

Reforming agencies and departments- a way forward

This note accompanies our advice on potential department and Crown Entity reforms. It draws lessons from the recent UK experience in reforming public bodies and from case studies of agency reforms in New Zealand and overseas. We have proposed a way forward that draws on the successes and lessons learnt to ensure the best possible outcome for Government in any reform that involves structural change.

Reviewing agencies: Key findings

Lessons learnt	Implications for process
<p>Clear tests are required so that everyone understands the aims</p> <p>The UK government in their review of Public bodies used similar tests to those proposed here:</p> <ul style="list-style-type: none"> • Does the body need to exist and do its functions need to be carried out at all? • Does the function need to be independent of political influence? <p>They also added value for money and improved accountability at various stages. The Public Administration select Committee (PASC) report heavily criticised the process for unclear and inconsistent criteria. The report emphasised that value for money should be a consideration alongside other principles. It noted that in order to deliver significant cost savings, government would need to carefully consider whether the functions of public bodies are still necessary.</p>	<p><i>Withheld under s9(2)(g)(i)</i></p>
<p>Agencies should consult with the agencies involved</p> <p>The UK government were also heavily criticised for not consulting the agencies involved on how they thought the government's tests applied to them. This process at the very least would provide stakeholders with the opportunity to discuss concerns and to surface operational issues and realities that are not apparent to reviewing agencies.</p>	
<p>Ensure consistency in treatment of similar bodies</p> <p>PASC noted that there was some inconsistency in the treatment of similar bodies: e.g. sport and arts funding retained independence while film funding did not. This was largely due to the speed at which the review was conducted and that it was conducted by the equivalent of New Zealand's monitoring departments without significant overarching guidance and coordination from Cabinet office.</p>	
<p>Draw on private sector experience in managing transitions</p> <p>The UK Chair of the Public Chair Forum rightly notes that the majority of mergers both in the public and</p>	

private sector fail to deliver the benefits envisaged when they are planned. The Institute for Government also notes the need for a tightly managed process in order to deliver savings and realise potential benefits. PASC recommends that clear guidance be issued to departments to help them manage what will be a complicated process. They warn that failure to do this will result in duplication of effort and unnecessary costs.

Withheld under s9(2)(g)(i)

What would it look like?

Withheld under s9(2)(f)(iv)



Due diligence: Establishing costs and benefits

The following information is drawn from prior experience in MOG changes and advice from the UK National Audit Office. Much of the information needed to establish these costs and benefits are held by the agencies involved. By announcing a review, subject to due diligence, government can access the required information without concerns about confidentiality, enabling the most accurate assessment possible. This is particularly important if we calculate the cumulative cost to the Crown of numerous small agencies, rather than to consider the costs and benefits in isolation.

Expected costs	Expected benefits/savings
<p>Staff Costs Recruitment, temporary staff, redundancy, relocation, training. Salary changes if merging entities with different pay scales, indirect costs (e.g. senior staff planning time).</p>	<p>Financial savings Improved operations efficiency, ability to cease lower priority activities, economies in back office functions, property and other asset rationalisation.</p>
<p>Property/ accommodation costs Capital acquisitions/ refurbishments, removal costs, lease exit payments, Service contracts (exit and new)</p>	<p>Improved policy alignment and delivery Greater clarity about core priorities and results, improved focus on objectives, increased effectiveness of delivery, better coordination and focused sectors, reduced duplication of functions. Government expenditure targeted to what matters most.</p>
<p>ICT Potential systems mergers, service contracts.</p>	<p>Management and governance Reduction in board costs and a lift in overall quality, fewer senior managers. Consolidated governance across sectors.</p>

Communication and branding (if new brand) signage, website development, stakeholder communication	Improved delivery to the public Fewer points of contact, smarter grouping of 'like' functions
Corporate costs: HR and finance support, legal, change management	Streamlined state services Reduced number of decision points and 'clutter' across the system.
Other indirect costs Productivity losses due to disruption/ falling morale, losses of expertise and institutional memory, reduced stakeholder satisfaction, decreased responsiveness to customers.	

Timing considerations:

Legislation: While announcement and change processes can be undertaken in a short timeframe, the final implementation of decisions will be dependent on legislative processes. The se are outlined below.

Crown Entities. Crown entities are established by statute. They can only be disestablished by statute. Crown entity functions and powers remain the responsibility of the Crown entity board until legislation transfers or abolishes those functions and powers.

We are advised that a relatively rapid legislative process through the House will take about 6-8 months. Often legislative processes can take upwards of 18-24 months.

Departments:

Change of name: an Order in Council to change or remove the name of a department from the 1st schedule of the State Sector Act can be done in about a month, subject to PCO workload and priorities.

Mergers or cessation of functions:

- for departments without empowering legislation, changes can take place within 3-4 months, through Cabinet decision and usually an Order in Council for transfer of staff (eg MAF/NZFSA merger – approximately 3 months)
- for departments with empowering legislation, changes will take a similar time to that described above for changes to Crown entities (eg Archives NZ and National Library changes – approximately 10 months).