

Reporting Service Performance – A Message in a Bottle?

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A Message in a Bottle?**

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Abstract

Purpose

This paper asks what evidence is provided, in the annual reports of New Zealand's central government departments, of the efficiency and effectiveness of their performance.

Approach

This study reviewed performance indicators presented in the annual reports by the 28 central government departments of New Zealand for two consecutive years 2015/2016 and 2016/2017. The data were extracted from the Statement of Performance/Summary of Performance, accompanying narratives, highlights and management (CEO) explanations within the annual reports of these departments.

An analysis of this information was conducted to determine the type, extent, mix and quality of performance information to indicate organizational performance in terms of efficiency (the relationship between inputs and outputs) and effectiveness (the relationship between outputs and outcomes).

Value

The paper's contribution lies in its focus on the performance information provided by individual government departments. In particular, it reveals a paucity of information in respect of the cost, quantity and quality of the outputs delivered by those departments. In acknowledging definitional and measurement problems associated with both outputs and outcomes, it argues for a reconsideration of the role of annual reports in a more flexible and citizen-driven system of public accountability.

Key Words

public accountability; annual report; performance

Accountability requires public entities to report useful and timely information about what they have achieved with the resources that they have used, so that Parliament, taxpayers and ratepayers can hold them to account for their performance.

(OAG, 2016a, p. 3)

Introduction

New Zealand has long established a good reputation in respect of the management of its public finances. It was the first country in the world to produce an accruals-based and GAAP compliant set of whole of government accounting documents including an operating statement and a balance sheet. Every four years it now also produces a long-term Investment Statement describing the current status of, and expected changes to, the Government's significant assets and liabilities (Public Finance Act 1989, s.26NA). It has also enshrined in legislation principles of fiscal responsibility that recognise the importance of inter-generational equity and transparent short-, medium- and long-term fiscal reporting. An early review of its reforms noted, "Financial reporting is one of the major success stories in New Zealand's public management" (Schick, 1996, p.81). Therefore, in Transparency International¹ and the International Budget Partnership² reviews New Zealand has consistently been rated as first or second in the world.

And yet, on closer examination, the extent of that transparency is less evident. While some information will always be more helpful for the internal management of organisations (public and private), externally enough information should be available to support informed decisions about resource (funding) requirements and use in respect of a given set of objectives. For New

¹ See <https://www.transparency.org/nz/new-zealand-has-one-of-the-least-corrupt-public-sectors-in-the-world/>

² See <https://www.internationalbudget.org/open-budget-survey/open-budget-index-rankings/>

Zealand's central government departments the principal mechanism by which that information is provided is departmental annual reports. If these documents are to be more than a marketing exercise, they need to support analysis of the economy with which inputs are acquired, the efficiency with which those inputs are used to produce outputs, and the effectiveness of those outputs in achieving desired results. This research found that information is not commonly available; although the architects of the Public Finance Act in 1989 certainly believed the identification and reporting of outputs is critical, without which it is not possible to assess efficiency (Scott, 2001).

This paper's contribution is provided by a critical analysis of the service performance information contained in the annual reports of New Zealand's central government departments³. It first provides a brief review of the extensive literature on the provision of performance information by public organisations. It then explains the requirements for service performance reporting as set out in the current version of New Zealand's Public Finance Act 1989 (PFA) and applicable elements of Generally Accepted Accounting Practice (GAAP). Against this framework it then presents and discusses the findings of a review of information provided by central government departments for the 2015/2016 and 2016/2017 financial years. Finally, it suggests the need for a more 'intelligent' conception and approach to the provision of information and to public accountability that is less dependent on the publication of annual reports.

Literature

The importance of publicly available information in respect of the purposes and use of public resources (including money) has long been central to the discourse on public accountability

³ In the 2015/2016 financial year New Zealand had 28 central government departments. In 2016/2017 there were 29.

and governance (Behn, 2003; Bovens, 2005; Radin, 2006; Roberts, 2016). As Van Dooren *et al* (2015) note, at least in principle:

... performance information is indispensable to ministers for guidance, control and evaluation; for MPs to authorise expenses and follow-up by guaranteeing oversight on implementation and performance; to civil servants to take responsibility and be accountable; and to citizens to the extent that they have an interest in economic, efficient and effective service delivery and policies. (p.140)

New Zealand's system of public management, like that of many western democracies, is based on a managed tension between the devolution of management responsibility and an associated requirement for transparency of, and accountability for, the use (and maintenance or enhancement) of public resources. Managing that tension involves the *ex-ante* specification (by ministers or by Parliament) and *ex-post* reporting to, and assessment by, (ministers, Parliament and the public) of the objectives of public expenditure, the interventions (including provision of goods and services) by which those objectives will be obtained, and of the criteria by which their attainment, or progress towards their attainment, will be assessed. Effective accountability therefore requires a high degree of transparency in respect of the specification and reporting of objectives and related performance, recognition of which has been reflected in a growth in many countries in the emphasis on transparency as a core public service value (Talbot, 2005; OECD, 2009). In New Zealand the tension involves a significantly greater devolution of responsibility to departmental chief executives than is the norm elsewhere. It was for this reason the reporting requirements in the Public Finance Act in 1989 were more onerous (e.g. in pre-specification of outputs) than is normally the case.

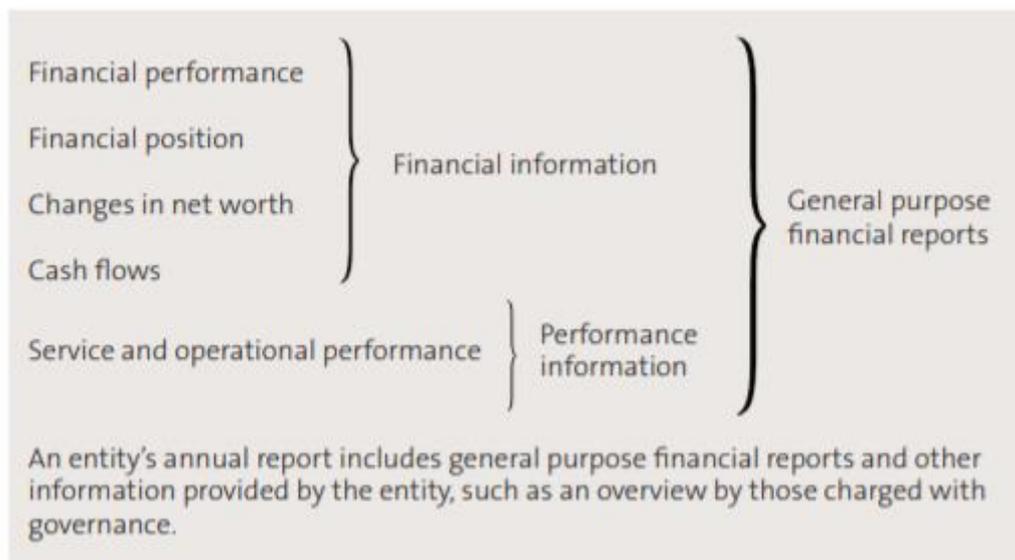
Heald (2006) has suggested that transparency is achieved "when those outside can observe what is going on inside the organisation" (p.28), which implies something more than information on results. One of the (defining?) characteristics of public management being that

we are not only concerned with the results (outcomes, impacts) achieved but also with *how* they are achieved in terms of efficiency. If we are to know what is going on within government, or more simply to know what government is doing, we require information at a level disaggregated below that of broad programmes or categories of expenditure.

While service performance information may be required by internal management for purposes such as attention focusing (Henri, 2006), environment monitoring (Simons, 1995) process control, or performance improvement, its use for external accountability implies that ministers, Parliament and the public are also able to review a department’s activities and their results (outcomes or impacts).

The information provided in departmental annual reports is “general purpose” in nature; i.e. it is directed to the common information needs of a wide range of users, some of whom will not have an ability to command the preparation of reports tailored to specifically satisfy their needs (XRB, 2014). As shown in Figure 1 below, this information should encompass both financial reports and information relating to service and operational performance.

Figure 1 - Information provided in general purpose financial reports



From OAG 2016(b), p.7

However, the perennial question is, to what extent do these reports practically meet the needs of any of these users? Pollitt (2006a) has pointed to the diverse requirements for, and responses to, performance information by external users that he identifies as Ministers, members of parliament and citizens.

Ministers will, for control purposes, be less reliant on the performance information in annual reports in that they will have the ability to request information at any time and will receive regular (usually weekly) briefings from their chief executives and/or senior officials. Thus, Norman (2003) has reported a public servant as stating:

The real substance of accountability to the Minister does not come through the formal processes and documents, but through weekly meetings and informal exchanges. The formal system is only relevant for when there are problems.
(p.147)

More simply, a New Zealand Minister has been reported as saying “no one in their right minds thinks we use [the formal accountability documents] to manage performance” (Dormer, 2010, p. 15). This, seemingly jaundiced, view of the formal system of performance management and accountability does not deny the need for a system to define and monitor expenditure, outputs and results. However, it does point to a parallel, and at times more pragmatic, system in use (see Dormer, 2010; Gill *et al*, 2011)

Without routine access to officials, members of parliament, on the other hand, will be more reliant on the performance information contained in the annual reports tabled in Parliament. Such information is classically seen as the means by which the government of the day is held to account for its activities and use of public resources. Nonetheless commentary by Pollitt (2006b) and others have suggested that the political context in which that accounting takes place not only shapes what information is initially provided but also how that and other

politically salient information is used to either support or challenge (embarrass) the Government of the day (Prebble, 2010; Shaw and Eichbaum, 2008). As Roberts (2009) has noted: "... measurement itself is implicated in the constitution of its objects and is inseparable from social/political interests which invest it as an instrument of control" (p. 962).

The use of this information by diverse and dispersed citizens, or groups of citizens, is even more questionable and the subject of a broad literature (see Moynihan, 2006; Moynihan and Pandey 2005; Gill *et al*, 2011; van Dooren *et al*, 2015). While some citizens may, indeed, review the information provided in annual reports to judge departmental performance and the value that the government is providing for their taxes, Pollitt (2006a) has observed that for the most part the provision of annual reports is "... equivalent to putting a message in a bottle and throwing it into the sea. It *might* reach an appreciative audience, but the chances are not particularly good" (p. 52).

Although New Zealand's reforms of the 1980s and early 1990s placed a strong emphasis on departmental accountability for outputs, what constitutes the performance for which departments are accountable has also been the subject of some debate and, over time, changing perceptions and emphasis. Generally, that debate has primarily focussed on issues of the efficiency of output delivery and/or the effectiveness of outcome achievement. Accounting is an economically based discipline that classically seeks to provide an account of an agent's or organisation's economic worth and performance. The standard instrumentally rational logic of accounting has thus subsequently tended to focus public governance and accountability on a linear relationship between inputs (resources), outputs (delivered goods and services) and outcomes (results) (SSC, 2008; National Audit Office, 2013).

While the earlier public administration focused on "compliance with tightly drawn rules and regulations" (Light, 1993) and the management of inputs, the dominant logic of the New Public Management reforms (Hood, 1991) involved the assumption that the work of public

organisations can be predefined and subsequently measured in objective, usually quantifiable, terms. The management legacy of the new public management reforms of the 1980s and 1990s remains a “one-size-fits all” or generic approach to organisational accountability and control (Radin, 2006). And yet, the assumption that the work of public organisations can be universally predefined and subsequently measured in objective, usually quantifiable, terms has now long been questioned (Wilson, 1989; Gregory, 1995; van Thiel and Leeuw, 2002; OECD, 2000). In particular, Wilson’s simple, but important, analysis pointed to differences between various public functions based on whether or not their work (outputs) and/or its results (outcomes) can be observed and measured. This then leads to a requirement to focus performance measurement more or less on outcomes, outputs, processes or inputs depending on the nature of the functions concerned.

Wilson acknowledged that such a broad classification should be applied with caution as, while in a particular public sector agency there may be a principal function, and an accompanying dominant culture and management logic possibly reflecting a principal professional or functional grouping (Bettis and Prahalad, 1986; Mintzberg, 1996), each agency undertakes a range of different functions. However, as Gregory (1995) has noted, those managing the performance of public sector agencies have tended to adopt an approach that inherently views all agencies as ‘production’ organisations in which cause and effect relationships are clearly visible and able to be measured. He calls for more “conceptual discrimination” that recognises the diversity of functions undertaken by, and within, public sector organisations. And as Schillemans (2016) has observed, “it would make sense to arrange for different accountability standards for machine bureaucracies (administering subsidies, loans and fines) and professional organisations (doing research, complex forecasting and R and D)” (p.1412). Nonetheless, depending on the political priorities and the organisational context, the focus of

performance management and accountability has at differing times and with differing emphasis focused on three broad criteria.

Operational economy – i.e. the relationship between funding and the inputs (such as staff, buildings and travel) used in the production of outputs.

Operational efficiency – which, in a technical sense, represents the relationship between inputs consumed and outputs delivered. The focus on the efficiency of public organisations has been linked to a conceptual model of the role of the managers (public officials) of those organisations as being technically responsible for the implementation of government programmes. Control in “the science of delivery” (Barber, 2016) is the search for efficiency and a belief that efficient administration clearly means good administration (Frederickson et al, 2012).

Being efficient can therefore be understood as using less inputs to produce a given level (quantity and quality) of outputs or the same inputs to produce more outputs (higher quantity and/or higher quality). It follows that to be able to make an assessment of the efficiency of an organisation we will need information about both sides of that equation.

Operational effectiveness – can be seen to represent the relationship between outputs and outcomes, or the extent to which the intended changes in the economy, society and/or environment have been achieved. Being effective involves achieving a desired impact on, or change to, the economy, society and/or the environment. To be able to make an assessment of the effectiveness of an organisation, therefore, we will require information about the outcomes, impacts or results that it is trying to achieve and information about the extent to which that has occurred. However, the complexities of defining and subsequently measuring those objectives is far from an exact science; all the more so when the results that governments seek to achieve are frequently not the consequence of the activities of a single agency. As Lowe (2013) has suggested:

The key conceptual flaw of this approach is that it is based on the idea that outcomes are the result of a linear process from problem, through intervention to positive outcome. (p.214)

To the extent that cause and effect is multi-systemic involving the contributions of a number of, government and non-government, organisations, models accommodating *joint accountability* are required.

A central theme of the more recent discourse on public governance has been the emergence of the New Public Governance models (Osborne 2006; Denhardt and Denhardt, 2015; Pollitt 2016; Klijn and Koppenjan, 2016) or Joined-Up Governance defined by Hodges (2012) as:

... delivering public services through networks of organisations where governance and management is not dependent solely upon authority through bureaucracy or price competition through markets (p. 31).

As noted by Bovens (2007) accountability for the increasingly complex nature of the processes and structures by which public services are delivered is frequently problematic due to the difficulty of being able to “unravel who has contributed in what way” (p. 457). He was principally discussing individual accountability but the problem is equally acute at the organisational level, particularly for those organisations, for example, such as the New Zealand Ministry of Women’s Affairs whose policy role is dependent on their ability to influence the subsequent actions of other organisations.

In New Zealand, the problems of joint accountability were highlighted by the previous Government’s response to the Better Public Services Advisory Group Report (SSC, 2011), a central recommendation of which was “a new *modus operandi* for state agencies – where sectors mobilise around specified results” (p.6). The government identified ten key problems requiring cross-agency solutions for each of which it identified a targeted improvement. Whilst

a lead chief executive from one of the agencies involved was initially appointed with accountability for progress towards that target, subsequent developments have focused on the collective responsibility of all of the chief executives of the group of agencies involved. This obviously involved a less specific and, arguably, less equitable system of individual accountability but nonetheless proved effective. Scott and Boyd (2017) have suggested that this success was not simply a result of a system of accountability but also reflected the responsibility assumed by the public servants involved. Thus:

Public servants across the country talk about “reaching 85 percent” (the percentage of 18 year olds graduating from high school) or “RR25” (reducing criminal reoffending by 25 percent), not because their bosses will be held accountable by ministers and the State Services Commission, but because they feel a duty to the public. (p. 38)

The practical challenges thus lie in developing a better understanding of how accountability functions within diverse networks (Boston and Gill, 2011) or across heterarchies comprised of public agencies, community groups and private sector partners, and involving “alternative conceptions of what is valuable, what is worthy, what counts” (Stark, 2009).

The New Zealand Context

New Zealand’s reputation for sound and transparent management of its public finances was acknowledged above. However, that reputation is largely concerned with accounting and management at the whole of government (management *of* the public sector) level. Accounting and management at the level of individual agencies (management *in* the public sector) has received less attention. The following section outlines the formal system, of legislation and generally accepted accounting practice, by which those agencies are required to account for their performance.

The evolution, or changing emphasis, of the focus and scope of departmental accountability is reflected in the changes to the legislation and standards by which it is assessed. The scope and content of service performance reports is discussed in both the Public Finance Act 1989 (PFA) and the various elements of generally accepted accounting practice (GAAP). Both are described below.

Statutory Requirements

For central government departments the PFA defines a series of *ex ante* and *ex post* public accountability documents in which performance information is to be provided that principally comprise:

- Information on the department’s “strategic intentions” , provided at least once in every three year period, that explains:
 - The nature and scope of the department’s functions and intended operations;
 - How it intends to manage those functions and operations to meet its strategic intentions; and
 - Any other reasonably necessary information (PFA s.40).
- Annual budget documents that, together with supporting information, define, at the level of classes of similar outputs, the amounts scope and period of money to be appropriated by Parliament and a concise explanation of what the appropriation is intended to achieve (PFA s.15A).
- An annual report that as well as a set of GAAP compliant financial statements, includes:
 - An assessment of the department’s operations;
 - It’s progress in relation to its strategic intentions;
 - Information about the management of its organisational health and capability; and
 - Any other reasonably necessary information (PFA s.45).

The requirement for central government departments to provide specific *ex ante* and related *ex post* performance information has been a key feature of New Zealand's much lauded model of public management. At the level of the department as a whole and for its individual appropriations⁴ the detail of the financial information required to enable that assessment is reasonably well encompassed in a set of GAAP compliant financial statements and the PFA requirement to report actual expenditure against that approved in parliamentary appropriations. Although the requirement for *ex ante* performance information was extended in 2013 to cover a three year period, as opposed to the previous two years, notably it does not include a requirement for any forecast financial information. For the forthcoming financial year only, this is now to be included in the annual report. Also, instead of providing separate *ex ante* information at the beginning of each financial year, information in respect of the department's strategic intentions is now to be provided, at least every three years, at the same time as, and if a department so chooses in the same document as, its annual report. This suggests that what was once a separate report on future operating intentions together with a related set of forecast financial statements (previously referred to as a 'Statement of Intent') have, for most departments, disappeared.

The simplification of the requirements for prospective performance information has also been extended to the annual budget process. The previous requirement that an explanation be provided for each appropriation that includes "the intended impacts, outcomes or objectives of the appropriation" together with the "performance measures and forecast standards to be achieved" has been removed. Instead information supporting departmental budgets must now provide "a concise explanation of how performance against the appropriation" will be assessed" (PFA, s.15C (1)(a)).

⁴ An appropriation is a parliamentary authorisation to use public funds (up to a specified maximum amount) for specified purposes.

In terms of *ex post* reporting, departmental annual reports are no longer explicitly required to include a statement of service performance – despite such statements being “strongly encouraged” by GAAP (PBE IPSAS1, s.150.2). Rather, as noted above, departmental annual reports must more simply provide an assessment of the department’s operations and progress in relation to the department’s strategic intentions.

In summary, these changes, although still requiring information on what each appropriation is intended to achieve, have removed the words “impact” and “outcome” from the PFA. Also notably absent from the amended legislation is the specific requirement for the main measures and standards by which performance will be assessed, a consideration of risk in the context of a changeable operating environment, and information on the cost-effectiveness of a department’s interventions. Clearly, this higher level specification provides more freedom, and significantly less guidance, as to exactly what performance information departments should provide; although the purpose of that information remains the same, i.e. “to enable an informed assessment to be made of the department’s performance” (PFA, s.45(1)).

Generally Accepted Accounting Practice

As noted above, the PFA requires that financial and non-financial performance information be provided in a manner that complies with GAAP. However, the applicable accounting standards provide limited guidance as to what information should appropriately be provided by a department. Currently there is no mandatory standard in respect of the provision of service performance information. PBE IPSAS 1 on the Presentation of Financial Statement (XRB 2013) currently includes, by way of an Appendix C, a non-integral guide to the reporting of service performance information⁵.

⁵ In November 2017 the New Zealand External Reporting Board issued a new standard, PBE FRS 48 Service Performance Reporting (XRB, 2017), however this will only be mandatory for periods beginning or after 1 January, 2021. Perhaps significantly this new standard is also much less specific in its requirements than the recommendations of the previous version of PBE IPSAS 1. Rather than references to outputs and their costs

The guidance defines service performance reporting as “reporting on the performance of a delivery entity in providing specified outputs” (PBE IPSAS 1, p. 42) and states:

The statement of service performance provides information on the use of inputs to produce outputs, the delivery of outputs and the way in which those outputs are expected to influence outcomes. (p. 41)

Outputs are generally defined as the final goods and services provided by an organisation to an external party (OECD, 2000, p.4; PFA s.2).

For the architects of New Zealand’s new public management reforms of the 1980s, output-based budgeting and reporting lay at the heart of a system of improved clarity and control over what public organisations do and what that costs. Thus in his 2001 review of those reforms, Graham Scott stated:

Outputs must be clearly defined, deliverable and capable of assessment They must be priced with robust transparent systems of cost accounting and be benchmarked. They must be tightly linked to the budget and internal management on the one hand and the government’s strategic objectives on the other. (Scott, 2001, p. 202)

Similarly the OECD (2000) has stated that outputs should:

- have an *external focus*, relating to the nature of the final outputs rather than being focused on performance matters that are of concern only to the agency
- be *similar in nature*, so that the scope of each output incorporates only those activities that have similar characteristics or are an integral part of the production of the same good or service

the standard now requires information on the “goals or targets” in the context of “information about what the entity has done during the reporting period in working towards its broader aims and objectives”.

- be *controllable by the agency*, or at least include only those aspects of performance that the agency has reasonable influence over and is therefore able to meet
- be *comprehensive*, in that they must cover all of the goods and services provided by the agency for external consumers. In relation to performance measures specifically, this principle is modified to cover all of those aspects of output performance that government considers significant.
- be *measurable*, or at least able to be verified, in order that the funder is able to judge whether the outputs were actually delivered to the specifications
- be *informative* to a wide range of users of output specifications, in particular ministers, Parliament and agency managers.

The primary focus of Appendix C to PBE IPSAS 1 is, therefore, on the definition and reporting of outputs as the basis of departmental accountability, while outcomes are defined and explained as an important context or rationale for output definition. The standard states that where entities are required to present a ‘statement of service performance’ that each output is to be described in terms of its quantity, quality, time, location and cost (PBE IPSAS 1, para. 150.4). The standard currently allows for similar individual outputs to be aggregated (*ibid.* para. 150.1). However, what represents similarity is not defined. Knowing how many outputs with similar (i.e. reasonably uniform) characteristics are provided is quite different from knowing how many outputs are provided that are similar in terms of their objective but dissimilar in their characteristics (i.e. the inputs and activities involved). As will be discussed further below, the aggregation of different sorts of outputs in categories of outputs⁶, may be helpful for the management of parliamentary appropriations in such a way as to provide

⁶New Zealand’s Public Finance Act 1989, section 2, explains: “category in relation to expenses means a grouping of similar or related expenses”.

Ministers and departmental chief executives a degree of discretion in the use of those appropriations. However it is not helpful in terms of supplying an insight into “an entity’s performance in supplying goods and services” (*ibid.* para. 150.2).

PBE IPSAS 1 also recommends that, where relevant and appropriate, performance measures and their related targets or standards should cover the five dimensions of quantity, quality, timeliness, location and cost. Again Appendix C of the statement notes:

Quantity measures should in general be specified for all outputs. The quantity of output being delivered usually has a direct relationship to the cost of output delivery, making quantity measures an important point of focus for the purchaser. (p.48)

The disclosure of cost information at the level of individual outputs is therefore “strongly encouraged” (p.52).

In terms of effectiveness, PBE IPSAS 1 requires that the provision of a statement of service performance should include “information on the effects on the community of the entity’s existence and operations” (para. 150.2). It further recommends that such information should include:

- the result or impact of an action (intervention) rather than the action itself;
- those people, communities or regions that were impacted; and
- any broader outcomes and/or government strategy to which it contributes. (*ibid.*, para. C 76)

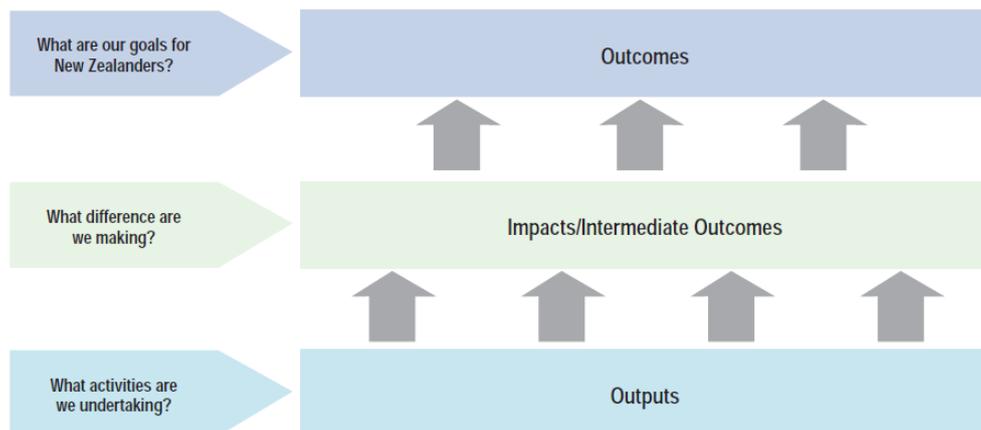
As an adjunct to the accounting standards, guidance is also provided by New Zealand’s central agencies⁷ although this is, to some extent, conflicting. As might be expected, the Treasury guidance on the preparation of planning documents and annual reports reiterates the high level, output class, requirements of the PFA. On the other hand, the State Services Commission

⁷ i.e. the Treasury and State Services Commission.

(SSC) has provided more detailed guidance on the development of effective performance measurement frameworks (SSC, 2008). As shown in Figure 1 below, this focuses on three levels of performance management associated with:

- the longer-term outcomes that Government policy seeks to achieve;
- the shorter-term results or impacts that can be traced to the activities of a public entity;
- and
- the outputs that represent the entity’s activities within a reporting period. (SSC 2008, p.14)

Figure 2 – A performance measurement framework



(SSC, 2008)

However the major focus of SSC’s guidance is at the middle level of intermediate outcomes or impacts and the extent to which the reporting entity can demonstrate a contribution to the achievement of desired outcomes. It also stresses the importance of understanding resource requirements at each of the three levels including the necessity for output level cost information as a pre-requisite to reporting cost effectiveness.

Successive New Zealand Auditors-General have also been part of an on-going discussion of the proper scope and content of the accountability documents. A previous incumbent of that role described public sector reporting in New Zealand as “poor and disappointing” (OAG,

2009)⁸. The criticism continued in a subsequent call for an improvement in annual reports in relation to:

- the measurement and reporting of effectiveness and cost-effectiveness;
- the analysis and evaluation of public entities' own performance;
- the analysis of longer-term trends; and
- better reporting of outputs and the cost of service delivery. (OAG, 2011, p.5)

While acknowledging the PFA's focus at the level of output-classes, this latter report also described a need to provide accountability information at a lower level, suggesting:

... entities could improve their output reporting by ... allocating revenue and expenditure to significant or differing outputs within each output class. (p. 20)

In summary, the legislation and formal guidance material as to how departmental performance should be reported is stated in generally broad and at times contradictory terms. The provisions of the PFA focus on management of, and accountability for, appropriations at the level of categories of outputs. The guidance material from the Treasury reflects this focus. At this level accountability is placed in the contexts of the Government's longer-term strategic objectives and the specific strategic intentions towards which each department seeks to contribute. The PFA also requires external accountability information (both financial and non-financial) to comply with the provisions of GAAP.

Guidance on service performance reporting in GAAP is currently principally limited to a non-integral appendix to PBE IBSAS 1 standard on the Presentation of Financial Statements that places more emphasis on accountability for outputs. Guidance from the SSC places primary emphasis on impacts (or intermediary outcomes) but does so in a framework of outputs and longer-term outcomes.

⁸ In fact he went as far as to call it "crap".

More consistently, the need for information at the level of outputs and the importance of cost-effectiveness measures is noted by GAAP, central agency guidance material and commentary from the Auditor-General. The Auditor-General has also noted the value of trend information. Significantly, in the context of externally focused accountability information, there is no discussion of service performance in terms of process standards or the number of processes completed.

Method

As noted in the introduction to this paper, New Zealand has established an enviable reputation for the rigour and transparency of its system of public management and accountability. That reputation is largely based on its system of whole of government accounting. However, the principal means by which the government is publicly accountable for the efficiency and effectiveness of its activities are the annual reports provided by its central government departments.

This study therefore reviewed information and performance indicators (in respect of outputs and outcomes) presented in the annual reports by New Zealand's 28 central government departments for two consecutive years - 2015/2016 and 2016/2017. Because of the unavailability of a separate annual report, we did not include Ministry for Children (formed in 2017). Annual reports were accessed from the organisations' websites and were reviewed in order to understand their current performance reporting practices. The data regarding the performance of each department were extracted from the Statement of Performance/Summary of Performance, accompanying narratives, highlights and management (CEO) explanations within the annual reports.

Our methods involved two types of analyses to identify the performance indicators that were reported. An analysis of the content of the statements of service performance and other

performance indicators included in the annual reports were conducted to determine the type, extent, mix and quality of performance information to indicate organizational performance in terms of efficiency (output) and effectiveness (outcome). The performance information collected from the analysis of the statement of annual reports was initially coded to identify the existence of:

- budgeted and actual information in respect of output expenses;
- budgeted and actual information in respect of output volumes;
- information that identified and displayed links to the relevant strategies of the Government;
- targeted outcomes and related measures; and
- actual results in respect of those measures.

The annual reports were subsequently reviewed thoroughly to identify the extent, breadth and alignment of the performance indicators to performance targets/government priorities. The results of this analysis are reported below.

Research Findings

The annual reports of each government department is a substantial document that generally contains a great deal of information on performance which does not follow a standard reporting format or use consistent language to present performance indicators. The standardised GAAP compliant set of financial statements provided by each department do provide a reasonable insight into the organisations' overall management of their financial affairs and, in particular, their annual management of expenditure against appropriations. In keeping with requirements of the PFA those appropriations are stated at the level of a category (or class) of similar or related output expenses or capital expenditure. However, beyond these standard financial statements, departments reporting of their performance is both more varied and less clear.

Outcomes and Effectiveness

Each department does provide a high-level description of its functions that includes summary, or selective, performance indicators relating to its strategies, longer-term objectives, or targeted outcomes. Although still a component of GAAP, the word “outcome” was removed from the PFA in 2012 and reporting performance in respect of outcomes was replaced with a requirement to report against the department’s progress against its “strategic intentions”. Nonetheless, the annual reports of the majority (62%) of the departments (17 out of 28) contain some form of an outcome framework, which presents a link between government priorities and the strategic objectives of the department. This framework is undoubtedly helpful for users to the extent that it shows the links between performance, the level of appropriation and targeted outcomes. However, the information contained in the framework often does not match, and therefore is not comparable with, the structure of the appropriations as presented in the financial statement of expenditure and capital expenditure against appropriations or with the financial and non-financial information in an accompanying statement of service performance.

Often the performance and achievements in an initial 'highlights' section are not accompanied by any related financial data or an indication of where such information is included in the rest of the annual report. For example, although the Department of Corrections provides some performance indicators at the beginning of its reports, including the average cost per day to manage different sentences (such as imprisonment, home detention, or community work) (Corrections, 2017, p. 30), this does not include any prior year or trend information and is not linked to the reported appropriation expenditure. A failure to effectively link or reference highlights to the detail financial appropriations and performance indicators could be misleading to the readers of the report.

In fact, many annual reports contain limited information on how appropriations are linked to associated outputs and activities as well as how outputs measures contribute to organizational

outcomes. Thus the Treasury's 2017 annual report provides thirty pages of information describing its strategic intentions and progress toward their achievement; but this material includes no financial information or links to the expenditure against appropriations which is reported in a separate section.

In contrast, the Department of Corrections does, in non-numerical terms, link its strategy to its appropriations using a simple diagram (Department of Corrections 2017, p.5) and provides high level statistical and financial information in respect of its 'Contributions to Priorities and Delivery of Outcomes' (ibid, p. 37). On the other hand, although the Ministry of Health outlines service (output) performance under five appropriation categories

- Health sector information systems,
- Managing the purchase of services,
- Payment services,
- Regulatory and enforcement services, and
- Policy advice and ministerial servicing);

it is not clear how these activities contribute to the health targets, such as increased immunisation or faster cancer treatment, or to the government priorities that included supporting vulnerable children and improving the quality and safety of health services.

Similarly, the Department of Internal Affairs' high-level statement of service performance does not reflect the structure of the appropriations in the statement of expenditure against appropriations (DIA, 2014, p. 126), nor does it, therefore, provide performance information directly related to that expenditure.

In their statements of service performance, the reports of some departments do follow a more logical order as is the case, for example, with the Ministry of Justice that provides information for each category (output class) appropriation that covers:

- what the Ministry does;
- its contribution to the Ministry’s strategic intentions;
- an assessment of performance using, largely, non-financial performance measures; and
- a statement of related revenues and expenditure.

However, as noted, most departments provide financial information quite separately from other performance explanations and measures. It follows that the large volume of information on performance in annual reports in an unstructured format create the need to search for useful information as well as reduce the readability of the reports.

Outputs and Efficiency

Whilst the PFA continues to provide a definition of outputs as “goods and services that are supplied by a department” (s.2) and Scott (2001, p. 204) has stated that related information should include the quantity, quality, timeliness, location and cost of that supply, departments appear to apply the concept more broadly. Thus, for example, in the Department of Internal Affairs 2017 annual report the word “outputs” is, confusingly, used in a number of different contexts. In a forward to the report the Departments’ outcomes framework is provided in a diagram that, under three “focus areas”, lists twenty-one outputs. These appear to be a selection of broad functions such as:

- providing assurance and support to all-of-government on ICT privacy;
- connecting ethnically diverse people and providing advisory and information services;
- and
- collecting, preserving and maintaining NZ heritage. (DIA, 2017, p6)

Some non-financial information is provided in a subsequent section titled “How Do We Measure Up” (ibid. p.10) organised in another series of sub-headings that also do not match the appropriations. Finally, in a section headed “Non-Financial Performance Statements”,

financial summaries of revenue and expenditure are provided together with limited non-financial measures for each “output” appropriation. Although they should more correctly be identified as ‘output category appropriations’.

What, in most departmental annual reports, is described as an *output expense* would be better described as *output expenses*, which relate to a category, or class, of related outputs. Thus the Inland Revenue Department’s output expense “Services to process obligations and entitlements” is described as encompassing:

- registration, assessment and processing of tax obligations and other entitlements;
- associated review of the Crown’s accounting activities; and
- the collection and sharing of related information with other agencies.

(IRD, 2017, p.83)

Although no expenditure information is provided in respect of these various functions and it is not altogether clear which of the twenty-two performance measures provided relates to each of them.

Similarly, the Ministry of Social Development is responsible for an appropriation related to “Adoption Services” that encompasses:

- the provision of education programmes for prospective adoptive parents,
- assessment and reporting on adoption placements (including reporting to foreign governments under the international Hague Convention on Adoption), and
- counselling and mediation services to people that have been party to an adoption related matter.

(MSD, 2017, p.??)

However, again despite the diverse nature of these functions, financial information is provided only for the appropriation as a whole; and the only non-financial information provided relates to the number of requests from adults seeking information on their birth parents. Or, knowing

that in the 2015/2016 year the Ministry of Social Development spent \$391.8 million on Care and Protection Services for children and young people tells us little when those services include such disparate activities as:

- a call centre receiving and processing notifications of potential abuse or neglect,
- the convening and holding of statutory family group conferences,
- managing and monitoring social work plans, and
- placing and managing children and young people in residential care.

The problems of reporting only at the level of categories of outputs can also be seen in the relatively simple example provided by the Education Review Office that has just three appropriations for the purpose of delivering outputs. Performance information in respect of each of these is to some extent partially provided and to some extent repeatedly provided, in three different places in the agency's 2016/2017 annual report. Only in the section headed Financial Statements and Service Performance is financial and non-financial information provided together, although here the non-financial information is more limited and partial.

An appropriation for the Quality of Education Reports and Services comprises outputs for:

- system-wide education evaluation reports in respect of a range of different issues and with different objectives;
- policy advice to the Minister and to other related agencies;
- ministerial services including information and support on any matter that the Minister requires;
- contractual services, undertaken on a fee-for-service basis, that include one-off reviews of institutions or parts thereof.

A total cost only is provided for these outputs together with one number for the total of system-wide reports thus making it not possible to consider questions of efficiency.

In terms of quality, some general measures relating to the extent to which the reports are “consistent with approved plans and procedures” and the general level of public satisfaction are reported. The other two appropriations for Reviews of Early Childhood Services and Reviews of Schools and Other Education Providers both use similar quality measures. While a single volume number for the first of these appropriations at least provides the ability to calculate an average cost per review, for the second of these the inclusion of three different types of providers (state schools, private Schools, and home schooling) makes this less meaningful.

The annual reports of the Ministry of Justice similarly reflect the problem of reporting at the level of appropriations (total category/output class) in that the reported costs also relate to a range of different services. Consequently, either no detail is provided of the specific outputs delivered or, where some information is provided, it only partially represents the scope of the activities undertaken. As Wilson (1989) and others have warned, the risk then arises that those metrics reported are those most easily measured or those that reflect most favourably on the agency and the Minister. More simply, where output categories encompass such multiple and diverse outputs it is not possible to evaluate departmental performance in terms of the economy, efficiency or cost effectiveness of service provision without more detailed financial information at the level of outputs.

The one exception to the failure to provide financial information at the level of individual outputs is the Department of Conservation that provides a separate schedule of expenditure against each output within the Department’s various appropriations (DOC, 2017, pp. 102-103). However, for all other departments financial and performance metrics are provided at the level of each appropriation. The resulting higher levels of aggregation do not facilitate transparency in respect of what each department is funded to do. This lack of transparency is further advanced by the use of multi-class output appropriations which in the case of Vote Science and

Innovation for 2015/2016, for example, covered all of the activities and outputs funded by the vote in one appropriation. This indicates that the required scope statements for each appropriation are themselves frequently not clear or suitably detailed.

Non-financial information

Of the 28 departments, 19 departments (68%) disclose both budgeted and actual volume information. In addition, some departments provide information on timeliness and quality of output provision, which indicate the percentage of deliverables provided on time or meeting a pre-defined standard (see for example, the Education Review Office and Crown Law). However, these efficiency measures are often stated in percentage terms relating to a satisfaction score given by ministers or other stakeholders, an independent assessment of policy advice papers, or the proportion of all performance targets achieved. It is, of course, entirely feasible that the percentages have gone up or down as a result of a change in the base volumes and/or the resources involved. Thus, achieving a 96% compliance rate for 500 items is quite different from achieving a 96% rate for an increase to 1,000 items with same level of resources (inputs). It follows that these qualitative measures are often of limited value, as the related volume and costs information or the basis on which these achievements are measured does not accompany them.

It also follows that isolated information for one or two years does not facilitate an informed assessment of a department's performance; that requires trend information in respect of both workload and resources. Regrettably, that level of detail was generally absent.

Discussion

In reviewing the annual reports of New Zealand's central government departments we find little evidence of their efficiency and partial support for their effectiveness. Although these reports are, in most cases, substantial documents, their transparency is frequently hindered by:

- the lack of a consistent structure;

- the separation of financial and non-financial performance information;
- the provision of information at the level of appropriations, rather than outputs; and
- very little trend information.

Plausibly the limitations of these ‘general purpose’ statements in part lie in the fact that they are just that – general purpose. As such, they are non-contextual and removed from the reality of each organisation’s functions and operations. Realistically, accountability requires much more than the passive provision of information - as suggested by the discourse on transparency.

Roberts (2009) has pointed to the allure of transparency with its related suggestion that:

... any failure in governance can be remedied through yet more transparency – greater disclosure or new objects of disclosure – as if the solution lies simply in finding new ways of seeing more sharply or more completely. (p.962)

Roberts therefore also suggests that we should not rely on transparency alone but should, rather, employ a more context specific “intelligent accountability” that involves “... active enquiry – listening, asking questions and talking” (p.966).

Arguably, governments, and individual government agencies, often publish significant amounts of information that is neither read nor understood by those to whom they are accountable. This one-way relationship may include both the routine publication of paper or web-based accountability reports and the periodic but “passive” provision of information to citizens on demand. Schillemans, Van Twist and Vanhommerig (2013) have also pointed to the one-sided nature of traditional, mostly vertically oriented, accountability structures and mechanisms, but suggest that advances in information technology allow more innovative approaches. Specifically, they identify the following three approaches.

Interactive accountability that makes use of technologies that enable organisational performance to be monitored in (near) real time. This then supports frequent reviews and possible adjustments to targets in an “interactive discourse” as practiced in the many examples

of ‘PerformanceStat’ (Behn, 2006) or in the work of Tony Blair’s Prime Ministers Delivery Unit (Barber, 2016).

Dynamic accountability is based on the use of open data platforms and mechanisms that allow citizens to participate in the planning processes and directly hold government to account. In New Zealand the promise of participatory budgeting as a mechanism for increased citizen engagement has been largely limited to the requirements of the Local Government Act 2002 relating to consultation on long-term plans. Centrally, the Government’s commitment is limited to making the budget more accessible and inviting feedback on the previous budget (SSC, 2016).

Citizen-initiated accountability further expands the use of information and communication technologies in initiatives driven by citizens rather than by government. Such initiatives may not only seek to hold governments to account but may also involve citizens organising to address a problem. In this context social media is playing an, arguably, important role in broadening the scope and accelerating the speed with which issues are brought to the public’s attention. For governments, the challenge of social media arises from their being developed and hosted by third parties, outside of government, (Mergel, 2106) and by their distinctive characteristic of real-time, user generated and shared content (Stamati, *et al*, 2015).

Apart from their implications for systems of external accountability, Lips (2012) has also pointed to the potential for information and communications technologies to transform and support accountability in more dynamic institutional environments. These are reflected in the networked relationships, discussed above, that involve distributed governance across government agencies and between those agencies and community and private sector providers. In recognising the diversity of functions undertaken by public organisations, each of which lacks the singular clarity of a bottom line, we must acknowledge that it is neither practical nor

desirable to establish a one size fits all reporting framework (OAG 2011). For some functions it may be more informative to focus on a count of the services delivered, the nature of the processes undertaken, or the results achieved. For some, rarer, functions it may be necessary to focus on the inputs (i.e. resources) employed. Nonetheless, as noted above, in each case aggregation works against transparency. Whether the focus is on inputs, outputs or outcomes, these are best presented in a structure that shows links to each department's strategic intentions and the governments overall objectives. Such a structure should also encompass financial and non-financial information in a consistent and coherent manner at each stage.

Conclusion

This paper's contribution lies not in an already well canvassed analysis of New Zealand's whole of government financial information, but in the, less researched, detail of the performance information provided in the annual reports of its individual government departments.

Public accountability and the related trust in government that is critical to any system of effective democracy, largely occurs via the annual reports published by government agencies which, if nothing else, serve to "indirectly establish, and thus promote, the competence and value of government in general" (Behn, 2003, p. 591). While New Zealand's central government departments provide a large amount of information, this tends to lack a consistent and coherent structure that combines both financial and non-financial performance information.

It would appear that the "New Zealand Model" (Boston et al, 1996) has strayed somewhat from the vision of the reforms as initially encoded in the Public Finance Act in 1989. In so doing it is arguably providing less detail about both the outputs being delivered and the outcomes being achieved. It should be acknowledged that:

- pre-defining the outputs to be delivered or subsequently measuring them in quantifiable terms is more difficult for some functions than others; and
- outcomes are frequently achieved over extended periods of time (far beyond a three year electoral cycle) and involve many influences and contributions extraneous to an individual agency.

Nonetheless, this research suggests that the performance information provided has, at times, a somewhat tenuous relationship with GAAP and does not provide a meaningful insight into “what is going on inside” public organisations.

Over the last twenty years changes to the PFA have arguably sought to recognise the complexity of the actions and interactions of central government departments. In so doing they have provided a degree of increased flexibility to departmental chief executives (and their Ministers). However, in placing less emphasis on output specification these changes have eroded what was conceived as a consistent framework within which departmental performance could be transparently funded and managed.

It is also suggested that a solution to transparently providing that insight lies not in the provision of more information in bigger annual reports. Rather, future research should focus on the use of information and communication technologies to provide more flexible mechanisms by which citizens may seek (rather than be just given) and interact with more detailed information about the use of, and results from, public resources.

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