have improved. The development of a strong creative sector is generating a sense of optimism that New Zealand will find innovative ways to combine its key assets of an outstanding natural environment, high skills base, effective government and export-driven economy.

But after the strong performance of the past decade, the country is beginning to face new challenges. As the commentator Rod Oram has argued, New Zealand's challenge is to find ways to make its second world agricultural exports pay for an increasingly expensive first world lifestyle. Simply increasing the volume of exports through productivity gains, he argues, will not solve the problem. Increasing their value matters as well, and that requires innovative new products and new forms of business collaboration to tackle shared problems.[11]

The challenges are not only economic, but social. By 2020 an

ageing population will be starting to push up pension and health costs, which a younger, browner working population will have to pay for. But Māori and Pacific groups will be able to help pay for the future only if public services can help to close the persistent education and health inequalities between New Zealand's minorities and its Pakeha majority.

Over the past year, Demos has been trying to understand what government can do to prepare itself and the society around it for future challenges. Using a scenario planning exercise, we worked with over 150 New Zealanders to determine which trends were most likely to shape the future and what impact they would have on government by 2020. Finally, we used that information to produce and test four scenarios – credible stories about how the future might happen (see appendix).

Perhaps the most striking finding from our workshops was the sense from all the participants that change in New Zealand's public services was inevitable – it simply was not possible to imagine a future in which the status quo was retained. This was due to two major sets of long-term challenges. The first is a set of broad economic and demographic changes that will restructure New Zealand's society. The second is the changing nature of New Zealand's people, who are becoming wealthier, better educated and more diverse, creating new and more complex demands for the state to deal with.

New Zealand may be in a position of enviable economic, social and governmental strength, but it still needs to change. Dr David Skilling's assessment of the economic challenges for New Zealand might just as well apply to its public services:

> *The way in which we need to approach what is a substantial economic challenge over the next 20 years will look and feel quite different from the approach used, successfully for the most part, over the past 20 years. The task is no longer simply to get rid of bad, inefficient policy but to build an innovative, internationally engaged, prosperous New Zealand economy.*[12]

New challenges

Through our futures exercise and our many conversations and workshops with New Zealanders, we identified five critical uncertainties that will need to be addressed over the next 15 years, and whose resolution or otherwise will have an important effect on the country's future:

1   *Forging a distinctive model of economic growth*: New Zealand has to find a way to make its distinctive location and outstanding natural assets pay for a first world lifestyle. Creativity and innovation will play a vital role in driving the next phase of economic growth. But mainstreaming creative work into traditional industries seems likely to require a different model of economic growth based on the rich seedbed of technology, tolerance, human and social capital. New Zealanders value prosperity and quality of life as an integrated package; governments will need to develop both together.

2   *Māori social and economic development*: New Zealand's Māori population is set to grow by 28 per cent in the next 15 years – reaching 750,000 by 2021[13] and resulting in a young and increasingly indigenous workforce supporting an ageing Pakeha population. For ethical, practical and legal reasons, it will therefore be increasingly important for government to support the social and economic development of the Māori, as they assume an ever more prominent role in New Zealand's economy and society. Central to this will be addressing education and health outcomes – both of which still lag behind those of the Pakeha/European population, despite considerable improvements in recent years. The Waitangi settlement process provides a key tool for addressing historical grievances, but may not be sufficient in isolation.

3   *Community cohesion*: New Zealand's ongoing engagement

with the challenges of bi- and multiculturalism has been protracted and complex. But further challenges lie ahead as the population becomes ever more diverse – both ethnically and in terms of the increasingly wide range of family types, working patterns and social networks that people are creating for themselves. This will add to New Zealand's already rich culture, and support new forms of economic growth, but will also see the nature and composition of communities changing over time. This in itself need not be a cause of falling social capital, but experience across the developed world highlights the importance of managing the transition to a more diverse population carefully to avoid ethnic and social tensions.

4   *Stewarding the environment and securing enough energy*: A key factor to emerge from our futures exercise was the ability of New Zealanders to meet the dual aims of environmental sustainability and energy security. New Zealand's relative geographic isolation and its firm anti-nuclear stance demand a solution to securing sufficient energy supplies. Despite moving towards a more diverse and sustainable energy mix, imports of fossil fuels have actually increased by over 25 per cent since 1997, leaving New Zealand vulnerable to fuel shocks or significant geo-political shifts. At the same time, New Zealand's carbon dioxide emissions have increased by 21 per cent since 1997.[14]

5   *Public health and an ageing population*: The success of New Zealand's development over the past 20 years has led to increased wealth and longer lifespans, but this in turn is changing the profile of the health problems the country faces. Public services face the challenge of dealing with what might be termed 'diseases of abundance' – chronic problems like obesity and diabetes that need to be managed in very different ways from the acute problems of the past. Levels of obesity, in particular, are rising: in

2003, 21 per cent of adults aged 15 and over were obese, an increase from 17 per cent in 1997, while obesity among New Zealand males aged 15–74 years doubled between 1989 and 2003[15] (and there was a significant increase for females). These problems will only be exacerbated by an ageing population, which will make heavy demands of the healthcare system.

Aside from their sheer scale, what is most striking about these issues is that they are all what the systems thinker Jake Chapman terms complex, or 'messy', problems. By that, Chapman means: 'problems which are unbounded in scope, time and resources, and enjoy no clear agreement about what a solution would even look like, let alone how it could be achieved'.[16]

These complex problems have always been with us, but the growth in the number of delivery organisations, the increasing diversity of citizens and the globalisation-driven interconnectedness of domestic and foreign policy have served to increase their intractability.

Messy problems are seldom amenable to traditional solutions from government. Trying to solve a problem in Wellington and then requiring delivery agencies to comply with a 'one size fits all' solution can alienate staff and produce unintended consequences, often by failing to engage with the complexity of people's needs. The answer is not to attempt to control New Zealand's public service system more tightly, but to mobilise all levels of government in trying a range of things, evaluating what happens and learning what works best. Diversity, clarity and freedom to innovate within a national framework are more likely to generate useful solutions than centrally set targets.

But the solutions to these problems do not end at the edge of the state – they cannot be 'delivered' by government in the traditional sense. While government may be able to deliver hip operations or passports *to* citizens, outcomes such as community cohesion, public health and a sustainable environment rely on a range of other actors. As Sue Goss argues of the UK:

*Many of the new priorities – 'respect', an end to 'binge drinking',
'recycling', 'improved public health' – cannot be achieved by a
smart government delivery machine; they require changes in
behaviour from the public. This means not simply considering
how to deliver using public or even private resources, but how to
access the 'free' resources of public energy, engagement and
action.*[17]

Changing expectations

Engaging with New Zealanders in this way will not be easy. Over the
past 20 years, people's needs and patterns of behaviour have become
more complex as they become better educated and develop increa-
singly diverse lifestyles. At the same time as expectations of govern-
ment are increasing, the public's readiness to provide extra funding is
limited. These environmental factors create two sets of pressures for
current public service models – what might be described as the 'non-
negotiables' of any reform programme – the need to contain costs
while simultaneously improving the experience of the citizen.

In economic terms, the changing environment raises serious
questions about the affordability of the current welfare state over the
long term. Quite apart from the increasing costs of an ageing
population, services like health and education are often described as
'superior goods' – meaning that people generally want more of them
as they get wealthier. Public services also tend to get more expensive
over time – their productivity generally increases less rapidly than
that of manufacturing, but their pay has to rise broadly in line with
that of the private sector.

Innovation, productivity improvement and prioritisation are the
keys to escaping from the trap of rising demand without heavily
increasing taxation. But they are also the key to dealing with a second
set of social pressures that is starting to bear on public services. This is
the demand from populations for more attention to their diverse
personal needs, and their increasing ability to express those needs in
personal and identity-based terms – a demand that is particularly
acute among New Zealand's indigenous population. Professor Mason

Durie's three goals for the Māori – to live as Māori, actively participate as citizens of the world, and enjoy good health and a high standard of living[18] – can be met only by public services that are able to respond to the distinctive needs of the Māori community.

Decades of choice and growing wealth have contributed to the rise of 'postmaterialist' values as more people seek interaction, authenticity and self-realisation from their encounters with service organisations. As the sociologist Ulrich Beck suggests, 'people demand the right to develop their own perspective on life and to be able to act upon it'.[19] International surveys show that New Zealanders display one of the highest levels of 'self-expression' values in the world, rivalled only by Scandinavia, the Netherlands and Iceland.[20]

As well as pressure for services that meet diverse needs, rising living standards mean that tackling social deficits is, for many people, no longer enough to justify an active role for the state. Instead, we are moving into an era where central and local government increasingly need to shape communities positively as well as negatively – promoting health as well as treating illness, creating strong communities as well as paying the cost of their failure. If the state shied away from this complexity in the 1980s and 1990s, then today it must engage with it if it wants a role in the lives of its citizens.

But the New Zealand government is working with the legacy of two separate attempts at reshaping the state – the welfare state founded by Michael Joseph Savage in the 1930s and the new public management reforms of the 1980s and 1990s – that were not designed to engage with complex needs. Instead, their aim was to provide standardised interventions at key points in people's lives – a basic education taught, an illness cured, a period of unemployment rendered bearable.

The result is that public services, shaped by the new public management reforms, are still too often working on the assumption that services are commodities rather than interactions – leading to an approach that seeks to standardise, simplify and reduce the cost of services, rather than to engage with the people being served. As Sophia Parker and Joe Heapy have argued:

> *Good service cannot be reduced to nothing more than an efficient operation: its value lies in the less tangible sense that the service is supporting you, meeting your needs, working for and on behalf of you. The real problem with service is that it is still treated as a commodity.*[21]

Parker and Heapy advocate the use of service design tools to help governments better understand their populations – including replacing traditional performance indicators with measurements of people's experiences. Better measurement and customer service is part of their picture, but the ultimate goal is for the state to work more closely with individuals and communities, engaging them as active participants in meeting their own needs – an approach often referred to as 'co-production'.

Healthcare, perhaps the most totemic of public services, provides an example of the way that our problems are changing. As life expectancy rises and issues like obesity creep up the agenda, health systems increasingly have to shift towards prevention and the management of chronic conditions, rather than the acute ones that hospitals were built to tackle. These conditions are profoundly 'social' – some of them can be traced to lifestyle choices and most can be managed outside a healthcare environment by the sufferer, their carers or mutual support groups.

This means that creating a healthy population is no longer a question of simply providing a world-class hospital system. It also requires governments to find ways to engage with the day-to-day lifestyle choices of their population. If governments want to create sustainable healthcare systems, they will have to invest heavily in stopping people getting ill in the first place, but they will also have to provide the expertise, wherewithal and technical support that will allow people to manage their own conditions better. Investments in support groups of expert patients, health advice by text message or over the internet are all likely to be more effective and cheaper than the alternative, which is to make the acute management of chronic conditions a key part of healthcare systems.

The reform menu

As part of our futures exercise, we reviewed the trends that are likely to shape public management approaches over the next 15 years. Five distinct options emerged most strongly as a 'menu' that governments can choose from as they grapple with the issues we have discussed. These options are not mutually exclusive – they are being combined in different ways around the world – but they provide basic building blocks for longer term strategies.

1 *Pressure for tighter centralised control*: The need for governments to secure greater improvements in efficiency and performance could lead to the creation of a much tougher performance culture, with better performance metrics, closely controlled budget allocations and improvement driven centrally by inspections and planning.

2 *Marketisation of services*: In response to the complexity of need, governments could revive voucher-type schemes, in which people choose from a range of services in the public and private sectors. This approach would probably introduce competitive pressure and allow people to 'top up' a basic level of service guaranteed by the voucher. This approach can improve services by forcing providers to raise quality to attract more customers.

3 *Democratisation*: Governments may seek to re-engage people in public services through radical new voice mechanisms that allow the citizen a greater sense of control over services and which seek to generate co-production of public goods. This approach would probably engage people in an informed debate about the limits of state spending and choices to be made, and share responsibility for developing solutions. It would improve services by developing a far deeper sense of what people really want from the public sector.

4   *Devolution*: Governments can try to push complex problem-solving down to the level of the city or municipality, allowing a more flexible range of services and standards of delivery. This approach would involve much more state spending coming from local taxes.

5   *Going beyond the public sector*: Governments might seek to engage a much wider range of organisations in public service delivery, using agreements with social entrepreneurs, the private and community sectors to deliver a range of services in ways that better appeal to citizens. This approach might enable co-production by volunteers and might also introduce competitive pressure for efficiency. It could improve services by allowing people to form personalised relationships with a community service provider.

As spending pressures and service demands mount, governments will need to decide what balance to strike between dealing with the complexity of people's lives, and pushing that complexity back to the individual. As John Craig has put it, governments need to decide 'whether to satisfy citizens as consumers or to work with them to co-produce services such as health and education'.[22]

The marketisation route leads in the direction of consumer choice, vouchers and public service markets – giving people the means to find their own solutions. One danger of this approach is that it can easily lead to what might be called 'mass customisation', allowing people to choose between a set of prepackaged options, but not really meeting their individual needs. The marketising approach may have natural limits in a small country like New Zealand, where populations are too low to support competing providers.

The democratic, co-production route leads towards a much more open approach that seeks to engage people in personalising, improving and actively helping to provide their public services. We believe that this route offers the best chance for meeting the needs of New Zealanders, and it is this option we focus on in the rest of the report.

2. Rediscovering democracy

In many ways the quality of New Zealand's democracy is high – this is a country where politics is an intimate affair. But evidence remains of a yearning among New Zealanders for more control over their government. Kiwis say they would prefer greater control over their lives and communities to further economic growth,[23] and over 70 per cent of them think they have little control over what politicians do once in office.[24] Trust in the government is improving from its low point in the 1990s, but remains worryingly low on some indicators.[25] Civic society is also declining – between 1981 and 1999 the numbers actively engaged in organisations like sports clubs, churches and youth clubs fell.[26]

As we move into a new century, it is becoming increasingly clear that economic and social success cannot be secured through the market alone. The growth of wealth and personal freedom, while important, is not enough to meet people's aspirations. Societies characterised by unprecedented individualism still need collective processes to deal with shared problems, create common sets of values and understanding, and drive social change to meet the challenges identified in the previous chapter.

But revitalising those collective processes has to mean more than simply reasserting the old western models of democracy that New Zealand pioneered in the nineteenth century. As Professor Stephen Coleman argues:

> *In the past, most people deferred to governing institutions, giving them more or less unthinking allegiance in return for the state's paternalistic benefaction. In the last half century, however, the public has become better educated, more confident and less deferential to remote authorities.*[27]

The current pattern of electing representatives to administrative posts in central and local government structures offers very limited opportunity for people to become engaged in policy development and public service delivery. That may have been acceptable in an era of mass-membership political parties, when policy platforms could credibly claim to represent the interests of large numbers of people. But the international decline of parties means that they are no longer able to claim a place as the monopoly conduit of community needs.

A more participative approach is needed, both because it helps people to express their needs more clearly to government, and because it enables government to share responsibility and gain legitimacy for action. Doing so requires government to engage with a wider range of representative bodies that can represent community needs – the social partnership model being a case in point. But participation also means giving communities and individuals a louder voice in the way that their lives are shaped by public services. As Archon Fung and Erik Olin Wright argue:

> *'Democracy' as a way of organizing the state has come to be narrowly identified with territorially based competitive elections of political leadership for legislative and executive offices. Yet, increasingly, this mechanism of political representation seems ineffective in accomplishing the central ideals of democratic politics: facilitating active political involvement of the citizenry, forging political consensus through dialogue, devising and implementing public policies that ground a productive economy and healthy society.*[28]

Democracy and economics

If the 1990s was the decade of neoliberal economic reform, then the 2000s look set to be the decade when developed nations rediscover the importance of democracy – not simply as a good thing in itself, but as a key component of successful economic performance. If efforts to promote growth are genuinely going to motivate people, then economic policy increasingly has to be tempered by social values, particularly in a country that sees money as a means to the end of a better lifestyle. As the 2004 Growth and Innovation Advisory Board showed:

> *Core values that focus around lifestyle and environment are paramount, closely followed by health and education . . . unless growth and innovation are seen to contribute to enhancing these values, in fact that they are value-based, then they will lack impact and influence with New Zealanders.*[29]

In other words, values are not just an add-on to economic growth. They should be what shapes growth to make it legitimate and desirable.

This fact is emphasised still more by the emergence of a global knowledge economy. Economic growth can create inequality and environmental degradation, and undermine the conditions under which people enjoy work and wealth. In an era where high-value work is defined by creativity, and economic success by the ability to develop and attract those people, then investing in the environments that create attractive lifestyles is critical.

To influence real change, values must have some tangible manifestation, to influence the decisions and behaviours that drive economic change. This is what the framework of governance does – institutions, organisations, rules and behaviour that shape terms of engagement, amplifying or diminishing the different values that people may carry in their daily lives.

Without vibrant democracy, the risk is that people simply

disengage from the process of change, retreating into the kind of sullen slump seen in 1990s New Zealand, where an annual social trends study found a population that was disappointed, uncertain, stressed and self-involved.[30] David Skilling argues that the rapid change of the 1980s and 1990s means that the country 'has probably lost a decade in terms of the absence of constituency for [economic] change'.[31]

The notion that economic success, human capital and social values are intimately interlinked profoundly challenges the free market triumphalism that took hold after the fall of the Berlin wall.

This rediscovery of the role of the democratic state has been aided by evidence that the new public management policies of the 1980s and 1990s often reduced the size and reach of the state by much less than was expected, and that a smaller state does not automatically mean higher growth, as had been widely supposed. The Scandinavian countries continue to combine high economic performance with levels of taxation that would make eyes water across the rest of the developed world.

Towards new models of participation

Democracy is a key way to align public values with the economic value created by market economies. Public services are vital to achieving this goal because they are always likely to be the key tool that governments have to create change. Local government, education, health and social services are the places where any resurgence of participation is most likely to emerge. The New Zealand government already recognises this – its most obvious moves in a more democratic direction include elected district health boards and local government community plans.

These policies are part of a global search for deeper forms of conversation between people and their governments – ranging from the 1988 Brazilian constitution's commitment to a democratic right of participation in public services, to experiments with citizens' councils in India and Indonesia and devolution to urban neighbourhoods in the UK. The aim of these innovations is not to

remove the MPs, mayors and councillors of representative democracy, but to bring them into a far richer dialogue with the people they serve, by giving those people real power to shape the state's actions.

The British academic Gerry Stoker has written that: 'Achieving mass democracy was the great triumph of the twentieth century. Learning to live with it will be the great achievement of the twenty-first century.'[32] Public services are critical to that process, acting as powerful models of conversational democracy in four distinct ways:

○ *Modelling democratic processes*: By behaving in an open and democratic way, and providing real and worthwhile opportunities to influence strategy development and participate in frontline service delivery, the state can start to build a broader culture of engagement across society.

○ *Enabling problem-solving*: By acting as a catalyst that brings people together to solve common problems, the state can help people develop lasting bonds of trust and reciprocity, building the public's capacity for democratic engagement.

○ *Creating infrastructure*: The state can also develop democratic engagement by giving people the civic infrastructure they need to solve their own problems, for instance by providing advice and support to community-initiated playgroups.

○ *Representing values*: Public servants and the elected representatives who govern them have a key role to play in representing the needs and values of their constituents, something that is often a question of tone and style as much as policy and action. The Clark government's opposition to the war in Iraq is a prime example of this facet of the public sector's role in democracy.

This is not to offer up a utopian vision of the future – developing a culture of public participation is unlikely to be easy and it certainly will not be appropriate for every service. It will be important to give

people and communities the chance to opt in to conversations about issues at different levels, ranging from the future of their city or neighbourhood to refuse collection in their street. Whether strategy or detail, the key is to identify the things people most want to talk about, and give them easy, engaging ways to feed in to those issues.

Most long-term challenges require effective democratic governance at a number of different levels. Energy production, for instance, is probably an issue that initially needs to be addressed nationally. But once major infrastructure decisions are taken, it may be that local governance methods are the best to change energy consumption patterns or encourage people to invest in solar panels or wind turbines. Successful economic development requires the right national economic and policy framework, but planning for growth at the city level may succeed better when it involves local people and businesses in defining local strategy.

Among the pay-offs for the state from a more democratic culture is the ability to create new kinds of accountability which reinforce each other at these different levels. Democracy can be embedded in representative government, in the structures for administrative accountability, in the principles of local community governance, and in the framing of public services. Where the people are holding public services to account in these manifold ways, the central state can, and should, allow frontline staff to open up new kinds of relationships with citizens.

3. An evolutionary approach

The way in which societies organise their governments and the functions that they ask public servants to perform are intimately linked. During times of crisis or threat, for example, governments frequently assume tight central control of public service delivery. Many extensions of the state's authority have been made in times of war, and only partially relaxed afterwards. But the challenges governments face in today's environment are quite different. Citizens are permanently exposed to the rigours of the market through open structures of commerce, travel, communication and climate. Their resilience comes not from the central direction of resources against external threats, but through adaptation and investment to thrive in a changing world.

The security and consistency provided by central government still matters – but the challenges outlined in the previous chapter require action at *all* levels of government. Helping people to thrive through public services requires much greater differentiation and agility than past models have offered.

One of the greatest challenges is to adopt a model of government that can influence outcomes beyond its own direct locus of control, treating 'the system' as all those organisations and people involved in creating outcomes. This means finding the right models of decision-making, accountability and resource management within

government, and driving strategies to improve performance and innovation beyond it.

Reforming government to meet this goal is seldom easy. Most governments, New Zealand included, are still better suited to providing units of service based on a predetermined template, rather than responding to and adapting to people's changing lives. In trying to change this situation to provide a richer experience of service provision, ministers face an apparent paradox – they need to reform, but if they push too hard they risk disrupting public services, alienating the workforce and reducing the overall capacity of the system to deliver for citizens.

The danger is that attempting culture change too quickly actually creates resentment and resistance from public servants, making progress harder for everyone in the system.

In this chapter, we argue that governments should adopt a more fruitful model of change in public services based on evolution and learning, trying out a range of approaches to problems in different areas, working out which work best and using policy and structural change to support and implement learning from practice. Through evaluation and learning, governments can identify new needs and better ways of meeting them, and get out of programmes that are not delivering, becoming more adaptive in the process.

As Ronald Heifetz has written, successful reform necessarily entails both preservation *and* change:

> *The point of innovation is to conserve what is best from history as the community moves into the future. As in biology, a successful adaptation takes the best from its past set of competencies and loses the DNA that is no longer useful. Thus, unlike many current conceptions of culturally 'transforming' processes, many of which are ahistorical – as if one begins all anew – adaptive work, profound as it may be in terms of change, must honour ancestry and history at the same time that it challenges them.*[33]

Transforming the central state

As New Zealand starts to readjust the role of the state in response to the challenges of the twenty-first century, questions remain as to whether the current way of creating and implementing policy matches the sophistication and complexity of many of the government's objectives.

The government now aspires not just to provide a basic education to the masses, but to 'personalise' or tailor services to the needs of each individual.[34] Ministers recognise that to achieve both excellence and equity, differentiated need should be met not with standardised units of service, but with equally differentiated services, designed to get the best out of individuals and communities. This is as true in the state's regulatory roles – functions like law and order – as it is in health and education.

Such differentiated approaches cannot be specified in detail by policies or contracts that are often drawn up a long way from the frontline and with incomplete knowledge of the daily challenges that confront delivery staff. Innovative, tailored approaches are most likely to emerge through frontline service providers working together with people on the ground to deliver the services that are most suited to a community. In education, schools are being afforded more freedom to design the delivery of the curriculum around the needs of learners, while in health the approaches taken by primary health organisations differ considerably from district to district.

This implies a new division of labour between the policy-making centre of government and its delivery agencies. Central policy departments will always play a critical role in helping ministers to develop and frame their goals as social outcomes, to allocate resources and increasingly to play a key role in engaging the public in strategy development. They can also act as the guarantors of public sector probity and standards – setting the boundaries for service delivery and intervening to correct failure.

What would change is their relationship with frontline provision. Rather than seeing themselves as being at the top of chains of

command, central policy-makers will need to become more comfortable with setting goals and providing the maximum possible space for innovative solutions to emerge from the ground up. Practitioners at the frontline, in delivery organisations and at the regional and local government levels, would become the key innovators in the system, developing new solutions, testing them and feeding the results back to the centre.

Enabling innovation

Taking an evolutionary approach to change means enabling innovative public servants to work with the public to try a range of different approaches and help evaluate and mainstream the best. This approach seems to fit instinctively with New Zealand's 'number eight wire' mentality – the ability to create ingenious solutions from the most basic resources. It recognises that innovation is something that happens not just in R&D labs, or policy-brainstorms, but through the day-to-day experiences of those working in the public sector.

Innovation is critical not only because it is key to finding better ways to deliver services, but also because it offers the promise of new ways of achieving value for money, driving productivity in a way that goes beyond short-term cost-cutting. Public servants often want to find better ways of doing their work, but can find it difficult because of the rules under which they find themselves working – the well-established problem that former US vice president Al Gore described as 'good people trapped in bad systems'.

This is one key reason why it is important for the workforce to be a key stakeholder in the design of central government policy. Without staff input, public service managers will inevitably be left guessing at what the best kind of system is to enable change. Positive discussion between managers and the workforce offers a more convincing way to design policy and systems that allow innovation, as well as a greater sense of democracy in the workplace.

By creating a more structured, rolling kind of conversation with their staff through mechanisms like the social partnership approach pioneered by the PSA, managers and policy-makers can create strong

feedback loops from the frontline that will help them spot new opportunities and challenges, identify good practice and create collaborative solutions. Those solutions are all the more likely to work successfully because they have been developed in partnership with the workforce, ensuring decisions are well informed and supported by delivery staff.

Innovation in public services is little understood, but the work carried out in this area is challenging to 'command and control' models of government. The only large-scale study carried out in this area looked at winners of public sector innovation awards in the US and Commonwealth countries. It suggests that:

○ *Innovation crosses boundaries*: Around two-thirds of the innovations in the US and advanced Commonwealth countries involved a whole systems analysis of the problems and solutions that involved different organisations working together.
○ *Innovation happens at the frontline*: Frontline workers and middle managers account for half of the innovations generated in the US and developing Commonwealth countries, rising to 82 per cent in advanced Common-wealth countries. Policies that empowered communities, citizens or staff to drive change account for between 14 per cent and 30 per cent of the innovations surveyed.
○ *Innovation makes use of IT*: Between 29 per cent and 57 per cent of the innovations looked at in different samples involved new technology.
○ *Process improvements matter*: Measures that made government processes faster, friendlier or more accessible appeared in 35–66 per cent of the samples.
○ *Use of the private and voluntary sectors can drive change*: Using organisations outside the public sector can also help to drive change by injecting new approaches into the system. This figured in around a third of innovations surveyed.[35]

New Zealand has an impressive record of policy and practice innovation, but, like many developed world governments, it also suffers from a continuing culture of risk aversion and top-down process control. Focus groups of senior state sector managers conducted in 2004 by the New Zealand Institute of Economic Research (NZIER) found that important barriers remained to creating a system that actively seeks to drive innovative behaviour.[36]

The study found that the government still needed to find a better form of organisation to address complex issues that traverse organisational boundaries – data on collective performance was also seen to be lacking. The focus groups also revealed a state sector tendency to prefer the status quo to solution-focused alternatives, and a perception that compliance with systems and processes was more important than delivery to end users.

In other words, the forms, systems and cultures of government, particularly the boundaries created by single functional departments, have the unintended consequence of fragmenting the focus and motivation of public servants, and limiting the scope for them to pursue better outcomes systematically across organisational boundaries. This situation is partly a result of New Zealand's perpetual cycle of structural reorganisation, which often left staff demoralised, disorientated and wary of taking risks.

As the researchers at the NZIER argue, the challenge is to move from a current approach to innovation based on 'one-off, situational "problem-solving" ideas generated from diverse sources being applied to well-understood problems', to one that might be described as 'systematically organizing the public sector for innovation'.[37]

But this requires a new approach that acknowledges the growing incompatibility of overly tight central planning and targeting with responsive, innovative state services. It is not that central control is a bad thing – on the contrary, national government is a vital source of legitimacy and accountability. But centralisation has natural limits, and when governments fail to take this fact into account, their policies are likely to become counterproductive. There are at least three limitations to central control.

Three limitations of central control

The first limitation is the likelihood of unintended consequences when command and control approaches are applied within complex systems. The defining feature of a complex system is that its interconnectedness renders it more than the sum of its parts. For example, the performance of a team is determined not just by the individual performances of team members, but also by *how team members relate to one another*.

However, the assumptions underlying command and control approaches are that the connections within systems are unimportant – that complex problems like preventative healthcare can be broken down into their component parts and then put back together again.

This underlying assumption translates into the structure and processes of many government agencies, in which budgets, line management and accountability structures are allocated to specific functional areas defined by past policy decisions, but the teams and units created in this way are not equipped or incentivised to make relevant connections to other areas of government activity. Because public servants end up acting within the strong boundaries of their own organisational sovereignty, their efforts to make a difference can unintentionally reinforce the silo effects of departmental structure.

The danger for government is that the nature of the problem (ie complex) and the nature of the proposed solution (ie linear) are incompatible – leading to unintended consequences, as interventions lead to unforeseen effects somewhere else. Setting targets for delivering operations may, in fact, *damage* the quality of care by encouraging clinicians to do their jobs too quickly and potentially leaving patients in need of more treatment in the future.

While prescriptive output targets may be a useful approach for relatively straightforward, bounded problems such as delivering passports, they can often be counterproductive in dealing with messy problems.

The second limitation, linked to the first, is that command and control systems tend to treat public servants in highly impersonal

ways – ignoring their capacity for judgement and denying them any sense of autonomy. Ultimately, this kind of approach risks stifling creativity and innovation.[38]

The reason for this failure is that such approaches to reform are built on a belief that *people* throughout organisational hierarchies will respond predictably to pressures and incentives set from above. As Mike Power has illustrated, such assumptions rarely reflect the reality in which individuals and professional groups learn to 'game the system' – often in response to concerns over the impact of particular rules and regulations on service users themselves.[39] People will pursue their real motivations and priorities, even if it means circumventing established targets and methods. In doing so, they are demonstrating their adaptive capacity. But rather than trying to neutralise this inherent human tendency, governments should be learning how to harness it to achieve the goals of policy.

Strategies that are seen to treat people as no more than the instruments of central policy-makers, or which subvert professional judgement, are likely to neutralise the best professional motivations. All too easily reform is seen by those providing services not as part of a package of improvement, but as a distraction from their core job of actually meeting the needs of service users.[40]

In such situations, the refrain is often that it is the 'implementation', rather than the overall strategy, that should be reviewed – as policy-makers ask which new 'levers' can be pulled in order to have the desired effect on people's practice. But as Henry Mintzberg famously pointed out, there is no such thing as a gap between strategy and implementation: just strategies that don't account for implementation.[41] New ways to implement the same approach are often no more likely to succeed than their predecessors – those working in public services will still be likely to feel that change is being driven by external priorities rather than the needs of end users.

The third, equally important, limitation of central prescription is that predetermined templates are likely to be unresponsive to differentiated need. The story of Wayne Skipage's district health board in chapter 5 illustrates this: the decision to send a recovering

alcoholic to see a dietician could not have been anticipated from the Beehive or the offices of the State Service Commission. What *was* anticipated, though, was that people's problems are deeply varied and complex in nature – and that a flexible and responsible system would be required to meet them.

The risk factor

An evolutionary approach that focuses on frontline innovation can help to overcome these limitations of central control, but such an approach also carries a degree of inherent risk. Evolutionary systems owe their success to diversity – the ability to experiment with a number of variations before preserving elements that added value and phasing out those that did not.

While this offers the prospect of long-term success, it poses a particular challenge for politicians and governments accountable to their electorates in a three-yearly cycle. Evolution is, by definition, something that occurs over extended periods of time, rather than within the neatly defined boundaries of terms in office.

Adopting this approach in New Zealand creates a fundamentally *political challenge* for governments (and oppositions) to take on, in governing for the long term and learning to live with a degree of risk. This is clearly easier to argue for in a pamphlet than to see through in practice – authors of reports do not often stand for election in today's unforgiving political climate. And governments will need to encourage different kinds of innovation in different services – it is entirely natural for ministers to be more cautious in vital regulatory areas like biosecurity or meat inspection, where a failed experiment could be catastrophic.

But the risk of *failing* to adopt such an approach across government may also be considerable in the long term for those who stake their political reputation on the ability of government to make a positive difference to people's lives. There is a creeping risk associated with a failure to take political leadership: that over time government and public services will not keep pace with the challenges that they face. The danger is that the fluidity and complexity of modern life will

further outpace institutions, undermining their legitimacy, and that of the governments that create and sustain them. Even regulatory services need the space to identify and respond to new threats, and to develop process innovations that make their service better and cheaper.

In this sense, a preoccupation with risk can lead to the emergence of a further complication: that those delivering services become more preoccupied with managing the risks to their own (or their minister's) reputation than with their actual job. As has been argued:

> *Secondary risks to . . . reputation are becoming as significant as the primary risks for which experts have knowledge and training. The trend is resulting in a dangerous flight from judgement and a culture of defensiveness that create their own risks for organisations in preparing for, and responding to, a future that they cannot know.*[42]

Adopting a more proactive approach to innovation demands different ways of managing and spreading risk. It involves acknowledging the reality that some programmes and some attempts at innovation will inevitably fail, and building the organisational and political capacity to deal with that failure. Arguably, such a capacity helps to reduce the risk of shocks, unpredicted failures and external 'events', which always impact on governments.

Beyond this realisation, there is some good news for reformers: a series of approaches can help minimise the risks to service users *and* to the reputation of organisations (and governments) simultaneously. These are strategies that help minimise the likelihood of failure on a grand scale, and maximise opportunities for learning and improvement within the system.

To achieve this, the key is not to eradicate failure altogether – an aspiration which will never be met by government in any case – but to fail *intelligently*. As Thomas Edison famously stated: 'You must learn to fail intelligently. Failing is one of the greatest arts in the world. One fails forward towards success.'[43]

Failing intelligently

In practice, this might translate into a number of approaches:

○ *Establishing clear minimum standards*: Personalised
   services require flexibility, but this must be built on the
   foundation of core elements of agreed best practice which
   are universally applicable and provide a basis for
   confidence among users and observers. A national
   curriculum is one example of this: flexibility is important
   to tailor learning to the interests of learners, but a core
   programme of responsive learning is always likely to be a
   non-negotiable in education systems.
○ *Identifying areas where innovation is realistic and
   acceptable*: Some services are ripe for innovation and
   experimentation, while in others following established
   protocols may be more appropriate – and publicly
   acceptable. For example, in children's services, a new
   international emphasis on universal preventative services
   offers space for new approaches to be experimented with
   and either adopted or discarded. Where children are
   seriously at risk, however, the scope for variations in
   practice may be much reduced and there may be a strong
   case for implementing a series of protocols, because the
   consequences of specific failures are so unacceptable. A
   shift towards the fundamental principle of prevention and
   partnership – helping people to help themselves and each
   other rather than simply responding to emergencies –
   may therefore increase scope for innovation and the
   frontline over time.
○ *Creating safe spaces for reflection and learning*: Even where
   protocols are in place, mistakes and accidents will always
   happen – and will often hold valuable lessons for the
   future. In this respect, it is important that government

mandates or supports safe spaces for learning, allowing individuals and organisations to learn at a safe distance from the glare of public inquiries and media reporting. This is not an argument against accountability, but recognition that learning also needs to be explicitly valued and actively supported within services. Systems that allow for anonymised reporting and reflection on mistakes – where learning for the future explicitly takes priority over apportioning blame – are one way in which this can be achieved in practice.[44]

○ *Disciplining innovation*: The British educationalist David Hargreaves argues that the most effective innovation systems are those that 'discipline' innovation.[45] By this he means that it is possible for a number of institutions to distribute the risks of innovation widely, with each experimenting and learning on behalf of the others. For example, one school might experiment with changes to the curriculum, while another explores new approaches to timetabling and the organisation of the school day. This shared framework also helps to provide clarity about the basis on which innovations might be valuable, and criteria against which they can be tested for adoption or rejection.

This strategy, Hargreaves suggests, can help prevent organisations taking on unnecessary levels of risk associated with *too much innovation* at any one time, and prevents organisations from continually having to reinvent the wheel. If a number of organisations fail 'small and early', and then share learning, the gains may be significant.

○ *Lateral learning*: The corollary of 'disciplined innovation' is creating a learning system that is genuinely able to draw on past experience and 'scale up' successful new ways of working. An important part of this is the capacity of institutions to share learning directly with one another. Peer-to-peer interaction – offline and as well as online –

offers one way of transferring learning quickly and
effectively across state services.

While an evolutionary approach might imply a series of lateral
connections between those delivering public services, feedback loops
between policy and practice are equally important if a genuine
learning system is to take shape. Innovation on the frontline needs to
be supported by policy frameworks that complement and facilitate it.

Beyond the continued re-balancing of the relationship between the
centre and the frontline there are other ways of using information
that emerges from the everyday interactions to shape and re-shape
policies in central government. Here, New Zealand could learn from a
simple yet brilliant innovation in New York City. The city has
established a single phone number for members of the public to
contact the authorities with complaints, information or requests. This
provides a 'single window' into government for New Yorkers, but
crucially also serves as an important tool, used by the authorities to
track information and map crime hotspots, providing a wealth of
information to inform policy decisions and resource allocation in the
future.[46]

Constructing a learning system in government recognises the
limits of policy-makers, however well informed, to create policies fit
for the future, responsive to citizens and relevant over time. What the
approach does aim to achieve, nevertheless, is to create a system able
to improve itself over time, through an evolutionary approach.

In that spirit, this report does not seek to provide a definitive
policy settlement – instead, in the next three chapters we discuss how
that process might begin with a debate about how best to create
change in three key areas:

○ *democracy*: putting people into government
○ *strategy*: delivering outcomes better
○ *public servants*: putting staff before structures.

4. Putting people into government

All governments start with people. But what made Manukau City Council stand out during our visit in May 2006 was the abiding sense that elections should be the *beginning* of a conversation, rather than the end of one. The council has been blazing a trail in recent years, based on the philosophy that voting represents just one element of democratic deliberation and decision-making. 'Our community's needs and aspirations will continue to be heard, to inspire and guide the future direction of this city,' says the introduction to *Tomorrow's Manukau*[47] – the city's ten-year plan, which was developed in partnership with its citizens.

For Manukau, the 2002 Local Government Act was less a blueprint for a new way of working and more a codification of many existing activities. The council has long regarded the people of the city as potential policy-makers as well as voters, strategists as well as consumers. The priorities for the city have been decided on and delivered by the council acting in partnership with community groups, businesses, public organisations and individual citizens – involving over 70 organisations, as the city's mayor Sir Barry Curtis proudly points out.

In recent years, Manukau has started to demonstrate how people can be engaged more effectively in actively shaping the policies and strategies that affect their lives.

Democracy, reason and certainty

The approach that we observed in Manukau is rigorous – outcome measures are specific and tangible, providing clarity of direction and a series of benchmarks to compare against in the future. And the officials we met prided themselves on the fact that their approach is evidence based – following priority-setting through public consultation, the research base is interrogated to identify strategies that are most likely to achieve the outcomes in question.

And all the signs are that such an approach has proven successful – many of the targets set five years ago for 2010 have already been met, the city continues to attract more people and enjoy economic growth, and the council has received national recognition for its work on child poverty.[48]

All this is achieved through mobilising resources across and beyond government, recognising that the information and knowledge necessary to address the major concerns and ambitions of the city's 350,000 residents will often be held by the citizens themselves. The workforce and unions have been engaged, giving the council an effective way to develop and capture innovation. 'It's a vision based on partnership, where no one organisation is bigger than the strategy or can achieve its goals without contribution from others,' Curtis explains.[49]

Yet the approach we saw in Manukau won't be found in many textbooks. It contains no fixed size or role for the state. No predetermined forms of intervention. In fact, the council's approach lacks the ideological certainties of many approaches to policy-making and implementation that New Zealand, like many developed countries, has become so accustomed to. Instead, Manukau's approach helps to blur the boundary between government and governed – creating a vision of the city's future which can engage a wide range of organisations and individuals in creating a shared future.

The central aim of the new public management reforms was to make government more focused and efficient – reducing complex

Figure 1 The New Zealand model

```
                    ┌──────────┐
                    │  Public  │
                    └──────────┘
                         ↕
                   ┌────────────┐
                   │ Parliament │
                   └────────────┘
                         ↕
                    ┌──────────┐
                    │ Minister │
                    └──────────┘

Performance        Clarity of    Freedom     Performance
assessment         objectives      to        information
                                  manage
Accountability

                   ┌─────────────────┐
                   │ Chief executive │
                   └─────────────────┘
                         ↕
                   ┌────────────────┐
                   │ Public servants│
                   └────────────────┘
```
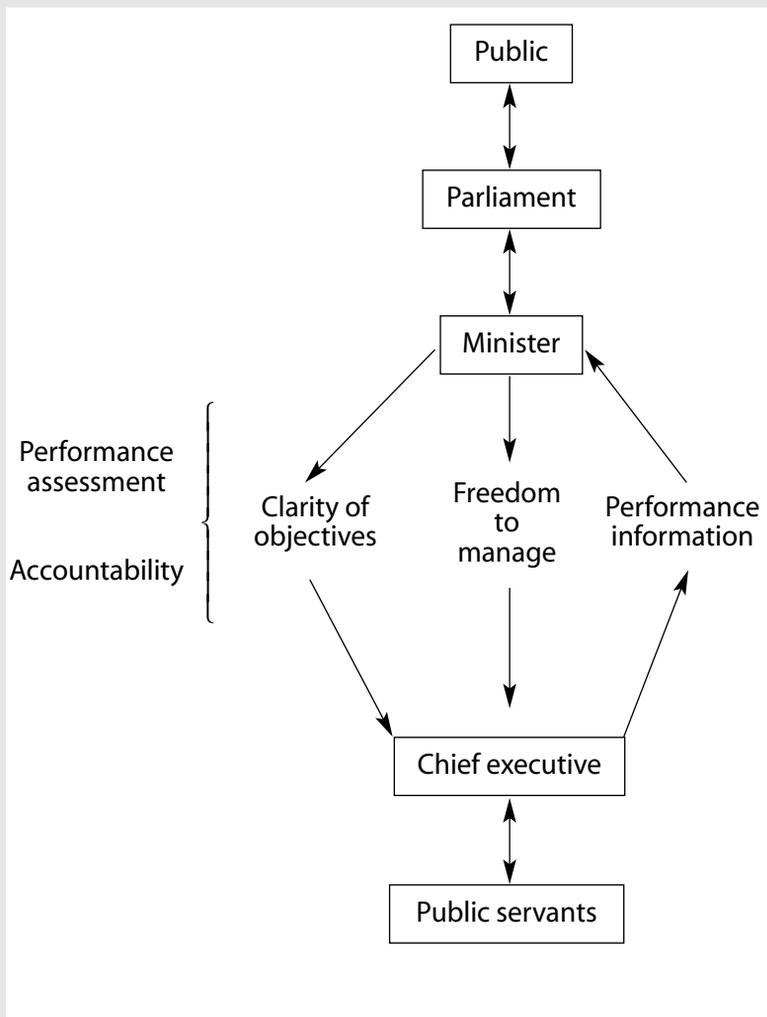
Source: Commission on the Reform of Public Services, *Spending Without Reform*, interim report (June 2002).

processes to their constituent parts and putting them back together into something resembling an assembly line. Elected politicians would set priorities. Officials would produce policies. Public servants would deliver services. And the public would wait in anticipation and deliver a triennial verdict on the politicians. Figure 1 illustrates the alluring simplicity behind such an approach.[50]

Yet, what the innovators in Manukau are beginning to prove is that many of the old certainties fail to measure up to the nature of people's expectations, or the complexity of today's problems. As Tom Bentley has argued:

> *Political action, for centuries, has been predicated on the idea that a particular source of knowledge can provide progress for the whole of society. Whether that source is science, or the market, religion or ideology, politics has been dominated by narratives in which leaders have attempted to govern through certainty, drawing on their own access to privileged knowledge in order to make decisions on behalf of people. . . . The great shift in contemporary politics is the realisation that there is no one source of certainty – and that progress in a post-political age depends not primarily on the design or management of institutions, but on the way in which they draw on and interact with the people they serve.*[51]

In other words, the most effective way for governments to help create the things the public values is to maintain a conversation and forge ongoing democratic partnerships with people themselves. The practical test then becomes how well the conversations guide the actions of individuals, organisations and institutions.

Elections provide a key juncture for this, but are just one opportunity among many for public deliberation. The American academic Paul Ginsborg has calculated that each of us spends roughly 72 minutes voting in our lifetime[52] – and he is not alone in observing that this often fails to live up to people's urge to express themselves and collectively *shape* change rather than be subject to it. Just as the

last century witnessed the codification of individual rights and the increasing professionalism of government, the challenge for the twenty-first century is to reinvigorate democratic decision-making by putting the people back into government.

As it seeks to respond to this growing desire for control and authorship of change, New Zealand has the opportunity to draw on one natural advantage: its size. While consultation exercises in large nations can easily suffer from feeling either unrepresentative or tokenistic, the scale of New Zealand holds out the possibility that this need not be the case.

Size matters – and creates opportunities

Precisely because of the size of New Zealand, it is possible to involve large numbers of people in deliberative decision-making. In some areas New Zealand is taking advantage of this already – for example through inviting public submissions to select committee procedures, something that simply would not be feasible in many other countries.

The challenge, however, is to take advantage of this asset while avoiding the assumption that the existing institutions and traditions of liberal democracy are equipped to provide such opportunities on their own. Around the world, democratic processes are becoming a hotbed for innovation, as governments at national, local and neighbourhood levels find new ways to draw on the view of citizens in decision-making:

○ *Participatory budgeting in Porto Alegre*: Participatory budgeting was introduced in Porto Alegre, the capital of Brazil's southernmost state, Rio Grande do Sul, in 1989. It is an approach which enables every citizen to take part in taking decisions about Porto Alegre's future and allocate resources accordingly. The process involves regional and neighbourhood assemblies, through which citizens set their own priorities and confront the associated trade-offs and dilemmas. Although participatory budgeting was initially part of a mayoral candidate's election strategy, the

mechanism has become an important part of the business of government – and has spread to 180 other municipalities, another Brazilian state, as well as other cities across South America.

○ *Participative policy-making in the UK*: In 2005 the Department of Health experimented with a new form of participative policy-making to produce a new primary care white paper. At the heart of the process was a series of four deliberative workshops held around the UK with representation from groups including the homeless, teenagers and people with learning disabilities. The events were supplemented by an online survey. In total, the process involved 100,000 people. They could see how their views had influenced policy because the surveys were included in the final white paper showing, for instance, that people's top priority for primary care was not greater choice but regular health checks and a focus on mental health.

○ *Citizens' Assembly on Electoral Reform in British Columbia*: In 2004 British Columbia decided to address the question of electoral reform, not by commissioning a panel of experts, but by handing the decision back to the people living there. A citizens' forum was established to address the issue, with its members selected randomly by a process of ballot. The assembly spent a year exploring the key issues and options available, before producing a report in December of that year, recommending a system based on the single transferable vote. The early signs are good: Ontario has announced that it intends to use a similar process to address the question of electoral reform, while observers have argued that 'the widespread support for the Assembly suggests that citizens are willing and able to deliberate and decide on significant areas of public policy'.[53]

Each of these examples demonstrates the capacity – and motivation – of people to take on elements of decision-making which have traditionally been left to small groups of experts. And an important feature of the deliberative mechanisms is that the ability of the public to take such decisions often *grows through the process itself*. Participation is not simply a process of replacing experts with a 'lay' public – it represents a way of heightening public awareness of the tensions, trade-offs and key issues that surround much decision-making in public policy.

Perhaps the next stage for democratic innovators in small countries like New Zealand is to use deliberative public engagement to make 'deals' with their people – setting out constraints on public money in a field like health and then explaining what the state can do in return for communities and individuals taking more responsibility. Deliberative processes can help to clarify what the collective choices really are on this kind of long-term issue; in the process, they can encourage people to share responsibility for them. This could help to deliver legitimacy for otherwise controversial action across a wide range of issues.

Building capacity for decision-making and trust in government

Capacity building can create a valuable legacy for the future – leaving people both more empowered to take part in decision-making and more trusting of government. These 'spin-off' benefits of participation – or signals of wider public value – are evident in two innovative approaches to public consultation and deliberation in New Zealand in recent years.

The first is *Secondary Futures*. The project was established in 2004 to encourage discussion and debate about the role and purpose of secondary education in New Zealand 20 years from now – helping the country to meet its economic and social challenges. Through this process, the project aims to meet the twin objectives of generating a mandate for change, *and* of creating 'a futures literate nation', where people have the 'capacity to think broadly, a long

way out into the future, to consider possibilities about education'.[54]

This approach – of forging partnerships that help people to help themselves – was also the philosophy at the heart of the increasingly renowned Safe Drinking Water project in Hokianga. The Hokianga project was principally about improving drinking water supplies in the area, but those running the project recognised that involving local people in decision-making was a crucial element of making the project work.

Securing clean water supplies for the future is an increasingly potent, long-term issue for countries all around the world. While the cleanliness of water has many of the characteristics of a technical problem – something which can simply be 'fixed' by interventions of experts – the legitimacy of that intervention had to be earned from a Māori community that lacked confidence in the ability of government to meet its needs.

Central to the project, then, was building a relationship with the community – taking neither acceptance of the problem, nor agreement on the solution, for granted. Over a period lasting more than a year, involving meetings with community leaders in the local *Marae*, trust was gradually built, alongside the feeling that government was there to work with people, rather than to do things *to* their community.

Through that process it became clear that a conventional solution would not meet the values and objectives of all parties – it was the community itself that eventually constructed its own water supply, with the help of resources and guidance from government. Such an approach may not have been anticipated at the outset – nor would it be likely to appear in many neat diagrams of the 'machinery of government' – but it was the solution that worked best for the particular community in question. As Annette King commented, after a positive evaluation of the project: 'The success of the programme can be attributed to the fact that the project was taken on and locally driven by the community.'[55] By doing so, the state also left a legacy of community readiness to collaborate in the future.

Mainstreaming participation

The challenge – and opportunity – for New Zealand is to embed these processes of deliberation across many institutions and policy areas, learning from innovations abroad and pockets of activity at home. These kinds of deliberation can contribute to better policy design and political decision-making, but the examples show that they can also be embedded in other areas of governance, enhancing the delivery capacity of public agencies and the options available to communities and governance partnerships. The potential benefits are considerable: not only creating and refreshing mandates for change, but generating much wider value through building future capacity for public decision-making and helping restore trust in public institutions.

Of course such an approach poses questions – for example, of how to capture some of the wider benefits, or 'positive externalities', of democratic reform, beyond cleaner water or improved teaching and learning. These require attention because if government is to maintain its core assets of trust and legitimacy, then the ability to recognise the contribution of different departments and agencies to these 'commons' will be crucial. New practical approaches often need to reach 'critical mass' before they can spread across the whole system of governance; linking together and recognising the efforts of different agencies is one way to achieve critical mass through evolutionary steps.

Recognition and reward are valued by public servants, but ultimately what many want most is to win the autonomy and power to drive change themselves – maximising their resources and freedom of action by engaging with taxpayers and enhancing their legitimacy to act. The sociologist Zygmunt Bauman argues that we have never felt so free, while at the same time believing 'equally firmly that there is little we can change – in the way the affairs of the world are running or are being run'.[56] The early adopters in New Zealand are proving that this need not be the case.

5. Holistic strategy

Wellingtonians are famous for their love of coffee, with some suggesting that the city has more coffee shops and restaurants per head than New York. But sometimes people go overboard. Sitting in a coffee house round the corner from the Capital and Coast District Health Board (DHB), Wayne Skipage tells a story about a man who spent his time in cafés and various social agencies, drinking up to 30 cups a day to relieve the boredom and loneliness of long-term unemployment. For a dried-out alcoholic whose friends still drank there was little else to do, but the result was sleepless nights and anxiety attacks.

Skipage, a manager at the DHB, explains that the problem came to light only because of a new initiative called PATHS, which links DHB services, the Ministry of Social Development and local voluntary sector initiatives to help get people off sickness benefit and back into work. By tying together benefits, health, support and volunteering, PATHS can spot problems that individual agencies might miss, and respond in ways that those agencies couldn't manage on their own.

The programme meant that Skipage's lonely coffee drinker was asked by his doctor what was stopping him from getting back into work, and how the state could help. The answer was that the man felt he was not eating properly. The response from PATHS was to find their client a dietician to help improve his eating habits, and to find new ways for him to occupy his days. On traditional measures, a

dietician would not have been provided – the man had not been diagnosed with diabetes or any other specific dietary conditions. Yet access to a dietician has helped address the particular issue at hand by bringing the caffeine intake to light, helping the man to help himself.

He now volunteers at a food bank in Wellington. It's not a job yet, but then PATHS explicitly recognises that progress is not just about getting people into work. It's also about building their capacity to live a more independent life – the aim is to address the problem, not just to make it bearable in the way that sickness benefit does. 'This is a new paradigm for New Zealand,' claims Skipage.

Project-based government

PATHS is one of the many projects that are starting to make inroads into one of the biggest challenges facing the New Zealand state: making public services add up to more than the sum of their parts. Problems like long-term unemployment, climate change and Māori development seldom fit within the boundaries of government departments – solving them will often need to involve several central and local government agencies working together to deliver better outcomes for people.

Outcomes matter because they are ultimately the way in which the electorate understands state achievements. It is often argued that governments have, over the past century, moved through three distinct approaches to managing themselves. The welfare state of the 1930s to the 1970s generally focused on controlling inputs – it was most concerned with the amount that was spent on services. The new public management reforms created a concern with outputs, moving from focusing on the amount of money spent on a service to what that service actually produced. Instead of being concerned with the amount spent on refuse collection as a whole, governments wanted to know how many bins were being picked up, and what each one cost.

But over the past decade, governments have made a further leap towards outcomes – focusing less on the outputs that public money is buying and more on the results that government is delivering for people. An outcomes-based approach is less concerned with how

efficiently a hospital delivers a single operation, and more concerned with how efficiently and effectively the hospital contributes to the overall healthiness of the population.

The move to outcomes has the potential to create a radically different focus for government activity. If the aim is not just to cure a condition, but to make someone well and keep them that way, then the service that person receives needs to be tailored to their individual circumstances, able to help them deal with personal health issues and to help them prevent problems, rather than simply managing them when they occur. Used effectively, management by outcomes can allow greater innovation, through specifying the goal to be reached but not the process by which to get there. That allows much more scope to involve people on the ground in democratic problem-solving.

Of course, no one agency is likely to be able to deliver an outcome on its own – securing many government goals means work between government agencies and a much wider range of partners – the state sector needs to be able to mobilise the energy and legitimacy of local government, communities, representative groups and the voluntary sector as well.

This has been demonstrated powerfully in New Zealand by the success of the Ministry of Social Development's SKIP programme – designed to educate parents about alternatives to physically disciplining their children. The programme was originally designed as a mass media campaign, but consultations came back recommending a more practical, community-based approach. The MSD's response was to bring in a policy-development team with experience of the NGO sector – they had a budget, excellent contacts, credibility and were relatively fresh to central government, bringing a distinctive perspective. But they also had a tight deadline and high pressure for delivery.

SKIP developed an approach that was rooted in the expertise of NGOs, aiming to augment, supplement and complement existing work. The policy team set the goals that government wanted to reach in terms of improving parenting, then worked alongside the

voluntary sector to develop approaches that met the government's needs. The programme was implemented within a 'tight-loose-tight' framework that allowed innovation – the programme's overall values were tightly defined, as were the materials they issued to providers on which to build the frontline service offering. But the precise method of service delivery was loosely defined, allowing NGOs to meet the overall goal in the best way they could find.[57]

But despite successful innovations like PATHS and SKIP, holistic policy-making is still frustrated by the fact that cultures of collaboration are not yet part of the DNA of the New Zealand state sector – a problem underpinned by a rigid outputs-based budgeting system. As the State Services Commissioner has noted: 'Agencies have increased their cooperation as they have worked together to achieve results, particularly with shared services, but there are still gaps.'[58]

Public servants themselves recognise that, in the long term, the way the state sector is organised will need to change radically to deliver better outcomes. They predict a type of government that is far more flexible and project-based than the current system. In his book *Obedient Servants*, Victoria University's Richard Norman used a piece of software that facilitated anonymous discussions between a survey group of departmental chief executives and allowed them to agree a set of statements about the way government to works and is likely to change. One of those agreed statements was:

> *Electronic developments mean that old silo departmental structures will be irrelevant within ten years. We need to move to a much more organic structure which will operate almost like a consulting firm, in which policy advisors with different competencies work on different projects. There is a need for a matrix approach similar to that in research organisations.*[59]

The idea of a government system that is capable of working on a project basis to address the most intractable problems of the day is alluring, but requires much more radical action to engender new cultures of collaboration. Structural change may well be necessary in

the long term to create more fluidity in the system and fewer bureaucratic hurdles to collaboration, although this will need to balance the need for holism with accountability and departmental expertise.

Simply recognising the limitations created by rigid implementation and budget structures, however, creates opportunities to overcome them without disrupting government unduly. In the short term, changes in political style and policy-making seem most likely to make a positive difference.

The politics of problem-solving

Delivering outcomes is hard work. It involves multiple agencies working together with the public and organisations beyond the state, through flexible and unpredictable processes of collaboration and joint production. Meeting outcome goals takes time and success can be difficult to measure, particularly when the goal is preventative – for instance reducing illness or reducing crime.

This is why delivering outcomes requires strong central leadership – ministers and senior managers have to be able to keep a powerful focus on a handful of really big goals over the three years of an electoral cycle. The shift to a results-driven culture of collaboration needs to be led from the top and be supported by clear ministerial structures and strategy, as well as reform of management processes. It may also require a more ambitious form of politics, which is capable of focusing far more on the positive differences it is making to society and less on the outputs it is delivering.

This approach has been most successfully modelled in Finland. In 2004 the Vanhanen administration introduced sets of three to five strategic priority areas for government action, complete with targets for implementation and sets of projects attached to each outcome. Each of these goals, which have included a cross-cutting focus on employment and civic engagement, have a lead minister from the most relevant government department, who is supported by a strategic ministerial group of other participating ministers and a programme director employed as a civil servant.

The principles of better horizontal government management have

been strengthened by two mid-term policy forums, aimed at bringing ministers together to conduct a thorough analysis of whether their collective policies are making a real difference to Finnish society.

The remarkable thing about this shift is that it involved very little change in the structures of government. It is based more on political coordination between ministers, budgetary coordination to ensure money follows priorities and the support of capable programme managers.

As Markku Harrinvirta and Sirpa Kekkonen, two civil servants from the Finnish prime minister's department, say:

> *Someone has described the role of a programme director as 'not having formal power but influence'. . . . Programme directors have appeared quite often in the media and they have really made new openings that the 'normal' administration wouldn't necessarily have done.*[60]

The new system has been up and running only since 2004, but the evidence to date suggests that it has been successful. Harrinvirta and Kekkonen claim that the aim of getting better steerage of government has been 'reached to a certain extent at least'.[61] As Finland approaches new elections, it seems likely that the system will remain in place.

The principles of the Finnish system could inform a rather different cycle of political policy-making and accountability in New Zealand than has been the case in the past. Once elected, a government might take the following steps to deliver on its key outcome goals:

○ Appoint a minister responsible for delivering the outcome – probably the minister in charge of the most relevant department, working with a committee of other relevant ministers.

○ Create a small project-based team of secondees reporting to the outcome minister and representing all departments involved in delivering the outcome to develop an

understanding of the issues and create initial policy.
Secondees should come from a range of different levels in
their organisation's delivery system, ensuring that buy-in
does not come just from the top.

○ Assign discretionary money to the lead minister to
distribute across the department in pursuit of the
outcomes. Map the full range of resources available to
solve it, including the public, local government, business
and the voluntary sector. Involve frontline public servants
and the people affected by the problem in helping to solve
it.

○ Use the team to establish where partnerships and shared
output targets are likely to be most helpful, and use them
to broker agreement across their departments.

○ Create a suite of projects and output targets to be
implemented across government and have the ministerial
team implement them.

○ Retain a project manager at the heart of government and
have the project team continue to meet regularly as a way
of bringing learning about achieving the outcome back
into the heart of government and ironing out problems
with collaboration on the ground.

○ Hold a ministerial summit towards the end of the
parliamentary term to review progress and make a public
statement about what has been achieved and future plans.

Such a system would model collaborative working from the top of the
New Zealand government, and allow a structured dialogue between
ministers and officials that can identify and drive new opportunities
for collaboration. In the short term, this kind of management could
be expected to drive better coordination and policy management.
Over time, it could assist in shaping the capabilities of whole systems
of government, aligning them better with the outcome goals set by
policy and legitimised by democratic processes.

Systems policies and learning

Setting holistic strategy at central level is one thing, but allowing it to be delivered on the ground is quite another. Systems based on central control tend to set not only goals, but the process by which they should be achieved, closing down the space for frontline interaction and innovation. As we have already discussed, this approach may have merits when it comes to purely technical problems such as providing more hospital beds, but is unlikely to succeed for complex tasks. As Karen Poutasi, then chief executive of the Ministry of Health, argued in 2004:

> The imbalance of information is so great, and complexity so relevant at community and individual level, that effectiveness is only achieved by freeing up those on the ground to make decisions and to get ownership of solutions. If we want communities to support healthy choices, to climb on board smoking prevention, healthy eating, healthy action, etc, then local decision-making is imperative to getting ownership and indeed to getting the right solutions as the centre does not have sufficient information to prescribe the local approach.[62]

In strategic terms, complex problems like those faced by Poutasi's department are more likely to be met by policies informed by systems thinking. This approach has been described as 'the science of muddling through'. The systems thinker Jake Chapman argues that the ideal systems policy statement would do the following things:

○ Clearly establish the direction of change.
○ Set boundaries that cannot be crossed by any implementation strategy.
○ Allocate resources, but without specifying how they should be used.
○ Grant permissions – explicitly allow innovation.
○ Specify core evaluation requirements in all cases based on the experience and outcomes for the end user.[63]

Poutasi argues convincingly that the creation of public health organisations (PHOs) was an example of a systems policy in action. The primary health care strategy set the goals that needed to be achieved and the conditions necessary to constitute a PHO – chiefly convincing community engagement. But the judgement of whether community engagement is being achieved is down to the local district health board, as is meeting the conditions of the primary health strategy.

Of course, PHOs are at arm's length from the state. That does not remove the element of risk associated with systems policy-making, nor does it remove the state's obligation to secure valuable returns on taxpayers' money, but it does make it easier to provide the organisations with greater freedom. The question is how to mainstream systems policies in a way that enables frontline collaboration and innovation across all services.

Systems policies are a start, but the approach is likely to improve performance only if learning mechanisms are in place that allow public services to learn from their own and each others' practice. If the key is trying lots of things, finding out what works and then doing more of it, then someone has to decide what works and share it across the system as a whole. This means addressing the methods through which money is allocated and managed, and through which organisational management *within* bureaucracies it is conducted.

Charles Leadbeater argues that governments should take an 'open systems' approach to innovation, learning from movements like the development of Linux, a computer operating system whose source code is openly available so that users can modify it. He describes the essential features of an open system as:

○ *Modularity*: Linux could be broken down into constituent parts, allowing users to focus on a section of code rather than the whole program.
○ *Open standards*: Clear standards were set against which innovations could be judged, meaning that new ideas

      could be shared, discussed and judged against a widely
      understood set of rules.

○ *Central design authority*: Linux's creator kept control of
      the kernel of the program and had the final say over how
      it was changed. The system had authoritative leadership.[64]

In other words, a system that encourages frontline innovations, but also has a means to capture and replicate the best of them across the system. The public sector already has many of the factors necessary for an open systems approach – outcome goals provide scope for modular innovation and clear criteria for success. Central agencies would act as central design authorities, capturing learning and mainstreaming it. But to make a sustained difference, this kind of approach would need to be taken up progressively by more and more public servants, working its way through all the different levels of organisation currently involved in resourcing, implementing and monitoring government policies.

Trust-based management

The approach we advocate can work in practice only if governments and the public are prepared to loosen some of the controls they currently place on public servants, allowing them the space to enter into dialogue with service users and create more innovative approaches to delivery. This means creating an environment that is based more on trust, transparency and faith in the intrinsic motivations of staff than on tightly controlling performance management.

    The idea of trusting public servants should not seem so extraordinary. In the UK, the Audit Commission has shown that 'making a positive difference' is the main reason that people enter the public sector[65] – and a lack of autonomy is a key reason why they leave. These findings are supported by the State Services Commission, which has shown in its recent career development survey that New Zealand's state sector staff are primarily driven by the 'feeling of accomplishment' they get from their jobs, with 'effective

management' and 'challenging work' following behind. As the SSC reports:

> Some research shows that the type of person attracted to work in the public service may need to feel a greater degree of pride and accomplishment in order to enjoy their work than other groups of employees do. While this is a positive attitude when public servants' need for satisfaction is met, their pride may become eroded when the public service comes under attack, or when public trust and confidence in the public service is low.[66]

Studies have shown that organisations which display high levels of trust often have substantially lower transaction costs and greater sharing of knowledge and new ideas. One international study of car manufacturers found that the organisations with the lowest levels of trust spent nearly half their face-to-face time on managing transactions, whereas those that displayed the highest levels of trust spent only a quarter. Trust also encourages the sharing of ideas and resources to seek better outcomes.[67]

Organisations like the Japanese car manufacturer Toyota provide promising models for achieving a better kind of management. It does not pay its employees extra for high performance, but seeks to harness their intrinsic motivation and sense of pride in their work.

Key principles in the Toyota system are a reduction of central controls, encouragement of individual initiative, fewer metrics attached to individual performance and louder peer applause for success. The result is a workforce that is far more capable of effectively regulating its own productivity and behaviour through shared values and expectations. As Philip Evans and Bob Wolfe argue:

> When information flows freely, reputation, more than reciprocity, becomes the basis for trust. Operating under constant scrutiny – which is challenging but not hostile – workers know their reputations are at risk, and this serves as a guarantor of good behaviour, the equivalent of contracts in a market or audits in a hierarchy.[68]

We should always be wary about simply transliterating private sector approaches into public services – an approach that has had very mixed results in the past. And yet the principles that lie behind the Toyota model do seem applicable to the way public servants work, provided that managers and ministers are prepared to make a fundamental shift in the way they have traditionally employed their staff. External rules and accountabilities are fine if we want to enforce compliance and drive people to conform to a template of good performance, but they are weak motivators of innovation and 'above and beyond' behaviour.

This means removing barriers to frontline innovation and collaboration, but equally it will require a degree of cultural change among public servants and managers to help them make the most of a permissive environment. Autonomy and flexibility are not unconditionally good; they must be used in relation to clear goals and accountability to citizens, peers and outcomes. But if that change is to be successful, it can emerge only through an open discussion between frontline public servants, service users and managers about the needs of local people, the barriers to meeting them and the techniques that can be used to overcome those barriers.

Internal partnerships between employers, staff and unions offer one important route to achieving an ongoing conversation about public service culture. Unions are particularly useful because they already cross service and departmental boundaries – they provide perhaps the quickest and easiest way to assemble and hold a conversation with diverse groups of frontline public servants.

Because of this, one option for practical change might be to use partnerships with organisations like trade unions to embed new kinds of practice at the regional or local government level, bringing together practical workshops from across the public sector – including local government, PHOs and other providers – to discuss and address barriers to collaboration.

This should be a first step towards a more unified form of public service, which can combine flexible working patterns with the cohesion that comes from shared values and goals. A key means of

meeting that goal will be creating more opportunities for public servants from across the whole range or New Zealand's government institutions to undertake joint training and development.

New technology could help to facilitate this process by providing people with easy ways to communicate about shared goals and share learning. The e-enabled social worker who can meet a young family and use a PDA to put together a personalised package of services in real time may not be too far away.

In financial terms, governments could provide incentives to support collaborative working – perhaps small pots of funding that are available only for joined-up frontline initiatives. Certainly a sense that pay and rewards are geared towards collaborative action and citizen engagement is necessary.

The required change of culture seems most likely to be driven by change in the following areas:

○ *Rules*: Moving from a system where rules are imposed externally to one where they emerge from a dialogue with public servants and are increasingly internalised and monitored by fellow workers would reduce compliance costs and free people from narrowly defined and inflexible processes.

○ *Resources*: Creating pools of funding specifically aimed at encouraging frontline collaborative work would help public servants move from a sense that they are competing over narrowly defined budget streams.

○ *Leadership*: Taking opportunities to develop a new approach and embedding long-term commitment in the way that state services are managed, regulated and developed, will benefit from administrative and political leadership.

○ *Identity*: Investing in a powerful sense of shared identity across the New Zealand public service would create a sense of shared endeavour and goals, helping people to see colleagues from different specialisms as part of the same overall system.

This requires a move from a system predicated on classical contracting and a quasi-legalistic form of accountability to one that embraces notions of relational contracting and professional accountability. Robert Gregory sums up our proposed approach:

> *A mechanistic approach [to accountability] focuses dispro-portionately on notions of organisational accountability at the expense of responsibility, and may as a consequence prove counterproductive over the longer term in maintaining high standards of ethical probity. A concept of responsible accountability needs to be developed further as a means of countering this probability.*[69]

6. Making it exciting at the frontline

Sitting in a quiet Wellington backstreet, Evolve's main job is to act as a health centre for the city's young people. But when you walk into the building for the first time, the first thing that strikes you is likely to be kids playing on pool tables, using the internet or taking classes in kickboxing. It's only when Evolve's manager, Simone Piatti, takes you behind a screen at the back of the hang-out space that you realise this is also a base for nurses, doctors, youth and social workers. The result is that Evolve brings in young people who might otherwise never come into contact with the state – the gang members, prostitutes and homeless who so often fall through the cracks.

Evolve's responsiveness is based partly on the fact that many of its staff and board are under 25, and some of them are former service users. That fact means that the health centre can spot new needs quickly and find innovative ways to respond to them.

In one recent case, Piatti's team was faced with an influx of youth gang members who caused trouble in the centre and sparked a wave of complaints from neighbours. Evolve responded by bringing in a hip hop band idolised by the gang to run classes in rapping and DJing. The quid pro quo was simple: we offer something you like, and in return you treat us with respect. Evolve is also helping to broker better relationships between young people from Wellington's African population and the police.

Piatti is understandably cautious about her centre's success.

Vulnerable young people's lives are not going to be turned around overnight simply by attending Evolve. But she can proudly point to gang members now in work for the first time, young African youth workers going on to university and teenage mothers who have been able to retain custody of their children. In the long run, this approach can help stop people from becoming marginalised, nipping serious social problems in the bud. 'If you look at it in lifelong terms, you make a huge saving,' says Piatti.

A new professionalism

Evolve demonstrates powerfully the fact that public service at its best is about changing people's lives in partnership with people and communities. Piatti's scheme is precisely the sort of place where radical public service innovation can take place. It has the freedom to try new things and the spur to change that comes from deep engagement with its service users.

Her staff also provides an example of a new kind of a new public service professionalism for the twenty-first century. Charles Leadbeater suggests a new model of public servants as campaigners, counsellors and advocates, who engage in 'dispensing advice, supporting clients, campaigning for cultural change, navigating access to resources and promoting self-help'.[70]

In this model, accountability to ministers is tempered by the accountability that, in practice, public servants have always had to the people they serve. Public service ethics, political neutrality and national frameworks remain critical parts of being a government employee, but within those limits the goal would increasingly be to provide, broker and advocate for the best possible deal for a more demanding and capable clientele. Politicians set the goals, allocate the resources and define the lines that cannot be crossed in implementation. Public servants gain more freedom to work out precisely how to meet the goal within a national framework, provided they take on more direct responsibility to the people they serve.

Empowering people at the frontline is the final element of the reform agenda we set out in this report. If democratic partnership

with people creates the conditions for frontline accountability, and a problem-solving government can set goals without tightly specifying how they should be met, then innovative and exciting frontline work by dedicated staff is the thing that ensures that public services improve and meet the needs of their users. Ultimately, if services are going to be joined up around people, then it will be frontline staff who achieve this.

The challenge for New Zealand is to overcome the institutional legacy of the new public management era, which, in its efforts to overcome the danger of producer capture, too often privileged control and process over autonomy and innovation. The result is that only 40 per cent[71] of state sector workers feel their organisation is good at providing a sense of achievement.

The current institutional framework creates conditions that can make it very difficult to innovate and work collaboratively, a fact highlighted by Ann Walker:

> It is questionable whether sufficient levels of trust can ever be achieved while so much of the new public management framework, which was a direct causal factor in the breakdown of interagency trust in the first place, remains relatively unaltered. As the saying goes, 'if you always do what you've always done, you'll always get what you've always got'.[72]

Yet Walker is too defeatist – the sheer amount of collaborative work that is taking place in New Zealand, particularly in areas like social development, shows that restrictive structures are not an absolute barrier to a new way of working. Good people can overcome difficult structures with the right support, investment and involvement in decision-making. This chapter tries to set out how investment in people can become the key to realising the aims of holistic, democratic government – privileging the social systems of frontline staff over a preoccupation with formal structures.

A new deal at the frontline

New Zealand's 1990s reforms explicitly viewed public service workers as a threatening presence bent on 'capturing' national institutions. Taken to its logical conclusion, this argument suggests a zero sum game, in which gains for the service consumer can come only at the expense of a loss of autonomy for the producer, who is all too often seen as a mere agent of government, to be controlled through contracts and performance pay. And yet, as Mark Moore argues, this creates conditions in which it is far harder for public service workers to create the dynamic and innovative approaches that governments insist they want:

> *Society denies its public sector the key ingredient on which its private sector specifically relies to remain responsive, dynamic and value creating: namely, the adaptability and efficiency that come from using the imaginations of people called managers to combine what they can sense of public demands with access to resources and control over operational capacity to produce value.*[73]

Moore's argument is that society still benefits from the imaginations and innovations of dynamic public sector staff, but that those staff chafe under the restrictions imposed on them – governments often get the benefit of people like Simone Piatti and the hundreds like her despite the system, not because of it. The public servants we see as street level bureaucrats are often everyday heroes in disguise.

Changing this situation means combining new types of empowerment with new kinds of accountability, for instance by giving public servants the power to adapt and personalise services in return for being held more accountable by service users. By being held responsible by communities and service users, public servants accept more complex accountability, but gain extra freedom and legitimacy to vary the terms of national policy to meet frontline or local needs.

The UK's experiments with personalisation in social care and education offer an example of how new approaches to professionalism can be put into practice that enable innovation and tailoring by giving the service user more power over what they receive. Traditional state services are often based on an industrial model – we deliver hospital operations in the same way that we deliver a stereo or a washing machine, offering people a range of relatively standardised options.

Personalisation sees services as more dynamic, describing them as a 'script' that directs how the actors engaged in delivering and receiving a service should behave and what they should expect. Scripts can be improvised and rewritten in a way that tailors the service experience to the needs of the user and generates new approaches to the service. If a disabled person wants their family or *whānau* to care for them, they should be able to get help to support that aspiration, rather than relying solely on what the state can provide.

Personalisation delivers innovation because it requires the user and provider to work together to find new ways of delivering a service, and it encourages both sides to develop tailored solutions to problems that might previously have seemed intractable. The aim is not necessarily to create ultra-individualised services, but to tailor them to people's needs within a framework of national, local and community decision-making. Indeed, one of the advantages of personalisation is that it can help public services to recognise informal networks of support from family and community, perhaps providing financial support to people who want a neighbour or grandparent to act as their carer.

The key implication for public services is that they need to develop the flexibility to be able to adapt to a wide range of preferences from their service users, some of which will not have been envisaged when the service was originally designed.

The following key steps are necessary to provide more personalised services:

○ *Intimate consultation*: Public servants should work with clients to help unlock their needs, preferences and aspirations, through an extended dialogue.

○ *Expanded choice*: Give users greater choice over the mix of ways in which their needs might be met, to assemble solutions around the needs of the user. In practice, this could include providing support to families, friends or *iwi* supporting a sick or disabled person.

○ *Enhanced voice*: Expanded choice should help to further unlock the user's voice. Making comparisons between alternatives helps people to articulate their preferences. This is very difficult to do from a blank sheet of paper. Choice helps to unlock voice.

○ *Partnership provision*: It is possible to assemble solutions personalised to individual need only if services work in partnership. An institution – for example a secondary school – should be a gateway to a range of learning offers provided not just by the school but by other local schools, companies, colleges and distance learning programmes. Institutions should be gateways to networks of public provision.

○ *Advocacy*: Public servants should act as advocates for users, helping them to navigate their way through the system. That means clients having a continuing relationship with public servants who take an interest in their case, rather than users engaging in a series of disconnected transactions with disconnected services.

○ *Co-production*: Users who are more involved in shaping the service they receive should be expected to become more active and responsible in helping to deliver the service: involved patients are more likely to attend clinics, students to do homework. Personalisation should create more involved, responsible users.

○ *Funding*: Funding should follow the choices that users make – giving people state help to design their own

package of support from family, friends or neighbours, communities, *iwi* or the voluntary sector.[74]

The missing link – policy and practice

Trusting public servants means trusting them to take decisions in partnership with empowered service users, but the danger of this approach is that it makes frontline practice so tacit and remote from the centre that it is hard to capture the learning and innovation taking place on the ground. Frustratingly, the act of allowing more innovation may make learning from it more difficult.

Periodic research exercises and formal evaluations of policy are likely to be part of the answer to this conundrum, but will always be less timely and responsive than a constant flow of information going *both* ways between policy and practice. One of the problems identified with the new public management reforms is that such feedback loops are often cut off by the combination of mistrust of public servants and the separation of purchasing and providing functions.[75] In other words, learning exists within such a system – but never reaches policy-makers due the fragmentation built in to the system.

The present government has recognised the limits of such an approach – in 2000 the then minister for State Services, Trevor Mallard, argued:

> *There's an absence of full-loop learning – feedback on whether policies actually work – because the policy advisors work in a department other than the delivery one and the connections between operations and advice aren't established.*[76]

In the intervening years between 2000 and 2006, the government has taken steps to reunite policy and delivery functions as part of an effort to create a system of government that 'works practically rather than theoretically'. This steady realignment of policy and practice, in the name of creating a system of government capable of learning from itself, could be supported by:

○ *explicitly recognising people working in public services as legitimate stakeholders in the policy-making process*. For systems to be able to learn from experience, the insights of those working with service users need to be recognised as an invaluable source of information. In the private sector, the most successful organisations often see their employees not as self-interested agents seeking to maximise their own utility, but as the eyes and ears of the organisation.[77] The point here is to recognise the *practical value* for organisations in drawing on the capability and insight of all their staff.

○ *constructing career paths to support the steady flow of knowledge between organisations in the state sector*. As discussed earlier, difficulties arise when people see problems from only one perspective. Taking steps to create a more diverse range of career paths within the state sector might help address this. Its advantage would be to provide state services with employees armed with a far greater breadth of experience – and a more rounded understanding of policy dilemmas as a result. As former Whitehall civil servant Michael Bichard has argued in relation to the UK context: 'Artificial boundaries . . . discourage the free flows of ideas, experience, knowledge and good practice.'[78] This may also be true across organisations with responsibility for policy-making. Holistic policy may require policy-makers with more holistic professional experience.

○ *publicly specifying the knowledge requirements of public servants in ways that emphasise more explicitly the skills of brokerage, inter-agency collaboration, service design and organisational learning*. The occupational requirements of public service work are most often expressed in terms of a specific, technical knowledge base rooted in a particular sector, such as teaching or nursing. In reality, successful public servants must know just as much about how to

participate in high-performing teams and how to
contribute to organisational performance in increasingly
fluid and complex environments. The charters and terms
of service for all public servants should be able to
acknowledge the importance of these additional forms of
knowledge.

In this way, public servants need to be recast – in public policy and
discourse – not solely as self-interested agents to be controlled and
guarded against, but as valued and essential partners in progressive
reform. Resistance to change needs to be seen through the prism of
public service values and how they play out in human systems, and
responses need to be crafted that *draw* on those values rather than
seeking to ignore or override them.

Conclusion: A different kind of reform

As the population of their country reached four million in April 2003, New Zealanders waited for new social and cultural patterns to coalesce and new understandings to percolate through society to restore a measure of the cohesion that had been lost when they dismantled so many of the traditional certainties which had laid a foundation for a coherent and national view of the world.

Michael King[79]

When New Zealand tore up its old welfare state in the early 1980s, few people can have imagined the unprecedented wave of social, economic and cultural change that would follow. The result of that change was not a new settlement, but an opening up of the country to the benefits and challenges of the outside world. Change became a constant. In 2006 the country's future still seems uncertain. But as we have discovered over the past year, good futures are entirely possible, particularly if the country can bring itself to trust its government and public servants to help shape the coming decades in a positive way.

Michael Joseph Savage and Sir Roger Douglas both showed that government policy can change the world, but making change happen today is a different business. Simply restructuring government is not enough to empower New Zealanders to shape the kind of society that they want to live in.

Many of the challenges that lie ahead for New Zealand – from energy to community cohesion – will not be met by government acting alone, or without it acting at all. Instead, people and government must build a new relationship, working in partnership to drive economic and social progress. In our complex world, real change happens where people meet policy – shaping it, deliberating on it, participating in its delivery.

In our age of long-term, seemingly intractable problems it is not credible to expect politicians to have all the answers. But we do need to find ways of addressing the big questions, and forming alliances across and beyond government to find the solutions. As Geoff Mulgan argues: 'A state that can act as a servant requires a people that is also willing to take and use power for itself.'[80]

All of this means that, if it is to be successful, the next phase of government reform will have to be very different from the age of Savage or Douglas. An approach based on periodically revisiting the structure of government will need to be replaced by a system that can adapt continually over time – renewing itself to take on new challenges that simply cannot be predicted today. Because of this, our report has focused primarily on new approaches and ways of thinking about government that can help it prepare for the uncertainty to come. Ultimately, we expect that these approaches will lead to a state that is very effective at doing the following things:

○ focusing less on delivering better services *to* people, and more on solving problems *with* people and communities by engaging with their cultures
○ creating space for discussion of long-term, strategic challenges and involving the public in finding solutions over time
○ creating cultures of learning and innovation that enable the public service system to find solutions to long-term, 'messy' problems
○ using new technology as the basis for social innovations that create new ways for the state and citizen to communicate

○ tailoring services to the needs of individuals by
developing new mechanisms for *dialogue* between service
users and professionals, and avenues for personalisation.

That said, the next wave of reform for New Zealand's public services
will not happen simply because people start thinking differently. Nor
will the current set of state sector development goals suffice.

Concrete policy changes are also required to kickstart the process
of evolutionary change, but these are not necessarily major structural
reforms. Rather, they are attempts to identify, recognise and
strengthen the networks of social and interpersonal relationships that
already sit alongside the contracts, goals and targets of the New
Zealand model, helping public servants and the people they serve to
overcome the restrictions and frustrations they face.

Over time, we would expect this kind of policy change to lay the
foundation for more radical reforms, based on a deep knowledge of
what really works in meeting the needs of New Zealanders. Trade
unions that accept the need for progressive change can be powerful
and legitimate partners in making that change happen.

The suggestions below are offered as a catalyst for debate.

Find evolutionary ways to unify the public service

Managing for outcomes requires much greater joined-up working
between public servants across organisational boundaries. The social
partnership approach that is developing between the New Zealand
government and its workforce should be used to catalyse positive
change by creating a more innovative, flexible, unified and
collaborative workforce.

The government should work with unions to agree a set of values,
ethics and training standards based around innovation, collaboration
and democratic engagement. Employers and unions would then act
as agents of cultural change on the ground, bringing together public
servants and managers from across different departments and local
service providers, including local government, in a national debate to
discuss and address barriers to collaboration and innovation.

The aim of the process would be to create a 'charter for public service excellence' setting out the changes all three partners – government, employers and workforce – will make to develop a new professionalism to meet the needs of the future.

As part of the process of creating the new charter, the government should consider whether some forms of pay and benefits could be standardised across departments and local service providers to make it easier for people to move between different parts of the state sector. This could sit alongside 'job swap' and skills exchange programmes encouraging public servants in different areas and sectors to move laterally and exchange knowledge across different areas.

Reduce public sector regulation

As part of its current expenditure review, the New Zealand government, in partnership with the State Services Commission, could initiate a regulatory review of public services in which frontline public servants were invited to contribute ideas for improving flexibility and reducing unnecessary burdens of compliance and working practice. Rather than conducting an external efficiency review designed to cut costs, and then imposing its recommenda-tions, as is the international norm, the regulatory review would deliberately seek ideas and proposals on how to increase transparency, flexibility and innovation from public service employees themselves.

Create a citizen's assembly on long-term outcomes for New Zealand

Government should establish a national citizen's assembly to deliberate over the long-term outcomes and values that matter most for New Zealand's future – the assembly would examine issues ranging from competitiveness to social cohesion, quality of life to environmental sustainability, but would seek to establish long-term outcome goals that could become embedded in long-term public planning on a bi-partisan basis. It would not be tasked with identifying specific policies or implementation paths, but would be

asked to identify major tensions, trade-offs and choices foreseeable in New Zealand's current growth path, helping to identify the areas of innovation that New Zealanders could benefit from most.

Create virtual departments to deliver on outcomes

The New Zealand government should create a greater focus on delivering outcomes by creating virtual 'departments' that cut across government and the wider public sector to develop and implement a small number of key outcome-based programmes over a three-year parliament.

These departments would essentially be networks of policy-makers from across and beyond government. Led by the most relevant minister and based in that minister's department, their duration would be given a fixed time scale and linked to progress towards the policy outcomes. The teams would be made up of civil servants from across all the relevant parts of government, but would also involve significant numbers of key people from the wider public sector and civil society who will play a key role in delivering the outcome – including frontline workers, NGOs and businesses. Those from outside the civil service could be involved through short-term secondments or through electronic networks.

The aim should be to identify the key people who can drive changes across the system and involve them in a rapid policy-making process that involves significant public engagement and challenge. This will enable the teams to draw on frontline experience, but also ensure that the policy-making process is communicated back to other key players in the delivery system.

Drawing on practitioner and external expertise, the virtual departments would develop and coordinate budget allocations and implementation strategies, and go on to place some of their members in the key delivery organisations responsible for implementation and innovation. They might be given small amounts of discretionary funding to encourage coordination.

This practice would come to constitute part of the top layer of central government policy analysis and management, and would help

move the existing departmental structure towards a more permanently flexible, project-based matrix structure in which teams and organisational structure directly reflected objectives and progress towards them.

These virtual departments would help to model collaboration across government. A small permanent secretariat in the prime minister's department would provide support and oversight of the programmes, providing buy-in at the highest level in government, supporting the network and helping to identify and support innovative practice.

Open source learning networks

While outcome-based departments would be used to develop effective policy across government, there is a danger that they will simply become task forces that fail to connect to delivery. A connection to local and regional delivery organisations should also be made by establishing electronic learning networks that allow people at all levels of the system to discuss policy, implementation and evaluation issues. The learning networks would help support the system to learn over time, updating and improving government policy and enabling greater learning from frontline practice.

These networks would be underpinned by investment in knowledge-sharing technologies – such as blogs, chatrooms, regular practice reviews, intensive 'collaborative' exchanges and anonymised discussions – that would make open participation easier and more meaningful for all kinds of participant.

These knowledge networks could inform and enrich specific policy-making projects, but would also act as an ongoing, two-way conduit between government agencies and the wider population of public service organisations.

As part of this programme of lateral learning, the government should encourage the creation of a pool of case-based learning resources that explore how sets of public service organisations can pursue shared goals, clarifying how to overcome obstacles to collaboration. Teams of public servants should be encouraged to visit

each other's locations and create their own learning materials and analysis.

Local coordination partnerships

Outcome-focused government will require coordination at all levels of government. Local coordination partnerships would act at city level to bring together the key service delivery players to manage for regional and local outcomes. Perhaps hosted by the regional government, they would include local government staff as well as regional employees of national departments. The partnerships would develop, tailor and agree strategies to balance local and national priorities.

Rather than operating separately from central government, these partnerships would 'sign off' agreed sets of priorities with programmes or central departments drawing on the views and expertise of local people and professionals. This would provide an important opportunity for the general public and those working on the frontline to feed into the policy-making process.

These partnerships would receive core levels of funding from central government, but would have the power to raise additional funding if agreed on by people in the area themselves.

Experiment with new forms of select committee

New Zealand's parliamentary committees create a vital way to scrutinise policy. They could be supplemented by experimenting with new forms of informal select committee to provide different perspectives on key national debates. For instance, the government could use 'people's committees' that would involve people – on the same basis that they would undertake jury service – in becoming expert scrutineers of a controversial piece of legislation. Another option would be to create a 'young people's committee', which would allow people under 18 to scrutinise legislation likely to have a long-term impact, particularly on issues such as climate change or children's services. In all cases, the external scrutineers would produce a report with no formal but plenty of moral power. They would be provided with training before starting the scrutiny process.

0800-Beehive

Create a single, national non-emergency number like New York's 311 that would allow people to access all public services from their telephones. This would involve bringing existing customer contact staff together into a new 'department of citizen service' that could provide real-time, geographical data about people's needs and concerns, helping government become far more responsive, and encouraging the pooling of non-sensitive and citizen-created knowledge about places and services.

Focus on people's experience of public services

New Zealand's current output-based system tends to provide fragmented and often incomplete information about what is really being provided on the ground and people's experience of it. The government should increasingly use measures of citizen experience of services as a way of measuring success. This would help to overcome the problems experienced by countries like the UK, where investment in public services has not translated into improvements in citizen satisfaction. These should not initially be statement of intent goals, but parallel measures of success to be developed experimentally over time. Once the measures are considered robust enough, they could become a more important part of departmental performance management.

Appendix: Scenario planning and the future

Over the last 50 years scenarios have become an increasingly important tool for helping decision-makers from all walks of life to formulate well-informed, long-term strategies.

The purpose of scenarios is absolutely *not* to predict the future – and none of the four scenarios presented here should be interpreted as such. Rather, scenarios are used to explore the implications of present trends and future possibilities, in order to prepare for any number of possible futures.

In this sense, scenarios are designed to prepare us for inherently *unpredictable* events – and to empower us to shape the future ourselves through our own decisions. As scenario planner Adam Kahane explains:

> One of the premises of scenario thinking is that the future is not predetermined and cannot be predicted, which means, therefore, that the choices we make can influence what happens. In a situation where people feel swept along by overwhelming, inevitable currents, this is an empowering world view.[81]

Uses of scenario planning around the world

Under the guidance of the futures expert Peter Schwartz, Shell famously used scenario planning to identify the possibility of an oil crisis in the early 1970s. When the crisis actually happened, Shell was able to weather the storm much better than its competitors. From being the seventh largest oil company in the world Shell

negotiated the various obstacles of the 1970s and 1980s to become one of the top oil-producing companies in the world.

Scenarios soon became a topic of great interest to businesses and governments around the world. Recently the **British government** undertook a major health review using scenario planning to study the long-term trends affecting the UK health service. The review prompted a shift within health policy towards public health and preventative approaches (such as tackling smoking, obesity and excessive salt consumption).

In 2006 the **State Services Authority in Victoria**, Australia, published a report on the future of the state's public sector, with a time horizon of 20 years. The report was an exploration of the key trends and drivers that might shape the future ways in which Victorians live and work. Scenario planning was used to explore how the state sector could 'influence some elements in its operating environment, meet the challenges and respond to the opportunities presented by internal and external change'.[82]

The four scenarios used to inform this report were developed though a process designed by Demos and used regularly in our work.

The process drew on the knowledge, experience and insights of a diverse range of participants – from unionists, to politicians, employers and academics. During visits to New Zealand made by Demos in 2006, a series of interviews and workshops was held in Wellington, Auckland, Christchurch and Palmerston North, involving more than 150 New Zealanders.

The process for establishing the scenarios involved five stages.

Phase 1: Exploring different perspectives

This meant exploring the full range of issues relevant to the future success of New Zealand's state services, drawing on statistical trends analysis and – importantly – the tacit knowledge and judgement of workshop participants.

Phase 2: Identifying important and uncertain factors

This meant clarifying which of the trends identified in phase 1 would become most important for decision-makers to engage with in the coming years. What are the key forces that will carry most impact and are most certain?

Phase 3: Characterisation of driving forces

Having established the most important and uncertain trends, phase 3 involved exploring how the driving forces might play out. What are the different alternatives that can be envisaged and what is the range of possibilities?

Phase 4: Developing sketch scenarios

With a clearer picture of the range of potential challenges for New Zealand and its state services in the future, phase 4 was dedicated to creating two or three sketch scenario stories. These early stage scenarios were used to create a narrative around how the key driving forces could interact.

Phase 5: Finalising scenarios

Phase 5 involved testing the scenarios against the issues raised at the beginning of this process, ensuring that each scenario had its own consistent internal logic and reflected the key trends identified in phases 1 and 2.

The four scenarios used here have been used to inform this report – helping to clarify some of the strategic challenges and opportunities for New Zealand and its state services in the coming years. They are included in this appendix for two reasons: first as a background to the report and as an insight into the research process behind it. And second, they are included in the spirit of the report itself: as a stimulus for discussion in the coming years.

Scenario 1: Lonely social democrats

A succession of fuel price shocks in the mid 2010s has left New Zealand a more inward-looking nation that is focused on improving quality of life and dealing with its own social problems, rather than securing economic growth. The government takes an interventionist approach to the economy in a bid to reduce dependence on expensive foreign imports. Public services become vital to supporting quality of life in a country that feels increasingly isolated. Politicians compete to show who can deliver the best services, leading to an explosion of performance indicators and inspections.

The 2010s were a bruising decade for New Zealand. Buffeted by rapidly rising fuel prices, falling behind on growth and increasingly worried about racial tensions and growing inequality, New Zealanders elected a succession of governments that turned away from the global marketplace.

Public services have spent much of the past decade muddling through, but by 2021 the argument appears to have been settled in favour of relatively high investment and good standards of delivery. A modernised form of 'tax and spend' economics is in vogue after a Labour-led government decided to spend its way out of the recession that followed the fuel price hikes, briefly taking public spending as a percentage of GDP to highs not seen since the 1970s. High public spending has taken some of the edge off rising unemployment levels, but they remain high in an economy that is still adjusting.

The sea change in attitudes towards public services is widely attributed to the government's adept handling of the energy crisis. Some commentators also point to the emergence of a new constituency in support of public services, combining the retiring baby boomers and activist elements of the increasingly important Māori and Pacific electorates, all of whom want good-quality provision.

This new constituency ensures that all the major parties now compete on the basis of who can deliver the best standard of service

for citizens. Investment in health and social services is totemic for the baby boomers, who recognise that they will need help to lead an active retirement, while education, skills and employment opportunities are key priorities for younger Māori voters.

The tax base is growing at a snail's pace, but with the pressure of global competition lessened, governments are starting to feel more comfortable with higher levels of taxation. Revenues are buoyed by a scheme that seeks to attract wealthy European retirees to a New Zealand that sells itself as an idealised version of 1950s life.

The public management practices followed by ministers in 2021 would be largely recognisable to a member of the governments of the early 2000s. But the politicians are increasingly desperate to prove that their investment is delivering results, and over the last decade this has led to an explosion of data collection, inspections and performance indicators. These have been slowly extended to local government, leading to complaints of a takeover by Wellington.

Most public servants dislike the attempts by outside inspectors to assess and improve services, but some are quietly pleased at the way their country is developing. Those who remember the 'bad old days' of the 1990s can sometimes be heard telling younger members that things have never been better.

But some people entering the public service in the late 2010s feel let down by a lack of vision and excitement in their jobs. For young people in particular, the world seems a much smaller place with fewer opportunities for successful careers, and those who can afford it spend more time than ever before in economically vibrant Australia or bustling London.

Journalists have picked up on the lack of vibrancy in politics. They joke that there is such a degree of policy consensus between the main parties that Statistics New Zealand increasingly decides who wins elections. The politicians retort that the country has entered a new era of politics where what matters is not 'what's left or right, but what's right or wrong'.

There have been piecemeal reforms of the public sector over the past 15 years. Primary health organisations have led the way in

helping the state to influence people to live better lifestyles, while education and adult social services have moved in the direction of customising their services to meet individual needs.

The reforms have not been radical, but they have slowly made the public sector more responsive, helping it to win greater public support. The private sector still plays a part in providing services, and National-led coalitions place an emphasis on driving the domestic economy by using business and the voluntary sector to deliver public services.

New Zealand has prepared relatively well for the wave of retiring baby boomers it will face in the coming years, but there is still anxiety over who will fund state pensions. With their young people leaving and being replaced by older, richer foreigners, some politicians worry that their country could simply become a retirement playground for the world.

Scenario 2: The blame game

It feels as if New Zealand's public services have been on a rollercoaster ride for the last 15 years. The voters have alternated between increasingly unstable Labour- and National-led coalitions, creating fast and sometimes dramatic changes in public expenditure as the left tries to increase spending and the right to reduce it. The public feels like neither side is delivering on promises of economic growth and public service improvement. The result is a dramatic loss of faith in the ability of the state to solve New Zealand's economic and social problems. The public demands more choice over where it purchases services and there has been radical devolution of power to cities and iwi.

It's not that the politicians of the 2010s didn't notice the long-term challenges they face. It had been obvious for some time that New Zealand had failed to create enough of the high-value industries that it needed to drive economic growth – no one could ignore rising unemployment. And there was no shortage of Māori and Pacific politicians ready to warn about the increasing polarisation of

different ethnic groups in Auckland.

The real issue is the lack of consensus about how to solve those problems, with the main parties still fundamentally divided on a whole range of issues. Combined with the 'revolving door' politics and weak coalitions of the 2010s, this meant that no party had the mandate or the time in office to develop long-term solutions.

By 2021, most New Zealanders have decided that they need to solve their own problems – there is an automatic assumption that no one can do a worse job than the government. There are two clear demands on the table: greater choice about who they buy their services from, and radical devolution to local authorities and *iwi*.

Private companies from South Africa and Australia have responded to this new attitude by setting up chains of low-cost private schools and hospitals in New Zealand's cities during the 2010s. These new institutions fuelled demand for education and healthcare vouchers, which were finally introduced in 2018. Resources for public services are weighted towards the poor, allowing them to take up many of the available school and healthcare options, even though the wealthy can 'top up' that funding with their own money.

The push towards devolution was led by Auckland's mayors, who increasingly resented what they saw as a drain on the city's resources by squabbling national politicians. The city is now run by a single mayor under the Auckland Regional Council, which has wide-ranging powers over economic development, transport, education and healthcare.

The city is attempting to re-brand itself as an international business hub and there are increasing calls from the mayor for Auckland to be able to keep more of its own tax dollars. Refusing to be outdone, mayors across New Zealand are pushing for similar levels of devolved responsibility.

The new environment has encouraged the Māori to start down the path of parallel economic and social development to the ageing Pakeha majority. The more enterprising *iwi* are using the new-style public services to make a profit from delivering education, health and social care services directly to the Māori. Some of New Zealand's most

exciting companies have developed from *iwi* business nurseries. But there is increasing concern about the creation of two nations in one country.

Those public services that cannot be devolved or marketised are subject to intense pressure for greater efficiency and effectiveness. Spending is permanently tight for people working in these areas and cuts are a constant threat for those who cannot prove their value to the public.

Some public servants adapt well to the new environment, starting up their own businesses and consultancies to deliver services. The devolved city governments can be exciting and innovative places to work. But the many who cannot keep up with the pace of this new world feel undervalued and under pressure. It becomes increasingly difficult to attract staff into some parts of the public sector.

Scenario 3: Affluent consumers

New Zealand's economy is booming. The country has become a world leader in biotechnology and a creative hub for the south Pacific. The economic boom is attributed to a new breed of business whiz kid inspired by the successes of Sam Morgan. But underlying this economic achievement was a deliberate attempt by successive governments to adapt to the pressures of globalisation through lower tax and deregulation, shrinking the public sector in order to boost the economy. The new generation feels it succeeded despite the state, not because of it. The affluent upper and middle classes take an increasingly consumerist approach to public services. They are prepared to pay tax for a good safety net, but not much else.

The Economist magazine has dubbed the new economy 'Kiwi Capitalism' – arguing that New Zealand's entrepreneurs combine business flair with a strong sense of values. The country's business ethic comes from Sam Morgan, but its economics are from his father, the neoliberal economist Gareth. A Māori middle class has emerged over the past 15 years and is seen by many to be an equal participant in the country's economic success.

The new business class doesn't want growth at any cost and is happy to see a safety net provided for the poor and vulnerable. But a decade of low spending in the 2010s has made public services seem second best. The new entrepreneurs feel that they made their success on their own, and they have become used to taking a consumerist approach to public services, shopping around for the best healthcare and education.

Several of the new entrepreneurs have made their fortunes by offering cheap and easy versions of public services directly to the public. Privately provided health insurance, private tuition and online learning are increasingly commonplace.

Most cities now have a thriving branch of EZService, a charitable one-stop shop created by a consortium of business leaders. It provides advice on how to put together the best package of public and private sector services to suit people's needs. EZ advisors act as consumer advocates, loudly critiquing services through the media when they consider them to be underperforming. For a large part of the population, their first phone call when faced with a problem is not to the state, but to EZLine – the company's Auckland-based call centre.

Public services have responded by radically diversifying their own offering, essentially trying to compete with the private sector on its own terms. Most children get part of their state education from a national, internet-based learning database, which offers access to a digitised curriculum and teacher support via email. The service is widely seen to have cut costs and delivered greater choice, although one result of the reduction in teaching staff is an increasing use of private tuition and home schooling.

In Wellington, the government has taken on a radically new role. Its traditional core business as an employer and provider of services has greatly diminished. Most policy advisors spend their time working in a commissioning and market management role, ensuring that all of the public, private and voluntary sector providers in the public services market meet minimum service standards and that there are enough places to go around. The directly employed public sector workforce has shrunk dramatically as the market has grown,

making union organisation far more difficult and collective bargaining nigh on impossible in some areas.

Benefits and traditional public goods such as regulatory services remain an important part of the public service system, and are largely under the direct control of the government in Wellington. Local government is seen as an unloved necessity, and most councils have succumbed to the pressure to hold referendums on local tax levels, leading to overall spending reductions.

Some New Zealanders like the diversity and choice that the new system has created, but others are bewildered by the explosion of consumerisation and uneasy about its social impact. It is becoming clear that despite continuing government attempts to help the poor make the most of the system, some people from disadvantaged backgrounds are falling behind the mainstream of society.

Scenario 4: Brand New Zealand

New Zealand has been transformed over the past 15 years – forging a distinctive identity that combines economic success, creativity, green values and a high quality of life. Economically, the country has embraced the knowledge economy. Socially, it has embraced a new generation of Māori leaders and entrepreneurs. Public services have played their part in creating this transformation through major investment in children and the development of a more creative, open, democratic and participative style of management. Ministers say that government today is as much about solving people's problems as delivering services.

Many New Zealanders see the last 15 years as the beginning of a national renaissance. Internationally, the country is now seen as representing a dynamic lifestyle brand, and there is strong competition for citizenship among both the young and old who are tiring of the relentless pace of life in Europe and America.

The revival of New Zealand's public services in the 2010s is seen by many as critical to the country's current success. The process arguably began with the Secondary Futures project, which helped to build a

strong consensus around the need for education reform. The government responded by launching a crusade for a more creative, dynamic and personalised education system to equip the country for the information age.

The result was that spending on services for children became a national rallying point for New Zealanders, who became convinced that the next generation was their country's best hope for success. By 2021, the younger generation sees the investments and sacrifices its parents made as the foundation of the new economy. Young people won't write a blank cheque for public services, and they want to see concrete results for their money. But they believe public service at its best can be a tool for creating a better world.

The government went to great lengths to ensure that Māori were included in the new drive for success. *Iwi* were encouraged to use their treaty settlements to invest in innovative new knowledge businesses and social enterprises. The new generation of young Māori is finding ways to embed its values across society, bolstering support for public services to support the vulnerable and helping to generate a new culture of participation and cooperation in civic life.

Those who worked in the public service 15 years ago often remark on how radically different things look in 2021. School reformers quickly recognised that it wasn't enough to just improve the quality of education – factors beyond the classroom mattered as well, from drug abuse to the quality of parenting. So children's services were 'joined up' at the local level, with social workers, schools, police and others working together under the guidance of democratically elected city children's boards.

This holistic approach has spread across the public sector, with regional consortiums of local authorities taking on new responsibilities for setting up 'super community plans' to coordinate all the public services in their areas. The superplans set strategic goals for all regional and local public services, and central government departments are required to help deliver those goals.

This has helped to create a much more active democratic culture in New Zealand's towns and cities. Some councils have used community

planning as well as health and children's board elections to convince the public that ordinary people really can influence the way the state works. This process of democratic renewal has not always been easy. But by 2021 some parts of the country feel a genuine sense of self-governance, with all communities engaged together on equal terms. People in those areas actively participate in solving their own local problems.

Ministers in Wellington also take a holistic approach. They have started setting broad, outcome-based targets across ad hoc networks of departmental chief executives, who are expected to work together to deliver better outcomes for New Zealanders. Targets are ambitious – 'reduce violent crime by 20 per cent over six years', or 'increase satisfaction with public services by 10 per cent by 2015'. But they help the government to focus its resources on the really big problems that matter to New Zealanders.

Public sector pay rises are increasingly linked to productivity and innovation, with the state services commission using its newfound role as an innovation hub to assess how much progress each network of departments is making on delivering its goals. Unions have had to change their tactics radically to secure pay increases, focusing increasingly on demonstrating their members' concrete achievements on the ground.

The new 'problem-solving' system makes heavy demands on public servants, who often complain that they are overloaded by the demand to deliver efficiency, innovation, democratic engagement and better services at the same time. The powerful culture of active citizenship can add to this sense of overload, as people make more demands of the state. But the changes of the past 15 years have also helped to create a state that is more legitimate, and which commands greater support and respect than has been the case for decades.

Notes

1   G Mulgan, *Good and Bad Power* (London: Penguin, 2006).
2   EO Wright and A Fung, *Deepening Democracy* (London: Verso, 2003).
3   T Mallard, 'Progress on public management initiatives', speech delivered on 30 July 2003 to the Institute of Public Administration annual meeting, available at: www.beehive.govt.nz/ViewDocument.aspx?DocumentID=17194 (accessed 9 Oct 2006).
4   S Caulkin, 'Plus ça change: Kremlin 1980 to the Whitehall of today', *Observer*, 9 Apr 2006.
5   J Boston et al, *Public Management: The New Zealand model* (Greenlane, NZ: Oxford University Press, 1996).
6   New Zealand State Services Commission, *Review of the Centre* (Wellington: State Services Commission, 2000), available at www.ssc.govt.nz/display/ document.asp?NavID=177&DocID=2776 (accessed 12 Oct 2006).
7   A Matheson, 'Modernising government: a synthesis', paper prepared for Victoria University seminar, Wellington, NZ, May 2005.
8   W Gibson, quoted in *The Economist*, 23 June 2000.
9   J Boston and C Eichbaum, 'State sector reform in New Zealand: lessons for governance', Oct 2005, paper delivered to 'Repositioning of public governance – global experiences and challenges', sponsored by the Department of Political Science, National Taiwan University, the Civil Services Development Institute and the NSFG Foundation, Taipei, 18–19 Nov 2005.
10   Statistical evidence can be found in *Doing Business in 2006* (Washington, DC: World Bank, 2006), available at: www.doingbusiness.org/documents/DoingBusines2006_fullreport.pdf (accessed 9 Oct 2006).
11   R Oram, 'Remoulding paradise', presentation to Plastics New Zealand, May 2004.
12   D Skilling, *The New Zealand Economy: The next 20 years* (Auckland: New Zealand Institute, Mar 2006), available at www.nzinstitute.org/index.php/

ideas/article/the_new_zealand_economy_the_next_20_years/ (accessed 12 Oct 2006).

13   See www.stats.govt.nz/products-and-services/Articles/pop-proj-Jun04.htm (accessed 9 Oct 2006).

14   Statistics New Zealand, *Energy, Economy and Emissions 1997–2003*, available at: www.stats.govt.nz/NR/rdonlyres/701056BB-B81E-4E73-ADF2-5CFDA84E45E5/0/EnergyEconomyandEmissionsReport.pdf (accessed 9 Oct 2006).

15   See www.socialreport.msd.govt.nz/health/obesity.html (accessed 9 Oct 2006).

16   J Chapman, *System Failure*, 2nd edn (London: Demos, 2004).

17   S Goss, 'The reform of public service reform', *Renewal* 13, no 2/3 (2005).

18   M Durie, 'A framework for considering Māori educational attainment', opening address to Hui Taumata Matauranga, 2001, available at: www.minedu.govt.nz/index.cfm?layout=document&documentid=6113&indexid=6506&indexparentid=8734 (accessed 9 Oct 2006).

19   U Beck, *Risk Society: Towards a new modernity* (London: Sage, 1992).

20   R Inglehart, 'The Inglehart Value Map', analysis of World Values Survey data, available at http://margaux.grandvinum.se/SebTest/wvs/articles/folder_published/article_base_54 (accessed 12 Oct 2006).

21   S Parker and J Heapy, *The Journey to the Interface: How public service design can connect users to reform* (London: Demos, 2006).

22   J Craig, 'Production values: building shared autonomy', in J Craig (ed), *Production Values* (London: Demos, 2006).

23   E Rose, J Huakau and S Casswell, *Economic Values: A report from the New Zealand Values Study 2005* (Auckland: Massey University, 2005), available at www.shore.ac.nz/projects/Economic%20report%2021.06.05.pdf (accessed 12 Oct 2006).

24   E Rose et al, *Public Life Values: A report from the New Zealand Values Study 2005* (Auckland: Massey University, 2005), available at www.shore.ac.nz/projects/Public%20Life%20Values%2023.11.05.pdf (accessed 12 Oct 2006).

25   Data from New Zealand Election Study 1993, 1996, 1999 and 2002, available at: www.nzes.org/ (accessed 12 Oct 2006); analysis cited B Atkinson, 'I'm from the government, trust me', presentation available at: www.ocvs.govt.nz/documents/work-programme/OCVS%20I_m-from-the-Government-Trust-me.PPT (accessed 12 Oct 2006).

26   J Vowles, *Civic Engagement in New Zealand: Decline or demise* (Auckland: University of Auckland, 2004), available at: www.nzes.org/docs/papers/Inaugural_2004.pdf (accessed 9 Oct 2006).

27   S Coleman, *Direct Representation: Towards a conversational democracy* (London: Institute for Public Policy Research, 2005).

28   Wright and Fung, *Deepening Democracy*.

29   Growth and Innovation Advisory Board, *Research Summary* (Wellington: Growth and Innovation Advisory Board, 2004), available at www.giab.govt.nz/work-programme/growth/research-summary/index.html (accessed 12 Oct 2006).

30   Windshift survey data cited in Oram, *Remoulding Paradise*.
31   D Skilling, *The World's Economic Laboratory* (Auckland: New Zealand Institute, June 2006), available at www.nzinstitute.org/index.php/ideas/article/world_economic_laboratory/ (accessed 12 Oct 2006).
32   G Stoker, 'Deserting in their droves', *Public Finance Magazine*, 7 July 2006.
33   R Heifetz, 'Adaptive work', in T Bentley and J Wilsdon (eds), *The Adaptive State: Strategies for personalising the public realm* (London: Demos, 2003).
34   S Maharey, 'Hope to reality: making the difference for all learners', speech to the Royal Society of New Zealand Secondary School Symposium, 'Making the difference', at the National Library of New Zealand, 27 Apr 2006, available at: www.beehive.govt.nz/ViewDocument.aspx?DocumentID=25553 (accessed 9 Oct 2006).
35   S Borins, *The Challenge of Innovating in Government*, 2nd edn (Toronto: IBM Centre for the Business of Government, University of Toronto, 2006).
36   New Zealand Institute for Economic Research, *Creating Value: Findings from public service innovation focus groups* (Wellington: New Zealand Treasury, Feb 2004), available at www.treasury.govt.nz/innovation/ (accessed 12 Oct 2006). Participants were typically second and third tier managers chosen by departmental chief executives.
37   Ibid.
38   T Bentley, 'Letting go: complexity, individualism and the left', *Renewal* 10, no 1 (2002).
39   M Power, *The Audit Explosion* (London: Demos, 1994).
40   Craig, 'Production values'.
41   Quoted in J Chapman, *System Failure: Why governments must learn to think differently* (London: Demos, 2002).
42   M Power, *The Risk Management of Everything: Rethinking the politics of uncertainty* (London: Demos, 2004).
43   Quoted in D Hargreaves, *Education Epidemic: Transforming secondary schools through innovation networks* (London: Demos, 2003).
44   For a more detailed discussion see H Lownsbrough and D O'Leary, *The Leadership Imperative: Reforming children's services from the ground up* (London: Demos, 2005).
45   Hargreaves, *Education Epidemic*.
46   S Johnson, 'Operators are standing by', *Wired Magazine* (Nov 2004).
47   Manukau City Council, *Tomorrow's Manukau: A vision for Manukau into the future 2006–2016* (Manukau: Manukau City Council, 2006).
48   Ibid.
49   Ibid.
50   Commission on the Reform of Public Services, *Spending Without Reform*, interim report (June 2002), available at www.reform.co.uk/filestore/pdf/Spending%20without%20reform.pdf (accessed 10 Oct 2006).
51   T Bentley, *It's Democracy, Stupid: An agenda for self-governance* (London: Demos, 2001).

52 P Ginsborg, *The Politics of Everyday Life: Making choices, changing lives* (London: Yale University Press, 2005).

53 G Smith, *Beyond the Ballot: Democratic innovations from around the world* (London: Short Run Press, 2005), available at www.powerinquiry.org/publications/documents/BeyondtheBallot_000.pdf (accessed 12 Oct 2006).

54 See www.secondaryfutures.co.nz/how-do-we-work/index.php (accessed 10 Oct 2006).

55 See www.beehive.govt.nz/ViewDocument.aspx?DocumentID=17039 (accessed 10 Oct 2006).

56 Z Bauman, *In Search of Politics* (Cambridge: Polity Press, 1999).

57 Ministry of Social Development, Te Manatū Whakahiato Ora, *Strategies with Kids – Information for Parents (SKIP) Research Report*, prepared by Gravitas Research and Strategy for Centre for Social Research and Evaluation, Te Pokapū Rangahau Arotaki Hapori (Wellington, NZ, Feb 2005), see www.msd.govt.nz (accessed 16 Oct 2006).

58 New Zealand State Services Commission, *State of the Development Goals Report 2006* (Wellington: State Services Commission, July 2006), available at www.ssc.govt.nz/display/document.asp?DocID=5432 (accessed 12 Oct 2006).

59 R Norman, *Obedient Servants* (Wellington: Victoria University Press, 2003).

60 M Harrinvirta and S Kekkonen, 'Evaluating effectiveness of the horizontal policy programmes of the Finnish government', paper presented to the EPGA Study Group on Productivity and Quality in the Public Sector, Ljubljana, 1–4 Sep 2004.

61 M Harrinvirta and S Kekkonen, 'Government programme as a subject of performance measurement', paper presented to the EPGA Study Group on Productivity and Quality in the Public Sector, Bern, 31 Aug–3 Sep 2005.

62 K Poutasi, 'Co-construction of outcomes: working with communities', paper delivered to the Public Service Senior Management 2004 conference, Wellington, NZ, 19 Oct 2004, available at: http://pssm.ssc.govt.nz/2004/paper/poutasik.aspx (accessed 10 Oct 2006).

63 Chapman, *System Failure*, 2nd edn.

64 C Leadbeater, 'Open innovation in public services', in Bentley and Wilsdon (eds), *The Adaptive State*.

65 Audit Commission, *Recruitment and Retention: A public service workforce for the 21st century* (London: Audit Commission, 2002), available at www.audit-commission.gov.uk/reports/NATIONAL-REPORT.asp?CategoryID=&ProdID=8C72A180-D241-11d6-B1BB-0060085F8572 (accessed 12 Oct 2006).

66 New Zealand State Services Commission, *Career Progression and Development Survey 2005* (Wellington: State Services Commission, 2006), available at: www.ssc.govt.nz/display/document.asp?NavID=298 (accessed 12 Oct 2006).

67 M Scholefield, *A Guide to Trust: A review* (Cambridge/Oxford: Relationships Foundation/Career Innovation Group, 2004).

68   P Evans and B Wolf, 'Collaboration rules', *Harvard Business Review* 83 (Jul/Aug 2005).

69   R Gregory, 'Promoting public service integrity: a case for responsible accountability', *Australian Journal of Public Administration* 58 (Dec 1999).

70   C Leadbeater, 'Production by the masses', in Craig (ed), *Production Values*.

71   State Services Commission, *Career Progression and Development Survey 2005*.

72   A Walker, *Overcoming the Neoliberal Legacy: The importance of trust for improved interagency collaborative working in New Zealand*, Local Partnerships and Research Group research paper 11 (Wellington: University of Auckland, Apr 2004), available at www.arts.auckland.ac.nz/lpg/researchpaper11. pdf#search=%22A%20Walker%2C%20Overcoming%20the%20Neo-Liberal%20Legacy%2C%20Local%20Partnerships%20and%20Research%20Gr oup%20research%20paper%2011%20%22 (accessed 12 Oct 2006).

73   M Moore, *Creating Public Value* (London: Harvard University Press, 1995).

74   C Leadbeater, *Personalisation Through Participation* (London: Demos, 2004).

75   Boston and Eichbaum, 'State sector reform in New Zealand'.

76   T Mallard, speech at the Chen and Palmer seminar, 4 Jul 2000, available at www.beehive.govt.nz/ViewDocument.aspx?DocumentID=7875 (accessed 10 Oct 2006).

77   Parker and Heapy, *Journey to the Interface*.

78   M Bichard, 'The profession of public service', in Craig (ed), *Production Values*.

79   M King, *Penguin History of New Zealand* (Auckland: Penguin, 2003).

80   Mulgan, *Good and Bad Power*.

81   Adam Kahane, see www.arlingtoninstitute.org/future/Mont_Fleur.pdf (accessed 12 Oct 2006).

82   State Services Authority, *The Future of the Public Sector in 2025* (Melbourne: State Services Authority, 2006).

DEMOS – Licence to Publish

THE WORK (AS DEFINED BELOW) IS PROVIDED UNDER THE TERMS OF THIS LICENCE ("LICENCE"). THE WORK IS PROTECTED BY COPYRIGHT AND/OR OTHER APPLICABLE LAW. ANY USE OF THE WORK OTHER THAN AS AUTHORIZED UNDER THIS LICENCE IS PROHIBITED. BY EXERCISING ANY RIGHTS TO THE WORK PROVIDED HERE, YOU ACCEPT AND AGREE TO BE BOUND BY THE TERMS OF THIS LICENCE. DEMOS GRANTS YOU THE RIGHTS CONTAINED HERE IN CONSIDERATION OF YOUR ACCEPTANCE OF SUCH TERMS AND CONDITIONS.

1. **Definitions**
   a **"Collective Work"** means a work, such as a periodical issue, anthology or encyclopedia, in which the Work in its entirety in unmodified form, along with a number of other contributions, constituting separate and independent works in themselves, are assembled into a collective whole. A work that constitutes a Collective Work will not be considered a Derivative Work (as defined below) for the purposes of this Licence.
   b **"Derivative Work"** means a work based upon the Work or upon the Work and other pre-existing works, such as a musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which the Work may be recast, transformed, or adapted, except that a work that constitutes a Collective Work or a translation from English into another language will not be considered a Derivative Work for the purpose of this Licence.
   c **"Licensor"** means the individual or entity that offers the Work under the terms of this Licence.
   d **"Original Author"** means the individual or entity who created the Work.
   e **"Work"** means the copyrightable work of authorship offered under the terms of this Licence.
   f **"You"** means an individual or entity exercising rights under this Licence who has not previously violated the terms of this Licence with respect to the Work, or who has received express permission from DEMOS to exercise rights under this Licence despite a previous violation.
2. **Fair Use Rights.** Nothing in this licence is intended to reduce, limit, or restrict any rights arising from fair use, first sale or other limitations on the exclusive rights of the copyright owner under copyright law or other applicable laws.
3. **Licence Grant.** Subject to the terms and conditions of this Licence, Licensor hereby grants You a worldwide, royalty-free, non-exclusive, perpetual (for the duration of the applicable copyright) licence to exercise the rights in the Work as stated below:
   a to reproduce the Work, to incorporate the Work into one or more Collective Works, and to reproduce the Work as incorporated in the Collective Works.
   b to distribute copies or phonorecords of, display publicly, perform publicly, and perform publicly by means of a digital audio transmission the Work including as incorporated in Collective Works;
   The above rights may be exercised in all media and formats whether now known or hereafter devised. The above rights include the right to make such modifications as are technically necessary to exercise the rights in other media and formats. All rights not expressly granted by Licensor are hereby reserved.
4. **Restrictions.** The licence granted in Section 3 above is expressly made subject to and limited by the following restrictions:
   a You may distribute, publicly display, publicly perform, or publicly digitally perform the Work only under the terms of this Licence, and You must include a copy of, or the Uniform Resource Identifier for, this Licence with every copy or phonorecord of the Work You distribute, publicly display, publicly perform, or publicly digitally perform. You may not offer or impose any terms on the Work that alter or restrict the terms of this Licence or the recipients' exercise of the rights granted hereunder. You may not sublicence the Work. You must keep intact all notices that refer to this Licence and to the disclaimer of warranties. You may not distribute, publicly display, publicly perform, or publicly digitally perform the Work with any technological measures that control access or use of the Work in a manner inconsistent with the terms of this Licence Agreement. The above applies to the Work as incorporated in a Collective Work, but this does not require the Collective Work apart from the Work itself to be made subject to the terms of this Licence. If You create a Collective Work, upon notice from any Licencor You must, to the extent practicable, remove from the Collective Work any reference to such Licensor or the Original Author, as requested.
   b You may not exercise any of the rights granted to You in Section 3 above in any manner that is primarily intended for or directed toward commercial advantage or private monetary

compensation. The exchange of the Work for other copyrighted works by means of digital file-sharing or otherwise shall not be considered to be intended for or directed toward commercial advantage or private monetary compensation, provided there is no payment of any monetary compensation in connection with the exchange of copyrighted works.

c   If you distribute, publicly display, publicly perform, or publicly digitally perform the Work or any Collective Works, You must keep intact all copyright notices for the Work and give the Original Author credit reasonable to the medium or means You are utilizing by conveying the name (or pseudonym if applicable) of the Original Author if supplied; the title of the Work if supplied. Such credit may be implemented in any reasonable manner; provided, however, that in the case of a Collective Work, at a minimum such credit will appear where any other comparable authorship credit appears and in a manner at least as prominent as such other comparable authorship credit.

5. Representations, Warranties and Disclaimer

a   By offering the Work for public release under this Licence, Licensor represents and warrants that, to the best of Licensor's knowledge after reasonable inquiry:

   i   Licensor has secured all rights in the Work necessary to grant the licence rights hereunder and to permit the lawful exercise of the rights granted hereunder without You having any obligation to pay any royalties, compulsory licence fees, residuals or any other payments;

   ii   The Work does not infringe the copyright, trademark, publicity rights, common law rights or any other right of any third party or constitute defamation, invasion of privacy or other tortious injury to any third party.

b   EXCEPT AS EXPRESSLY STATED IN THIS LICENCE OR OTHERWISE AGREED IN WRITING OR REQUIRED BY APPLICABLE LAW, THE WORK IS LICENCED ON AN "AS IS" BASIS, WITHOUT WARRANTIES OF ANY KIND, EITHER EXPRESS OR IMPLIED INCLUDING, WITHOUT LIMITATION, ANY WARRANTIES REGARDING THE CONTENTS OR ACCURACY OF THE WORK.

6. Limitation on Liability. EXCEPT TO THE EXTENT REQUIRED BY APPLICABLE LAW, AND EXCEPT FOR DAMAGES ARISING FROM LIABILITY TO A THIRD PARTY RESULTING FROM BREACH OF THE WARRANTIES IN SECTION 5, IN NO EVENT WILL LICENSOR BE LIABLE TO YOU ON ANY LEGAL THEORY FOR ANY SPECIAL, INCIDENTAL, CONSEQUENTIAL, PUNITIVE OR EXEMPLARY DAMAGES ARISING OUT OF THIS LICENCE OR THE USE OF THE WORK, EVEN IF LICENSOR HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

7. Termination

a   This Licence and the rights granted hereunder will terminate automatically upon any breach by You of the terms of this Licence. Individuals or entities who have received Collective Works from You under this Licence, however, will not have their licences terminated provided such individuals or entities remain in full compliance with those licences. Sections 1, 2, 5, 6, 7, and 8 will survive any termination of this Licence.

b   Subject to the above terms and conditions, the licence granted here is perpetual (for the duration of the applicable copyright in the Work). Notwithstanding the above, Licensor reserves the right to release the Work under different licence terms or to stop distributing the Work at any time; provided, however that any such election will not serve to withdraw this Licence (or any other licence that has been, or is required to be, granted under the terms of this Licence), and this Licence will continue in full force and effect unless terminated as stated above.

8. Miscellaneous

a   Each time You distribute or publicly digitally perform the Work or a Collective Work, DEMOS offers to the recipient a licence to the Work on the same terms and conditions as the licence granted to You under this Licence.

b   If any provision of this Licence is invalid or unenforceable under applicable law, it shall not affect the validity or enforceability of the remainder of the terms of this Licence, and without further action by the parties to this agreement, such provision shall be reformed to the minimum extent necessary to make such provision valid and enforceable.

c   No term or provision of this Licence shall be deemed waived and no breach consented to unless such waiver or consent shall be in writing and signed by the party to be charged with such waiver or consent.

d   This Licence constitutes the entire agreement between the parties with respect to the Work licensed here. There are no understandings, agreements or representations with respect to the Work not specified here. Licensor shall not be bound by any additional provisions that may appear in any communication from You. This Licence may not be modified without the mutual written agreement of DEMOS and You.