PUBLIC EXPENDITURE PLANNING
IN
NEW ZEALAND
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ABSTRACT

It is argued in this thesis that over the past 15 years planning - and in particular expenditure planning - has had three main functions in New Zealand central government: as a survival mechanism for elites; as a means to cope with the problems and deficiencies of organised knowledge; and as a symbolic act of reassurance in the face of economic and fiscal uncertainty.

Expenditure planning is regarded in this work as a learning process. However, the thesis describes historical developments which illustrate that the imperative need to contain and manage conflict inside central government is such that real executive learning is effectively precluded. Dissonance between the political implications of significant information and the rational action that might be dictated by that information inhibits effective communication and control. The cybernetic malfunctioning of the central system arises not so much from political debate over the fiscal issues as from the need of certain elites to retain their pre-eminence in the planning process - most notably, the Treasury and its associated ministers.

It is concluded that a less historically-bound system of power-sharing is called for if the executive agents - officials and ministers - are to react more sensitively to adverse fiscal circumstances and prepare more efficiently for future uncertainties than they have in the past.

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- D*** The Public Sector Construction Procedures and Resources Review: Public Expenditure Committee 1978-79

Classification of Restricted Appendices:

- * To be read only with written approval of both the author and the Secretary to the Treasury.
- ** To be read only with the written approval of both the author and the Secretary to the Cabinet.

*** To be read only with the written approval of the author and Clerk of Committees, Parliament or the Leader of the House of Representatives or the Chairperson of the Public Expenditure Committee.

[Note: All restricted appendices are housed in the Cabinet Office.
See Appendix 2]

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PREFACEThe background to this study

For a number of years, members of the staff of Victoria University of Wellington have been actively interested in governmental experiments in national planning. In the School of Political Science and Public Administration, the late Dr Alan Robinson, Dr Les Cleveland, the late Professor Ralph Brookes and Professor John Roberts were among those involved in planning developments as consultants, researchers, advisers and commentators. In the Department of Economics, Professors Brian Philpott and Frank Holmes, and several of their colleagues, took part in setting up research facilities used by the Government in economic planning. Sir Frank Holmes was appointed as the first Chairman of the New Zealand Planning Council in 1977.

At the School of Political Science and Public Administration, a new post-graduate degree - the Master of Public Policy (MPP) - was established in 1975. Among the purposes and achievements of this academic programme was the education of mature students for advisory and consultancy work in national planning and public policy making.

As the research was being completed, University Staff were holding discussions on the establishment of an Institute of Public Policy, with a documentary collection of papers, theses and research projects relevant to public planning policies and processes. Such an Institute would support the activities of organisations such as the New Zealand Institute of Public Administration, which has a long-standing interest in the subject of this study.

The involvement of the academic staff and students of Victoria University in national, social and economic planning is not entirely coincidental. The University's proximity to central Government, Parliament and the head offices of government departments and other government agencies helps to explain the academic interest. Wellington's importance as the seat of government, and its central geographic location

mean that most major planning exercises take place in the capital city, thus stimulating and encouraging research among students of the political process.

There are probably few officials in Wellington, at least in the middle to senior levels of public administration, who have not at some time come into direct contact with the work carried out at Victoria University on planning and public policy making. Many now occupying influential positions in central government are graduates of Victoria; others are exposed to academic influence, direct and indirect, in a variety of formal and informal ways. The public sector orientation of several schools of Victoria, notably those in the Commerce and Arts faculty, is a striking feature of the University itself and has had a marked effect on the intellectual and political environment in which government officials work.

It was in the general climate of academic involvement in government planning that the following study was conducted. The idea arose from the author's initial interest in the Government's reasons for setting up the New Zealand Planning Council. However, on the advice of Professor Brookes, in 1978, the nature of the inquiry shifted and focused on the narrower topic of recent developments in public expenditure planning in New Zealand.

Although the research began in mid-1978, its progress was interrupted for various reasons over the next four years, including the author's leaving Victoria University to take up full-time employment in a government department. Subsequent work on aspects of resource and policy planning has provided new insights into the government planning process. Among other things it indicates a future need to revise some of the material included here, where the cut-off date for historical data was 1980.

Therefore, this thesis is submitted as an initial exploration of aspects of public expenditure planning in New Zealand. It is proposed

to continue with research into the topic, based on the work reported here. A wealth of data collected over the past few years remains virtually untouched. For example, the hope of including a detailed analysis of earlier formal planning mechanisms such as the National Development Conference (1968) and an account of the relationship between public education and other areas of the government's planning process was barely realised. Education is referred to mainly in order to illustrate specific developments in the wider expenditure planning system.

These and other tasks remain to be done. Despite the upsurge in research and public policy analysis, we do not yet have a comprehensive picture of the most significant social and economic determinants or political influences on government planning in New Zealand. Until then, this thesis is submitted as the first part of a more substantial analysis. It is hoped that even in its present form it will provide a minor contribution to scholarship in this area, and, perhaps, to officials' understanding of their function in the New Zealand public sector.

A guide to the contents

The Introduction summarises the concerns that lay behind this study of planning in New Zealand. Chapter One includes a definition of planning, and discusses various theoretical and methodological problems associated with this inquiry, which focuses on public expenditure planning by central government agencies in New Zealand. Chapter Two briefly summarises the main lines of development in government planning in New Zealand since the 1960s. Chapters Three-Six provide a detailed account of the style and behaviour of various government agencies operating inside the central information networks. At this point the work summarises the main lines of current research and indicates where future developments in expenditure planning may occur. Chapter Seven then concludes with a discussion of the problems of expenditure planning as a form of governmental learning.

A list of appendices follow the concluding chapter. The first (Appendix 1) describes how access to data sources for the project was obtained. Appendix 2 lists the data sources and their location. Appendices 3-4 include documents cited in this study. The material in these appendices is all classified as 'RESTRICTED' and is only able to be read after written approval has been obtained from the author and various officials in Government. Details of the location of these appendices is included. Appendix 5, initially intended as part of the main study, discusses aspects of Parliament's interest in the expenditure planning process.

A selected bibliography follows, comprising New Zealand and other publications cited or of use in preparation of this study.

INTRODUCTION

Planning in New Zealand

Apart from three years when Labour was in office (1972-1975), the National Party has formed the government after each general election since 1960. During this time, a number of developments indicate that in government circles there has been a continuing interest in guiding New Zealand's development along somewhat more deliberately planned lines than previously had been the case. Various national planning conferences were held, for example, on industry (1960), exporting development (1960), agriculture (1963-64); in 1968-69 the National Development conference was held, with a number of satellite sector councils, including the National Development Council (NDC) itself, established to promote the objectives of the Conference. In 1974, the Cabinet Committee on Policy and Priorities replaced the central machinery of the NDC, only to be replaced again, with the change of government in 1975, by the New Zealand Planning Council and a number of other government-established planning bodies.

In addition to these more or less broadly consultative planning agencies, developments inside central government (particularly in the field of public expenditure planning) suggest long term political dissatisfaction with a centralised system of government in which national goals tended to be defined and promoted in terms of short term electoral futures, and adapted or abandoned whenever pressing considerations intervened.

The National Development Conference (NDC, 1968) was an attempt at consultative planning - sharing information, attempting to reach a broad-based consensus on the kind of future New Zealanders could and should aim for, setting industrial and other targets. Like the NDC, the contemporary Planning Council (1977) is far from being a coercive instrument of central government. Where planning endeavours of this kind have been attempted, central government has avoided any overt claims for centralised direction. Indicative planning, in which the government assumes the role of co-ordinating convenor and educator, has

been emphasised. The question is whether or not this preferred style has been supported by formal procedures, planning machinery and information systems which could effectively contribute to, or guarantee, agreed objectives in social and economic development.

There appear to be a number of general causes of national planning failure in New Zealand and elsewhere: political or economic immaturity; insufficient regard for the undesirable consequences and side-effects of carefully implemented plans; a breakdown in the relationship between technical planners and the established commanders of political power, so that formal plans become distorted by the demands of expedience rather than adaptive to change; and the seemingly inevitable gap between private ideals and public utopias. Numerous writers have commented on these general factors. Some have claimed that they are so forceful that it should be admitted that planning is an ineffectual government activity.¹ They point to the fact that there is no country where actual social and economic events bear such a convincing relationship to targets, objectives or guidelines set by public planning agencies that formal national planning itself could be claimed as the most effective means to modify experience. This appears to be true whatever kind of planning - indicative or command, educative or coercive² - is under discussion.

There are, however, aspects of national or governmental planning failure and success which can be identified only through detailed investigation of particular cases, such as Stephen Cohen's account of France's post-war planning experience.³ This highlights structural problems which may perhaps be avoided elsewhere. The following case study of a limited aspect of New Zealand government planning may perform a similar function. It examines whether there are specific problems in relating certain kinds of information to political action.

Planning information presents itself in the form of historical analysis and future prediction, usually over the longer term. Other

politically interesting information, such as electoral behaviour, is relevant but not predominant. Without appropriate networks for receiving, processing and acting on the basis of planning (rather than exclusively political, electorally-biased) information, centralised systems may have specific systemic disabilities which reinforce or accentuate other more general difficulties in successful planning.

Planning failures (such as failure to realise the growth targets, and planned social and economic benefits consequent to these) in New Zealand are frequently attributed to uncontrollable factors in the external environment. This study questions how far such failures are in fact a function of external influences. It points to the significance of deficiencies in the networks of information in central government itself. Such deficiencies may be susceptible to remedy and may enable planners to modify the impact of environmental factors over which New Zealanders have little, if any control or influence.

NOTES

1. See, for example, Aaron Wildavsky, "If Planning is Everything, Maybe it's Nothing", Policy Sciences (4, 1973).
2. Stephen Cohen, Modern Capitalist Planning: The French Experience, (Berkeley: University of California Press, rev. edition, 1977), pp 3-27.
3. Cohen, French Experience.

CHAPTER ONE

PUBLIC EXPENDITURE PLANNING IN NEW ZEALAND

A definition of planning

Planning is a form of behaviour. As such, it is not an exclusive function of governments, since individuals, commercial firms, social organisations and community groups are constantly engaged in planning - making choices about the future, and taking action on the basis of those choices. At all levels of personal and public life, however, the influence of central, national governments is increasingly strongly felt. For this reason, the motives and procedures for government planning are of considerable significance.

In many modern states, both those with mature political systems, and those characterised as developing nations, planning has become synonymous with systematic, comprehensive governmental intervention in social and economic life in order to attain longer term goals than other political processes (such as group conflict, class struggle, elite decision-making or 'mutual partisan adjustment') seem capable of achieving.

Planning is, however, notoriously difficult to define, at least insofar as it is viewed as a specific variant of public policy-making.¹ Even if a single meaning could be extracted from its chequered history of opprobrium and praise, its function and purposes are unlikely to be the subject of general theoretical agreement. In this study, planning is regarded not only as a normal prudential activity, but as a form of learning through which governments aim, explicitly, at guided national development in an environment of social, economic and technological change. Among the various nuances of this definition are questions of improved skills in economic and public expenditure management, improved coordination in industrial and social development, and a more purposive approach to the longer-term future than is generally the case where political power depends on gaining and holding electoral office.

The focus of this study

In New Zealand, a great deal of political research has focused on aspects of the electoral system, and on the political and economic motivations for the development of the welfare state. The sociological bases of specific party adherence, the influence of major interest groups such as farmers and domestic manufacturers and the constitutional balance between the legislative, executive and judicial functions of the state have been the subjects of studies in various conventional academic disciplines.²

Only in recent years has much academic attention been given to the significance of political commodities such as scientific and technical information in the distribution of political power, the policy making processes of central government or in national planning experiments.³ In various universities, the study of public administration and public policy making, usually in association with an established school of political science, has begun to improve this research situation.⁴ The introduction of computer-based management information systems in both the public and private sectors has also stimulated scholastic interest in systemic, rather than constitutional and structural, models of government.⁵ The influence of theorists like Karl Deutsch has encouraged the application of cybernetic theory to fields outside, or only indirectly associated with, information science.⁶

By the late 1970s, it seemed timely to begin an inquiry which focused on the political usage of significant planning information, viewing the New Zealand government as a cybernetic system, rather than a constitutional or administrative structure. During the 1950s and 1960s, government-led initiatives in indicative planning had culminated in the establishment of the 1968 National Development Council (NDC). Within six years, the NDC had been disbanded, although many of its satellite bodies, particularly its sector councils, were retained, and some remain in existence at

present. During the Labour administration (1972-1975) a small inner Cabinet body - the Cabinet Committee on Policy and Priorities (CCPP) - took formal public responsibility for national planning developments, in place of the NDC. When Labour lost office in the General election of 1975, the incoming National party government chose not to follow its predecessor's example, but instead established the New Zealand Planning Council (NZPC, 1977) with specific, statutory responsibility for certain planning functions.

There have been very few academic studies of these three developments, and little analysis either of the reasons for their establishment, their impact on political behaviour and economic activity, or, in the case of the NDC and the CCPP, their apparent failure in terms of the objectives those agencies espoused at the time of their creation. Where they do exist, most analyses concentrate on the economic environment in which the NDC and its successors operated, and the effects on them of New Zealand's characteristic balance-of-payments vulnerability and trading dependence.⁷

Since, by 1978, the need for effective development planning appeared even more acute than in the relatively halcyon days of 1968, it seemed appropriate to regard central government as a cybernetic system, asking whether problems in information processing inside that system were not at least as significant as environmental influences in explaining planning failures and successes, past and present.

The purpose of this study of public expenditure planning, therefore, is to describe aspects of the learning capacity of New Zealand's central government as a system, on the grounds that learning is a critical factor in recent and current attempts at national development planning.

Problems associated with planning in New Zealand

For contemporary New Zealanders, planning is a word which strikes few of the ideological chords it set quivering when Hayek, Popper

and Jewkes wrote their forceful critiques in the 1940s.⁸ Recent editions of the New Zealand Official Yearbook, for instance, include brief and somewhat stolid historical accounts of national planning developments.⁹ Possibly pragmatic New Zealanders accept the idea of, and the mechanisms for, national planning because they recognise, as Karl Mannheim argued, that people do not have a choice between planning and non-planning, but only between good and bad planning.¹⁰ Certainly a lively public debate, conducted, for example, late in the 1979 parliamentary session, on legal instruments for government-led planning demonstrated that it was not planning as such, but the steady accretion of regulatory power to the centralised state that bothered most articulate citizens.¹¹ In any case, the fact remains that nowhere has planning on its own proved to be the principal instrument of political or economic oppression - any more than it has provided a unique means to enduring prosperity or social harmony.

Nonetheless, however favourable their attitudes towards planning in general, it is not yet apparent how far the New Zealanders and their governments are prepared to go towards either a more considered or a more imaginative entry to the future. Aaron Wildavsky's sardonic observation that "the present may be reluctant to give birth to the future"¹² applies particularly well to the New Zealanders, who view the 1950s and 60s with sentimental nostalgia, the 1970s with dismay, and the 1980s with apprehension. It remains to be seen - and this study aims to provide some insights - whether New Zealand governments possess the learning capacity to guide and control inevitable historical changes so as to minimize the damage of both predicted and as yet unforeseen events.

It may well be the case that without effective government planning, the New Zealand electorate, and the individuals who comprise it, will lack the power necessary to make socially responsible and economically advantageous choices in the face of uncertainty and change. Yet for some, the fact that "successful husbandry for the

future requires the slaughtering of the sacred cow in nearly every back yard"¹³ may be an unacceptable price to pay for a moral obligation to the future. Their capacity for innovation and informed risk-taking may have been so far prejudiced by the past that they remain alienated from any positive or experimental national planning endeavour. People formally entrusted with the task of government face inevitable problems in any "leap from rational knowledge to revolutionary practice",¹⁴ and some may strenuously avoid any situation in which the outcomes of experimentation cannot be defined in advance in terms favourable to them or their preferred interests. Knowledge about the uneven value placed upon planning, as an appropriate political activity, is part of the collective political experience which constitutes any national planning endeavour. This study is interested in how far central government agencies identify and give emphasis to political consent for particular planning developments.

Effective planning depends upon the political use of certain kinds of information. Yet planning failures may not be synonymous with political failure, since each depends upon the application of power to purposes which may be widely separated, both in intent and practice. The central policy-making sectors of democratic governments provide a unique working environment. Unlike the atmosphere in which private sector business managers and other such decision-makers operate, the "constitutional fusion of the politician and the state machine"¹⁵ is not primarily dedicated to profit-making or to productive output of some other kind, but to the achievement of a given distribution of political power. In its most obvious form, this means the maintenance in office of a group of people who depend on re-election through a democratic process of public support. Political learning, therefore, is an experimental process of establishing what the voters will and will not support with their votes.

This is quite different from the sort of learning required of planners, whether they work in a democratic setting or not. A broad planning goal, such as "guided societal development through the application of technical intelligence to organised action"¹⁶ does not necessarily give much consideration to those who hold particular political offices at any one time - although such a goal may very well require specification and eventual democratic validation, such as electoral consent, if it is to be pursued. Learning to keep control over political events, with a view to staying in office (which is the motivation of elected politicians) involves a different set of skills from learning to anticipate future events with a view to moderating both the rate and the impact of dynamic social and technological change (which is the theoretical objective of most planners).

Cybernative theory identifies feedback as the critical dynamic of any information system; with limited or defective feedback, the learning capacity of any information system, such as a political party in office, is severely reduced.¹⁷ But the kind of re-cycled information which persuades politicians to modify, abandon or initiate certain policy positions - information gained from within the central government system, from the extra-parliamentary party, from the newsmedia, from the extent and kind of pressure groups activity and so forth - is not necessarily the sort of information which is helpful, or applicable, to the pursuit of certain planning goals such as accelerated economic growth or better coordinated social and industrial systems.

These sorts of problems are now acute in New Zealand. Where planning is regarded as meaning more than demand management or some other irregularly applied fiscal or monetary technique, and is extended to include comprehensive intervention by central government agencies in diverse social and economic activities in the pursuit of national goals (or plans), the reconciliation of electoral politics and planning by politicians and planners has become very difficult indeed.

If the polity is regarded as a complex system, and if planning depends on the effectiveness of feedback in that system, the critical question becomes: What counts as feedback? The planner may consider that feedback following the introduction and adoption of some plan, may be reassuring when it indicates, for instance, that the economy is working more smoothly, income is more equitably distributed, various industrial sectors are functioning in a better coordinated manner, and so forth. Politicians, on the other hand, while interested in such information, may be more concerned with whether the approved plans, in operation, are acceptable to certain significant publics. They need to know whether certain critical voting lobbies are tolerant of the plans, or whether their electoral support is being eroded significantly by the planned coordination of industrial activities, planned income controls, and rationally designed economic programmes.

In this inquiry, therefore, we are particularly interested in how an elective government learns to plan. Where the implications of planning information have apparent (or even suspected) short term political costs (such as electoral defeat) why, and how, should politicians be guided by such information? Under what sorts of conditions are politicians likely to abandon national development plans in favour of immediate electoral advantage? Are there any aspects of the democratic welfare state (such as the public education system) which could, or already do, promote the sort of feedback upon which effective planning depends, particularly when there is a marked divergence between what is good for political parties now, and what may be good for the national community in the medium or long-term future?

Attention has been paid to governmental attempts to "formalise, structure and control the informal and external information flows"¹⁸ which provide much of the essential feedback to the

control networks of communication in government. The effectiveness of any governmental effort to influence, modify, restructure, block or redirect information flows within the national planning environment will depend on the quality of feedback, and governmental adaptiveness to what John Freidmann calls "hitherto 'unthinkable' responses".¹⁹ What governments learn when they adopt a formal planning mode of information management has profound consequences for the degree of political will (that is, the amount of power) they are prepared to exert in any subsequent planning effort. Abrupt political shocks experienced through systematic sensitivity to new information, or unforeseen traumas (such as the ubiquitous oil crisis of the early 1970s) may not only explain significant planning difficulties (which may result from failures of political nerve), but the spasmodic, apparently incremental character of many planning experiments.

As with individual learning, however, learning to plan in order to improve the quality of future experiences may proceed at a rate and degree of variability that tempts the judgment that the individual - or the government - is retarded, a slow learner, or an intractable idiot. In the case of central governments, this view (i.e. that little is being learned) is likely to be accurate where there is no consistent or rigorous evaluation of past mistakes and advances. If no comprehensible, politically relevant analysis of past planning endeavours is available, further attempts by decision-makers to foster developmental planning may remain arbitrary and ineffectual.²⁰

If, on the other hand, formal planning is attempted without simultaneous review, and, if necessary, reform of the established structures of political power, and the traditional systems for information management, many potentially useful opportunities for learning may be ignored. Some critically important contributors may be left powerless to provide feedback to planners and politicians in central government.

Planning is invariably "a hard test of causal knowledge".²¹ In a democratic context, such as New Zealand, if government planning is not based on a broadly participant political style, with societal knowledge

filtered through a permeable planning system which itself demonstrates the application of educated intelligence, the chances of predictive error will be enormously magnified.²² A government which ignores all but the habitual, entrenched forms and habitual modes of feedback denies essential nourishment to the national planning endeavour.

In this study, an attempt has been made to map the networks of communication through which significant planning information flows, to identify the principal gatekeepers, and to assess the learning capacity of that phase of formal expenditure planning when inputs (existing programmes, new policies and developmental plans, financial forecasts and so forth) are translated into outputs such as legislation, regulations, money payments, incentive payments, subsidies, programme objectives and other explicit declarations of future intent.²³ The feedback (information about actual fiscal out-turn, behavioural changes identified as occurring in the relevant social or economic population, political responses, target failures or achievement and so forth) will affect not only the precision, but also the extent, to which the future decisions and actions of government agencies (both elected politicians and technocratic planners in the central government system) are modified. Effective planning is critically dependent on the sensitivity of internal networks of communication within government, and the capacity of this centralised system to learn from its own experience.

Two final points should be noted among the various dimensions of this study. While neither is peculiar to New Zealand, the first - the confidential nature of information circulated in the central planning system - became a matter of growing public interest during the 1970s.²⁴ The information output from central government falls into several more or less distinct classes of confidentiality. For example, although the annual Estimates of government expenditure are published annually, detailed justifications for these appropriations of public money are nowhere comprehensively or publicly stated.

Parliament annually approves in full executive proposals for the funding of programmes which almost invariably have cost implications stretching far beyond the current year. However, there is no published statement of the Government's future expenditure predictions. Further, although annual budgetary decisions made by the executive are decided on the basis of a three year forward projection of the costs of current government policies, the justifications for these projections are accessible only to a small group of ministers and senior public servants. Although some legislation requires the Government to declare its future policy intentions - for example, the Town and Country Planning Act (1977) - other legislation, such as the National Development Act (1979) permits investment decisions by the executive to override most other statutes. Although in the case of the National Development Act the Government is required to declare that specific investments or developments have pre-emptive significance in the national interest, there is no corresponding necessity for wide public discussion, or consultation on such matters.

Apart from these considerations, the legal obligations of each public servant, in the terms of the Official Secrets Act (1951) have traditionally been so binding that constitutional proprieties, such as ministerial responsibility, were mechanisms for drastic limitation upon the flow of information from the central government networks. At the time this research was being carried out, a committee of inquiry into this restrictive aspect of executive power was examining the feasibility of its relaxation under certain circumstances.²⁵ New legislation aimed at institutionalising greater public access to official information - the Official Information Act, 1982, becomes effective in 1983 and will undoubtedly have far-reaching consequences in central government. However, the kernel of planning decisions - advice and exchanges between officials, and ministers - remains heavily proscribed.

Critical economic and other planning decisions are limited both in their formulation, and, often, their subsequent release, to groups which have a

partisan interest in developments, rather than the public at large.

Despite the massive consequences of capital investment by the state in energy development, for instance, only a partial release of the factors considered, and the anticipated socio-economic impact of these decisions, has been permitted by the executive.²⁶

Discussion documents published by quasi-government agencies such as the New Zealand Planning Council are not supplemented by formal procedures to ensure that public discussion occurs. Nor, indeed, do topics raised in such NZPC documents as The Welfare State? Social Policy in the 1980s²⁷ appear to invite public debate so much as they seem merely to confirm current executive policy decisions announced coincidentally in public documents like the annual Budget.²⁸

The context in which central government planning occurs in New Zealand therefore, is one of confidentiality, if not extreme secrecy - an environment which invites information dispersal by ad hoc leak, news media speculation, and pressure group disclosure.

The second point to be noted at this stage concerns the costs of time. To the politician, time carries with it a specific urgency dictated by the electoral cycle. The framework for decision-making is dominated by the three-yearly cycle of general elections, with consequences that have been widely criticized but not, so far, the subject of reform. The time-scale within which the public servant works is frequently frustrated or stimulated by this political preoccupation. However, the permanent public servant, who is not liable for re-election (nor indeed any specific procedure of public accountability) places a different value upon the question of time. His/her horizons may be just as short-term as those of the politician, but they are not dominated by the necessity to fulfil manifesto and other commitments to the same critical extent. The planner, either co-opted within the central government system, or consulted by executive agents on an ad hoc basis, is free of the administrative burdens of the public servant, and the electoral worries of the politician, but is nonetheless expected to have a similar regard for short-term crises (as well as medium and long term perspectives), if only to ensure his/her continued access to and participation in the government system.

The multi-dimensional influence of these varied interpretations of the significance of time has a marked effect on the behaviour of people working inside the central networks. Along with the question of confidentiality, the uneven value placed on time is probably one of the most critical aspects of any national planning development.²⁹

Dimensions of planning: some theoretical questions explored in this study

In a useful account of the state of planning in Europe in the 1970s, Jack Hayward suggested that

planning goes beyond a rational calculation of what is collectively possible/probable, as revealed by projections or forecasts, to a governmental endeavour to reconcile such forecasts with what is politically preferred. This is attempted through the strategic use of instruments of economic and social policy by the government, in concert with other economic and social organisations, to attain explicit quantitative and/or qualitative objectives in the short, medium or long term.³⁰

Since the 1940s, in various democratic and socialist states, there have been a number of such governmental endeavours. What characterizes the widespread introduction of management techniques such as Planning, Programming and Budgeting Systems (PPBS); the establishment of new organisations such as the Department of Economic Affairs (Britain, 1964) or the Canadian Economic and Science Councils; the modification of high-level advisory units, such as the New Zealand Prime Minister's Department, or the British Central Policy Review Staff (CPRS); the appointment of various commissions of inquiry and task forces such as the Canadian Royal Commission on Financial Management and Accountability (known as the Lambert Report, 1979) or the New Zealand Task Force on Economic and Social Planning (1976); and the publication of various forward-looking documents such as the British White Paper on public expenditure or the French plans (1946 on) is that they all represent governmental attempts to develop strategic objectives which will "take precedence over annual tactics".

The motivation and procedures adopted during such innovative efforts raise a number of theoretical questions of interest in this study. Three

have particular relevance in the development of planning in New Zealand in that planning may be viewed from these differing perspectives:

- (i) planning as a survival mechanism for elites in central government;
- (ii) planning as a function of modern knowledge; and
- (iii) planning as a symbolic act of electoral reassurance in the face of dynamic environmental uncertainty.

Since each of these has some explanatory power in relation to the recent political history of planning in New Zealand, they are used in this inquiry.

(i) Planning as a survival mechanism for elites in central government

What enlivens governmental attempts at national development planning, viewed in the light of Hayward's normative definition, is the question of political preference. Electoral systems, for example, have proved a crude if durable system for the measurement of public satisfaction and latent need; much of the time decision-makers either fly by the seat of their pants, or concentrate principally on satisfying the political stratum³¹ and its established elites. Any innovative reform of established networks of communication, such as effective planning would necessitate, has threatening implications for such elites.

Kjell Eide suggests that the relative influence of sources of information may be gauged by examining how far certain participants succeed in imposing their way of structuring information and problems on others dealing with the same issues.³² Powerful individuals and elites in the central networks tend to present the data they control so as to sustain a "given definition of [a] situation".³³ Treasury officers, and senior officials in, say, the (NZ) Ministry of Works and Development not only structure formal informational inputs in a certain way, but deploy "teams" with the specific intention of maintaining the stability of some definitions of planning options, while playing down or concealing certain facts in order to do this.³⁴ If survival depends upon how successful elites are in this technique, then their commitment to planning will vary according to their

interpretation of the degree of danger involved in any attempt at guided development.

Thus, officials in the (NZ) Department of Education, for example, maintain a higher collective profile of themselves as an integrated team of ex-teachers, than a hierarchy of public service administrators. This behaviour has important implications. The advice they submit to ministers, their receptivity to informational inputs from satellite advisory and consultative agencies, their techniques for processing data entering the networks they control from the external environment, the informational outputs (ranging from in-house publications of "Education News", semi-academic publications such as Education, regulations, legislative amendments, circulars, public statements and speeches by departmental officials) - all these are predicated on the assumption that the "educational family" is led by a professionally-trained elite of ex-teachers, whose survival is regarded as critical to the best interests of the public education system.

Officials in the Cabinet Office, on the other hand, process informational inputs to their networks according to their perception of themselves as vestal priests, keepers of the constitution against the forays of secular bandits (who include ministers as well as public servants). This self-regarding role takes precedence over the alternative image that they are merely secretarial functionaries whose responsibility it is to ensure that a ministerial agenda includes all the relevant planning information.

Specific individuals, such as the secretary of Treasury, the Director of the Programming and Development division of the Ministry of Works and Development, economists in the Department of Trade and Industry, or senior officials in the Audit Office and the Reserve Bank have the prerogative of developing or authorising the development of formal models relating to decision-making, or programming information systems as the basis for strategic planning decisions. The way they choose to use these policy instruments to ensure their own survival (and pre-eminence) has profound

consequences for the rate, and the quality of planning information flowing into and around the central networks. Shifts, over time, from the predominant use of policy outputs such as legislation to a variety of executive instruments including public discussion documents (such as the NZPC's reports) or public conferences (such as the Education Development Conference)³⁵ suggest that elites adapt their techniques for survival to accommodate waves of political interest in planning. While government in New Zealand remains closely tied to traditional structures such as political parties (a source of elite recruitment), and hierarchical institutions such as government departments (sources of expert advice), a commitment to planning may not be scaled high among the survival needs of elites who must constantly defend themselves and their interests against other contenders for political patronage.

(ii) Planning as a function of organised knowledge

The systematic possibilities of modern knowledge have offered governments the hope that explanations are discoverable, and that these will offer solutions to political problems. Thus national planning endeavours may be predicated on the scientific assurance that there are technical explanations for economic and social behaviour, and that governments should be in the business of understanding the systemic relationships between events and behaviour in the political environment, with a view to controlling these, and guiding them towards the achievement of certain longer-term objectives.³⁶

However, for governments which adopt a planning mode in the light of this argument, there are a number of difficulties which derive from the general problems of knowledge. Like scientists, governments may be faced with the paradox of conflicting explanations. On the one hand, for example, are scientifically deduced laws which describe all energy as essentially entropic - that is, all systems tend towards fragmentation, diffusion and disintegration.³⁷ On the other hand, there is evidence that "certain

processes associated with life appear to run counter to this current [of inevitable entropy]. Within living organisms proteins are synthesised, as well as broken-down or denatured; specific structures are created, behaviour tends to go from random to specific in many learning processes, and on the grand scale biological evolution seems to give rise to ever-increasing ordered complexity in the development of higher species".³⁸ Thus, it must be seen, certain attributes of existence are neg-entropic.³⁹

Attempts to develop general systems theory in recent years constitute a massive intellectual effort to reconcile such paradoxes.⁴⁰ While this effort may obtain political endorsement (in that scientific research is both fostered and funded by national governments), the lag in many fields between theory and explanation, conflict and isomorphy, is not helpful to elected office-holders for whom time has a particularly finite meaning.

Governments cannot, therefore, be confident that a major redirectional emphasis in, for instance, investment (which they might hope to justify, in planning terms, as intended to promote the attainment of desired long term plans) could be sustained over the necessary time period. If entropic tendencies inevitably affect both the consistency and the integrity of social and economic structures, and neither they nor intellectual paradigms which explain them are capable of cohesion or maintenance intact over time, the political costs of present sacrifice for future benefit will be unacceptable - and, indeed, unnecessary. If, on the other hand, the dynamic experience is not one of entropic disintegration, but of evolutionary complexity and improvement, then innovative and massive investment, or other immediately dysfunctional executive acts may be presented as both benign and scientifically authoritative.

Governments must also face the unpalatable fact that present knowledge is unable to account for the intractable nature of critical variables. "When the protagonists of intellectual guidance (including physical scientists, economists, demographers and others) attempt, but fail to

surpass an a posteriori understanding of the turbulent environment",⁴¹ the problems for their political sponsors become acute. The possibility that "we are the sorcerer's apprentice, but there is no sorcerer"⁴² may not deter the scientist, but it is both frustrating and disconcerting for executive decision-makers and planners inside central governments.

Scientific confirmation that the critical variables of social and economic experience are beyond the control of those who attempt to manage the processes of social and technological change may effectively paralyse political decision-makers. They may react by entertaining the bleak hope of "moving equilibrium"⁴³ - a possibility explicitly denied by the logic of entropy. Determined, even desperate efforts to control and limit, for instance, public expenditure in the interests of national plans, right up to the point of really testing electoral tolerance, may appear to achieve temporary inertia (if the electoral risk proved justified), but in fact may merely defer critical decisions until such time as different and even more perilous action becomes imperative.

Again, planners, and their political sponsors, may react to the limitations of present knowledge by attempting to devise an "institutional substitute"⁴⁴ to overcome inertia, to muscle through the uncontrollable and force a temporary shape upon reality through the assertive use of authoritarian public power. In New Zealand, the passage of a National Development Bill through the legislature late in 1979 illustrated this kind of reaction.⁴⁵

Again - and probably more typically - governments may retreat, in the face of scientific confirmation of the intractable nature of politically-significant variables, to a posture of pragmatic fatalism, or some other dramaturgical role. Under the guise of planning, governments may continue to intervene in social and economic life only in response to ad hoc situations; the urgent defeats the important,⁴⁶ and timing is dictated by crisis.⁴⁷ Much of the behaviour of the New Zealand CCPP, the NZPC and

government department officials at very senior levels, for example, demonstrates this reaction. NZPC publications and public consultations, for instance, are timed to coincide with conventional political and administrative timetables: the annual budgetary cycle, the triennial parliamentary cycle; or specific symbolic events such as the visits to New Zealand of prospective buyers of New Zealand exports,⁴⁸ or international managers like the review staff of the International Monetary Fund.

A further difficulty for those who adopt planning as a function of knowledge is the elaboration of theoretical models. Karl Deutsch described this problem as both philosophically urgent and historically critical: "Accelerating processes of change, we feel, have been carrying us ever closer to the edge of the arena in which our traditional intellectual equipment has been adequate."⁴⁹ In various fields attention has focused on "the classic analogues or models of mechanism, organism and process which so long have dominated so much of scientific thinking."⁵⁰ Among the conceptual alternatives is the general cybernetic model, with applications (it is argued) for all systems, including those within the social sciences. This model has substantial attraction as the basis for planning in a liberal democratic state - there is likely to be much theoretical and academic approval (if not popular appeal) for a planning system which emphasises the significance of feedback - the "notion that the flow of information has reciprocating effects on behaviour."⁵¹

There are, however, numerous difficulties in this model - discussion of them is one of the chief themes of this study. They include what Kenneth Boulding has called "the entropy trap", in which the difficulties of communication and data retrieval monopolise all available energy. It is quite easy, Boulding suggests, "to visualise a situation, perhaps in a 100 years, in which the stock of knowledge will be so large that the whole effort of the knowledge industry will have to be devoted to transmitting

it from one generation to another."⁵² It may not, indeed, be necessary to endure the century to recognise the truth in this prediction. In New Zealand, for instance, the relatively small population to be dealt with administratively by the state has not compensated for the rapid post-war growth in the complexity and apparent randomness of information flowing through the central networks. The pool from which knowledge-processors is drawn is necessarily small (if only as a function of population size), and the possibilities for non-computerised institutional memory-banks (i.e. what is remembered in the heads of individuals and on manually compiled files in state organisations) are increasingly outmoded. Consequently, data classification, storage, and retrieval demand the attention of more and more skilled knowledge-processors, while the number of expert persons available for political analysis of the data reduces, as does the time allocated to analysis. One commentator has gone so far as to assert that "the claim of systems analysis to operate as an heuristic device at the policy-making level appears, in large measure, to have been bogus."⁵³

In addition, there are problems inherent in the systematic adoption of procedures for evoking feedback as a cybernetic planning technique. "Entropy is measured in terms of the information required to eliminate the uncertainty or randomness from a situation within a system or an evolving system"⁵⁴ - an injunction which Norman Wiener stated as the argument that information and negative entropy are synonymous.⁵⁵ However, a structured provision for feedback in itself reduces the random pool of potential information. As Wilbur Schramm noted over twenty years ago, the danger of "working with stochastic processes in functional systems (such as central governments) is that the functional system may learn, and therefore change the possibilities."⁵⁶

Scientific inquiry suggests that although there is both an apparently infinite multiplicity of systems, and enormous complexity in their inter-relationships, none appears to be entirely random. On the other hand, the

exponential growth of systems also appears to be essentially entropic - that is, tending towards randomness and anarchy. In the face of this dilemma, one scientific response has been an attempt to describe a paradigm which will perform an isomorphic function. In the face of the same dilemma, governments may adopt a planning mode because they see it as performing an integrative function. The manifest statement of future objectives, the systematic concert or societal energy towards the achievement of these, is a neg-entropic response to uncertainty. At this dimension, planning acquires normative force because of the optimism of human thought - the belief that it is possible to survive, through the exercise of reason. As Gunnar Myrdal wrote, planning is "an exercise in a non-deterministic conception of history, though it recognises the limitations put up by existing conditions and forces and their causal inter-relationship."⁵⁷

(iii) Planning as a symbolic act of reassurance in the face of uncertainty

Among the "existing forces and conditions" which constrain government planners is the need of a democratic community for forms of reassurance which only a legitimate government can provide.⁵⁸ The electorate expects that its elected rulers, and their administrative advisers, will adopt a prudent attitude towards the future, that they will recognise certain community needs as imperative, and will order social and economic relationships so that these needs can be met. Since it is not possible to act rationally in the world if you have no idea how it will respond to your actions,⁵⁹ a successful government is one which increases the predictive capacity of the political community.

Governments cannot guarantee desired social or economic outcomes, even where these are based on improved predictive and other management skills. They may, however, through skilful use of political myths and symbols, persuade the community to believe that they have both present knowledge and accurate foresight. As social and technological changes

disrupt established patterns of behaviour, governments find it increasingly difficult to identify levels of political tolerance, and in this situation may adopt a planning mode as a symbolic means of reassurance.

Planning in this sense is not an activity which provides the electorate with "the raw material for decisions in terms of clearly formulated priority choices and alternative lines of action, their implications worked out and explicitly stated".⁶⁰ It is, rather, a symbolic act of reassurance for populations facing futures in which there are no clear priorities, and all the implications are uncertain.

In a ritual act, government members (such as ministers) may decide to undertake the planning role themselves - as happened in New Zealand in 1972, when the Cabinet Committee on Policy and Priorities was set up by the Labour government. Alternatively, the government may symbolically invest other persons, outside the immediate executive range (but well within the acceptable elite-recruitment sources) as planners, as happened in 1977 when the New Zealand Planning Council was set up by a special Act of Parliament. The establishment of special planning bodies, the publication of national planning documents, or the positioning of select planning experts close to government are acts which represent, in ritualistic form, a symbolic move by governments away from reactive incrementalism.⁶¹

Governments nurturing myths of reassurance may express a preference for one method of planning, rather than another. "Indicative planning", in which "each sector of industry is given a series of mutually consistent demand projections and the appropriate facilitating actions are suggested",⁶² sustains the symbolic role of democratic governments as supportive, rather than coercive.

Alternatively, socialist governments, which depend on different political myths for their authority, may institutionalise planning in order to symbolise their commanding power over social and economic inequities. Geoffrey Vickers has described such planning as "a revolutionary method

whose purpose is to build up a new schemata of fact and value, insulated by every means from those they are designed to replace; to accentuate their difference, and to reject every invitation to compromise."⁶³ Successfully realised, such planning would symbolise the power of ideologically-consistent action over dynamic uncertainty.

Whether or not technocrats who undertake to plan on behalf of governments, or from some location inside central government systems, are held accountable for the consequences of policy changes, their co-option provides a significant ritual through which governments may re-state their capacity to control the future. Whether planning is carried out, for example, by a body like the New Zealand Planning Council which is later denigrated as cosmetic, a mere public relations exercise which "lends a spurious air of rationality to a series of political expedients",⁶⁴ or applauded as purposeful and educative, it may in any case have some cohesive force. It may offer a symbol of reassurance to the electorate. Indeed, the very existence of plans and planners may make the community more receptive to other changes in policy direction.

Planning has a further symbolic value in that in some institutionalised form it offers governments a new token of communication. The planning mode has entrepreneurial value, much like some locally-developed scientific research 'break-through', or cultural displays of ethnic diversity. Once adopted, planning, as an official governmental activity, becomes a symbolic commodity which provides access to previously closed areas of action. This is a critical consideration in the case of New Zealand, where trade and other barriers (not the least of which are an inevitable consequence of global geography) cause continual political difficulties. As a sophisticated status symbol, planning enables certain government agents to participate in international cliques such as the World Bank, or to forge new links with desirable economic partners, such as international investors. The price of entry to such circles is the public demonstration of a national commitment

to future management, a symbolic denial of mere ad hoc reaction to such crises as the international shortage of energy fuels. Further, the adoption of a planning mode adds to a government's dramaturgical range.⁶⁵ As old myths lose their potency, governments seek ritual victims to take responsibility for policy failure. Planning bodies, set up to perform specific tasks of future guidance, may be blamed when programme objectives are not realised. Their failures may be regarded by the electorate as less reprehensible than those of their political sponsors. When governments face intractable problems, apparently incapable of remedy by incremental (and politically convenient) means, the summoning of planners may acquire considerable significance as a form of electoral reassurance. When plans and planners fail in their attempts to exorcise "wicked problems",⁶⁶ they may also serve as sacrificial victims to the status quo.

The methodology for this study

To a considerable extent, how and for what we plan depends upon what we know. What we know depends in turn on what we can learn. Planning is a consequence of learning, in that experience is translated into decisions to act (or not to do so) in certain ways in the future. There can be little question that central government is a learning system - what is at issue is how good or bad, effective or limited, stimulating or sedative is that experience for government agencies.

Thus, the methodology of this inquiry was largely determined by the need to answer these sorts of questions: How do the planners and the politicians know what they know? What information enters the central networks, and from what sources? What changes in the behaviour of planners, politicians and public servants can be detected as a consequence of communication inputs relaying significant planning information? Clearly, this inquiry could provide only a limited series of answers to these questions, and first, it was decided to concentrate principally on those networks which handle information about public expenditure. Thus, for

some sections of the inquiry, the general rule of thumb was to "follow the money". This should not be interpreted as a particular interest in the economics of expenditure planning, but as a tracking device to locate and identify the role of certain "information brokers", agents located at specific nodal points in the central networks of information flow. The device had the additional advantage of telling us something about how political actors regard the costs of planning, as well as the costs of a particular plan, policy or programme.

Secondly, although the networks for processing public expenditure-related information could serve as a proxy for the national planning system, it was decided to refer also to education planning, not only as a specific function of central government, but also as one potential tool for public learning during any serious, long-term planning endeavour.

This study, therefore, maps the mainstreams of a complex communication network dealing with public expenditure in general. Among the possible range of inputs (and subsequent sources of feedback) are complex elements such as the overt statements of political intention found in manifestos, ministerial statements, published reports, personal declarations and formal interviews. Added to these are a wide range of informal elements, such as the behavioural norms, personal value systems, and organisational mores of participants in central government planning. Further, there are tangible factors such as published laws and regulations, documents, reports, agendas, minutes, recorded statements, and other inputs more difficult to track, such as telephone conversations, private chats, books read, public and private meetings, news media comments and so forth. These elements are part of the environmental "climate of opinion" which not only encompasses, but has varied influence on, the central networks of communication. Clearly this dissertation could hope to take account

of only a part of this learning situation.

The methodological premise adopted, therefore was that the best way to examine how people learn is to watch them doing it, and to identify and evaluate as much as possible of the oral and written information which reaches them in their daily work. It may be too simplistic to argue, as John Jewkes did, that "planning is what planners think and do". Nonetheless, it was decided to limit this study of the learning experiences of planners and decision-makers to those persons (and data banks) located within a few hundred yards of the New Zealand House of Representatives and the executive wing, popularly known as "the Beehive": members of the central executive of the Government.⁶⁷

Much of the investigation for this study was conducted in what is normally a closed area of government, where there is direct interaction between the executive ministers, elected members of Parliament and the public service bureaucracy. Students of government often find that their choice of research methodology is conditioned by the exclusive nature

of most centralised systems. Access to the inner workings of the Cabinet system, for example, is usually severely limited. In countries like New Zealand, modelled on the Westminster system, the doctrine of ministerial responsibility and bureaucratic anonymity are effective barriers to much primary research. The choice between direct observation and interviews, or close study of primary data such as Cabinet minutes and departmental files is usually less a matter of methodological preference than a consequence of flat refusals by ministers and others to depart from their habitual secrecy. Appendix I explains in detail how access to raw data for this study was obtained. In part, that account, which describes a relatively unusual degree of access, may suggest a research path for others; in part it reflects the often quite intense desire of the principal actors of the study to find a better way to cope with hard decisions which must be taken today, but which may feel extremely uncomfortable tomorrow.

Many of the theoretical, heuristic and operational problems which occupy the attention of students of public policy also present themselves to planning researchers. There is, for example, little theoretical agreement on what constitutes national development planning,⁶⁸ and many researchers avoid any attempt to formulate a general theory of planning, concentrating instead on studies of specialised forms of planning, such as regional, urban or redevelopment planning, or historical experiments in national planning in developing countries.⁶⁹

Similarly, there is little agreement over what constitutes the most effective methodology to adopt in studying planning behaviour. Is survey research, for instance, likely to contribute more to our understanding of planning than, say, interviewing, or aggregate data analysis? How far can case studies which examine "the evolution of policies (or plans) in a particular field of government activity... or the struggle surrounding the selection or non-selection of a specific policy (or plan) take us past

the stage of data collection and into the field of analysis?"⁷⁰

This study combines several methods of investigation into the form and style of planning information, and the networks through which it flows, in order to examine the communication system on which government planning depends. Of the array of factors which affect the political usage of significant planning information - such as "internal administrative efficiency (and) the strength and stability of representative institutions such as cabinets and parliaments",⁷¹ prevailing economic conditions and electoral behaviour over time, one of the most salient elements is information itself: the form in which it presents itself, the capacity of its receivers, the extent to which it is relevant to perceived problems and past experiences, and the purposes for which it is subsequently transmitted. Thus, questions of the style, relevance and purpose of specific examples of planning information were of considerable interest. Methodologically, this meant reading and cross-referencing official documents, and maintaining records of observed behaviour, for example, during parliamentary select committee and other meetings.

Access to a range of primary documents in Cabinet office and Treasury archives supplemented public records of planning developments since the early 1970s. Appendix 2 includes an index of documentary material read or copied from official sources, and an indication of where this is located. Permission was obtained to read the unexpurgated records of relevant Cabinet committee meetings from 1972-1979. Much of this material is highly confidential, however, and cannot be included in the appendices bound to this thesis. Access to certain items is restricted.

Although documentation provided the historical framework for inquiry, direct observation of the behaviour of currently-serving ministers, parliamentarians and officials supplemented this information. With few exceptions (noted in Appendix 1) requests to observe selected

meetings were officially approved. Permission was given to attend meetings of the Public Expenditure Committee (a select committee of the House) from mid-1978 to the end of the parliamentary session. This opportunity was limited only by the research objectives of the inquiry, and the generous interpretation of Standing Orders of the House of Representatives by parliamentarians and their administrative staff. Early in 1979, permission was granted by ministers to observe relevant meetings of the Cabinet Committee on Expenditure. Although under the Standing Orders of the House of Representatives this applies only to that part of meetings when oral submissions were being made by officials to ministers, the chance occurred to observe the deliberative phase of a planning discussion - a rare opportunity, if not in the event the occasion of dazzling insights into the executive process.

Research based on classified documents, and personal observation of political actors are intellectually riveting, but problematic for the student. Other scholars may not be entitled to corroborate the analysis by direct reference to the initial data. Thus, responsibility rests with the primary researcher to provide alternative forms of verification. To this end, the manuscript was submitted, where relevant, to officials and other persons with direct experience in central government, for confirmation of matters of fact, and to ensure that both the "mapping" of the networks of communication, as well as the technical information included in the planning record, were as accurate and reliable as possible.

Since this study of the learning capacity of a system is primarily a study of political behaviour, quantitative variables (such as the particular sums of money allocated to various purposes) were regarded as having of less relevance than qualitative

variables such as the positioning of certain elites, styles of communication, the effect of organisational norms on both individual behaviour and the structure of information access and control, the use of political symbols, the management of conflict and "the art of getting things done".

A major premise of this inquiry, noted earlier, is that what governments learn when they adopt a formal planning mode of information management will influence the degree of political effort they are prepared to apply to any subsequent planning effort. Since, on occasions, this power takes the form of money and its distribution, attention is given to fiscal information. On other occasions, however, resources such as time or political reputation will have a more compelling or determining behavioural influence. Accordingly, attention has also been given to recording the informal processes by which expenditure choices are made in central government during formal fiscal planning exercises.

NOTES

Chapter One:

1. See, for example, G.D.H. Cole, Economic Planning (New York: Alfred A. Knopf, 1935); B. Wootten, Plan or No Plan (New York: Farrar and Rinehart, 1935); L.R. Beres and H.R. Targ, Planning Alternative World Futures (New York: Praeger, 1975); D. Lerner and H.D. Lasswell, eds., The Policy Sciences (Stanford, Calif.: Stanford University Press, 1951); K. Brunner and A.H. Meltzer, Public Policies in Open Economies; Carnegie Rochester Conference Series on Public Policy, Vol. 9 (Amsterdam: North-Holland Publ. Co., 1978); J. Leruez, Economic Planning and Politics in Britain, trans. by M Harrison, (London: Mark Robertson, 1975); B.M. Gross, ed., Action under Planning: the Guidance of Economic Development (New York: McGraw-Hill, 1967); A. Shonfield, Modern Capitalism, (London: OUP, 1965); J. Hayward and M. Watson, eds., Planning, Politics and Public Policy: The British, French and Italian Experience (London: Cambridge University Press, 1975); E. Jantsch, Perspectives of Planning (Paris: OECD, 1969); "The Study and Practice of Planning", a symposium in International Social Science Journal (Vol. XI, No.3, 1959).
2. See, for example, R.M. Chapman, W.K. Jackson and A.V. Mitchell, New Zealand Politics in Action: The 1960 General Election (London: Oxford University Press, 1962); S. Levine, ed., New Zealand Politics: A Reader (Melbourne: Cheshire, 1975); L. Lipson, The Politics of Equality (Chicago: Chicago University Press, 1948); R.S. Milne, Political Parties in New Zealand (Oxford: Clarendon Press, 1966); D. Pitt, ed., Social Class in New Zealand (Auckland: Longman Paul, 1977); A. Trlin, Social Welfare and New Zealand Society (Wellington: Methuen, 1977); A. Robinson and L. Cleveland, eds., Readings in New Zealand Government (Reed Education, N.Z., 1972); L. Cleveland, The Anatomy of Influence: Pressure Groups and Politics in New Zealand (Wellington: Hicks Smith and Sons Ltd., 1972).
3. See, for example, L. Cleveland, The Politics of Utopia: New Zealand and its Government (Wellington, Methuen Pub. (NZ) Ltd., 1979); S. Harvey Franklin, Trade Growth and Anxiety: New Zealand beyond the Welfare State (Wellington, Methuen (NZ) Ltd., 1978); Thomas B. Smith, The New Zealand Bureaucrat (Wellington: Cheshire, 1974); Bryan Philpott, The Economic Mechanism: Economic Theory in Relation to the New Zealand Economy (Wellington: Reed Education, 1973).
4. In 1975, for example, a new postgraduate degree of Master of Public Policy was established at Victoria University of Wellington. In his 1975 Report on Victoria University of Wellington, the Vice-Chancellor reported that 18 students had completed the first year of study: by 1979 the Vice-Chancellor's Report indicated that intakes of about 20 for each intervening year were producing a steady number of graduates from this new course. The number of research papers presented by M.P.P. Students had grown sufficiently, by 1980, to encourage university staff associated with the M.P.P. Board of Studies to consider establishing a special archive for locally-researched public policy papers.

5. See, for example, R.A. Patston, "Zero-Base Budgeting as a Tool of Resource Management: A Case Study in the New Zealand Ministry of Defence" (unpublished report, Wellington, NZ., September, 1976); and "The Impact of Management Information Systems on the Future of Public Administration" (unpublished M.P.P. research paper, Victoria University of Wellington, January, 1978).
6. See, for example, J. Charlesworth, ed., Contemporary Political Analysis (New York: Free Press, 1967) esp. pp. 273-316); Karl Deutsch, The Nerves of Government: Models of Political Communication and Control (New York: Free Press, 1966); Guy Benveniste, The Politics of Expertise (London: Croom Helm, 1973); Ira T. Hoos, Systems Analysis in Public Policy, A Critique (London: University of California Press, 1972); Alan Steiss, "The Role of Planning in the Public Decision Making Process - a cybernetic analysis" (unpublished PhD. dissertation, reproduced by University Microfilm Inc. Ann Arbor, Michigan: University of Wisconsin, 1969); Lloyd R. Amey, Budget Planning and Control Systems (London: Pitman Publishing Limited, 1979); J. Steinbruner, The Cybernetic Theory of Decision: New Dimensions of Political Analysis (Princeton University Press, 1974).
7. See, for example, R.M. Alley, "Planning and Politics: The 1976 'Task Force' Report on Economic and Social Planning". (Paper prepared for the 1977 Conference of the New Zealand Political Studies Association, Auckland, August 26-27, 1977); D.W. Beatty, "Planning and Programming in the Building Industry". Paper presented to a Victoria University Seminar on Planning and Government Policy Making, 1978); S.J. Callahan, J.R.M. Goessi and R.M. Jarrett, "An Economic Planning Institution for New Zealand" (a group project, School of Public Administration, Victoria University of Wellington, 1964); N.S. Coad, W.A.E. Green and G.A.E. Weston, "Planning and the Determination of Priorities in New Zealand" (a group project in partial completion of the Diploma of Public Administration, School of Political Science and Public Administration, Victoria University of Wellington, July, 1956); G.H. Datson, "Industrial Futures for New Zealand", (a paper presented to the 'Control '79' Conference on Wednesday 9 May, 1979, Wellington, New Zealand); E.J. Ferner, "National Development Organisation, 1969-1972" (Research paper presented in partial completion of Master of Arts, School of Political Science and Public Administration, Victoria University of Wellington); S.H. Franklin, Trade, Growth and Anxiety, New Zealand Beyond the Welfare State (Wellington: Methuen (NZ) Ltd., 1978); R.D. Muldoon, "Economic Planning for New Zealand's Future" (J.T. Stewart lecture in Planning, No. 3, Manawatu Branch: New Zealand Geographical Society, July, 1969); B.P. Philpott, "Concepts and Consequences of the NDC" (Discussion paper 2, Project on Economic Planning, Victoria University of Wellington, 1975); "Doubts about Economic Planning" (an inaugural address delivered on 25 May, 1971, Victoria University of Wellington, Inaugural lectures, 1971); "Economic Planning and the shape of things to come" (Discussion paper 11, Project on Economic Planning, Victoria University of Wellington, 1976); Bryan Philpott and Adolf Stroombergen, "Unemployment and Structural Change", Occasional paper No. 41, August, 1980, Report on Economic Planning, (Wellington: P.E.P., Victoria University of Wellington); "The New Zealand Economy: lessons from the past and policies for the future". (Discussion papers 5 and 6,

- Project on Economic Planning, Victoria University of Wellington, 1975); "Optimality of the NDC targets for 1975/76 - a Progress Report of results from the Victoria planning model". (Occasional paper, 6. Project on Economic Planning, Victoria University of Wellington, 1972); "A preview of some alternative planning perspectives from the Victoria model; a memorandum for the Planning Advisory Group." (Internal staff paper, 6, Project on Economic Planning, Victoria University of Wellington, 1976); "Productivity, economic growth and the NDC". (Occasional paper, 4, Project on Economic Planning, Victoria University of Wellington, 1971); "The Role of Government in Maximising Future Economic Growth". (Discussion paper, 14, Project on Economic Planning, Victoria University of Wellington, 1978); B.P. Philpott and B.J. Ross, "Input output models for projecting and planning the economy" (Studies in the Structure of the New Zealand Economy, 1, Lincoln College, Agricultural Economic Research Unit Publications, 41, 1968); J.L. Roberts "A Note on the National Development Council", Public Administration, Vol.32, September 1969; "National Development Organisation?" Public Administration, Vol. 31, March, 1969; "The Return to Planning", Public Administration, Vol. 27, September, 1964; N. Ruth, "The New Zealand Planning Council: (4) Negative Planning", The Accountants Journal (NZ), (Wellington, New Zealand, March 1979).
8. F. Hayek, The Road to Serfdom (Chicago: University of Chicago Press, 1944); K. Popper, The Open Society (2 vols., London: Routledge and Kegan Paul., 1962. First published 1945); John Jewkes, Ordeal by Planning (London: Macmillan and Co., 1948).
 9. N.Z., Department of Statistics, New Zealand Official Yearbook (Wellington: New Zealand: Government Printing Office, annual).
 10. K. Mannheim, Ideology and Utopia (New York: Harcourt, 1949); Freedom, Power and Democratic Planning (New York: Oxford, 1950).
 11. See, for example, Coalition for Open Government, "Open Government Report" (Wellington: New Zealand. Registered magazine, November 1979); P.S.A. Journal (Public Service Association: Wellington, New Zealand, Vol. 66, No. 10, November, 1979).
 12. A. Wildavsky, "If Planning is Everything, Maybe It's Nothing", Policy Sciences (4, 1973), p.128.
 13. S.R. Eyre, The Real Wealth of Nations (London: Arnold, 1978) p.162.
 14. Quotations from Chairman Mao Tse-Tung (Peking: Foreign Language Press, 1966), pp.208-209. See also Jere R. Behrman, Development, the International Economic Order and Commodity Agreements, Perspectives on Economics Series, (Reading: Mass. Addison-Wesley Publishing Co. Inc., 1978) p.10: "Planning could provide the necessary coordinated effort and motivational targets, assure consistency, use shadow prices that reflected the true scarcity value of resources and incorporated social preferences and time rates of discount." Behrman amplifies this statement in a footnote (p.10) as follows: "Most individuals and societies do not value a good to be received in the future the same as they do one received in the present. Instead they discount the future good. Well-functioning markets incorporate the effect of individual's discounting, but not necessarily the appropriate discounting by the collective of individuals that comprise a society.

If the social and individual discount rates are identical, there is no problem. But the social discount rates may differ from individual rates. For example, all individuals may be willing to sacrifice more of current consumption for future generations if they knew every other individual was also sacrificing than they would if they thought it was an act in isolation..." (p.8).

15. S. Brittain, Steering the Economy (Revised edition; Middlesex: Penguin Books, 1971), p.41.
16. John Friedmann, Retracking America: A Theory of Transactive planning (New York: Anchor Press/Doubleday, 1973). In this study, based on his own long personal experience in national planning developments, Friedmann argues that the most durable, and most useful, definition of planning is that it constitutes "the application of scientific and technical intelligence to organised action" (*ibid.*, p.19). See also Y. Manor and G. Sheffer, "Can Planning be Salvaged?", Public Administration (No. 55, Summer, 1977), pp.219-222; J. Gershuny, "Policymaking Rationality: A Reformulation", Policy Sciences (9, 1978).
17. The literature on systems theory is very extensive, and in a range of fields such as business administration, public administration, organisational design, individual and group learning studies, the "system's point of view" has become increasingly familiar. See, for example, Deutsch, Nerves of Government; R. Ashby, An Introduction to Cybernetics (New York: Wiley, 1958); Stafford Beer, Cybernetics and Management (London: English Universities Press, 1959); R. Johnson, F. Kast and J. Rosezweig, The Theory and Management of Systems (New York: McGraw-Hill, 1963); Joseph Litterer, Analysis of Organisations (New York: Wiley, 1965); C. Macmillan and R. Gonzales, Systems Analysis (Homewood, Ill.: Irwin, 1965); D. Malcolm, A. Rowe and L. McConnell, Management Control Systems (New York: Wiley, 1960); Stanley D. Young, "Organisation as a Total System", Contemporary Readings in Organisational Behaviour, ed. by F. Luthans (New York: McGraw-Hill, 1972), pp. 97-115; W.D. Garvey, Communication: The Essence of Science. Facilitating information exchange between librarians, scientists, engineers and students (Oxford: Pergamon Press Ltd., 1979); Amey, Budget Planning; W. Buckley, ed. Modern Systems Research for the Behavioural Scientist (Chicago: Aldine Publishing Co., 1968); J.M. Thomas and W.G. Bennis, eds., Management of Change and Conflict (Harmondsworth, Middlesex: Penguin Books, 1972). In this book, see, inter alia, D. Katz and R.L. Kahn "Organisational Change" (pp.3-4-354), which includes a useful discussion of the concept of feedback, and its application; A.G. Smith, ed., Communication and Culture: Readings in the Codes of Human Interaction (New York: Holt, Rinehart and Winston, 1966). In this book, see, inter alia, Chapter VIII: "Feedback and Control", pp. 322-364.

S.D. Young, "Organisation", p.102, defines a learning capability as "The ability of the system to redesign itself or learn from past mistakes in order to improve system performance." In his study of public and private learning, Donald Schon expands on this simple statement in a definition which has been adopted for the purpose of this study. Schon states:

The problem of government as a learning system may be stated simply in these terms: how can we, as a society or as a nation, learn to identify, analyse and solve our problems?

There is more implied here than in the term social learning.... A social system learns whenever it acquires new capacity for behaviour, and learning may take the form of undirected interaction between systems, as in the case of 'the system for keeping us in clean clothes'. But government as a learning system carries with it the idea of public [emphasis Schon's] learning, a special way of acquiring new capacity for behaviour which government learns for the society as a whole. In public learning, government undertakes a continuing, directed inquiry into the nature, causes and resolutions of our problems....

As an informational process, the... government must somehow detect the issues and problems around which it organises its efforts. It must sense the consequences of what it does [emphasis mine]. It must organize and transfer within its own system the data and directives on which policies and programmes are based.... Moreover, it must maintain this internal and external information system throughout shifts in its environment and in its central problems. These functions fall under what Karl Deutsch has described as the cybernetic model of government."

D.A. Schon, Beyond the Stable State: Public and Private Learning in a Changing Society (Harmondsworth, Middlesex: Penguin Books, 1971), pp.109-110, ff. In this inquiry into planning in New Zealand, the "feedback" function of the central networks of communication (information exchange) is defined as that capability which the decision-makers, and those with responsibility for planning, have to "sense the [longer-term] consequences of what [they] do", and to modify their behaviour accordingly.

See also, H.M. Dathe, 'Cybernetic Models as Aids in Normative Forecasting' in (eds.) Hans Blohm and Karl Steinbuch, Technological Forecasting in Practice, trans. by Frederick and Christine Crowley (Westmead, Farnborough, England: Saxon House/Lexington Books, 1973. First published 1972), pp.39-53; Steinbruner, Cybernetic Theory, esp. Chapters 3 and 4; C. West Churchman, Russell L. Ackoff and E. Leonard Arnoff, "Analysis of the Organisation" in Joseph A. Litterer (ed.), Organisations, Vol. II, 2nd ed. (New York: John Wiley and Sons Ltd., 1969), pp.279-286; Klaus Krippendorf (ed.), Communication and Control in Society, (New York: Gordon and Breach Science Publishers, Inc., 1979); B.C. Burrows, 'Urban and Regional Planning - A Systems View', [a bibliographic survey of the literature on planning viewed from the perspective of systems theory], in Long Range Planning (Vol. 13, No. 2, April 1973), pp.67-81.

18. Kjell Eide, "The Use of Information in the Decision-Making for Educational Development in Norway." Occasional paper prepared for UNESCO, 25 August, 1977. Located in Head Office library, Department of Education, Wellington, NZ.
19. Friedmann, Retracking America, p.214.
20. The relatively small size of the academic community in New Zealand and the attraction of government for research workers have both contributed to the relative paucity of analytical research in planning and public policy processes in this country. This has been compounded by the rigidity of the two-party electoral system and the confidential nature of central government - both of which have consequences for

- the willingness and the ability of theorists to carry out significant investigations. See, for example, J.P.M. Cornwall, ed., Planning and Forecasting in New Zealand, Studies in Public Administration No. 11 (Wellington: New Zealand Institute of Public Administration, 1965).
21. Wildavsky, If Planning is Everything, p.132.
 22. See, for example, S. Encel, P.K. Marstrand and W. Page, eds., The Art of Anticipation: Values and Methods of Forecasting, (University of Sussex, England: Science Policy Research Unit, 1975); Friedmann, Retracking America.
 23. For a brief discussion, see, for example, G.B. Doern and P. Aucoin The Structures of Policy-Making in Canada (Toronto: Macmillan and Co., 1971).
 24. For a discussion of the implications of governmental secrecy for state servants, see, for example, R.M. Alley, ed., State Servants and the Public in the 1980s, Studies in Public Administration, No. 25, (Wellington: New Zealand Institute of Public Administration, Government Bookshop, 1980); Michael Minogue, "Information and Power" Parliamentary Reform and the Right to Know, Politics in New Zealand, ed. by S. Levine (Sydney: George Allen and Unwin, 1978) pp.78-85; G. Palmer, Unbridled Power: An interpretation of New Zealand's constitution and government (Wellington: Oxford University Press, 1979).
 25. The Committee on Official Information (Chairman: Sir Alan Danks) was set up by the New Zealand government in 1978. It was initially expected to produce an interim report by the following year, but at the time of writing the Committee had stated that it would be unlikely to complete the inquiry before the end of 1980.
 26. E.g. Rt. Hon. R.D. Muldoon, announcing the government's decision on a "stand-alone methanol plant", in The Dominion (Wellington, NZ) 15.2.80.
 27. New Zealand Planning Council, The Welfare State? Social Policy In the 1980s. NZPC No.12. (NZPC, P.O. Box 5066, Wellington, June, 1979).
 28. Budget, 1979. Financial Statement to the House of Representatives (NZ), 21 June, 1979. B.6. AJHR. p.30.
 29. For a brief discussion of the impact of time and secrecy on policy-makers, see G.C. Edwards and I. Sharkansky, The Policy Predicament: Making and Implementing Public Policy (San Francisco: W.H. Freeman and Company, 1978), Pt. II, Chapter 5, 141-143.
 30. J. Hayward, "Inertia and Improvisation: The Planning Predicament", Planning in Europe, ed. by J. Hayward and O.A. Narkiewicz (London: Croom Helm, 1978), p.11.
 31. R.A. Dahl, Who Governs? (New Haven: Yale University Press, 1961).
 32. Eide, "Educational Development".
 33. E. Goffman, The Presentation of Self in Everyday Life, (Harmondsworth, Middlesex: Penguin Books, 1971), p.88.

34. Ibid., p.p. 83-108
35. Education Development Conference, initiated by the New Zealand Government (Labour administration) in 1973. Three working parties were established, and they published reports for the Conference: Educational Aims and Objectives; Improved Learning and Teaching; Organisation and Administration of Education. All reports were published in 1974 (Wellington: Government Printer).
36. See, for example, R.B. Scotton, "Public Expenditures and Social Policy" Public Expenditures and Social Policy in Australia; Volume I: The Whitlam Years 1972-1975, edited by R.B. Scotton and Helen Ferber for the Institute of Applied Economic and Social Research (Melbourne; University of Melbourne and Longman Cheshire, 1978) p.1.

In his introduction to Max Scheler's study of the sociology of knowledge, Kenneth W. Stikkens makes the following comment: "Surely what Scheler describes... is all too familiar to us. The modern West, with its obsession with gaining knowledge of control, offers a paradigm of societal knowledge and Francis Bacon's maxim that 'knowledge is power' was one of the first announcements of the coming of the societal age in which we find ourselves. A major dictum of modern morality is that one must always be in perfect control of his own autonomous self. Indeed, maturity is generally defined in terms of such control, and insanity, in terms of lack of control.... And modern education, confusing itself with technical training, aims at developing such control, thereby producing human fuel for society's technological and bureaucratic machinery rather than cultivating free personal spirit." In Max Scheler, Problems of a Sociology of knowledge, trans. by Manfred S. Frings, (London: Routledge and Kegan Paul, 1980), p.28.

37. See, inter alia, Buckley, Systems. Mannor and Sheffer, "Planning salvaged", for a brief discussion of the entropic nature of ideas; Amey, Budget Planning, Chapters 3-5. See also Herbert Kaufman, "Challenges to Unity", Organisations (ed.) Joseph A. Litterer, Vol. II, 2nd ed., (New York: John Wiley and Sons Ltd., 1969), pp. 182-191. Kaufman's study of forest rangers, briefly restated in this essay, concludes as follows:
- ... there are many influences besides the top policy pronouncements shaping their [rangers] behaviour. The customs and standards of the groups they work with, the values and attitudes and pressures of the communities in which they reside, and the preferences and prejudices they bring with them from their extra-organisational experiences and associations may lead them into a variety of directions. And the problems of internal communication make the task of directing them a complicated and difficult operation, leaving them vulnerable to the fragmentative influences.
- p.191
38. A. Rapoport, "What is Information?", Synthese (9,1953), pp.157-173, reprinted in J.A. Beckett, Management Dynamics: The New Synthesis (New York: McGraw-Hill, 1971), p.61.
39. L. Brillouin, "Thermodynamics and Information Theory", Buckley, Systems, pp.161-5; Mannor and Sheffer, "Planning salvaged"; Amey,

- Budget Planning: "In the case of communication and information systems 'energy' is to be understood as mainly taking the form of information, one kind of energetic input, which then becomes another word for negative entropy." p.62. See also pp. 62 and 97. James G. Miller, "Toward a General Theory for the Behavioural Sciences", in Organisations (ed.) J.A. Litterer, pp.46-47.
40. See, for example, Buckley, Systems; bibliographic guide in B.W. Davis, "Recent Literature on Planning", Australian Journal of Public Administration (Vol. XXXVII, No.2, 1978); A. Faludi, A Reader in Planning Theory (Oxford: Pergamon Press, 1973); J. Friedmann and B. Hudson, "Knowledge and Action: A Guide to Planning Theory", Journal of the American Institute of Planners, (Vol. 40, No. 1, 1974); L. von Bertalanffy, "The Theory of open systems in physics and biology", Science, New York, (3, 1950) pp.23-9, reprinted in F.E. Emery (ed.), Systems Thinking (Condor: Penguin, 1969); and General System Theory (New York: George Braziller, rev. ed. 1968). L. von Bertalanffy, "General System Theory - A Critical Review", Organisations (ed.) J.A. Litterer, pp.7-30; Kenneth E. Boulding, "General Systems Theory - The Skeleton of Science", in (eds.) Robert H. Trent and Thomas L. Wheelen, Developments in Management Information Systems, (Encino, California: Dickenson Publishing Co. Inc., 1974), pp.2-14.
 41. Hayward, "Planning predicament", p.9.
 42. H.R. van Gunsteren, The Quest for Control: A Critique of the Rational-central-rule Approach in public affairs (London: John Wiley and Sons, 1976), quoted by J. Hayward, Planning in Europe, p.9.
 43. O. Lange, Wholes and Parts: A General Theory of System Behaviour, (Oxford: Pergamon Press, 1965) pp.1-2.
 44. Alex Nove, The Soviet Economy, (London: George Allen and Unwin, 3rd edition, 1968) pp.109-110.
 45. National Development Act (1979) included provision for 'fast track' procedures for projects which were deemed by the Government to have particular value in the national interest. The bill was introduced on 5 October, 1979. Some three weeks were allowed for the reception of public submissions; such was the public interest in the bill that over 300 submissions were heard on the bill by the select committee on Lands and Agriculture. The bill was passed, somewhat modified in the light of public submissions, and after prolonged and hotly-debated passage through the House of Representatives.
 46. R. Opie, "Planning in the United Kingdom" in M. Faber and D. Steers, The Crisis of Planning, vol. 2.
 47. O.L. Graham Jnr., Towards a Planned Society: From Roosevelt to Nixon (New York: Oxford University Press, 1976) p.xii.)
 48. When a delegation of West German industrialists visited New Zealand in 1978, the New Zealand Planning Council prepared and later published a special report, launched with full publicity, on the agricultural and general economic situation of New Zealand. See New Zealand and the European Community NZPC Report No. 8, (New Zealand Planning Council, Wellington, New Zealand).
 49. Deutsch, Nerves, p.xvi.

50. Ibid.
51. Steiss, "Role of Planning", note, p.107; Steinbruner, Cybernetic Theory, esp. Chapters 3 and 4.
52. K. Boulding, "The Diminishing Returns of Science", New Scientist (London, March 25, 1971).
53. G. Dillan, "Policy and Dramaturgy: A Critique of Current Conceptions of Policy Makers", Policy and Politics (5, 1976).
54. W. Schramm, "Information Theory and Mass Communication", in Smith, Communication, p.523.
55. N. Weiner, quoted by Gregory Bateson, "Information, Cofication and Metacommunication", in Smith, Communication p.418. See also Amey, Budget Planning, p.62.
56. Schramm, "Information", p.534.
57. G. Myrdal, Beyond the Welfare State, (London: Duckworth, 1960), p.4.
58. See, for example, M. Edelman, The Symbolic Uses of Politics, (Urbana: University of Illinois Press, 1964).
59. K. Popper, "Towards a Rational Theory of Tradition", a lecture delivered in 1948 and first published in The Rationalist Annual, 1949. Reprinted in Conjectures and Refutations: The Growth of Scientific Knowledge, (London: Routledge and Kegan Paul. 4th edition, revised, 1972), pp.120-135.
60. K. Eide, "The Planning Process", in S. Fram and G. Swanson, eds., Educational Planning in the United States (Itasca, Illinois F.E. Peacock Publishers Inc., 1969), p.80.
61. See also Jonathan Boston, "High Level Advisory Groups in Central Government", (unpublished M.A. Thesis. University of Canterbury (NZ), especially pp.11-15.
62. A. Wildavsky, "Does Planning Work", The Public Interest (No. 24, Summer, 1971), p.97.
63. G. Vickers, The Art of Judgement: A Study of Policy Making, (London: Chapman and Hall, 1965), pp.212-213.
64. Eide, (reference not located).
65. See, for example, the discussion of "the 'dramaturgical' approach to symbolic interactionism" in G. Burrell and G. Morgan, Sociological Paradigms and Organisational Analysis: Elements of the Sociology of Corporate Life, (London: Heinemann Educational Books Ltd., 1979), Pt. II, Chapter 5; Goffman, Presentation; G.M. Dillon, "Policy and Dramaturgy: A Critique of Current Conceptions of Policy Making", Policy and Politics (5, 1976). Dillon refers to "the parading of such techniques [as cost-effective and cost-benefit techniques which] has been more or less cynically utilised as an advocative and propagandist device... The role is a dramaturgical one. Drama- turgy is used here to refer to a preoccupation with generating and

employing symbolic and stylised representations of form (or reality), so as to propagate or sustain a given intellectual, organisational or social order." p.55.

In a discussion of cognitive dissonance theories J.T. Tedeschi, R.R. Schlenker and T.V. Bonoma report that "Following Goffman's (1959) analysis of social behaviour, Allen suggests that social interactions always involve an intricate interplay between the individual's maintenance of his unique self-concept and the presentations he makes to others of his own social role position. Thus the subject is sometimes more concerned with appearing to be consistently fulfilling other's expectations than he is with actually privately constructing his beliefs to be consistent." In "Cognitive Dissonance: Private Ratiocination or Public Spectacle?", W.E. Scott and L.L. Cummins, eds., Readings in Organisational Behaviour and Human Performance (Rev. ed., Homewood, ILL.: Richard D. Irwin, Inc., 1973), p.77.; R.H. Brown, "Bureaucracy as Praxis: Towards a Political Phenomenology of Formal Organisations", Administrative Science Quarterly, (Vol. 23, September, 1978), pp.365-382.

66. H.W.T. Rittel and M.M. Webber, "Dilemmas in a General Theory of Planning", Policy Sciences (4,1973), pp.155-169.
67. The House of Representatives and the "Beehive" are both located in downtown Wellington, capital city of New Zealand.
68. See, for example, Davis, "Recent Literature"; Mannor and Sheffer, "Salvaged"; Friedmann and Hudson, "Knowledge"; Rittel and Webber, "Dilemmas", pp.155-169; Seymour J. Mandelbaum, 'A Complete General Theory of Planning is Impossible', Policy Sciences 11(1979), pp.59-71.
69. See, for example, bibliographies in Friedmann, Retracking America; K. Deutsch, ed., Ecosocial Systems and Ecopolitics: A Reader on Human and Social Implications of Environmental Management in Developing Countries (UNESCO, 1977); M.J. Bruton, ed., The Spirit and Purpose of Planning, (London; Hutchinson and Co., 1974).
70. P. Aucoin, "Theory and Research in the Study of Policy-Making", G.B. Doern and P. Aucoin, The Structures of Policy Making in Canada, (Macmillan and Co., 1971), p.29.
71. Ibid.
72. Fred Thompson and Richard Williams discussed the value of two models of public expenditure decision making - the utility-maximising and the organisational-process models in Policy Sciences in 1979. They note that the latter, as described by various writers such as Herbert Simon, Aaron Wildavsky, Richard Cyert and James March, stresses the incremental nature of expenditure and tax decisions. Research attention, stimulated by these theorists, concentrates on "the budgetary process as a process - [on] the organisational considerations that influence budgetary decisions, the decision rules or heuristics used by the participants in the budgetary process, and the institutional roles played by the participants..." Hence researchers need to know "how budgetary roles are institutionalised, what functional requisites are satisfied by various roles, and how individuals are socialised

into these roles and the consequences of imperfect role acquisition." This is very much the area of interest in the following account of public expenditure planning in New Zealand government systems.

See Fred Thompson and Richard Williams, "A Horse Race Around a Mobius Strip: A Review and a Test of Utility-Maximising and Organisational-Process Models of Public Expenditure Decisions", Policy Sciences 11(1979), pp.119-142. A lively commentary on Thompson and Williams is provided in an article in the same journal by George Downs and Patrick Larkey, "Theorizing about Public Expenditure Decision-Making: (as) if Wishes were Horses...", Policy Sciences 11 (1970), pp.143-156.

CHAPTER TWO

GOVERNMENT INITIATIVES IN SOCIAL AND ECONOMIC PLANNING

A summary of various types of planning in New Zealand

The New Zealand government has had a fluctuating interest in planning since the 1930's. The opportunities and necessity for policy co-ordination and planned resource management during the second world war remained obvious after 1945.

The post-war history of multi-functional government departments like the Ministry of Works and Development, the Ministry of Agriculture and Fisheries, the DSIR and the Department of Trade and Industry indicate that the Government recognised the importance of co-ordination in the development of capital investment policies and other physical plans. The continuous influence and varied roles of the control departments, Treasury and the State Services Commission, demonstrate that successive Governments accepted responsibility for forward planning and the co-ordinated allocation of major resources such as money and skilled people.

The implementation of complex social policies in fields such as health and public education, and the necessity to provide services such as roads, electricity, and other physical facilities encouraged continuing interest in planned resource management by government agencies. Recent attempts to combine executive responsibility for health and social welfare, and electricity, mines and other energy-related activities, under single ministerial portfolios suggest not only a desire for greater administrative convenience, but improved cross-referencing in related planning fields.

Various types of planning have been identified in New Zealand and other similar countries. They include administrative planning, financial planning, indicative planning and national development planning, as well as planning conducted by individual quasi-governmental and governmental agencies. A great deal of information appropriate to planning is generated wherever these forms are institutionalised, and brief mention

is made later in this chapter of economic forecasting and international sources of data for New Zealand planners.

Administrative planning

One typical form of government planning occurs when the allocation of resources and the co-ordination of significant economic and social variables is determined by administrative action. Quantitative programmes are developed and various physical controls are applied as a result of administrative order, to achieve a desired future result. The imposition of import controls, the control of industrial labour, the allocation of specific resources to licensed users, the imposition of legal restrictions on specified populations (eg children aged between 5 and 15 years) are among the administrative devices used.

The force of such planning derives from the legal authority of the State itself. Sanctions are applied to those who operate outside areas approved by licence or regulation. Administrative regulation of this sort has been a marked feature of the New Zealand governmental process. It is the subject of frequent political debate, and current controversy arises from uncertainty as to whether extensive administrative intervention is synonymous with effective social and economic planning.¹

Financial planning

Here the availability and demand for the main components of the national product are estimated: private consumption, public expenditure, exports and imports. Plans are developed in macro-terms, mainly in the Treasury and Reserve Bank, and are implemented primarily by fiscal and monetary policies e.g. by variations in the rate and level of government spending, the availability of money, the level and impact of different types of tax, and so forth. Such plans are usually indicated in the annual Financial Statement of the Minister of Finance and partially elaborated in the annual Estimates of Expenditure.

In general, the scope of such planning is short term and concerned with the broad aggregates of the economy. The implementation of financial planning depends not so much on legal compulsion as on incentive: for example, the Government alters its own rate and levels of expenditure in order to encourage consumers to buy more or fewer goods and services; the provision of subsidies, tax incentives and other inducements is intended to encourage private action in certain directions; the manipulation of interest rates is aimed at influencing the direction of credit and funds that may be borrowed for certain economic activities.² Over the past 20 years, much official effort has been put into minimizing fluctuations in the New Zealand economy through improved financial planning. Considerable work has gone into devising methods for improved planning and control of public expenditure, as a major variable in fiscal policies.

During the 1960's deficiencies in central Government's financial information systems and the limitations of procedures and techniques for financial policy analysis and evaluation encouraged the Government to adopt a planning technique developed in the United States: Planning-Programming-Budgeting System (PPBS). The introduction of this output-oriented approach to the allocation and management of public resources absorbed considerable energy in the central Government system, particularly in the Treasury.³

Its adoption was accompanied by the introduction of a revised accounting system (System of Integrated Government Management Accounting, SIGMA), intended to improve the quality of information required by Parliament (in its examination of the annual Estimates of Expenditure) and the Treasury (as the Government's main accounting agent).⁴

Procedures for budget planning, particularly in capital works programmes, were extended to include three-year forward forecasts of the costs of existing Government policies and estimates of the cost of

proposed new policies. In 1970, a new budgetary system, centred on the Committee of Officials on Public Expenditure (COPE), was set up to advise the Government on the costs of existing policies and programmes projected forward for three years. COPE's report provided the financial 'base' which was then adjusted for existing policy changes and new policy approvals. The first year of the COPE forecasts, amended by these figures and expressed in cash terms, became the annual Estimates of Expenditure, presented in the form of departmental Votes of supply.⁵

During the 1970's the PPB approach to budgeting encouraged managers, particularly departmental accountants and senior staff, to focus on the intended outcomes of current and proposed policies and programmes. However, most departmental and ministerial attention remained concentrated on what could be obtained, by way of Parliamentary appropriation, for the immediate budget year (i.e. the first year of COPE's forecast). Despite attempts to 'roll forward' the three-year COPE-based estimates and consideration of the publication of forecasts as an aid to planning and performance evaluation, this remains an area of major planning difficulty.

Several significant developments in the Cabinet system for control over expenditure policies have occurred during the past 12 years. A brief experiment with the Cabinet Committee on Government Expenditure (CCGX, 1971-72) indicated what might be achieved with improved procedures for policy examination and review. Between 1972-75, a new cabinet group, the Cabinet Committee on Policy and Priorities (CCPP), attempted to replicate some aspects of procedures and fiscal techniques already in use, or the subject of experiment, in the CPRS in the UK, and in Canada and Australia.⁶

From early 1976 on, a new Cabinet committee, the Cabinet Committee on Expenditure (CCEX), whose genesis lay in the earlier CCGX and CCPP, became the main filter for expenditure policy examinations. It complemented

the policy considerations of the long-established Cabinet Economic Committee, and the two other major planning sub-systems of the Cabinet - the Cabinet Committee on the State Services and the Cabinet Works Committee. During the 1970's the various phases of the budget cycle were tightened up in a continuous effort to co-ordinate the financial implications of policies and programmes, and counter the inherent incrementalism of a system where new policies were continuously added to a virtually unexamined expenditure base.

Parliament's increasing concern over the efficiency of financial control and management procedures was shared by the Controller and Auditor General, and the Treasury itself. Public Expenditure Committee reports also questioned the effectiveness of spending policies, and they were supported in 1978 by a far-reaching report by the Audit Office on deficiencies in the Government's financial management system.⁷ This led to several experiments in financial planning and resource allocation, such as "bulk allocations", "revolving funds" and a greater emphasis on costing and charging for various government services, not only those available to the public but between departments.⁸

During the late 1970's, interest in planning and the development of systems to sustain a relationship between national development objectives and current policies for resource management shifted significantly. In common with most other similar economies, New Zealand was experiencing extreme difficulty in sustaining the welfare state in a prolonged period of international and domestic recession. The Government had to address itself not to the supervision and control of growth, but to the management of zero-growth, if not, in some areas, actual decline.

The New Zealand Planning Council and other commentators argued that structural changes were needed not only in the private sector, to take account of shifts in the international market for New Zealand exports and

changes in the supply of imported commodities, but also in the public sector, to ensure that government intervention in the economy, and the provision of publicly-funded and managed goods and services contributed to national social and economic objectives.⁹

From 1979 on, the COPE-based financial system was reviewed by the Treasury, in consultation with other departments and some informal assistance by the Planning Council. Most departmental estimates had been computerised, as part of SIGMA, by 1978/79. This had generated more data than had been available, say 10 years earlier. It also suggested opportunities for improved co-ordination of expenditure policies in the interests of planned resource management during a period of restraint. Finance ministers and control departments adopted techniques already used or under investigation overseas, such as imposed controls on staff numbers (the "sinking lid"); compensatory savings ("tit for tat"), requirements to force departments to make explicit trade-offs between existing and proposed new policies; "cash limits" and "envelope" budgeting systems were actively considered. In 1980, the Treasury initiated an inter-departmental study of the financial management information system.¹⁰ Although the initial report (1981) of the review team was not accepted by the control departments in full, discussions focused attention on critical deficiencies in the Government planning, programming and budgeting systems, where these depended on managerial use of financial information and analysis. Currently, it is agreed that apart from the short-term necessity to obtain "value for money", the Government's general ability to control public sector spending in the interests of longer term social and economic interests is inhibited by present management and accounting systems.

Other specific techniques for financial planning, such as zero-based budgeting, cost-benefit and cost-effectiveness analysis, and corporate management/planning, remain very much the subject of individual departmental

preference. There is no explicit requirement that policy plans and resource management systems across all government agencies be evaluated by the use of such techniques. Some functions, such as those performed by the Ministry of Defence, appear to lend themselves to such technical quantitative/evaluative techniques; others, such as those of Education or Social Welfare, suffer the universal difficulties of applying quantitative measures to policies and programmes where the outcomes cannot be predicted with any degree of precision.

Indicative planning

Neither administrative nor macro financial planning has been used exclusively in New Zealand; each overlaps, and both have apparent deficiencies. Since the late 1960s, the Government has been interested in other methods, such as the indicative planning model developed in post-war France, as a means to provide a strategic framework for both public and private sector activities, especially in the economic field. In common with France and Britain, for example, the New Zealand government considered that the utility of indicative planning lay mainly in the promotion of economic growth.

In contrast to the imperative or command planning practised in some socialist economies, where centrally-determined orders and directives must be obeyed, indicative planning involves consultation between various economic and other agents, including the Government itself, and the identification of programmes for each industrial or economic sector, making these consistent with the main aggregates of output: consumption, investment, etc.¹¹ Such programmes usually aim at increasing economic growth rates and ensuring balanced social and economic development, often with a special emphasis on regional development.

The scope of planning is usually the medium to longer-term, and it involves a relatively detailed analysis of the activities of various economic sectors. However, unlike administrative planning, indicative

planning lacks the physical controls and sanction of legal compulsion. Its force derives from the extent to which agreement is reached between different economic and social "actors" about desirable future objectives, and the way organisations and firms voluntarily modify their own behaviour, individually and in concert, because they accept that it is in their own best interests to do so. This form of planning usually has considerable symbolic importance in the democratic context: political rhetoric and exhortation replace (or are used alongside) coercive directives such as import licensing or centrally-determined changes in the availability of money.

Various institutional means have been used by the New Zealand Government in its attempts at indicative planning. During the 1950s-60s, a series of key sector conferences was held; the National Housing Conference (1953); the Industrial Development Conference (1960); the Export Development Conference (1963), the Agricultural Development Conference (1963-64), culminating in the 1968-69 National Development Conference. Various sector councils were set up (some of which are still extant, in modified form), with a Targets Advisory Group and a permanent secretariat (both, significantly, in the Treasury).

In 1974, the Labour administration established the Cabinet Committee on Policy and Priorities (CCPP), which among other things took over the planning responsibilities of the National Development Council. Ministers were made responsible for different sector councils, and reported directly on their activities to the central Cabinet group. Community conferences were held, not unlike the British Government's attempts to achieve a "social contract" with major economic interests. They were geared towards the formulation and adoption of an overall economic growth strategy. During the same period the Government sponsored a series of national meetings on education - the Educational Development Conference.¹²

The National Government assumed office at the end of 1975, and

discontinued the CCPP, shifting its responsibility for national development planning outside the immediate range of ministers, except for those matters conventionally controlled by the central Cabinet through its committee system. After the report of a special Task Force on social and economic planning,¹³ the New Zealand Planning Council was set up in 1977 to assist in the co-ordination of government and private sector planning, and to act as a focal point for public consultation and debate on planning issues. The scope of the Planning Council's attention was the medium term; at the same time the Government established a Commission for the Future to scan the more distant social and economic horizon, and encourage public interest in the long-term implications of developing current trends. This body was disbanded in 1982, apparently as an economy measure.

National development planning

Despite the existence of the Planning Council and several important planning tools such as the (1977) Town and Country Planning Act and the (1979) National Development Act (both administered by the Ministry of Works and Development), there is no effective machinery at the political level for the development, adoption and continuing review of an overall strategic planning framework which is legitimated by the explicit agreement of both public and private sector interests.

The most obvious areas where relatively comprehensive developmental planning occurs are still much as W B Sutch described them in 1965: in capital works and physical resource development.¹⁴ Where there is a high level of investment in physical plant or indigenous resource development (particularly in forestry, mineral exploitation and energy fields), and where investment has several serious environmental implications, formal planning machinery and procedures exist. Such government agencies as the Environmental Council, the Land Use Advisory Council and the Town and Country Planning division of the Ministry of Works include planning in

their statutory responsibilities. The publication of such documents as the 1980 Energy Plan (Ministry of Energy)¹⁵ suggest that in this complex field, where investment has profound future implications, the need for a co-ordinated framework for public and private sector decisions is recognised.

By the 1980s regional planning authorities in Auckland, Levin, Invercargill and Wellington, and "united councils" appointed elsewhere by local authorities, had acquired planning responsibilities under the Town and Country Planning Act and other legislation. The 1981 Official Year Book reported that "the regional planning process offers a means by which local and central Government representing the regional communities and national interest respectively, can reach agreement on development and welfare policies and priorities for the allocation of resources for each region. Agreement can be expressed in the regional planning scheme, and changes in policy can be worked out within the process of changing the scheme."¹⁶

However, while national policies on such matters as energy development, transportation, afforestation and housing, and the allocation and control of public resources to these, are centrally-determined in aggregate terms through the Treasury-based financial system, and regulated by the administrative intervention of government departments, the effectiveness of this decentralised planning process has yet to be demonstrated.

Departmental planning

Individual government departments such as the New Zealand Forest Service, the Departments of Health and Labour, and the Ministry of Transport now include units with specific planning functions. In large government departments such as the Ministry of Works and Development and the New Zealand Post Office, attempts have been made recently to adopt the corporate management ethos favoured by many large private firms.

In fields such as education, health, social services, police work and penal provisions, inter-departmental consultation occurs intermittently

in a number of overlapping policy areas. There is, however, no machinery below that of Cabinet and the cabinet committee system for continuous long-range inter-departmental planning. This is complicated further by the historical role and management functions of education and hospital boards. They have power to allocate resources to major welfare services, needing public and private investment and competing for resources ranging from tertiary education services to construction materials. Despite attempts to relate these functions through regional planning and administrative systems, and at the national level through the CCEX-Treasury/SSC financial control system, forward planning for the social services, the distribution of energy, housing and other important fields is poorly co-ordinated.

Predictably, there are varying strengths and planning styles in the different government departments. The Department of Scientific and Industrial Research, for example, makes a significant contribution to the knowledge base for national government planning through its management of specific planning projects, e.g. the 1978 Transport Fuels study¹⁷. The Computer Services Division of the SSC, which has responsibility for the development and management of EDP systems in the state sector, has a valuable opportunity to influence the technical information systems on which effective planning depends. The introduction of the SPECTRUM system,¹⁸ with its emphasis on a logical methodology for planning, project management and costing suggests how dissatisfied the control agents of the Government have been with the formal procedures adopted by public service managers in the past. The Education department, for example, lays considerable emphasis on consultative planning, in which the public education system is described as a wheel driven from the rim, with the administrative department at the hub.¹⁹ Whether the department's demonstrable responsiveness to environmental pressure, expressed mainly through teachers' unions and statutory education authorities, actually constitutes planning, as contrasted with incremental policy-making, is

questionable.

Planning activities at the margin of the Government

Outside the immediate perimeter of central Government are a number of organisations whose activities involve planning, and potentially at least, contribute to the Government's general planning capability. The Development Finance Corporation, for example, is actively interested in supporting developmental needs where the long-term benefits of industrial or commercial activity are regarded as consistent with the Government's and the country's general future objectives. The Petrocorp Group of companies, with substantial interests in investment in various energy fields, takes account of labour force and other future projections affecting its investment and operational activities. The Industries Development Commission (1961, administered by the Department of Trade and Industry) has recently conducted far-reaching reviews of the structure of several major New Zealand industries. In every case so far its reports suggest major planning issues and the need for improved management systems, both in the public and private sectors.

Innumerable quasi-government and non-governmental agencies, such as voluntary social service/welfare groups, are in receipt of various forms of government assistance, including direct money grants. However, there is no machinery for the continuous oversight of the implications of spending and resource deployment by such groups, despite the well-documented evidence of the inter-sectoral impact of economic and social activities, whether carried out by private or public agencies.

Sources of planning data

Economic forecasting

Forecasting, which is a basic tool in any planning endeavour, is carried out by a number of departmental and government-supported agencies. In 1971, for example, the Project on Economic Planning (PEP) was established to carry out work on models for economic planning. The initial aim was to provide the conceptual and computer framework for the work of the

Targets Advisory Committee of the NDC - later the Planning Advisory Committee. Research funds were provided by the Treasury, and Victoria University of Wellington staff and facilities made available. Since 1978, funding of PEP has been through the New Zealand Planning Council. The results of the Project's research are published in various occasional and discussion papers and special Internal Papers for government officials.²⁰

Since 1978 the Economic Monitoring Group of the Planning Council has carried out the work of the earlier Monetary and Economic Council, monitoring economic trends and policies. A series of public discussion papers has been published since 1978.²¹ Private groups such as the New Zealand Institute for Economic Research and university researchers contribute economic data and analysis for both public and private use on planning and resource management.

International factors

Trading activities monitored, supported and performed by the Government, and its involvement with international funding agencies such as the World Bank and the International Monetary Fund (IMF) have contributed substantially to the pool of information available (and necessary) for comprehensive national planning, as well as planning carried out by departments such as the Treasury and Trade and Industry. Changes in trading patterns resulting from international events such as Britain's entry to the EEC, or international defence and other agreements have reinforced the administrative planning role of the Government, and continue to suggest that the type of indicative/consultative planning embodied in the NDC (1968-74) is potentially beneficial.

Government participation in the United Nations and its subsidiaries, and in the OECD also contribute to its planning capability. New Zealand has the benefit of regular reports and examinations of its social and economic systems, as well as sharing in international discussions about national development problems and public administrative reform.

Continuing participation in the Commonwealth, where other member countries operate similar constitutional and economic systems, as well as sharply different political and management styles, provides comparative planning data and a source of consultation and experience for any planning effort by the Government.

NOTES

Chapter Two:

1. For the purposes of this summary, the typology adopted here for administrative, financial and indicative planning is adapted from C T Sandford, National Economic Planning, Studies in the British Economy (Heinemann Educational Books, 1972).
2. Ibid.
3. See Chapter Three for fuller discussion.
4. See, for example, The Analysis and Evaluation of Public Expenditures : The PPB System, A compendium of papers presented to the subcommittee on Economy in Government of the Joint Economic Committee, Congress of the United States, (Washington: US Government Printing Office, 1969). See especially Attachment 12 for Selected Papers, An Annotated Bibliography compiled in April, 1968, pp 763-785.
5. See Chapter Three for fuller discussion.
6. Ibid.
7. Controller and Auditor General, Report to the House of Representatives on Financial Management and Control in Administrative Government Departments, (AJHR, B. 1 Part IV, 1978).
8. See, annual reports of Public Expenditure Committee to the House of Representatives, (AJHR).
9. See, for example, New Zealand Planning Council, The Welfare State : Social Policy in the 1980's, NZPC, No. 12 June, 1979.
10. Report of project team on Financial Management Information System, The Treasury 1981.
11. Sandford, National Economic Planning: pp. 1-8
12. Educational Development Conference, Directions for Educational Development, a Report prepared by the Advisory Council of Educational Planning, (Wellington: Government Printer, 1975). See also reports of three working parties of the EDC: Educational Aims and Objectives, Improving Learning and Teaching, and Organisation and Administration of Education, (Wellington, Government Printer 1974).
13. Report of Task Force on Social and Economic Planning, New Zealand at the Turning Point, (Wellington, December 1976)
14. W B Sutch, New Zealand Planning, (Victoria University of Wellington, 1965).
15. Energy Plan, 1980, Ministry of Energy (Government Printer, 1979).
16. New Zealand Official Year Book, 1981 (Wellington, Government Printer, 1981) p. 269.
17. Transport Fuels for New Zealand DSIR Discussion paper No.1 New Zealand DSIR (Wellington, New Zealand: 1978).

18. SPECTRUM - I : Project Management System adopted for EDP use in New Zealand Public Service February 1980. Initiated by SSC on contract.
19. Report on New Zealand education system to OECD delegation, Department of Education. Unpublished. March 1982.
20. Bryan Philpott Proposal for Continuation of PEP Research Programme, PEPAP-13 (Victoria University of Wellington, August, 1977).
21. Reports of the Economic Monitoring Group to the New Zealand Planning Council. Published by the NZPC, P.O. Box 5066, Wellington.

CHAPTER THREE

PUBLIC EXPENDITURE PLANNING SINCE THE 1960'S

New Courses for Budgetary Management

Introduction

During the 1960s, in a number of Western democracies like New Zealand, various attempts were made to redefine the role of central governments in social and economic life. French experiments in indicative planning had been widely observed, and this influence could be seen, for example in Britain and New Zealand, where central governments attempted to identify an appropriate contemporary role for themselves in relation to other major social and economic agents concerned about guided national development.

Widespread post-war experiences, including major demographic changes, the growth of pluralist political forces, and the impact of economic internationalism encouraged and obliged elective governments to intervene more directly and more comprehensively in community activities. Not only did this generate large bureaucracies to administer the policies of central governments which were acquiring welfare functions. It stimulated considerable national and international debate over the kind of leadership such governments could provide without endangering essential aspects of their elective character, or the democratic principles to which they and their constituencies had regard.

This debate, which in New Zealand accelerated during the 1960s continued through the 1970s in various forms. From the perspective of twenty years of hindsight, it has constituted a relatively traumatic endeavour to resolve the problems of nationhood. New Zealanders have been forced to review their colonial status of dependent relationship with a predominantly European community, and come to terms with their own geographical location, their uneven capacity for productive economic performance, and the costs and consequences of realising their own social and economic expectations.

Part of this debate has been about the kinds of central political and administrative systems that are appropriate to national development. In the field with which we are here concerned - the public expenditure system - there have been continuing efforts to change the 'conceptual framework' in which government agents develop, cost and implement public policy. These efforts, directed as they have been towards existing systems for the allocation of scarce resources by the State, are significant because they have been carried out at the very heart of political life. Where individuals and groups acquire power to make determining allocative decisions with national implications, they are operating at the political centre of the modern welfare community. Any verifiable indication that such groups are

seeking to exercise that power in an overtly rational manner, voluntarily submitting to restraints upon purely sectoral self-interest, as has been recorded in New Zealand, Britain, the USA, Canada and elsewhere, must be regarded very seriously.

It may be contended that behind the numerous planning theories and management information techniques which gained favour and were experimented with during the 1960-80 period, there was a genuine governmental intention to identify and serve public interests on a broadly democratic basis. The history with which this study is concerned, namely the process of central budgetary management, may thus be seen as part of a wider attempt by New Zealanders in government to adopt a more rational approach to their political and economic responsibilities. Government agents have persistently tried to apply the findings of modern scientific and technological knowledge to forecasting resource availability, and to the allocation of resources through public institutions. Efforts have been made to systematize the growing mass of information about the behaviour of the social and economic community, and to order such information more usefully through the application of techniques such as PPB, or by weighing up costs against benefits after both have been defined, as far as possible, in quantitative terms. There have been repeated attempts to regularise governmental processes for public policy review, and neutralise the more grossly inequitable aspects of cost and benefit sharing between different publics whose diverse needs and interests are not necessarily best expressed through the electoral machinery.

Such endeavours cannot, however, be regarded as constituting anything like a Kuhnsian revolution in political knowledge and action.¹ The emergence of a crisis - Kuhn's first criterion for a radical advance in knowledge - has been undeniable. After the mid 1950's, when the overall rate of growth in the New Zealand post-war economy began to slacken, it became apparent that if growth was to be assured, significant changes in the economic structure would be required. The reality of a chronic "crisis" did not impinge too forcefully upon the government until the recession of 1967,² and even then it was not until the dramatic international revelation of the power of the oil producing nations in 1973, that the profound implications of underlying economic instability were more widely recognized. However, it was, and remains, assumed that the crisis was essentially economic in character, susceptible to improved political management but not necessarily indicative of radical political

change, either to existing political structures or to existing assumptions about the role of central governments alongside other major interests in the community, and outside.

The second Kuhnsian imperative is the availability of an alternative paradigm, and here the incrementalist nature of the past twenty years is most readily observed. It may be argued that, with, say the Industrial Development Conference of 1960, a serious search had begun for a new model of government.³ However, the Westminster model is deeply embedded in the consciousness of New Zealanders, reinforced by several generations of electoral stability and relatively benign two-party government. The constitutional system may have been modified, but has not been radically re-shaped by changing knowledge and experience in fields such as resource allocation and expenditure planning. The objective in developing an appreciative framework in which governmental policy and decisions become more rational was, and remains, narrowly interpreted, primarily in electoral terms. The alternative paradigm of guided national development based on collective sensitivity to identified and unforeseen social and economic needs has not been able to compete successfully for political attention against other forces.

In countries like New Zealand, Britain, and Canada, which share similar political and constitutional models of central government, the ruling communities have been incapable of either modifying the inherently centralist features of their own character, upon which their survival as elites depends, or reducing their own reliance upon historically embedded forms of symbolic electoral reassurance. To subsume narrow sectoral interests to a wider and more democratic interpretation of the public interest would require the use, for example, of allocative power to effectively transfer the means of independence to the powerless. This manifestly cannot be done only by public rhetoric or the growth of technical intelligence, administrative and political, inside central government.

The material included in the following chapters is intended to demonstrate that major problems of expenditure planning result from inherent deficiencies in the networks of communication in central government. These deficiencies include both the political style of central agents and elected politicians and the processes of planning, which are at least as significant in planning failure, as accuracy in predictive knowledge or unrealistic goal setting. Further, both the style of agents in the central networks and the processes by which they plan are more significant in planning failures than external, environmentally induced economic or other crises, which exacerbate planning problems but

may not be regarded as their primary cause. By the 1980s, officials were arguing that a planned dismantling of the welfare state was an essential feature of guided national development. It may be, however, that the pursuit of this intended objective may not only prove to be as painful as the unwrapping of bound feet, but entirely fictitious in its declared purpose of providing increased social and economic stability, or an improved capacity for rational adaptation to changing situations, which is the essence of effective planning.

Evolution of reform:

In 1963 and again less comfortably in 1966, the National party was elected as the government of New Zealand.⁴ The party had entered office "in a phase of economic prosperity, and [had] presided over an economy which prospered and expanded rapidly through 1964 and 1965." Gross national product rose by 44 percent between 1962 and 1966 - "the largest single rate of increase for over a decade."⁵

Hence, neither the Government nor the Opposition was prepared to anticipate the severity of the recession experienced in 1967. In his Economic Review that year, the Minister of Finance, R.D. Muldoon, began on a sombre note:

The New Zealand economy in the past year has been subject to severe strain emanating from an excessive level of domestic expenditure in relation to available resources and from depressed prices for wool exports. The economy has again shown its sensitivity to changes in world demand and now appears to have entered the downward phase of one of those periodic cycles of economic activity which have characterised our economic history.⁶

The Minister's Budget speech in June that year had described the current recession in the light of the British decision to apply for membership of the European Economic Community, an internal economic crisis, and the balance of payments emergency which had resulted from a "sudden and unforeseen deterioration" in New Zealand's trading situation, caused by a "collapse in the [external] demand for wool". The Minister stated that "in uncertain and changing circumstances, we cannot say what further action may be needed in the months ahead. It is of the utmost importance that we should maintain a flexible approach to developments as they occur". Among the actions which had been taken in the past fiscal year, and were proposed in the Budget for the coming fiscal period, was an attempt by the Government to "augment public revenues and to limit the growth of Government expenditure... Their principal aim is, and must be, to induce a slower rate of increase in total expenditure. While this necessarily implies a somewhat slower rate of economic growth, there is no alternative if we are to stabilise the economy

and maintain a firm basis for future expansion."⁷

It was against this background that Treasury officials began to accelerate their efforts to find new and more effective ways of "looking ahead." In general terms, questions of macro-economic and macro-financial management by the government had conformed to patterns observed elsewhere. G. Bruce Doern, for example, discussing the Canadian experience, observed three overlapping trends in post-war history:

- (a) from the mid-1930s to the late 1950s, governments were primarily occupied with "frugality and regularity of spending and financial management was predominant.";
- (b) early in the 1950s and throughout the 1960s, the influence of Keynesian economics was marked. Government expenditure was viewed as "an instrument of demand management in fiscal policy making...";
- (c) The Glassco Report (Canada) and the Plowden and Fulton reports in Britain, presented in the early 1960s, demonstrated the development of a third set of attitudes towards fiscal management.⁸

During the 1960s, government spending was escalating rapidly, and the potentiality for growth in the economy to support the continued expansion of the State appeared to require verification. An extension of the time-frame of governments' expenditure plans was attempted. In New Zealand, for example, not only was the economic horizon now to be scanned more carefully; the component elements of economic and fiscal policies were more comprehensively reviewed, principally through activities associated with the National Development Conference, before and after 1968.⁹ The climate of economic and fiscal opinion in central government circles in Wellington in the late 1960s thus predisposed politicians and officials to identify certain systemic disorders, and attempt to learn from international experiences how these might be dealt with. We begin to trace the evolution of the COPE-based budgetary system from this time.

A new way of looking ahead: PPB and All That

In 1966, New Zealand Treasury officers began work on a study of the central budgetary system. Their final report, published in February 1968, was entitled Financial Planning and Control: the Report of the Study Group on Treasury Procedures, December 1967. Among its various terms of reference, the Study Group was directed "to pay particular attention to the link which will need to be established between planning and programming over a longer period for both capital and current expenditure and the present procedures for approvals, delegation of expenditure authorities and investigation of

financial approvals by Treasury." It was invited to "consider and recommend new or modified methods and procedures where these are needed to better achieve objectives... (and) to ensure cooperation and understanding of what is required, particularly in longer term planning by officers in other departments (i.e. outside the Treasury itself)."¹⁰

Some of the overseas influences on the writers were specified in this seminal document. An appendix briefly sketched the history of budgetary reforms in the United States, beginning with the Taft Commission on Economy and Efficiency (1912), the 1949 Hoover Commission, and the eventual introduction of the Planning Programming and Budgeting System (PPBS) in 1965. The Canadian experience was quoted, with a note that "the Canadians always keep an eye open for what is going on over the border. In 1962 they felt that something similar (i.e. to PPB) was needed, and a well-known Canadian management consultant, J. Grant Glassco, was commissioned to report on government organisation, including financial management." Various features of the British Plowden Report (1961) were favourably described. It was further reported that in a number of other countries - the Phillipines and India, for example - budgetary reforms had been introduced, while the

professional attention were given to such questions as budgetary system planning and design. On the one hand it is possible that the quality of analysis, and the evaluation of relevant data, may improve if planners concentrate exclusively on their planning tasks. However, it is also possible that this tends to intensify their propensity to construct theoretical models that are somewhat unrelated to the daily realities of administration. In any case, it is part of the New Zealand character for a person to be a jack of several trades, a do-it-yourself enthusiast, pragmatic in style, and both more socially and professionally acceptable if able to avoid any charge of intellectual rarification or 'ivory-tower' specialisation.

The Report, in both its interim and final forms, was never intended for general distribution and discussion throughout the central government system. As was pointed out in the Preface, the Report was "basically for internal consumption".¹⁴ The terms of reference for the Study Group were comprehensive in their scope, but gave little indication of how far the Treasury officials involved in the exercise should extend their investigations. It was clearly a matter for the Group's own discretion and judgement. One specific limitation, however, was provided: "The Treasury's role as economic adviser (and the servicing of the Cabinet Economic Committee) is excluded for the purpose of this study except in so far as it over-laps with fiscal policy generally and investigation and control of expenditure in particular. (The work of Superannuation, Stores and the Actuarial Divisions is also to be excluded)."¹⁵

The exclusion of the economic advisory role of the Treasury demonstrates something of the political character of this and subsequent revisionary exercises. It is somewhat ironic, given the Report's eventual advocacy of a PPB system, to document the style favoured by powerful interests in central government - a style which was politically logical in 1966/67 (as again in 1979/80, when the COPE-based system was partially dismantled), but conceptually ambivalent, if not inherently contradictory, in planning terms. In 1978, for instance, S. Harvey Franklin, commenting on the apparent deficiencies of the New Zealand welfare state, observed that "The problem with much of public expenditure is its inertia and inflexibility. No satisfactory way has been discovered of relating it more directly to the creation of exports, which if created ought to lessen the constraints imposed by import bottleneck and might therefore reduce the swings in activity to which the [New Zealand] economy has been subject... [Indeed, welfare expenditure, rising continuously], may worsen overall economic circumstances by creating new forms of social injustice associated with hyper-inflation."¹⁶

The inability to find a "satisfactory way" to deal with complex relationships between economic and fiscal matters is clearly, in part at least, a Micawberish question. If persons such as Ministers who authorise the expenditure of funds choose to formally dissociate this activity from their simultaneous attempts to control their overall economic circumstances, it can hardly be a matter of great surprise if this results in systemic dissonance, of the sort Franklin referred to. As we shall later argue, the choice of means to ends is a matter of political values and political style, and in 1966/67, as in 1979/80, the preferred style of central government was to attempt to insulate various significant networks of communication from each other, for reasons which are political rather than anything else.

The 132-page Report included a large number of recommendations, some of which had been adopted, in part at least, by the time the Report was printed. The exercise evidently had not been without its frustrations. There was, for example, a slight note of grievance in the Introduction. The authors pointed out that although their first Summary had been discussed with Treasury Secretaries and Directors in May 1967, and written comments invited from these colleagues, no such comments had been received nearly a year later. However, although this aspect of the Group's inquiries, which had discussed Treasury's general responsibilities and role in central government and included recommendations for reform of the overall financial management system, had apparently not struck a rich vein of collegial approval, the second Summary had proved more fruitful. A report on functional re-organisation inside Treasury itself, presented initially to the Treasury Secretaries and later "after modification by them" to the Senior Treasury Officers, on 24 August 1967, gained almost immediate approval. Comprehensive reorganisation of the Treasury, specifically intended to improve the existing internal machinery for the production of financial and other information, the investigation and evaluation of departmental spending proposals and requests for financial approval, and to clarify with greater precision the specific responsibilities of each Treasury division, was announced by Lang, then Assistant-Secretary, in August 1967. As part of this change, a Budget Systems Section (BSS) was established, with responsibility for "the planning of Government sector expenditure, budgetary systems, performance measurement, and cost reporting." The Study Group, noting this innovation, commented that their interest now (1968) lay in reporting as fully as possible on the background to the BSS, and their own proposed reforms, with the comment that these should be introduced by a full-time "operating" section of the Treasury.¹⁷

In general, members of the Study Group had adopted a systems approach. They argued that the central machinery should be regarded as a system, rather than a series of inter-related structures, and their "general theme" was couched in cybernetic terms of better communication and improved control. The networks of information (of which the Treasury was to remain central designer, predominant source of energy, and principal data recipient) were, they argued, to be seen as the means to facilitate and teach preferred behaviour, rather than channels for the flow of authority to enforce rigidly codified behaviour. Distinctions between functions inside the Treasury (such as policy formulation and delegated controls) were to be broken down as far as possible; officers were to be more "project oriented", responsible for seeing an item of expenditure as part of a planning process, rather than simply providing a surveillance role, like component line assemblers. Greater attention - and more official time - was to be given to "looking ahead", and to the relationship between allocated funds (which must be investigated and approved annually) and forward estimates of future costs, which were to be more comprehensively examined, and more specifically evaluated, outside the annual budgetary cycle. Investigating officers (TIOs) were to become more familiar with their departmental charges, to survey all available departmental output, such as special reports, and in general to approach departments in a more critical and better-informed manner. They should be assisted in this by greater efforts at coordination by Assistant Secretaries. All documentation, such as circulars and Cabinet memos, relevant to the work of an active, inquiring and critical TIO or any other Treasury officer should be circulated as widely as possible inside the organisation, both to promote the general objectives of the re-organised Treasury, and to increase its overall efficiency.

Most Group attention was given to introducing a PPB system. It was recommended that "attention be given to classifying public expenditures by function with a view to developing functional programmes of government activity and systems for controlling costs and performance in those programmes." There should be greater standardisation in data collection, to enable economic data to be reconciled more readily with financial information; goals and objectives for departments were to be more explicitly stated, not only to provide the focus for the development of departmental programmes of activity, but to provide a framework for the development of management information systems, both computerised and conventional. The Government Accounting system should be standardised, and the format of the Estimates modified; a glossary of terms should be prepared to clarify and standardise the often-conflicting definitions applied in the past to words such as "government expenditure" and "capital"; departmental officials,

service-wide, should be educated to accept the necessity for financial reform, to examine their own management and control practices, and to share the benefits of a standardised manual of financial management, which was recommended for preparation and distribution throughout the public sector.

Permanent heads were given special attention. Their statutory obligations to ensure the "efficiency and economy" of their departments were set alongside reform proposals for goal and output-oriented programmes as the basis for resource allocation and financial expenditure. It was suggested that senior officials who could successfully apply a longer-term perspective to policies organised on a programme basis while at the same time fulfilling their conventional responsibilities for annual budgetary management could gain greater autonomy, in that they could have greater control over policy choices and the particular components of approved programmes. Sanctions were suggested - departmental managers (i.e. permanent heads) could be given more, and possibly more public, responsibility for what they and their departments wanted to promote, where this was approved by the Government. With greater responsibility, and the hint of greater public exposure, it was suggested, officials could become more "accountable for their financial stewardship."¹⁸

Although only minimal attention was given to the role of Cabinet and its sub-committee system, in relation to a PPB approach, the role of Parliament was considered with some care. It was recommended that the Public Expenditure Committee, for example, should become much more closely involved in the networks for exchange and evaluation of fiscal information. The Committee should be provided not only with an extended research capacity and more information, but that information should be presented in a more digestible form, and be far more comprehensive in scope. Further, it was suggested that the PEC, in conjunction with the Controller and Auditor General, should be empowered to comment more extensively in any area where changes in budgetary procedures or accounting systems could be thought to have implications for the parliamentary system of expenditure review and financial appropriation.¹⁹

On August 19, 1968 a letter was sent to all Ministers from the Office of the Prime Minister (Rt. Hon. K.J. Holyoake, later Governor General of New Zealand) informing them briefly of current proposals to introduce the PPB system.²⁰ A few days later a Treasury circular along similar, but slightly amplified lines was distributed to all permanent heads.²¹ The following June, in his 1969 annual Budget speech, the Minister of Finance (Muldoon, later Prime Minister) publicly announced the establish-

ment of the new system of "Financial Planning and Control":

In the 1967 Economic Review I noted that a review of Government accounting and expenditure control systems had begun. As a result of this review, the Government has decided to introduce a comprehensive system of planning, programming and budgeting throughout all departments. The first step (called Phase I in Treasury) in the implementation of the new system has been to develop a fully-integrated management accounting system which will be in general use within the next 2 years. More important and far-reaching changes (known as Phase II) will follow which will lead to better information for decision making on the use of resources in the public sector. These changes will require new attitudes to Government financial management and new techniques of planning and control. To these ends a comprehensive education and training programme is being developed. Initially it is proposed to introduce the full planning, programming and budgeting system in the Ministry of Defence and a feasibility study has been started in the Ministry. 22

A few months later, one of the Treasury advocates for PPB, Laking published an article on the genesis of the new system in the New Zealand Journal of Public Administration in 1969. His approach was low key; he emphasised the essential "common sense" aspects of the system, and avoided making claims which could later be difficult to substantiate. "There are," he wrote "no radically new ideas in... (PPBS) except the 'jargon'... The term as used in New Zealand really covers the whole management process through determination of objectives, definition of activities and their costs, relation of expenditure to funds available and designation of specific tasks to be performed, control of implementation, and review to revise programmes or objectives."²³ The adoption of the new system, which involved considerations of the time span most appropriate to public sector planning, the form in which financial information was available and presented to decision makers, and costs of policies themselves were, Laking suggested, less important than "a more basic issue: to what extent can the whole process of decision-making on resource use in the public sector be made more explicit and analytical?"²⁴

Despite the relative modesty with which Laking fleshed out the finance Minister's earlier announcement, and the careful restraint with which he rehearsed the pros and cons of this "new approach to management", records of Treasury activities during the 1967-70 period, and for some years later, as a PPBS was developed, are alive with optimism and enthusiasm. Among the more striking aspects of this period of New Zealand's administrative history is the international camaraderie which extended from Wellington to Washington, London, Quebec, Canberra and elsewhere. We digress very briefly to sketch in this element in expenditure planning history, so strongly evocative of déjà vu when viewed from a vantage point ten years later.

The salad days of PPB:

As we have already seen, the Study Group on Financial Management cited some international sources for the reform proposals in their 1967-68 report. The New Zealand Treasury had always maintained contacts with similar organisations in other Commonwealth countries and the United States. Indeed the numbers of persons directly engaged in "controlling the public purse" at any one time in these mainly English speaking countries would have been so small (and, in general, so anonymous) that opportunities for consultation and the sharing of administrative and other experiences were limited, in New Zealand's case, more by geographic distance than any other barrier.

General papers on PPBS were prepared in the Treasury,²⁵ and used variously as the basis for training courses, public speeches, published articles (like that written by Laking in September 1969) and international exchanges among bureaucrats. In April 1969, for example, a Treasury officer (D.A. Shand) visited the Malaysian Treasury, where he inquired about progress on introducing PPB in that country. He found that the Malaysian budget managers were being assisted by an American (M. Medley) who was "working in the Treasury on a Ford Foundation grant". Problems noted there were carefully recorded by Shand and fed back into the embryonic New Zealand system.²⁶

By September 1969 officials in the New Zealand Treasury, acting with the approval of both political parties and authorised by the explicit 1969 Budget announcement of the Minister of Finance, were able to write to the Financial Secretary of the Cook Islands Treasury. They informed him that "the New Zealand government is now committed to the introduction of programme budgeting for government departments", and that "work in this field so far" had concentrated on changing the former accounting system to SIGMA,²⁷ starting in the Ministry of Transport with the intention to include all departments over the next two years. They also reported that the recommended Treasury Manual on Financial Management was now in draft form, and the first circulars had been issued to departments, with a letter from the Prime Minister to Ministers informing them about the new system. In addition, the Cook Islanders were told, an extensive training programme to prepare departmental officials for adoption of new techniques for analysis and evaluation was being devised. It should be noted, the Treasury letter added, that "it is not planned to implement programme budgeting in all departments. For some of the smaller departments there is little to be gained from a full... system." The letter concluded with a bibliography of American, Canadian and British publications which officials in New Zealand had found useful and informative.²⁸

Numerous discussions were held between New Zealand Treasury officials and their Australian counterparts. Initially, correspondence between men like Battersby (New Zealand) and S.G. Herring (Australia) was formal in style; within a short time exchanges were on an open, casual basis, as common problems were identified and solutions worked out. In March, 1970, for example, Herring wrote to Shailes (New Zealand, Assistant Secretary, the Treasury):

Dear Fred... One of our Defence chaps asked me a few weeks ago whether we heard anything when we were in Ottawa [as part of an extensive UK-USA-Canada trip for information and advice] about the EDP management information system supporting the PPB application in the Canadian Department of Defence. We didn't visit Defence there, but I was wondering if Dick Battersby had any details (I understand he was to come home via Canada after he visited the UK last year). If he has, perhaps you or Dick could let me know and Phil Hudson (Defence) could drop him a note direct..."²⁹

A month later, Battersby wrote to Herring that

Whilst writing this, the officer responsible for installing our Defence PPB system (Lt. Col. Jones) came to see me inquiring about information on measures of performance and effectiveness. We have a good deal of experience in the work measurement field but generally at the lower level. There is no experience whatever in the measurement of programme effectiveness available to us in Government here and I was wondering whether P.A. or the S.R.I. had any background in this area. The problem can be illustrated by a simple example - for an air transport squadron (or single aircraft) we can take out physical measures of performance quite easily - something on a ton/mile basis would probably do. But measuring the effectiveness of that Squadron's contribution to Defence objectives is a more difficult matter and a problem that we are now struggling with. Our Defence people are wondering whether a consultant could help, hence my inquiry re P.A. or S.R.I. Have you any knowledge of their experience with this matter?"³⁰

The international circuit tracked by government officials interested in developing some form of PPB in their own countries became so well worn that the correspondents even began to build up a small collection of private jokes. One commented, for example, on getting "a bundle [of papers on PPBS] from Novick's 5" shelf". This was a reference to David Novick (USA), who was invited by the New Zealand Treasury to comment on Defence Department experiments in PPB, and later returned the compliment by inviting Battersby to contribute to an American publication, Current Practice, describing the New Zealand experience in the PPB field.³¹

Other New Zealand Treasury officials, such as de Jardine, maintained regular contact with members of the British Treasury with comparable seniority such as the Third Secretary (D.D. Henley) and the Under-Secretary (P.R. Baldwin).³²

Laking contacted British management consultants, and,

with his colleagues, studied such reports as Public Expenditure: A New Presentation (April, 1969, Cmnd. 4017) which examined British problems of pricing and methodology to cater for price effects under programme budgeting systems,³³ and the record of proceedings at a 1969 Conference of Commonwealth Auditors General, held in New Delhi.³⁴ Members of the academic professions in New Zealand universities became increasingly interested in the new developments, and from early 1969 on there was an enthusiastic exchange of current literature and information.³⁵

Early in 1970, Laking began an overseas journey of inquiry on behalf of the New Zealand Treasury. His correspondence, where extant in Treasury records, highlights the atmosphere of intimacy and critical enthusiasm in which he and his colleagues were working:

(12 June, 1970, letter to Shailes, New Zealand Treasury):

I arrived in the middle of the Bureau's (US Bureau of the Budget, Washington) change of status, with Mayo leaving and being replaced by Schultz from Labour, and the Bureau being given a 'lower profile' within the Executive Office of the President. I have had conflicting assessments of this. The programme evaluation people in the Bureau consider that their analytical functions will remain unchanged, and that they will simply inherit natural allies in the form of the staff of the new Domestic Affairs Council. The budget review people say that budgeting goes on for ever, whatever nonsense Presidents get up to, and that they don't see their expertise in that field being devalued.

On the other hand, Allen Schick of the Brookings Institute, who is a most engaging character, but probably a little idiosyncratic in his views, says that the Bureau is becoming a tomb and that Mayo is being given a Christian burial. He says that the signs were posted when half of the Bureau (including programme evaluation, incidentally) was thrown out of the Executive Office Building some time ago. He suspects, I think, that Nixon wants the Bureau to revert to its caretaker role in the Eisenhower days.

Schick's views of PPB were also rebellious - and a little self-contradictory. On the one hand, he says that analysis through the programme evaluation shop of the Bureau was never really brought into the 'decisional structure', and on the other that the budget process has tyrannised the development of analysis by encouraging the development of 'systems' - comprehensive documentation, full treatment of alternatives, etc. - which was emphasised at the expense of letting the agencies follow their instincts on analysis. Partly because of the isolated position of the programme evaluation staff and partly because of the lack of interchange between the office and the budget analysis staffs, many agencies have never felt that the Bureau meant what it said about PPB. As a result they still attach prime importance to the A-11 circular (equivalent to our Estimates circular) rather than to the PPB directives.

While I am inclined to take what he says with a grain of salt, he has highlighted some dangers, most of which I hope we can avoid.

The main thing is something I know you have recognised for a long time, that the important thing is getting some analysis of new and existing programmes done, and getting it done at a time and in a place where we can use it as a means of influencing decisions on public expenditure. Let us at all costs avoid becoming hypnotised by documentation and timetables, as the Bureau did. For example, they used to send out about 300 of their 'issue letters' each year, each of which was supposed to produce a major piece of penetrating analysis on a particular policy question - all alternatives displayed. The result was a lemon: the job was more than the agencies could conceivably handle, good analysis does not submit to absolute deadlines, and so on. So most of the analysis was trivial. Now the Bureau is happy with three or four issues per agency.

One thing we can do is cleave firmly to the philosophy of our Treasury reorganisation of encouraging the investigating sections in Treasury to develop their own analytical capabilities, which means keeping them supplied with good people. Thus I regard PESC's (UK) main instrument as its ties with analytical work done by Treasury and departments. Here is where the issues alight to be identified. And let's not be too ambitious about the amount of useful work the departments can do for a while. If we can ginger them up to start one or two major pieces of analysis each and to cost them out, this would be a good start...

In September 1969, acting on the recommendation of the 1966/67 Study Group that Parliament be more directly involved in financial management, Treasury had sent to the Public Expenditure Committee, at its request, a report on a British green paper on public expenditure. In May 1970, Battersby wrote to Laking, still overseas in Canada, that "Our discussions with the Public Expenditure Committee finished last week. All members are keenly interested in financial management. Unfortunately, they think that we can publish forecasts as the UK do. It has taken a lot of our time in trying to get across that we have great difficulty in forecasting one year ahead at present."³⁷ A few weeks earlier Battersby had written in a similar vein to a Treasury colleague then stationed in Washington: "Just at the moment the Estimates exercise is in full swing with everyone trying to get last minute proposals included. However, we go to the printer in a few days, so this should put paid to the arguments".³⁸ Allowing that this informal comment on the existing allocative system was never intended for publication, and its writer inevitably suffering the annual jaundice of an unattractive grab-bag process, it nonetheless appears that Laking and other messengers wouldn't get home with the fruits of their inquiries a moment too soon!

While some Treasury men were concentrating on overseas experiences, and others on minding the shop until the new system was more securely in place, both they and others were also taking stock of the training implications of PPB in New Zealand. Files of the period indicate that there was growing interest among politicians and continuing debate and discussion between

Treasury and educational centres such as Victoria University of Wellington, and the Technical Correspondence Institute (Wellington), where many future departmental staff members could be trained in the new methods and techniques associated with PPB.³⁹ From at least May 1969 the Study Group training recommendations were being acted upon.

Those principally involved in promoting staff training and education included N. Lough (later Secretary to the Treasury), Shailes (later Controller and Auditor General), L. Durbin, R. Laking, C.J. McKenzie (appointed Assistant Secretary to the Treasury in 1980), D.A. Shand, J.R. Battersby, R.J. Hogg, N.C. Angus, and J. Robertson (later Secretary for Defence, then Justice). From 1968 to 1970, this coterie of PPB advocates and their senior "patrons" such men as H.G. Lang (most of whom remained closely associated with the budgetary system over the next decade and, in some cases, participated in reform developments in 1979/80) held, or sponsored, lectures, staff courses, and slide-tape presentations on PPB - "The SIGMA show", for example, was a great success. They introduced other departmental officials to carefully selected "bibles" of the new international cult: Charles Schultz, and his Politics and Economics of Public Spending (1968), for instance, was warmly recommended; Treasury's own Guide to Financial Management in Government Departments (1969) was distributed, and a sequel, Planning and Control of Government Expenditure: Planning Programming and Budgeting System was prepared for publication in 1973.

The experiences of professional colleagues and associates abroad was frequently consulted. In June 1969 Shailes wrote to Herring (Canberra, Australia) commenting on the first two-week course on PPB for public servants:

We have just completed our first two week course. I think it went off pretty well. At least the ones who were converted before the course stayed, and we found a few new disciples. One problem was that the Railways and Post Office course members seemed to feel that they were attending a course on cost accounting and consequently weren't going to learn very much. However, most of the 'core' lectures were rated very high, and I think only one course member went away unconvinced.

Some more particular reflections which may be of interest to you:

- (1) Visual aids and slick presentation have an enormous impact - the slide presentation and the SIGMA show were both very successful and well received.
- (2) Particularly with reasonably senior staff, you must give them plenty of opportunity to participate themselves: if we made one big mistake it was to earbash these chaps too long, and not given them adequate time for discussions, case studies etc.

(3) We found generally that Government people performed better than non-Government people as speakers and that Treasury people were better than other Government officers. I think this is mainly a reflection on the specific nature of the course and the need to place it firmly in the context of Government financial management practices. The P.A. (Public Administration, academic staff from Victoria University of Wellington) people who lectured were not as good as we expected because they insisted on retailing theory in a business context rather than concentrating on their actual experience in Government departments such as Ministry of Works, Electricity etc.

(4) The course members - a related point - demanded a high degree of relevance in the material presented; standard SSC (State Services Commission) topics such as Politician and the Public Servant, Organisation Theory and Communication were all graded quite low in the course evaluation questionnaire.⁴⁰

Included in the notes to this chapter is another delightfully sardonic letter (unsigned),⁴¹ written one year after the introduction of PPB to illustrate the complex problems, such as those facing trainers, which the innovations were presenting. As history has a habit of doing, many of these problems recurred, indeed, many remained unattended to ten years later; some were unconsciously built into what we will later discuss as "the Quigley system" of 1980. For instance, as E. Winchester, an American consultant employed in the New Zealand Treasury during the early 1970s, observed the question of "whether the PPBS philosophy would be extended by the Treasury... for possible use by line managers" had not been tackled several years after the system had been introduced. "In searching PPBS literature", Winchester wrote in 1973, "one can hardly fail to notice the references to PPBS as 'a tool for top management'. This implies that either PPBS was not designed to be a tool for middle and lower level managers, or that the application of PPBS theory had not yet been extended beyond 'top management' levels... Conceptually, there is no reason why the essential elements of PPBS could not be applied at any organisational level. In New Zealand, PPBS designers have not yet seriously addressed this important issue."⁴²

Further, Winchester notes, although PPBS had become an accepted framework for expenditure planning and resource allocation, within five years of its introduction the special group established inside the Treasury - the Budget Systems Section - apparently no longer existed. By October 1972, Winchester reports "there was absolutely no organisational unit anywhere in the entire New Zealand government... actively working to develop government-wide finance and accounting systems, let alone a totally integrated resource management philosophy like PPBS. All work aimed at achieving this goal was at a complete standstill. There was no-one in the Treasury Department working to develop the PPBS and there were no official plans for further development of the system."⁴³

One must regard this series of assertions with some caution, since apart from anything else they are somewhat self-serving on Winchester's part, as an expert in the (apparently neglected) field of PPB. However, it does appear that in part at least the PPB honeymoon had not begun a fruitful relationship between those officials who had an annual set of Estimates to prepare, and enthusiasts who, despite their best endeavours to consult the entrails of overseas experiments, were inevitably caught up in the continuing demands of their organisations their own careers, and the political pressures of life at the centre.

Developments in budgetary management and expenditure planning after 1970

The following chapters are largely an account of developments in fiscal management and planning from the time when the PPBS was introduced to the New Zealand budgetary system. In Chapter Four we begin a chronological three-stage account of innovations at the Cabinet Committee level from 1971 to 1978. First, the Cabinet Committee on Government Expenditure (CCGX), convened by Muldoon, the then-Minister of Finance. When Labour was elected to office in 1972, the Government established the Cabinet Committee on Policy and Priorities (CCPP, 1972-75). This system for budgetary control and expenditure policy management was later discontinued and replaced, under the incoming National Party Government, by the Cabinet Committee on Expenditure (CCEX), which remains an important element in the current expenditure planning system today.

Chapter Five, entitled The Life and Death of Cope retraces some of the more detailed material included in Parts I-III of the preceding chapter, and summarises the main aspects of the COPE system itself, taking the account to a point where historical developments occurring at the end of the 1970's are described.

NOTES

Chapter 3

1. Thomas S. Kuhn, The Structure of Scientific Revolutions, 2nd. ed., (Chicago: Chicago University Press, 1979). For a stringent criticism of Kuhn - and of those who attempt to apply his propositions to fields where they are inapplicable, or irrelevant, as may be argued in this case, see Homa Katoujian, Ideology and Method in Economics (London: The MacMillan Press Ltd., 1980), esp. Chapter 4, pp. 91, ff. However, New Zealand Treasury officials involved in budgetary and government accounting reform in the late 1960s obviously considered that they were engaged in radical change. In 1973, for example, A.C. Shailes, then Assistant Secretary to the Treasury, stated that "over the past five years there has been a major revolution in accounting techniques and practices in the New Zealand Government sector." 'The Role of the Management Accountant in the Public Sector', a paper delivered for discussion at the 21st Advanced Accounting Seminar, Victoria University of Wellington, on "Management Accounting in a Changing Government", 21 June 1973).
2. See, for example, Austin Mitchell, Politics and People in New Zealand, (Christchurch, New Zealand: Whitcombe and Tombs Ltd., 1969), especially Part One, Chapter 6: Peter A. Lane and Paul Hamer (Eds.), Decade of Change: Economic Growth and Prospects in New Zealand, 1960-1970 (Wellington, New Zealand: Reed Education, 1973), esp. Chapter 1.; S. Harvey Franklin, Trade Growth and Anxiety: New Zealand Beyond the Welfare State, (Wellington, New Zealand: Methuen, 1978), especially Chapter 5.
3. Industrial Development Conference, 1960. Background Papers. See also J.P. M. Cornwall et al., "A Critique of the Industrial Development Conference, June 1960," (unpublished), School of Public Administration, Victoria University of Wellington, September, 1960. For other areas where reform, political and economic, was considered and discussed, see L. Cleveland and A.D. Robinson (eds.) Readings in New Zealand Government, (Wellington, New Zealand: Reed Education, 1972).
4. Mitchell, Politics, ibid.
5. Mitchell, Politics, P. 144.
6. Hon. R.D. Muldoon, Economic Review 1967, B.5., AJHR. Wellington: New Zealand (Government Printer, 1967), p.5.
7. Financial Statement, 22 June 1967 (Budget), Hon. R.D. Muldoon. B. 6., AJHR (Government Printer, Wellington, New Zealand), p.5 and p. 7.
8. G. Bruce Doern, "The Budgetary Process and the Policy Role of the Federal Bureaucracy", in (eds.) G. Bruce Doern and Peter Aucoin, The Structures of Policy-Making in Canada, (MacMillan of Canada, 1971). See also Hugh Heclo and Aaron Wildavsky, The Private Government of Public Money: Community and Policy inside British Politics, (London: MacMillan, 1974); Sir Richard Clark, Public Expenditure Management and Control: The Development of the Public Expenditure Survey Committee (PESC), (ed.), Sir Alec Cairncross, (London: The MacMillan Press Ltd., 1979); J.R. Battersby and D.A. Shand, "Planning Programming and Budgeting Systems : A New Approach", The Accountants Journal (New Zealand, March, 1971); J.R. Battersby, "The Planning of Government Expenditure in New Zealand", The Accountants Journal (New Zealand, August, 1979); D.A. Shand, "Financial Management in Government Administrative Departments" a paper presented to the A.M.A.N.Z. Conference, Auckland, NZ. 1979; Noel Lough, "Address to the Cost and Management Division,

New Zealand Society of Accountants, (Wellington, N.Z., 15 August, 1979).

In an interview with the author (Treasury, 12 June, 1980), J.R. Battersby, then-Assistant Secretary to the Treasury, outlined the history of COPE as he recalled it. He identified the 1967 Treasury Report of the Study Group on Treasury Procedures: Financial Planning and Control as a critical point in COPE's history. The Report had "clearly pointed the PPB way" and was strongly influenced by developments in this direction occurring elsewhere, such as the USA and Britain. Battersby was at that time in the Finance Division (Treasury), with A.C. Shailes (then responsible for the writing of the 1967 Report, later Assistant Secretary to the Treasury, 1973-75, then appointed Controller and Auditor-General, Audit Office). Battersby's position in Finance I was occupied during 1978-80 by Ron Hamilton (See Chapter Six). Battersby and Shailes "decided that (they) must do something to improve the financial review and Estimates systems - there were really only two reviews, the Main and Supplementary Estimates. Some action was needed at Government level." Two things were done: "First, we re-designed, well, tidied up, the Estimates and initiated SIGMA (government accounting system)". The Committee which did this was then in the Finance Division (of the Treasury):

J. Lang (Assistant Secretary to the Treasury 1965-73),

J.R. Battersby,

L. Peko ("an EDP man, now working for the Wellington City Council"),

A. Wilson (now a Divisional Director in Treasury).

"By this time", Battersby recalled, "various people had had a look at PESC and thought that something might be worth trying here. So secondly we examined and began to reform the decision-making machinery". The Committee for this included Shailes and Battersby, and other Finance Division officers. H.G. Lang (Secretary to the Treasury) was "sympathetic" and added his imprimatur to the proposals they were making. Following the PESC procedures, Battersby continued, "the Treasury group set up an Officials Committee - they felt this could be the way to go - they could thereby get the participation and expertise of other public servants". Battersby himself wrote the initial COPE terms of reference (subsequently expanded in a published discussion in the Accountants Journal, 1971, p.270).

Battersby himself then moved, he recalled, to another Treasury division and Max Bradford (in 1980 a senior adviser to the New Zealand Employers Federation) influenced the early development of COPE. The first COPE exercise was carried out and serviced by Laking (in 1980 a Divisional Director in the Treasury - see notes on early development of PPBS, Chapter Three, Pt. I) who was the first secretary to COPE.

It was attempted to put all the information for the first COPE on the computer, but this was, Battersby recalled, a slow and very cumbersome system. Laking "husbanded the first COPE through".

Thus COPE began. The terms of reference written by Battersby had had three dimensions - "but in fact only the first, as (he) said in the Accountants Journal in 1979, was taken seriously, and acted upon by COPE and the departments".

Further to this discussion, Battersby also recalled, re the beginning of New Policies reviews, that when J.R. Marshall was Prime Minister (1972-1975) Battersby was "back on the (Finance) division in time to do the first new policy exercise. There was a need to gather all new policies together at the one time. The CCPP then developed this sort of exercise through to 1975, when the CCEX was set up."

9. National Development Conference, Reports and Proceedings 1968 ff. (Wellington, NZ., Government Printer).
10. Financial Planning and Control, Report of the Study Group on Treasury Procedures, (The Treasury. December 1967), p.1. See also A.C. Shailes, "The Role of the Management Accountant." See Appendix 3A
11. Ibid. pp. 123-132.
12. The Study Group's personnel comprised :
 - A.C. Shailes (Chairman)
 - R.J. Hogg
 - H.J. Leathwick
 - L.C. Neilson
 - R.G. Laking (Secretary)

Hogg joined the Group on his return from the United States, in February 1967.
13. The Treasury, Study Group Report, preface.
14. Ibid.
15. Ibid. Appendix A, p. 99.
16. S. Harvey Franklin, Trade, Growth and Anxiety: New Zealand Beyond the Welfare State, (Wellington, New Zealand: Methuen Publications (NZ) Ltd., 1978), pp. 116-118.
17. The Treasury, Study Group Report. pp. 1-2.
18. Ibid., p. 97-98.
19. Ibid. See, for example, p. 98. See also Appendix 3A: Ty 2235 (2 copies) 'United Kingdom Green Paper : "Public Expenditure: A New Presentation"', 8 October, 1969, T3/19; Memo from Secretary of the Treasury to the 'PEC, Expenditure Planning and Control and the form of the Estimates', 23 December 1969, T3/19; Ty 6232 'Maori and Island Affairs Estimates of Expenditure Format', 17 February 1971, T3/4/71; Ty 6239, 'Marine Department - New Estimates Format', 17 February, 1971, T3/4/71; Ty 6288, 'New Estimates Format - Department of Internal Affairs, 24 February, 1971, T3/4/71; Secretary of Treasury to the Controller and Auditor General, 'New Format Estimates: Appropriation from Two Accounts', 24 May 1971, T3/4/71; Ty 9363, 'Department of Education: New Vote Format with Effect from 1 April 1972', 9 March 1972, T3/4/72.
20. Memo from Rt. Hon. K.J. Holyoake to the members of his Cabinet, 19 August, 1968. Made available by J. Green, M.W.D. See Appendix 3A
21. Treasury circular 1968/31, Financial Planning and Control, T52/964/3 - List B. The Treasury, Wellington N.Z. See Appendix 3 A

22. Financial Statement, 26 June, 1969, (Budget), Hon. R.D. Muldoon, B. 6.,
AJHR (Government Printer, Wellington, New Zealand), pp. 38-39.
23. R.G. Laking, 'A New Approach to Financial Management', New Zealand Journal of Public Administration, Vol. 32, No. 1, September 1969.
24. Ibid., p. 41.
25. See, for example R.G. Laking, Programming Government Expenditure (Wellington: Department of Economics, Victoria University of Wellington, May, 1967); "PPBS Overview", T3/19/1; and Draft paper written by R.G. Laking for the Secretary to the Treasury, to the Secretary of Defence, "Planning and Programming for Defence - Defence Review 1968", 16 January 1968", 16 January 1969. T3/19, Treasury records, Wellington, New Zealand. See also 'A Concept of Management for the Public Service in the 1970's' T3/19, Treasury records, Wellington, N.Z. See Appendix 3A.
26. Memo written by D.A. Shand, entitled "Notes of Visit to Malaysia Treasury", 29.8.69. T3/19 Treasury records, Wellington, N.Z. See Appendix 3 A.
27. SIGMA: See Appendix 3A. L.C. Neilson and A.J. Tucker to H.G. Lang et al., 'Government Accounting Information Requirements', 19 July 1967, T73/4; Treasury Circular 1968/31, 'Financial Planning and Control,' 27 August, 1968, T3/19; Circ. Memo 1969/38, 'System of Integrated Management Accounting (SIGMA)', 15 August, 1969, T3/19. M. Bradford to Mr. A. Tucker, 'S.E.G./S.R.G. Codes for SIGMA Coding Structure', 24 January 1970, T3/19 and 'S.N.A. Codes for SIGMA Coding Structure', 4 February 1970, T3/19; 'S.I.G.M.A. Coding System: System of National Accounts Economic Classification Digit Code (S.N.A. Code)', 10 February, 1970, "Adopted for use 13/2/70 after discussion with Gavin, Bradford and Battersby," T3/19. See also David Preston, Government Accounting in New Zealand: an explanation of the Accounting and Financial System of the Central Government of New Zealand, (Wellington: New Zealand: Government Printer, 1980), Pt. III, Chapter II.
28. D.A. Shand, for the Secretary to the Treasury, to The Financial Secretary, The Treasury, Government of the Cook Islands, Raratonga. 4 September, 1969. T3/19. Treasury records, Wellington, New Zealand.
29. Letter from S.G. Herring Assistant Secretary, the Treasury (Australia) to A.C. Shailes (New Zealand), 18/3/70. T3/19. Treasury records, The Treasury, Wellington, New Zealand.
30. Letter from J.R. Battersby (New Zealand) to S.G. Herring (Australia), 2/4/70. T3/19. Treasury records, the Treasury, Wellington, New Zealand.
31. Herring to Shailes, 18/3/70.
32. T3/19. Treasury records, The Treasury, Wellington, Wellington, New Zealand.
33. Cmnd. 4017, April 1969, "Public Expenditure: A New Presentation" (UK) The procedure suggested in this British Green Paper was adopted, and the first survey tabled in the British House of Commons in December 1969.
34. Proceedings of Conference of Commonwealth Auditors General, New Delhi, 8-14 October, 1969. Participants from India, Pakistan, Australia, Canada and the United Kingdom attended and presented papers. In

- 1970, Treasury officers in New Zealand were recommended to read Alice Rivlin, "PPB in the Department of HEW" (US), in "The Analysis and Evaluation of Public Expenditures. The PPB System, a compendium of papers submitted to the Sub-committee on Economy in Government of the Joint Economic Committee, Congress of the United States." Vol. III of three volumes published by the U.S. Government Printing Office, 1969.
35. R. Sidebotham (former Professor of Accounting) and Ian Ball, of the Commerce faculty, Victoria University of Wellington, for example, were part of the small network of interested academics and Government officials who exchanged research proposals, books and other information on PPB from 1969. See also 'MPs Want Bigger Say in State Spending', Financial Times (London) 20/9/69; 'More Effective Control of Whitehall Spending', The Times (London), 19 September 1969; 'State Budget Enters Computer Age' New Zealand Herald 2 December, 1969, p.6. All press cuttings in T3/19, Treasury records, Wellington. See Appendix 3A.
 36. Laking to Shailes, 12 June, 1970. T3/19. Treasury records, Wellington, New Zealand. Rob Laking visited the UK, the US and Canada inquiring into recent developments in budgetary management techniques, particularly the British PESC. He was to contact various people such as Wasserman of the British Home Office, Allen Schick of the Brookings Institute (USA). Approaches made on his behalf by his senior colleagues in New Zealand are interesting in themselves - "We'll get Henry [Lang, Secretary to the NZ Treasury] to sign the London [letter of introduction] and probably Noel [Lough, Assistant Secretary] will do the same for Ottawa. You should not have any difficulty with the Canadians but as you say the high level approach is necessary with the UK." Shades of Mother England and her colonies!
 37. J.R. Battersby to R. Laking in Ottawa, 10 June 1970. T3/19. Treasury records, The Treasury, Wellington, New Zealand.
 38. J.R. Battersby to A.E. Wilson, 1st Secretary, Finance, New Zealand Embassy, Washington D.C. 29 May 1970. T3/19. Treasury records, The Treasury, Wellington, New Zealand.
 39. See, for example, memos to and from Muldoon (Minister of Finance) and Shailes re. information from Australian Financial Review on developments in financial management in the Australian Federal government, 22 June 1970; P.J. Scherer "Budget Comes as Climax to Months of Work", New Zealand Herald (Auckland, New Zealand, 23 June 1970); request by Technical Correspondence Institute, Lower Hutt, Wellington to Treasury for copies of Output Budgetting for the Department of Education and Science (U.K. 1970), on 6 April 1970.
 40. A.C. Shailes (New Zealand) to S.G. Herring (Australia), June 1969. T3/6/69. Treasury records, Wellington, New Zealand.
 41. Unsigned letter, with annotations by D.A. Shand (Treasury), dated 13 August, 1969, to Dr. F. Sipos, Staff Training Branch, State Services Commission, Wellington, NZ. T3/19/1. Treasury records, Wellington, New Zealand. See Appendix 3A.
 42. Edward E. Winchester, "Increasing Creative Intelligence: A new approach to problem-solving", Pt. II, 'Resource Management in Government: The New Zealand Planning, Programming, Budgeting System (A Case Study)', Vol. I, p. 24. (Unpublished thesis submitted for Ph. D. Victoria University of Wellington, December 1976). Read in the Treasury, Wellington, in June, 1980 by courtesy of J.R. Battersby, Assistant Secretary to the Treasury.
 43. Ibid., pp. 24-25.

CHAPTER FOUR

DEVELOPMENTS DURING THE 1970's

Part I: New Horses, New Courses: The Cabinet Committee on Government Expenditure 1971/72

One expectation the Government had in adopting PPB was that the new system would improve public sector resource management. On its own PPB could generate or categorise information needed for improved budget decision-making, but it was hoped that in conjunction with COPE (1970), the reformed accounting system (SIGMA) and changes in the format of the annual published Estimates of Expenditure a general improvement would come about. In particular, the Government was looking for clearer identification of expenditure objectives and better recording of policy achievements.

Ideally, the developing systems would provide a more effective means of estimating the future costs of Government policies as well as a more precise account of the inputs and outputs of expenditure plans. However it was soon obvious that even with PPB, neither the annual COPE examination nor the annual Estimates and Supplementary Estimates reviews could ensure the comprehensive, detailed investigation of major existing policies and proposed new policies needed for a more satisfactory balance between revenue and spending.

During the 1970s a number of procedures were developed by the Treasury in conjunction with members of the Cabinet and other departmental officials to deal with this problem. By the end of the decade, reviews of existing policy and new policy Reviews had become fairly regular features of the annual budgetary cycle. Both were closely associated with the development of special Cabinet-level machinery for the examination of new policy proposals and review of existing or continuing government policies - initially the Cabinet Committee on Government Expenditure (1971-72, CCGX), then the Cabinet Committee on Policy and Priorities, under the Labour administration (CCPP, 1972-75) and in 1976 the (National) Cabinet Committee on Expenditure (CCEX).

The need for these developments in New Zealand was similar to that described by an American official whose government had adopted PPBS as a means to deal with allocative problems:

The Planning, Programming Budgeting System (PPBS) is an approach to decision-making designed to help make as explicit as possible the costs and consequences of major choices and encourage the use of this information systematically in the making of public policy.... The portion of the budget over which the President, the Cabinet, or the Congress has effective control in a given year is small because the legal and moral commitments made by past decisions are great. Effective Government requires that some technique exist to ensure that the small portion of the budget subject to discretion is foreclosed only through deliberate policy choice, not by inadvertence. This requires recognition of the extent to which present decisions, possibly minor at first glance, commit the Government to future expenditures.¹

In order to obtain the most effective use of available resources, and to increase the scope for deliberate policy choice, special efforts were made in New Zealand during the '70s to control spending on existing policies. These efforts were inevitably fuelled by the fact that the overall rate of economic growth was slackening markedly, with severe implications not only for the Government's ability to continue to fund existing policies, but also its ability to resist (or respond adequately to) increasing pressure to provide resources for additional (or approved) demands from the electorate. Gaining effective control over current spending, as well improved estimation of future spending requirements, were matters of almost obsessive interest to many in central government during the decade under review.

The section which follows sets the scene for later experiments under the Labour government in reviewing existing and new expenditure policies. We describe in some detail an attempt by some ministers and officials to come to terms with the difficulties of allocation and forecasting (or, alternatively, budgetary control and expenditure planning) in a system where the machinery did not yet exist to supplement COPE and the established Estimates reviews. The implications of the PPB approach had not yet been systematically meshed with formal procedures for comprehensive, regular and adequately informed communication of data and priorities between ministers and officials. Feedback to the executive was often ad hoc, arbitrary and on the whole nerve-racking. The impact on ministers of officials' advice (such as that forwarded from the Treasury) on the

components and causes of expenditure growth, and recommended Government responses to these, was particularly severe where there was no established "noise-filter" whereby ministers and officials, in conjunction with each other, could work. Existing policies, from time to time, clearly needed re-examination, updating, modification or termination. Yet any laundering process must ensure that essential information was not overlooked by officials, or denied to ministers interested in reviewing existing policy in order to gain better fiscal control. Similarly, any vetting of proposed new policies should take into account both specific and often unanticipated pressures on the Government to respond quickly to particular circumstances, and at the same time to continue over the long term to enrich existing programmes and activities funded by the State with new policies as these were proposed by government departments, or included in the electoral commitment of party manifestos or other political statements.

An important aspect of these allocative-forecasting tasks, and the procedural and other problems they generated, was the gradual evolution of governmental understandings about what constituted an appropriate and acceptable division of labour between ministers and officials, particularly those in the Treasury. Many of the experiments conducted, for example, under the umbrella of the CCGX, the CCPP and the CCEX, may be viewed as having symbolic significance in terms of this question. On the one hand, there was the underlying debate about who ought to exercise effective control over continuing spending: individual ministers, through their particular portfolios, in some on-going process of existing policy evaluation and new policy consideration; or the Cabinet collectively; or officials, individually and as clustered in their departments; or the Treasury, with its particular constitutional, legal and political responsibilities vis à vis the public purse. On the other hand, there was the real difficulty of who could in fact exercise effective control. Some

aspects of expenditure policy were clearly the jealously-guarded prerogative of elected ministers: for example, new policies which had been part of their pre-election platform. On the other hand, since ministers could not know, even in a quite general way, what impact expenditure on their specific new policy preferences would have on levels of funding for existing programmes and activities, and since they literally could not undertake the detailed work of investigating how extensive the "small portion of the budget subject to discretion" might be, what activities could and should they delegate to officials, and which set of officials - those in spending departments, or those in Treasury, or some combination of these two?

During the decade numerous schemes and systems were proposed and experiments undertaken to deal with this question of the appropriate, and most effective, division of labour in central government so far as its allocative and forecasting tasks were concerned. It is of considerable symbolic, as well as some real significance that the three previously-mentioned Cabinet sub-systems developed, that the office of the Minister of Finance was augmented by the appointment of additional finance ministers, and that inside Treasury small units were developed with responsibility for budgetary management, and the improvement of existing systems for providing management information. It is an indication of the growth of executive power, and attempts to insulate central Government from the complex entropic condition of the welfare state,² that these developments took place at the very centre, with only erratic complementary strengthening of the administrative environment.

Cabinet Experiments in Cost Control 1970-1972:

On 21 December 1970 Cabinet asked that "feasibility reports" should be presented to it by all departments, in conjunction with Treasury, on "the practicability of limiting expenditure in the 1971/72 financial year."

This request, circulated to departments as a Cabinet Minute,³ was made after the Minister of Finance and his Cabinet colleagues had received the

inaugural report of the Committee of Officials on Public Expenditure set up earlier that year.

Prior indications of the cost of government activities had been forwarded to the Minister of Finance (Muldoon), in a "secret"⁴ paper from Treasury dated 16 October 1970. Reporting on behalf of the Secretary of Treasury, Lang (Deputy Secretary) wrote as follows :

1. Government expenditure as shown in the Supplementary Estimates adjusted for transfer to Loans Redemption Account is \$1,865.0 million for 1970/71. To this must be added allowances for increases in salaries, wages and other outstanding matters that could come to change before 31 March 1971. The outturn for 1970/71 therefore at this stage of the year is estimated at \$1,894.0 million arrived at as follows :

	(\$ million)
Expenditure as shown in the Supplementary Estimates	1,915.0
Less transfer to Loans Redemption Account	50.0
	<hr/> 1,865.0
*Plus - October half yearly review	15.0
October ruling rates survey	3.0
Increases in Social Security benefits	8.0
Aid to Private Schools	3.0
	<hr/>
Expected outturn 1970/71	1,894.0

*As mentioned on p. 2 of Treasury memorandum of 13 October 1970 on Supplementary Estimates 1970/71.

2. Forecasts of expenditure for the three years to 1973/74 have now been received from departments in connection with the survey of forward expenditure being undertaken by COPE. These forecasts have not yet been assessed for realism by Treasury as they have only just been received. An analysis for 1971/72 shows that departments are forecasting expenditure requirements of \$1977.0 million for the 1971/72 year. As these forecasts are in terms of August 1970 prices they must be adjusted to allow for increases in wages and salaries since that time, and also for the October surveys and other matters still outstanding for this year. Inclusive of these adjustments the expenditure requirements of departments for 1971-72 are forecast as :

	(\$ million)
Expenditure forecasts received from departments	1,977.0
Plus - affect for full year of salary increase granted after August 1970 i.e. October half yearly review, and survey, and teachers and special clerical increases	61.0

- Increase in social security benefits for full year	7.0
- Aid for private schools	3.0
	<hr/>
	\$2,048.0

3. The table attached analyses the estimated outturn for 1970/71 and the forecast expenditure for 1971-72 into the major functions of Government. As indicated above, the departmental returns have not yet been assessed for realism but relevant movements to note at this stage include :

Defence	+12.0%
Land Use	+11.9%
Fuel and Power	+17.0%
Education	+ 7.7%
Science	+18.7%
Transport	+12.7%

4. The overall rate of increase is forecast at 8% in real terms (i.e. without adjustment for possible price, wage and salary increases in 1971-72). Given that GNP in 1971-72 will increase at substantially lower rate, it would appear that the growth in Government expenditure in 1971-72 will need to be kept to a much lower figure than 8%. As indicated earlier the departmental returns have yet to be assessed for realism and it is expected that this assessment could reduce the forecast requirements e.g. in the Fuel and Power category a detailed scrutiny will no doubt reveal possible reductions in Vote: Electric Supply capital requirements. However, the commitments implicit in the departmental returns may not allow for the full reduction required, and policy changes could therefore be necessary if expenditure is to be constrained. Treasury will be reporting to you separately on this aspect of expenditure limitation at the same time that the COPE report is placed before Cabinet (i.e. December next).

The appendices detailed this information, and the overall picture must have been slightly unnerving. For example, expenditure trends under the heading Education and Science were as follows :

	Expend- iture 1969/70	Budget 1970/71	% In- crease	Budget Supps. 1970/71	% In- crease	Est. O/turn 1970/71	% In- crease	Fore- cast 1971/72	% In- crease
	(\$m)	(\$m)		(\$m)		(\$m)		(\$m)	
	(a)	(b)	(b) (a)	(c)	(c) (a)	(d)	(d) (a)	(e)	(e) (d)
Education	208.5	226.3	8.5	258.7	24.1	267.4	28.3	288.1	7.7
Science	23.7	25.1	5.9	26.9	13.5	27.3	15.2	32.4	18.7
Total:	232.2	251.4	8.3	285.6	23.0	294.7	26.9	320.5	8.7

At the same time (16 October 1970), another paper from Treasury by L.G. Durbin, for the Secretary, to the Minister of Finance reported that in terms of government revenue and expenditure, and given certain assumptions (e.g. taxation rates and receipts, allowance of \$29 million for various contingencies including ruling wage rates adjustments and social security benefit increased) the estimates of expenditure for 1970/71 could "show a likely small overall cash surplus at 31 March next (i.e. 1971) but this could be affected by a number of factors already mentioned including policy changes. Consequently the figures should be regarded as indicative at this stage." ⁶

Two days later (18 October) another confidential paper was forwarded, on behalf of the Secretary to the Treasury by Lough to the Minister of Finance. It was entitled :

Growth Targets for Government Expenditure Planning, and read as follows:

Summary

1. The analysis below in economic terms of the forecast expenditure outturn for 1970/71 indicates how much of an extra demand Government expenditure has placed upon national resources this year compared with previous years. The COPE will be meeting soon to prepare forecasts of Government expenditure to 1973/74. Particularly with reference to the upcoming estimates year 1971/72, it would be appropriate to give the Committee some guidance from Cabinet on acceptable rates of growth in Government expenditure over the forecast period.
2. It is therefore suggested that you recommend to Cabinet that COPE be requested to consider the implications for expenditure forecasts of an overall constraint of 4% average annual growth in real Government expenditure. Some of the implications of this target vote are also discussed below.

Economic Impact of Government Expenditure 1970/71

3. In national income terms, total Government expenditure (consumption, investment and transfers to other sectors) is forecast to rise by 16.3 per cent in the year ended March 1971. This increase includes the total Supplementary Estimates allocation recommended in Treasury report T 3/5/70 of 13 October 1970 plus the further likely increases forecast in that paper.

4. The total increase (some components of expenditure or Estimates being excluded in economic accounting) is analysed as follows :

	Amount (\$m)	Per Cent Increase over 1969/70
Actual expenditure 1969/70	1.371	-
Main Estimates 1970/71	1.488	+ 8.6
Main plus Supp. Estimates 1970/71	1.568	+14.3
Further increases added to above	1.592	+16.1

5. In both real and money terms this increase represents a substantial pressure of demand from Government activity on resources. Government consumption plus investment expenditure will rise as a proportion of total national expenditure on GNP from about 16 percent in 1969/70 to about 17 percent in 1970/71. (This is on the basis of NZIER forecasts of GNP made in July 1970). This is a marked shift of resources into the public sector. Government expenditure in real terms, assuming a rise in the general price level of about 8 per cent this year, will increase by about 8 per cent. This is by far the highest rate of real increase for many years. The average annual rate of real increase since 1955 has been about $3\frac{1}{2}$ per cent.
6. Both Government consumption and investment expenditure are rising rapidly. Capital spending is forecast to rise by 18 per cent, after remaining virtually static for the last few years. Since the demand here hinges upon sectors such as building and construction with traditionally rapid inflationary responses, the expansionary effect in terms of total national spending has probably been even greater than the percentage increase would suggest. Consumption expenditure will rise even faster, by 22 per cent. Here a good part of the movement is explained by Government's response to wage and salary movements in the private sector.
7. Increases in Government sector salaries and wages will amount to about \$100m. this year. About \$16 million of this represents payments which are "non-recurring" in the sense that they are part of backdated increases which relate to periods before 1 April 1970. However, assuming that all increases awarded this year were paid out starting 1 April 1970, the increase in the "full year" cost of Government salaries and wages was also about \$100 million. The actual first year cost represents 40 per cent of the total forecast increase in Government expenditure in Estimates terms.

Implications for Future Expenditure Growth

8. It is apparent that any plans the Government may make for future activity must involve returning the annual rate of increase to something closer to a reasonable demand on national resources. In earlier submissions to you on this subject (e.g. in Budget paper 1. this year) it has been implicitly or explicitly assumed that an appropriate long-run rate of increase in Government expenditure is one approximating the increase in gross national product. While the mix of this expenditure is certainly important, an aggregate target like this is a useful benchmark. It has been used in recent years in the U.K..

9. The long-run objective in the forecasts of the National Development Council is to increase GNP at an annual rate of $4\frac{1}{2}$ per cent per annum. Therefore a Government expenditure target in the 4-5 per cent range would be appropriate. The lower figure is suggested for its Estimates year 1971/72 because of the excessive demands of the Government sector in 1970/71.
10. The actual cash expenditure on Estimates in the 1971/72 will, of course, also reflect price changes during the year, and the percentage increase in expenditure in cash terms will therefore probably be somewhat larger than the rate of increase in real terms. Nevertheless, this 4 per cent increase must allow for policy changes and for extension of existing services not covered in present forecasts, as well as for future increases in Government salaries and wages above those necessary simply to compensate for increases in the price level. Thus the increase which can be definitely programmed as this stage must be held to an overall figure which is a good deal less than 4 per cent.

Recommendation

11. As in paragraph 2, it is suggested that you recommend to Cabinet that the Committee of Officials on Public Expenditure be requested to consider the implications for its expenditure forecasts of an overall constraint of 4 per cent average annual growth in real Government expenditure in 1973/4. [Appended was table showing government expenditure in national income terms \$m].

[Sign] N. Lough

for Secretary to the Treasury

The appendix to this paper informed the Minister that in terms of all the items shown, the cumulative percentage change was upward, and significantly so, over the period under discussion i.e. 1969/70-1970/71 :

	<u>Cumulative % change</u>
Current expenditure on goods and services	+22.1
Transfer to local authorities	+14.7
[Other] transfers	+ 6.0
Public debt interest paid in N.Z.	+ 4.1
TOTAL TRANSFERS	+ 8.0
Subsidies	+50.2
TOTAL CURRENT EXPENDITURE	+15.6
Gross Capital formation	+18.2
TOTAL GOVERNMENT EXPENDITURE	+16.1

7

The impact of this information was apparently severe. The government (which had been returned to office with a reduced majority in the general election the year before)⁸ could not help but be disturbed by the advice it was now receiving.

The Minister of Finance, who had consistently demonstrated a lively interest in the efficiency and economy with which public funds were dispensed, was a receptive audience for his advisers. On December 3 1970, some two weeks before the first report of COPE was received, he authorised the distribution of a Treasury circular on expenditure procedures to permanent heads.

The Minister of Finance has directed that expenditure for the current year, particularly normal administration and operating expenditure, should be carefully scrutinised to ensure that allocations for 1970/71 are not exceeded.

Departments were urged to pay careful attention to Treasury Instructions, particularly those referring to monthly departmental returns:

Although some departments (unnamed) are making full returns, the majority are only partially meeting the requirements.

Employing the quaintly formal language of the executive system, the Minister (for Treasury) added that

For the returns of expenditure for the 8 months to 30 November 1970 (and for subsequent monthly returns ...) I would be gratified if departments would provide full information⁹ including details of appropriated and actual expenditure.

Other similarly phrased "requests" were made for detailed information on price variations, and internal travel costs.¹⁰

On 18 December 1970, Treasury forwarded a "confidential" report to the Minister of Finance on the first COPE report, just submitted to the Cabinet. Additional copies of the Treasury paper were attached "for distribution to your Cabinet colleagues, if you agree".¹¹ The paper was signed by Lough, deputy Secretary to Treasury. Its two main messages were

(a) although, "as could be expected in a completely new approach to expenditure planning (i.e. a review of the costs of existing policies by COPE) we encountered some reluctance from the main spending departments to put forward realistic options for Government consideration," permanent heads now probably had "a better appreciation of the problems involved in dealing with expenditure planning not only in their own departments but from an overall point of view,"

(b) while [the Treasury writer inferred] this improved appreciative framework was valuable, other firmer steps should be taken promptly by the Government on the basis of specific information generated by the COPE exercise.

It was recommended for example, that no new policies should be approved for 1971/72 except under "very exceptional circumstances; that current staff numbers be firmly held; that approved staff increases for the Police and for Science should be deferred; that operating expenditure should be held at the same level as at the current year (i.e. 1970/71 Estimates); that all overseas travel and staff training programmes be held at 75 per cent of the 1970/71 appropriation; that savings already identified (amounting to about \$40 million) be approved; and that departments, in conjunction with Treasury, should prepare "feasibility studies" on any proposals considered by Cabinet to warrant further examination."

To assist in the latter, Treasury submitted a list of proposals which, it believed, warranted treatment in this way. Treasury suggested to the Minister that these "feasibility studies" should be completed and in the hands of Cabinet no later than January 31, 1971 - i.e. about 6 weeks away, in a period which not only included the traditional Christmas-New Year statutory holidays, but the equally traditional New Zealand summer months, when school children, their families and many adults took an annual vacation.

No detailed attempt has been made in this study to ascertain departmental and ministerial reaction to this "feasibility studies" recommendation, which Cabinet subsequently adopted on 21 December 1970.¹²

However, an internal memo dated 14 January 1971 from Shailes (director, Finance II division) to Lough (deputy Secretary) pointed out that the Cabinet Minute authorising the feasibility studies had not been received in Treasury till 5 January 1971, "the day Government officers returned to duty; however, in many cases key personnel did not return to duty until 11 January 1971. In some cases [Ty] investigation officers have found that officers concerned have still not seen the appropriate Cabinet Minute."¹³

It is of interest to note, however, that this development in what was gradually firmly established as a post-COPE Review of Existing Policies, also threw up an embryonic Cabinet committee for expenditure review. The forerunner to the [1972-5] Cabinet Committee on Policy and Priorities and the [1976 - present time] Cabinet Committee on Expenditure was probably a Cabinet Committee on Government Expenditure, appointed by the Government in January 1971. After discussion with his principal advisor, arguments for the establishment of this additional supervisory structure were put forward by the Minister of Finance in a memorandum to Cabinet dated 28 January 1971. The draft for this memo was written by Lang, Secretary to the Treasury, dated 28 January 1971.

Government Expenditure

1. Attached to this report [Treasury to the Minister of Finance] as annexes are the feasibility reports requested by Cabinet (CM 70/54/45 of 21 December 1970 refers). All reports have now been received except for the Ministry of Defence which will be available later.
2. It is obvious from the amount of material submitted by the Committee of Officials on Public Expenditure (previously circulated to Cabinet) and by departments that the reports will need close study before Cabinet can take a decision on the matters dealt with. A Cabinet committee should therefore be appointed to consider the reports in detail, with officials from Treasury present, and officials from other departments available to answer questions. The committee should preferably comprise those ministers whose departments are represented on the Committee of Officials on Public Expenditure.

Recommendation

3. I recommend that a Cabinet Committee on Government expenditure be appointed; the committee be invited to make recommendations to Cabinet designed to achieve a reduction in projected expenditure for 1971/2 of \$40 million. In considering its recommendations, the committee should have regard to
 - (a) the report of the Committee of Officials on Public Expenditure previously circulated to Cabinet (CP (70) 1392 refers);
 - (b) the feasibility studies submitted by departments in response to Cabinet instructions of 21 December 1970.

The members of the Committee to comprise :

Minister of Finance (Chairman)
 Prime Minister
 Minister of Industries & Commerce
 Minister of Education
 Minister of Health
 Minister of Works and Development
 Minister of Agriculture
 Minister of Transport
 Minister of Forests
 Minister of Defence
 Postmaster General

It is envisaged that when departmental expenditure proposals are under consideration the committee will, unless the minister concerned is a member of the committee, invite the minister in charge of the department to be present. 14

The Cabinet had not adopted in full all Treasury's recommendations of 18 December 1970, apart from approving immediate action on the feasibility studies. Decisions on all the other recommendations had been deferred by Cabinet until it met, over a month later, on 26 January 1971. Then Cabinet "agreed" not to adopt new policies involving increased expenditure in 1971/72 unless there were "very exceptional circumstances" (as recommended by Treasury); "agreed" that staff numbers should be held, as Treasury recommended, "at levels prevailing as at 31 January 1971 throughout the 1971/72 financial year"; but they "added" (what was not a Treasury recommendation) that there would be exceptions to this ruling :

- (i) The State Services Commission be permitted to authorise departments to increase staff numbers up to 1% of the level at 31 January 1971 provided the total is within the staff ceiling for the 1970/71 year;
- (ii) any further increase in staff levels to be approved by the Cabinet Committee on State Services. 15

Clearly, the necessity to reduce expenditure had not yet been accepted by ministers; and in any case, ministers with interests in control departments and Cabinet committees other than those in Treasury-dominated fields were not prepared to capitulate to Treasury and the Minister of Finance without a struggle.

Cabinet agreed to defer staffing additions to the Police and Science areas; and that all votes for 1971/72 overseas travel should be held at 75 per cent of the 1970/71 levels. However, one additional area of

resistance by Cabinet to the potential leakage of power to those who controlled the purse-strings (which included both the dynamic Minister of Finance and his evangelistic, PPB - indoctrinated Treasury advisors) is hinted at in one further change to the Treasury recommendations. In its 18 December paper, Treasury had urged ministers to "direct" that "without specific approval of the Minister of Finance" provision for "normal administration and operating expenditure under all votes" should be held to the previous year's level (i.e. 1970/71). That is, any departures from an undefined "normal" base would require the explicit approval of Muldoon as finance minister and, by implication, Treasury, as his principal advisers. In the event, what the Cabinet minutes actually stated was that "without specific approval [undefined], provision for normal [undefined] administration and operating expenditure under all votes be held in the 1970/71 financial year to the level appropriated in 1970/71."¹⁶

We have no means of knowing whether the discrepancy between the Treasury recommendation and the Cabinet Minute on the question of departures from administrative and operating expenditure levels was the result of (a) deliberate Cabinet intent, (b) deliberate, but subtle manipulation by the secretary of Cabinet (P.J. Brooks), who wrote the minute, or (c) was an unintentional secretarial slip (other contemporary Cabinet office staff report that both (b) and (c) form part of their discretion and practice). But in view of what developed later in the 1970s - a deliberate procedural mechanism by which departments must front up explicitly to the Minister of Finance (still Muldoon) for any departure from the rules - we may guess that this idea was simply one whose time had not come. In a sense it lay dormant until activated by the pressure of economic events after 1973/74. Whether or not National party ministers, lulled by long years of office and relatively benign Prime Ministerial leadership, merely sensed that, in the 1970s, power would belong to those who controlled the gates to the shrinking public purse remains somewhat specu-

lative. In any case, the group they approved as the Cabinet Committee on Government Expenditure was born too large and too leaky to suggest an inner Cabinet, although it did hint at such a possibility - one which developed in differing ways later under both Labour (1972-75) and then National from 1975/6 on.

The feasibility reports on government expenditure 1971/72¹⁷, while interesting both in themselves and to the student of financial allocation, are not described here. It is worth noting, however, that departments did not appear to be falling over themselves to offer up hostages to fortune. Reports, for example, from Education and other big spenders, made it perfectly clear to their contemporary readers that the exercise was neither of their voluntary doing, nor had it been conducted in any overtly generous manner.

Studies producing some minor cash rewards were stiffly described as having been undertaken "at Cabinet's request" or "at Treasury's request". There was no section entitled "off our own bat/on our own initiative", although the Education Department, for example, did take the opportunity to offer up some items for which, it appeared, it had no great administrative affection, e.g. "financial assistance for hobby classes" (which, it was suggested, could be made self-funding), reduced expenditure on "teachers' aides" (except for Maori schools and schools with "special needs"), the temporary/selective suspension of grants towards the capital costs of kindergartens; slowing down in reduction of teacher/pupil ratio in primary schools. Significantly (though nowhere identified as such in the Department's report) most of the recommended savings were in areas with greatest adverse impact on women (e.g. as teachers, aides, relievers, consumers of hobby classes) and young children (e.g. potential and actual kindergarten enrolments). Established interests, such as those of the universities were not suggested as suitable areas for downward adjustment, although a recommended increase in tuition fees did succeed in Cabinet.¹⁸

The Cabinet Committee on Government Expenditure 1971-1972

At a meeting on 1 February 1971, Cabinet adopted the Minister of Finance's recommendation to set up a new Cabinet Committee to oversee and analyse the voluminous information which had been generated in the first COPE review, and the feasibility reports (all but Defence had been received on 31 January 1971).

A Cabinet Minute was circulated to the Ministers concerned informing them of the membership and functions of the Cabinet Committee on Government Expenditure:

Mr R.D. Muldoon (Convenor) (sic)
 Prime Minister
 Hon. N.L. Shelton
 Hon. B.E. Talboys
 Hon. D.N. McKay
 Hon. P.B. Allen
 Hon. D.J. Carter
 Hon. J.B. Gordon
 Hon. D. MacIntyre
 Hon. D.S. Thomson
 Hon. A. McCready

This committee of 11 men was

to make recommendations to Cabinet designed to achieve a reduction in projected Government expenditure for 1971/72 of \$40 million having regard to

- (a) the report of the Committee of Officials on Public Expenditure;
- (b) the feasibility studies submitted by Departments in response to Cabinet instruction of 21 December 1971;
- (c) the decisions taken by Cabinet on Government expenditure at its meeting on 1 February 1971.

CP(71) 58, CP (71) 19 and CP (70) 1392 refer.¹⁹

The new Committee, headed by Muldoon, was to take some of the hard decisions which the Cabinet itself, or its conventional agent for Estimates review and new policy recommendation - the Cabinet Economic Committee - was unwilling or unable to take. Its cash-locating, cost-cutting task was quite explicit, and regardless of its success it was a tool which was bound to

appeal to many, in the growing climate of approval for PPB and other cost-efficiency systems.

The Cabinet Committee on Government Expenditure began work immediately. Muldoon convened its first meeting on 2 February, 1971. Only seven of the appointed members attended; the Prime Minister, Talboys, Carter, Gordon were all absent. Gair attended (for reasons not stated in the minutes), and the Hon. D.C. Seath was invited to be present for specific agenda items. Three Treasury men (J.D. Lang, R.J. Warwick and Battersby) attended, with R. D. M. Smith from the Cabinet office as Secretary.²⁰

The Committee dealt with nine agenda items including expenditure proposals and recommended reductions for the Estimates of the departments of Maori and Island Affairs, Works, Internal Affairs, Education, Housing, Health, Railways, the Post Office, and government payments to Local Authorities. Both capital^{works} and other matters were included in a rather arbitrary collection of assorted bits and pieces. A suggestion was to be made to Cabinet that Education Boards' expenditure should be limited to a maximum growth of 4% over 1970/71 expenditure; but the minutes noted that "it was the understanding of the Committee that any such letter [to Boards] would not be despatched before the return of the Minister of Education from his visit to Australia." All the Committee's decisions were to be referred to Cabinet for consideration and confirmation.

One of the parameters for the new Committee's guidance had been expenditure decisions made by Cabinet on 1 February 1971. The scope of those effectively removed some of the more interesting - looking proposals for cost-cutting from the new Committee's jurisdiction. Some other matters such as the abolition of the current egg subsidy had been referred to the National party Caucus for consideration. Others, such as the removal of a subsidy on milk, were to be referred to the Caucus with a Cabinet recommendation in favour of removal. Various items had been deferred by Cabinet pending departmental or prime ministerial review (e.g. Overseas Aid programme, the Brucellosis Eradication Scheme).²¹

On February 1, 1971, Lang (Secretary to the Treasury) had sent the Minister of Finance a brief paper entitled : Government Expenditure 1971/72. The Minister had asked for "details of savings from the application of the general measures to limit expenditure approved by Cabinet at its meeting on 26 January 1971 (CM71/1/18 refers)".

Lang wrote :

The portion regarding the departmental forecasts for 1971/72 and the effect of the general measures was given in the Treasury report of 18 December 1970 which accompanied the COPE report. The relevant parts of this report are summarized for your information.

Staff freeze : The total increase in direct salaries forecast by departments was \$4.2 million. Allowing for the 1 per cent tolerance for staff in the process of being appointed and for additional staff for urgent new activities which may be approved by Cabinet (e.g. brucellosis scheme), the savings due to the staff freeze are estimated at about \$3 million. Works Programme: Treasury and the Ministry of Works have assessed requirements at \$35 million, less than forecast by departments. Further reductions of, say, up to \$10 million may be possible when better information is available on commitments for 1971/72.

Administration and Operating Expenditure :

Departments have forecast an increase of \$33 million in items coming within this category. After allowance for unavoidable exceptions for high priority activities, it is estimated that at least \$15 million of this could be saved.

Overseas Travel and Staff Training Expenditure :

A reduction of 25 per cent in these items would save about \$0.65 million on the forecast amounts.

Summary. The portion is summarised as follows :

	<u>\$ million</u>	<u>Percentage</u>
Forecast increase in expenditure for 1971/72	162	8.4
Reductions already assessed :		
Works programme	35	
Staff freeze, of expenditure etc. (rounded up)	20	
	<u>55</u>	
Increase without further reduction	<u>107</u>	5.5

To achieve the 4 per cent target and allow, say, \$10 million for new policies such as assistance to agriculture, a further \$40 million must be saved. This reduction would come from the specific measures now put before Cabinet for decision. 22

(Note: all emphasis in original)

This paper was then modified somewhat (presumably by Treasury in the light of the Minister's comments on reading it), and on 4 February another paper was sent, clearly intended as the basis for action by the new CCGX.²³ This paper enclosed 3 schedules showing

- (a) savings in expenditure resulting from Cabinet decisions on 1 February, 1971;
- (b) savings if Cabinet endorsed recommendations made by the new CCGX on 2 February;
- (c) items still to be considered by Cabinet.

The summary showed an increase of \$100 million in government expenditure in 1971/72 fiscal year without additional action, and stated that to achieve the 4% target and allow \$10 million for new policies, a further \$33 million should be found and recommended to Cabinet for deduction from the expenditure totals (mainly Schedule B of the Treasury paper).

Cabinet met on February 8, but simply "noted" the Treasury report. It took no decisions on the "Schedule B" recommended savings, which would affect Works, Housing, Health, Railways and Post Office. Housing was dealt with separately and an earlier Cabinet decision to allocate \$10 million for housing construction was changed, approving only \$8 million for this purpose.²⁴

At the same meeting, Cabinet dealt with a submission by the Minister of Education, who apparently felt rather threatened by the atmosphere of restraint created by the new Committee's terms of reference. Cabinet "noted [the Minister's] request that if Cabinet decide to make reductions in the 1971/72 education expenditure beyond those approved at its meeting on 1 February 1971 (CM71/2/39 refers) you should be given the opportunity of recommending priorities in containing growth of expenditure in the Vote to a certain sum."²⁵ It did not appear that a Muldoon-cum-Treasury investigation of educational priorities (and the costs of these) would be welcomed.

A few days later, a Treasury circular entitled Financial Allocations 1971/72²⁶ was distributed to all permanent heads. This circular represents the equivalent of a state-of-the-art definition of what the central executive system had learned as a consequence of recent innovative forays into improved financial management and expenditure control.

It was, in effect, an Estimates circular, advising the departments of the current year's rules, and the Cabinet-approved guidelines, which should govern their Estimates for the coming year, and reminding them of the need for care, caution and frugality. The impact of COPE's first report on ministers was to be felt by the bureaucracy. While it was conceded that changes in the format of the Estimates (simultaneously being introduced, with COPE, into the system) and additional information (e.g. on salaries' calculation, "other capital" expenditure), could place an additional burden on departments, Treasury requested that all Estimates returns be presented ("in triplicate") by 5 March (i.e. just over one month away).

The circular also included advance notice that a COPE circular would shortly be sent out "requesting information on forecasts for 1971/72, 1972/73 and 1973/74 in COPE format. These forecasts will need to take into account all of the general measures approved for 1971/72 and any specific measures applying to each department. Departments should therefore "begin to analyse the effects of all expenditure measures on their activities for future years."²⁷ This injunction - which amounted to nothing more than a pious throw-away exit line - was still being resisted by departments nearly a decade later. This study indicates that such directives have had no impact on bureaucratic behaviour in any way whatsoever until accompanied by a number of other pressures (such as worsening economic recession) and procedures (such as systematic review by permanent cabinet committees with widely-accepted discretionary powers). An example of a typical departmental response to the Treasury circular is

appended.²⁸ In this, Post Office officials, allowing their bruised sensitivities to show, argued that

- (a) service standards would suffer if staff numbers were held as Cabinet had directed;
- (b) management training programmes and basic training of other staff would be "adversely" affected if operating expenditure was held as Cabinet had directed. (No details of the meaning of the "adverse effect" were included);
- (c) some information, necessary to realistic acceptance of salary restraint, was not yet to hand;
- (d) "growing demands for service" would be "hampered" (not specified) if restraints were in fact imposed as given in the circular.

A Treasury wit in a scribbled annotation on Treasury's copy of this paper, noted, re. (d) above, "That is the idea!" As usual the gap between Treasury and the departmental view of what was desirable was quite wide.

On 15 February the Assistant Secretary to the Treasury wrote to the Minister of Finance on the need for stricter controls of departmental spending. He pointed out that flexible provisions allowed for departmental overspending had become too lax.

Permanent heads have usually acted in a reasonable manner in controlling administration and operating expenditure, and over the years the controls exercised have been sufficient to ensure that appropriations have not been exceeded. However, in a period of rapidly rising prices as experienced over the past year coupled with the assumption of new and enlarged activities by departments, it is quite evident that controls will need to be tightened if expenditure is to be kept within appropriated limits. This is especially so when appropriations are to be limited to previous levels with no allowances made for growth or price increases.

Lang recommended that firm rules must be applied in 1971/72, with an accompanying amendment to this effect in the Treasury Regulations. The Minister of Finance signed his name on the letter, signifying his approval, and sent the letter back again in that form to the Treasury, where it was received on 17 February.²⁹

A Treasury circular, informing permanent heads of the new rules for financial control (1971/72), was distributed on 29 March, 1972. It emphasized the following rules agreed to by the Minister of Finance :

- (a) total vote appropriations for the year must not be exceeded;
- (b) no offset of over-expenditure within a vote will be allowed except as provided in (c) below;
- (c) as regards Administration and Operating expenditure, i.e. items falling within the four Standard Expenditure Groups (S.E.G.s) Travel, Transport etc.; Maintenance Operation etc.; Materials, Supplies etc. and Other Operating Expenditure, department must keep within the individual terms appropriated for Internal Travel, Overseas Travel, and (where there is a separate item) Staff Training. The remaining items within the Administration and Operating Category can be grouped together and up to 2½% over-expenditure of any individual item will be allowed without Treasury approval provided that the total amount appropriated for Administration and Operating expenditure is not exceeded. Treasury approval must be obtained if any item in this category is likely to be over-spent by more than 2½% of the amount appropriated.
- (d) the Monthly reporting system will operate from 31 May each year. ³⁰

As departmental returns were received and the Treasury Investigating division reviewed the estimated costs for the coming year the extent of likely over-expenditure became apparent to the Minister of Finance and his advisers. On 1 March 1971 a further succinct circular was sent from Treasury to all permanent heads. Entitled baldly Over-Expenditure of Votes, it stated that

1. An examination of the returns of expenditure shows that many departments may exceed their 1970/71 appropriations. This is particularly so now that arrangements are being made for salary increases, including the balance of the October 1970 half-yearly review and the general wage order, to be paid in many cases before 31 March.
2. If over-expenditure of the vote is unavoidable, departments should ensure that the procedure set out in (Treasury Instructions) ³¹ is carried out, and in particular that the permanent head immediately advise the minister in charge of the position and refer a copy of the memorandum to Treasury.
3. Attention is also drawn to [relevant Treasury instruction] relating to any item which is likely to be materially over-spent. ³²

The next day the CCGX met and discussed various departmental pleas for special consideration or exemption. The Minister of Finance, Muldoon, chaired the meeting which was attended by Shelton, McKay, Carter Gordon, MacIntyre, McCready and Thomson, with two Treasury officers and the Cabinet office secretary present. Most concessions requested were allowed. The Police, for example, had argued for the maintenance of a policeman:population ratio of 1:890. This was allowed, with a mild decision to review the question again in March the following year.

Most Post Office arguments succeeded, and the opportunity to make savings by abolishing Saturday postal (urban and rural) deliveries and removal of "uneconomic public call stations" was not taken up. However, a note in the formal CCGX minutes stated that "although no direction was given by the Committee, the view was strongly expressed by several members that private box rentals (both Post Office and Rural Delivery) should be reviewed and the possibility of an increase should be examined". The watchful [CO] secretary had taken care to ensure that although the Post Office officials might feel they had safely negotiated one shoal, they would nonetheless continue to be the subject of ministerial attention - sometime.

Despite some modest recommendations to Cabinet on Post Office spending (e.g. "restriction of the issue of inland money orders to values above \$7") nothing of great moment was decided upon.³³

A couple of days later the CCGX Chairman, Muldoon forwarded a memorandum to Cabinet entitled Government Expenditure.³⁴ The paper stated that the new Cabinet Committee had met three times, and now sought Cabinet approval for a number of recommendations. Cabinet approvals already given and recorded (in Appendix "B" of the Minister's paper) totalled \$9,205,000. CCGX-recommended savings could produce a further \$12,875,000.

In addition, the CCGX recommended many savings "in principle" on costed items totalling about \$8,400,000, and two items (closure of all Hutt Valley bus

services and deferment of Mangaweka-Utiku rail diversion) for which information on costs/savings was not yet available. The Minister reported that a number of other items had been referred elsewhere (e.g. Treasury, or the Cabinet Committee on State Services) for further investigation/recommendation.³⁵ Education was to be the subject of a separate Cabinet paper. The total of "savings" recommended was some \$21 million plus a further \$8 million+ in principle. At this stage the required \$33 million must have seemed rather elusive.

During March Cabinet dealt with various ad hoc decisions, approving several costed items for inclusion in the forthcoming Estimates. Education, for example, put up a number of proposals for special consideration by Cabinet. These were referred to the Caucus - they involved capital works totalling \$1.0 million, and a request to "approve the suspension of the previously announced 3% increase in salary grants to independent schools from 1 February 1971."³⁶

On 17 March Treasury again reported to the Minister of Finance on anticipated over-expenditure for the 1970/71 financial year.

Information has been obtained from departments on their expected expenditure under votes for 1970/71.

At the time the final supplementary Estimates were prepared last year, the extent of the October 1970 half yearly salary and wage review was not known, but provision was made for 3 percent in advance. The actual increase was 8.7 per cent.

As a result, quite a number of votes ... will be overspent. At this stage the figures are not final as some savings may be made in other items. The figures for Education and Hospitals include backpay which will be transferred to Trust Account. The over-expenditure, including Post Office, appears likely to be about \$40 million for 1970/71. The limit for unauthorised expenditure is \$42.79 million.

On completion of the accounts at 31 March, the final details will be submitted for your formal approval in terms of s.51 of the Public Revenue Act. [Emphasis added.]

An attached schedule showed that although \$1,336,240,000 had been appropriated for 1970/71, \$1,376,430,000 had been spent.³⁷

By the end of the month, the picture on over-expenditure for the

1970/71 year had become even clearer - the \$33 million which the new CCGX had set out to find was rapidly vanishing down a plughole of Cabinet approvals and decisions, and departmental practices.

The Works Programme, which had been compiled over the previous months, needed adjustments upwards, in a number of cases, for the cash figure.³⁸

In their paper on Works to the Minister of Finance Treasury officials noted:

you will recall that Mr. Allen (Minister of Works) and yourself [sic] considered that all programmes, however small, should be subject to some reduction so that it could be said that all Ministers received the same treatment.

However, it was also suggested that although this general rule should apply, there should be a tacit agreement that

a small measure of over-expenditure would be acceptable if this should eventually prove necessary.

Other small oversights and omissions were included. Railways, for example, had a programme level of \$6.600 million recommended by officials, for 1971/72 of which the joint Ministers [i.e. Finance and Railways] had actually approved only \$5.600 million. Officials had recommended a cash level of \$6 million for 1971/72; joint ministers had approved only \$5 million. However, the Treasury paper pointed out: "As mentioned in our Report No. 6400 of 10 March", the fact that "a Railways Works Programme of \$6 million cash for 1971/72 [was] included in the schedules on which the recent loan from the World Bank was negotiated was unfortunately not drawn to the attention of Mr. Allen and yourself at the time the allocation was being considered." This meant a new set of sums had now to be considered.

Ministers confronted with this "unfortunate" information must have felt some irritation - probably scarcely mollified by what followed in the way of a rather graceless defensive gesture by officials: "The \$6 million (the programme limit) proposed is by no means generous and the \$5 million (i.e. cash limit) would be very tight. Bearing in mind that the World Bank loan agreement was only signed on 1 March 1971 and that we are currently working towards a D.F.C. loan from the Bank, it is suggested that it would be more desirable to make a cash allocation at or near

\$6 million" - (coincidentally, the figure recommended by Officials in the first place!)

A handwritten note in the margin, dated 8/4/71 signed "R.D. Muldoon", underlined very firmly "\$5 million" - presumably the Minister of Finance was not persuaded that even minor incompetence should be rewarded in cash.

A further Treasury memo. dated 31 March 1971 (i.e. the end of the 1970/71 financial year) summed up as follows :

Estimates 1971/72

"The increase of \$116 million (6 percent) in recommended allocations over estimated out-turn for 1970/71 is made up as follows :

	<u>\$ million</u>
Personnel (includes \$14 million for hospitals' salaries and \$6 million for teachers' salaries)	46.00
Administration and operating (includes computer charge \$2.2 million, payment to Post Office \$5 million, etc. (sic)	18.00
Capital, grants, subsidies, etc.*	52.00
	<u>116.00</u>

*Comprises

Balance of hospitals' main grant of \$150.5 m.	2.46
Capital works (part of \$5 m.)	3.00
Railways' plant	7.00
Health benefits	2.00
Permanent appropriations	10.78
Supplementary Estimates	10.00
Social Security benefits	5.00
Capital - Defence (grants and transfers)	3.20
Grant to U.G.C.	4.00
Railways - other capital	3.00
	<u>50.44</u>

39

Although part of this 6 percent over-expenditure was generated by past agreements on formulae for allocating grants and subsidies/benefits, much of the surplus was the consequence of a leaky, poorly-disciplined departmental system in which ministers were persuaded to allow "exceptional circumstances" on grounds which usually had nothing to do with a proven or demonstrable case for extra money.

The CCGX had handed questions on staff ceilings over to the Cabinet Committee on the State Services. Although the CCSS had accepted its Cabinet brief (as defined in CM 71/1/18, 26 January 1971) to impose staff ceilings, and had made and promulgated a series of decisions on these on 2 March 1971,⁴⁰ it had, at that time, also been warned by the SSC Chairman to expect departmental appeals for special accommodation. Fifteen such appeals had already been received, and in each case the SSC recommended an increase more or less as requested by departments.⁴¹ I. Lythgoe informed the CCSS that "further submissions for Staff Ceiling increases will be coming forward for consideration."⁴²

On 2 April a total of 629 additional staff members was recommended by the SSC, taking the current approved ceiling from 56,808 to 57,437 over the whole state sector. The total additional cost, as at 5 April 1971, Treasury officials reckoned, would be about \$600,000 in the 1971/72 Estimates and about \$1,613,000 in a full year. As eventually approved by the CCSS the total increase represented about an increase of 1.26% - from 56,808 to 57,441 (the new approved SS ceiling).

Although the decisions of the CCSS had, on the whole, the same force as those taken by Cabinet, an untitled memo from Lang (Treasury) to two of his senior Finance I colleagues (8 April 1971) made the following point :

The Minister [i.e. of Finance] expressed concern about the liberal nature of the joint recommendations on increases in staff ceilings. He has passed on his view to Mr. Talboys. In particular, he commented on the increase for social security (+ 35 people), and I must say that I regard it as excessive. In fact, I think that we had agreed that no increase would be granted until a further investigation had been made.

The purpose of this note is to indicate the Minister's view - and I am inclined to agree with him - about the attitude to be taken in respect of any further requests for increased staff.⁴³

But despite the irritation, it was obviously another case of belatedly shutting the stable door. The system needed both more eyes and ears than any existing procedure yet offered to those responsible for control and restraint.

When the CCSS met on 8 April, the Minister of Finance was listed in the minutes as "also present". The Committee of six ministers, with Talboys in the chair, must have been acutely aware that they were being closely - and disapprovingly - watched for "liberal attitudes". Although, as in most Cabinet-level minutes, comments are normally not attributed to individual persons present, it is not difficult to deduce that the opening batting was by the "guest" Minister of Finance, Muldoon - who was careful, nonetheless, to attribute "blame" to officials, not his own colleagues :

[Re. Staff Ceilings 1971/72]

The comment was made that the recommendations made by the State Services Commission and Treasury were not consistent with the attitude of Cabinet towards staffing restraint in the State Services. A number of the increases in staff ceilings proposed related to activities which were not of high priority. The Committee should consider the recommendations in the context of the continued need for a tight hold on Government's spending and also in the context of the severe cuts which had been made in works activities. Generally, it was suggested that the recommendations of the paper were less stringent than they should be.

The Committee was advised that it had been estimated that the cost in the 629 additional positions recommended in the paper would be \$1.631 million. ⁴⁴

The no-doubt somewhat chastened CCSS then made a series of decisions to defer, decline or more modestly approve the earlier staff ceilings. The Minister of Defence put up a stiff but unsuccessful fight, but officials' advice won the day:

The Committee was advised that if the Defence staff ceiling was amended to provide a float between actual staff and staff ceiling, a precedent would be set on the basis of which it would not be possible to resist requests from other Departments placed in a similar position. The outcome of such a review could well be an overall increase of 1% or 2% in expenditure on salaries. The comment was made that if the Defence staff ceiling were to remain at its present level the effect on Defence would not be so serious as the effects on other Departments if other of the recommendations submitted for increases in ceiling were not approved.

The Committee agreed that the staff ceiling for the Ministry of Defence should not be increased and should remain at [1970/71 level]. ⁴⁵

An Education bid was successful, as was one from Justice, reportedly supported by Treasury officials.

Although several Social Security increases were allowed, ministers were clearly unhappy about this:

The Committee was advised of the general increase in caseload of the Social Security Department throughout the country. In Auckland the increase in caseload since 1966 was 38%. Ministers inquired about the factors other than the increase in population which had contributed to this increase. A comment was made that the increases could reflect changing social circumstances and attitudes. It was the view of the Committee that additional information should be provided on this matter for the information of the Ministers:

... a report [to be] prepared for the information of members of the Committee on the growth rate in the caseload of Social Security including the breakdown of increases in the number of beneficiaries in each category. ⁴⁶

Instructions on expenditure control procedures had been circulated to permanent heads in late March, and most departments had made some kind of an effort to be more careful. In a rather prissy internal staff memo, Treasury itself set a good example. Toll calls, second class postal rates were among the petty cash areas where care was required; at another level, Treasury officials servicing statutory and other bodies such as the NDC and Monetary and Economic Council were to ensure that in spending public money their charges did not exceed a newly-set budget allowance. ⁴⁷

The Treasury files include no further reference to the embryonic CCGX after early March. Although it had, at that stage, been somewhat unsuccessful in identifying major cost savings for the coming year, it could also be argued that it had been overtaken by events. Information generated by the COPE report had permitted early-1971 identification of probably significant over-expenditure - on a scale which would negate the value of any small economies the new committee could locate.

The Minister of Finance had a scheduled overseas trip in April, and on April 7 Treasury forwarded to him what is formally known as Budget Report No. 1 - the pre-Estimates definition of what the Government will need to find in the way of money for the coming year. Treasury requested authority to send each department notice of its approved financial allocation for 1971/72, with a note on the Cabinet directive which guided Treasury's actions - i.e. the Cabinet decisions of 26 January 1971. Treasury also sought permission (later granted and acted upon) at the same time to point out to departments that "it is recognised that the allocations are very tight, but these reflect the need to substantially reduce the rate of increase in Government expenditure in 1971/72."⁴⁸

This may indeed have been Treasury's and the Government's intention, but it was nonetheless a counsel of necessity, if not despair. The Treasury paper showed that "total requests from departments amounted to \$2,068.7 million, representing an increase of \$141.8 million (or 7.4%) over the estimated outturn for 1970/71. The recommended allocations total \$2,025.5 million."⁴⁹

Ministers should not, however, believe that they had been completely profligate. A combination of normal investigating-decisions making practices, plus the additional fillip given by the CCGX had had some effect. The recommended \$2,025.5 million represented "a reduction of \$43.2 million on departmental requests" - roughly \$3 million more than the CCGX had set out to find - and an increase of \$98.6 million (5.1%) over the estimated out-turn for 1970/71.⁵⁰ Since the overwhelming bulk of this latter increase (\$46 millions) was generated by personnel, with \$18 million from increased administration costs, the CCGX (which had had no special brief on these items), could be seen as a useful device in a simple, surgical fashion.

There was, however, still a relatively long run up to the public Budget-Estimates announcement, and history had demonstrated considerable success by ministers and departments in winning back resources.

On 16 April, departments were informed of their financial allocations for 1971/72. The letter providing this information noted that it was likely the Government would want to table an early Budget - Treasury would "therefore be grateful if you would accord priority to the preparation of your Estimates". It also noted that allocations were "very tight", in reflection of the "need to slow down substantially the rate of increase in Government expenditure" during the coming year.

Permanent heads were, at the same time informed by the Secretary to the Treasury:

Following the tabling of the Estimates I would hope to convene meetings of Permanent Heads in say July, similar to those held last year. As well as discussing the current economic situation I would also like to discuss with you further possible developments in financial management including reorganisation of the Public Accounts, greater emphasis on net expenditure in departmental Votes as a basis for future allocations, and the future work expected of the Committee of Officials on Public Expenditure (COPE) in advising Government of expenditure needs over the longer term. I also intend to give Permanent Heads the opportunity to comment on any financial arrangements or rules which, in their view, limit the efficiency of their administration. 51

Within a few days, additional sums had been requested by a number of departments, and approved for various advisory bodies such as the National Development Council.⁵²

Treasury's Budget Report No. 3, dated 29 April 1971, informed the Minister of Finance of changes in the Financial Allocations for 1971/72. In view of a probable rash of requests from his colleagues for special treatment, the Minister was acquainted with "the salient points concerning individual allocations" as a guide to their treatment. At this stage a percentage increase of 10.4 percent was expected in 1971/72 expenditure over the (provisional) out-turn for the previous year. The Minister was reminded of all Cabinet, Cabinet Committee and ministerial adjustments

upward made during April, and Treasury stated that no further adjustments would be permitted without "your or Cabinet's approval".

Comments in this report on individual Votes included the following points:

<u>re Vote: Education</u>	<u>% Increase</u>
(a) Expenditure 1970/71 - \$251,917,000	
Request 1970/72 - \$288,776,000	
Allocation - \$280,500,000	11.3
(b) The increase in this Vote reflects the very high personnel content and the additional cost of teachers' salaries in 1971/72. The allocation includes \$7.5 million for teachers' salaries due in 1970/71 but which could not be paid in that year Even without the \$7.5 million for teachers' salaries, this Vote was overspent by \$7.1 million in 1970/71. ⁵³	

A further Treasury circular to departments, dated 6 May 1971, sought to impress upon permanent heads the necessity to observe all existing rules on financial constraint. It concluded:

It is important that constant reviews are made of probable annual expenditure on items in order that early action may be taken to prevent over-expenditure. Only in exceptional circumstances will Treasury be likely to support proposals for additional expenditure in 1971/72.⁵⁴

This warning against any later attempt to win back in the Supplementary Estimates what had been scraped away earlier in the year was no doubt written in a spirit of optimism rather than expectation. Just a few days before (3 May) Cabinet had already rescinded an earlier decision (recommended to it by the CCGX) to reduce Post Office expenses. Doubtless the Caucus had been unwilling to accept negative public criticisms had the proposed cost reductions been effected.⁵⁵

Although not all requests succeeded - for example, Vote: Agriculture did not immediately gain additional funds requested - by 20 May an additional (net) \$4,925,000 had been approved.⁵⁶ Within two or three weeks, Cabinet approvals had increased this by an additional \$36,500,000 - mainly Social Security benefit increases (\$21,000,000)

while a further \$9,550,000 was allocated to Vote: Agriculture.⁵⁷

On 4 June Treasury submitted a somewhat obsequious paper to the Minister of Finance providing an interpretation of the meaning of "real Government expenditure". The paper concluded that the basis for estimating "real" expenditure increases by COPE had been "essentially pragmatic" and had taken insufficient account of a number of critical factors such as "opportunity costs". COPE's form of measurement had indicated a growth rate in total Government expenditure of 7.3 percent. The alternative calculation - which Treasury argued was "theoretically more acceptable" - produced a growth rate in real expenditure of only 4.5 percent "which is close to the target".⁵⁸

A few days later an internal memo was circulated to divisional directors in Treasury, offering guidelines on how Treasury officers should deal with departmental requests to offset expenditure or to increase allocations.⁵⁹ Its function was to stiffen their resolve - already beefed-up in an earlier circular dated 2 June.⁶⁰

Various last-minute requests from departments were handled by the Secretary to the Treasury, who sometimes suggested in reply that approval to offset expenditure within the overall Vote or other accommodations would probably be forthcoming. Sometimes a departmental advocate would be asked to reduce a bid to a more modest level so that the matter could be "tidied up". The item was then formally determined by Cabinet or the Minister of Finance.

The Budget was eventually presented on 10 June, and on 15 June 1971 Kirk, MP, opened the debate for the Opposition. All statements made in public by the Opposition were reported to the Government. For example, on 23 June a report on the likely costs of alternative Budget proposals put forward by Opposition MPs was submitted to the Prime Minister.⁶¹ The total value of these appeared to be some

\$40 million; later calculations of other Labour proposals were costed at an additional \$60 million.⁶² Pressure from the Opposition on over-expenditure as shown in the Estimates continued, particularly as the Public Expenditure Committee hearings began. Several papers on items raised during July and August, both in the House the PEC and as reported in the news media, were submitted by Treasury to the Government.⁶³

The 1971/72 Estimates file concludes at this point.⁶⁴ It is worth noting that from this Treasury source at least no further mention was made of the short-lived Cabinet Committee on Government Expenditure although there were other more sophisticated experiments before 1976, when Gair convened the first meeting of the CCEX.

CHAPTER FOUR

Part II: Expenditure planning under the Labour Government: The Cabinet Committee on Policy and Priorities 1972-75

Introduction

One reason why the National party appointed the 1971 Cabinet Committee on Government Expenditure was the obvious gap in the range of procedures available for ministerial surveillance of government spending overall. The initial work of COPE emphasised the significance of such gaps, and the CCGX's brief history pointed to the potential value of a sub-Cabinet system for monitoring expenditure proposals prior to their tabling and adoption by Cabinet as a whole.

The CCPP is Established

When Labour came to office in November 1972, one of the first actions of the euphoric Cabinet was to set up another new sub-committee - the Cabinet Committee on Policy and Priorities (CCPP). This action was not the result of officials' recommendation, but was taken on the initiative of the new reformist ministers. The aims of the Committee, disseminated by Cabinet Minute on 18 December 1972 were (a) to establish priorities for the implementation of government policies; and (b) to keep under review the progress being made in implementing the Labour party's policy programme.

To assist the Committee in this task, all ministers were immediately instructed to "inform the Secretary of the Cabinet (then Brooks) of their priorities in respect of the policy items which came within their ministerial responsibilities, indicating whether the policy should in their view, be implemented in the first, second or third year of the next Parliament". Despite difficulties which Cabinet conceded might present themselves, this task was to be carried out before Christmas - i.e. within one week.⁶⁵

However, Cabinet did not simultaneously set up an officials committee

to service the CCPP - nor, indeed were any officials other than the Cabinet Secretary invited to attend the Committee on a regular basis for almost a year. Nor were any special provisions made to assist the neophyte ministers in their first heroic task. A consequence of this was that many ministers found it impossible (or were unwilling) to carry out a policy review in the manner laid down, despite several extensions of time, so that the CCPP never had before it a clear system-wide account of policy preferences ordered along a three-year spectrum of implementation. While the justification for the review was obvious - let's get a clear picture of what we want to do before we begin to act - it was undoubtedly politically, as well as administratively, naive in its initial expectations.

At the same time, however, the Treasury, pursuing its own interest in PPB and more careful policy review, submitted a report to Cabinet recommending that the departments themselves carry out a special review of all existing policy, along programme lines, and forward this to ministers by the end of January (just over one month away, at the height of the annual summer vacation period). No particular procedures were recommended, nor was it proposed to set up any new officials group to co-ordinate the review, although Treasury did nominate the COPE secretariat, in Treasury itself, as an appropriate channel for co-ordinating and reporting on the information received.

The first meeting of the CCPP, on 9 January, was held in the Prime Minister's office, with all five members present - the Prime Minister (Kirk), his deputy (Watt), the Minister of Finance (Rowling), the Minister of Trade and Industries (Freer) and the Minister of Justice (Finlay). The only official present was Peter Brooks, Secretary to the Cabinet. The Committee did not discuss Treasury's proposal for a departmental review of existing policies, but concentrated on a wide range of topics which might be appropriate for inclusion in the 1973 legislative programme. Considerable emphasis was given to the necessity

to create, or channel, revenue and capital funds towards the Government in anticipation of its spending needs.⁶⁶

The CCPP had not yet received their colleagues' list of policy preferences, and it was obvious a week later, when Cabinet met on 15 January that this would be a protracted and difficult task. Cabinet therefore decided to act upon Treasury's advice, and instruct permanent heads to conduct a special review of existing policies, with costs projected forward to 1975/76. Officials were to be asked to identify where existing policy diverged from Labour party policy, as described in the party's 1972 Manifesto or any post-election statements by new ministers. Costings were to take into account the decisions made by COPE in 1972, but were to make clear any expenditure decisions of the previous National government after the COPE forecasts had been submitted, and before the General Election in November. It was decided that permanent heads should begin this review immediately, and forward their reports to ministers in two weeks, by 31 January.⁶⁷

On January, three days after departmental heads received the Cabinet Minute informing them of this decision, Shailes, in the Treasury, sent a memo to Lough, Deputy Secretary of Treasury, noting that he had received several inquiries from departments regarding the forthcoming review. "In view of the time lag", Shailes wrote, "it is now suggested that the review should be completed by Friday, 16 February 1973". He recommended that a Treasury circular to this effect be distributed immediately, with an additional request that permanent heads forward a copy of their ministerial reports to Treasury which could then co-ordinate the replies and submit a report for further consideration by the Cabinet. Further, Shailes recommended, the circular should provide guidelines on how the review should be conducted, with an offer of Treasury assistance. The note summarised the purpose of the exercise, as Treasury saw it:

It was originally intended that the review should be carried out by programme. All estimates are now subdivided into programmes and the intention was that the expenditure of the programmes should be critically reviewed to ascertain whether or not it was in accordance with the policy of the new Government and if not what expenditure in the programme could be eliminated.⁶⁸

Shailes' advice was acted upon immediately, and the following day a Treasury circular, citing the original Cabinet Minute, was issued to all permanent heads with the instruction that they should report not only to ministers but also to the COPE secretariat in Treasury along the lines described. A copy of the circular is appended to this study.⁶⁹ Its essential elements were that permanent heads should supply the Government with a clear, costed account of existing policies, identification of where these differed from Labour party policies, and an indication of where expenditure could be cut or savings effected. In effect this was to be a review of the National government's allocative policies, but as one senior Treasury officer recalled wryly "The (Labour) Government wanted action, not analysis" in expecting that this sort of task could be conducted within a few short weeks.

Although Treasury reported to the ministers on the existing policy review on 12 March, 1973,⁷⁰ in fact not all departmental reports had been received or cleared by individual ministers by the due date. In one case (Social Welfare), the minister did not approve of his department's findings until 16 March, four days after the Minister of Finance received the "final consolidated report".⁷¹ This report must have been a considerable disappointment to anyone hoping for a rich harvest of either information or money. Apart from three specific cases, in the appropriations for Defence, Labour and Electricity,⁷² permanent heads had been unable to detect any incongruity between what National had been doing and what the Labour party might want to do, as defined in its manifesto and other more recent sources. Nor were permanent heads able

to report any expenditure which was not in line with existing policy, nor make any suggestions as to where savings could be affected. Indeed, permanent heads were at pains to point out that in a number of cases implementation of government policy, as outlined in the manifesto, would involve considerable increases in expenditure.⁷³

Shailes' initial draft report, based on the returns from departments, included two tables, the first entitled "New Expenditure approved by the previous government to 30 November 1972 and not taken into account in the COPE forecasts", the second called "Detail of Expenditure which Departments Confirmed as Not in accordance with Government Policy".⁷⁴ It was Lang's view that this draft was too long and complicated for the ministers,⁷⁵ and a much briefer paper, omitting the first table, was submitted, with the sole recommendation that Cabinet "note" the report.⁷⁶ No other action was suggested.

In a detailed analysis of this and subsequent reviews, Winchester, an American systems advisor to the Treasury working in New Zealand at the time, pointed out several deficiencies in the first existing policy review experiment in 1973.⁷⁷ The first two were inherent in the design of the review - the assumption that departments unused to this type of exercise would be able to "gear up", review all their existing activities, evaluate them carefully alongside the new Government's largely unknown policy intentions, and report back within one month; secondly, the assumption that government departments knew what all their existing policies were, and the current costs of these. In reality (and the value of such a document is questionable) no such inventory existed, although continued ministerial belief in the fiction encouraged later reviews of existing policy. Further inadequacies included the assumption that policy horizons could be limited to three years. This not only ignored existing planning variations, (for example, capital works had a 5-10 even 20 years-horizon) but suggested a certain timorous attachment to the Parliamentary term as relevant to expenditure policy planning.

In its instructions, as relayed via the Treasury circular, Cabinet had provided few explicit guidelines as to how the exercise should be conducted, and no indication of the role that control departments (Treasury, the State Services Commission and the Ministry of Works) would play. There was no special provision to take officials out of their normal work-timetables and put them, fulltime, onto the preparation of the required information. No procedures were laid down to standardise the style or content of the reports when they were received by the COPE secretariat.

Winchester comments that there was no clear indication of who should take responsibility for the proper conduct of the review - while departments were to report not only to their own ministers, but also to the Treasury, no one unit in that department was made specifically responsible for providing expert advice on how to assemble and collate data along the lines required, or ensuring that departments gave detailed consideration to the implications of their generalised instructions.

The terms used in the Cabinet Minute and the Treasury circular did not clearly define what was meant by "policy" or "activity programmes". The semantics of political discourse and the meanings ascribed by departmental accountants or Treasury management information systems experts to words such as "activities" and "programmes" were technically at odds. Generalised interpretations could allow ministers' expectations to slip through the gaps, particularly in the light of departmental resistance to the time constraints and personnel difficulties of conducting a major policy review when many critical staff members were already enjoying a summer vacation. As it turned out, officials were either unwilling or unable (or both) to define existing policies in terms of Labour's manifesto statement at this early stage in the new administration's term of office.

It is arguable that new ministers, of whom only Watt (deputy

Prime Minister) had had any previous Cabinet experience, could not have foreseen the effects of these deficiencies, and were inadequately briefed on how to proceed. It is also apparent, however, that Treasury's control over the development of PPBS and the impact of COPE on the budgetary process was still relatively tenuous. In any case, officials' willingness to give the new government some rope was not necessarily accompanied by the deliberate expectation that it may succeed only in hanging itself.

In the event, one or two ministers were quick to perceive the potential value of such a review. The Postmaster-General, R.O. Douglas, for example, had taken his department's point that "any significant reductions in operating expenditure could only be made by curtailing services or degrading standards", but also noted his permanent head's unwilling report of "Steps that could be taken to reduce Post Office Operating expenditure", although none was recommended for action. Treasury was prepared to support two of these proposals, while mindful of the Post Office's caveats about the political effects.⁷⁸ The suggested reductions were subsequently discussed by ministers and although no cost savings were approved, the exercise served to sharpen Douglas' awareness of the need for greater efficiency in public expenditure and policy development. Douglas was a member of neither the CEC nor the CCPP, but later he was put in charge of another small Cabinet sub-committee on Efficiency in the State Services.

The second meeting for the CCPP was timed for 1 February, just as there was a changeover from one Secretary of the Cabinet to another (P. Millen), and apparently ministers did not actually meet to consider the agenda, which included a report on the progress of the ministerial review of policy priorities.

When the committee met next (on 22 March) both the Prime Minister and his deputy were absent. There were three items on the agenda - a proposal for restructuring the Development Finance Corporation (DFC),

major papers on economic strategy, and the ministers' policy priorities, which presumably could now be examined in the light of the 12 March existing policy review by departments. Discussion of economic strategy dominated the meeting. The question of policy preferences came up, and although there is no record of reactions to the fruitless results of the departmental review, the CCPP did recommend to Cabinet that "the Minister of Finance and other ministers should prepare specific programmes to implement agreed policies in time for their financial and economic implications to be taken into account in the framing of the Budget".

One other significant decision taken that day was to circularise all members of the Committee informing them that "in the event that Ministers who are members of this Committee are unable to attend Officials cannot represent them at meetings of this Committee".⁷⁹ It was to remain a very tight circle.

A paper on economic development strategy, based on the CCPP's discussions, was to be prepared by Rowling, Minister of Finance, and submitted to Cabinet when it met a few days later. In fact, what Cabinet discussed on 26 March was a summary of Rowling's full paper, in which 16 points for Government action were identified and approved.⁸⁰ Only the three members of the new Committee present on 22 March had participated in the full debate on the background to these, although all five had received full minuted records, and copies of the complete paper.⁸¹ Additionally significant, in terms of the CCPP's growing influence as an inner Cabinet, was Cabinet's decision that all draft Estimates for 1973/74 should be submitted in the first instance to the CCPP for consideration. Since Watt would be overseas when this was to be done, Tizard (Minister of Health) was authorised to act, on this occasion only, in his place.⁸²

Thus after four months, the CCPP, which had met only twice, had acquired responsibility for supervising, monitoring and initiating several lines of action:

- (a) the request to ministers, still extant, to prepare a statement of their policy preferences in order to assist the Committee in promoting the Labour party's policies on behalf of the government;
- (b) initial consideration or vetting of the draft Estimates, but without any special provision of an officials' committee to assist in this, and with a specific self-denying ordinance about the presence of officials as substitutes for absent ministers;
- (c) development of a strategy for the economic development of New Zealand, to be adopted in time to have an impact on the Government's first Budget statement.

Budget Report No.1 was forwarded from Treasury to the Minister of Finance on 4 April, with an accompanying note on the progress of the Estimates preparation. The Minister was informed that "new policy proposals have been classified by Treasury as either approved (Classification A), and including those policies approved by Government since assuming office, unavoidable (Classification B), recommended for further consideration (Classification C), and delete or defer (Classification D)". With these classifications, the aggregated totals for new policy proposals submitted from 28 Departments to Treasury were as follows:

	(\$m net expenditure)		
	1973/74	1974/75	1975/76
Class A -			
Committed	36	25	24
Class B -			
Unavoidable	5	5	5
Class C -			
Recommended for			
further			
consideration	19	24	28
<hr/>			
Sub Total	60	54	57
Class D -			
Delete/Defer	60	88	101
<hr/>			
TOTAL	120	142	158
<hr/>			

The paper to the Minister of Finance then continued:

You will recall in Report 528, 28/2/73 on Inflation Risk and Economic Strategy,⁸³ Treasury recommended that 'the best action which can now be taken is to stop increasing Government expenditure'. It is therefore strongly recommended that no further increases in Government expenditure (other than minor matters) be agreed to until the whole position can be assessed in the light of new policies which various departments and Ministers want to implement.... Estimates requests from all departments have now been received (and it is hoped to give you a provisional report on likely overall Government Expenditure and revenue for 1973/74 in a few days).

In Report 521⁸⁴ we indicated that with the very limited provision for new policies, net expenditure was estimated to increase by 14 percent. Any additional expenditure on new policies will of course increase this growth rate. At the same time it was noted that receipts were likely to increase by a little over 12 percent.

(We don't expect any change in this i.e. without further expenditure commitments we face an increase in deficit before borrowing.) With the economy already fully employed an increase in Government spending not matched by a corresponding growth in revenue will lead to a resurgency in demand inflation which would undermine the Government's stabilisation policy

Until you have had an opportunity to study the implications of this further report (i.e. the review of existing policies) it is recommended that no final action be taken on the attached report on new policies.

(Signed Shailes, Assistant Secretary to the Treasury)⁸⁵

The CCPP met to consider this paper and Budget Report No 16 on the 11 and 16 May. These were the Committee's only meetings before

the publication of the Estimates and the presentation of the Budget on 14 June, 1973. All five ministers (Tizard replacing Watt) were present on both occasions, with the Prime Minister in the chair. Apart from Millen, two Treasury officials were invited to be present, and on 11 May Shailes and de Jardine, and on 16 May Shailes and Lang, advised the Committee.

The agenda for the first meeting, 11 May noted that:

The Minister of Finance has approved the provisional gross expenditure for each department. In general these allocations include the cost of policies classified as A and B in the attached report. Ministers will however need to decide which of the proposals classified C and D are to proceed this financial year.

In addition, there may be other policy proposals which the ministers concerned have not included in the attached report. The most notable example is the proposal to increase Social Security benefits.⁸⁶

The Treasury had prepared another single-page paper (Budget Report No. 16), entitled Government Finances: General Outlook for 1973/74, dated 10 May 1973. Although copies were distributed to the Prime Minister and the other four members of the CCPP, the minutes record that they were reclaimed from the latter at the end of their meeting on 11 May. At the very least, the report had sobering overtones:

1. I thought it might be helpful to you if I summarised the current position with regard to expenditure and revenue for 1973/74.
2. Expenditure allocations approved so far total some \$2,492 million. To this must be added about \$15 million to allow for partial restoration of the rather severe reductions in the allocations for such items as regional development, defence, forestry and Maori housing.

Some allowance say \$8 million, must also be made for expenditure on new policies on sport and arts and in the education field. With provision for an additional \$30 million for public service salaries and \$30 million for the inevitable increases on miscellaneous items that will be required to be provided for in the Supplementary Estimates, this would give an outlay of \$2.665 million [sic]. If as much as \$15 million is allowed for other miscellaneous policies yet to be selected by the CCPP, this will bring total Government Expenditure to \$2,680 million or an increase of almost 21 percent on the outturn for 1973/74.

3. Revenue is estimated at \$2,333 million, leaving a deficit before borrowing of \$347 million. The deficit for 1972/73 was \$206 million. The view of the Monetary and Economic Council, which considered it was advocating only mild restraint in the field of fiscal policy, was that the deficit for 1973/74 should not greatly exceed the level of the 1972/73 deficit.
4. If allowance is made for the removal of some of the farm subsidies as outlined in Budget Report No. 12, this would involve a saving of \$26 million in 1973/74. This would reduce the forecasted deficit before borrowing to \$321 million. This does not allow for any changes in taxation and indicates the seriousness of the fiscal problem confronting Government.
5. Copies attached for distribution if you so wish to the Prime Minister and other members of the Cabinet Committee on Policy and Priorities.

H.G. Lang [Secretary to the Treasury]⁸⁷

The Minister of Finance opened the discussion by commenting that he did not want to see the deficit before borrowing exceed \$250 million and he hoped that when provision was made for new policies the CCPP would be able to prune these to a maximum of \$15 million, as recommended by Treasury. An "inconclusive discussion on a systematic means for pruning old policies - in an overall way - in order to eliminate unnecessary expenditure" then took place. During general discussion on Vote: Education, the Prime Minister indicated that he favoured the idea of setting up a task force along the lines of that developed in Australia to review expenditure in all votes, with a view to eliminating unnecessary expenditure. His comment was included in a post-meeting memo by an alert Shailes to Lang, in Treasury, but was not recorded by Millen in the minutes for the meeting.

The Committee eventually approved funds (in addition to Category A policies already committed as "unavoidable" or "committed") for a number of items, the most expensive of which was a Health package totalling \$2,493,000, with an additional provision for pharmaceutical benefits. By the time the meeting adjourned, ministers had approved a "running total" of about \$3,288 million, with total approvals to date reaching \$3,968 millions.

The report back to Treasury by Shailes on the procedures and activities of the new Cabinet committee was apparently of some interest to the Secretary, and Lang replaced de Jardine for the next meeting on 16 May. Here various additions to Category A policies were authorised, and the amount approved by both meetings totalled \$17,550,000 - already \$2,500,000 over what Rowling wished to see as the upper limit.⁸⁸

It should be remembered that when the CCPP was engaged in this exercise, it did not have before it a consolidated report from ministers of their policy preferences, although the request for these, reiterated on 26 March, was now several months old. Not only were expenditure decisions, which

concentrated on new spending, made in the absence of such information about priorities; there is no evidence in the records of either meeting that ministers' attention focussed on anything other than the immediate fiscal year. Nor is there any convincing evidence that ministers were fully aware of the future cost implications of policy items where only brief three year projections were provided. In Vote: Education, for instance, approval was given for "Classification A: Improvement in School Guidance Service":

1973/74	1974/75	1975/76
\$254,000	\$500,000	\$750,000

but little supporting evidence was provided, or required, in making this decision.

The CCPP did not meet again until August, several weeks after the presentation of the Budget. However, in Treasury's pre-Budget Report (8 June) to the Minister of Finance the officials set out the Government's final expenditure decisions ("as we understand them") for Budget announcement. The Report dealt with increases in Social Security and Housing and reduced subsidies for farming, along lines previously recommended by Treasury.⁸⁹ In addition at this time numerous papers were submitted by Treasury on Property Speculation Tax, an interest which the Labour Party had declared in its pre-election manifesto. Notes in Cabinet Office files dated 12 June include a memo recording that in an oral presentation to Cabinet, the Minister of Finance had reported as follows:

1. The Budget provides for net Government expenditure of \$2605 million, an increase of 17 percent over that for 1972/73. The deficit before borrowing is estimated at \$232 million compared with \$206 million in 1972/73. The impact of the Budget will therefore be expansionary.
2. These figures reflect the following major changes on the expenditure side:
 - (a) + \$73 million for increase in social security benefits
 - (b) Increased advances to State Advances Corporation (for housing)
 - (c) \$1 million to the Council for Recreation and Sport
 - (d) - \$22 million (i.e. saving) through reduction in farm subsidies. Subsidy payments will = \$26 million,

compared with only \$3 million five years ago. \$10 million will be set aside in a fund for marketing assistance etc where necessary for the farming sector.

- (e) + \$10 million aid to less developed countries.
3. On revenue side, the main measures are
- (a) removal of property tax from October 1.
i.e. loss of \$19 million 1973/74
\$33 million 1974/75
 - (b) end of year adjustments to shift and overtime tax (no effect on revenue)
 - (c) Housing savings scheme outlined in the Manifesto had to be modified to take account of introduction of National Superannuation Scheme. Revised housing savings schemes gives tax rebates of 25 percent, on savings held for three years towards purchase of first home. Post Office savers will receive preference for State Advances Corporation loans.
 - (d) 10 percent rebate on personal income tax continues to the end of the financial years. From 1 April 1974 new tax scale. Personal and related exemptions to be replaced by rebates. This will mean revenue loss of \$130 million in 1974/75.
 - (e) Standard allowance up to \$50 all wage and salary earners in lieu of other expenses which may now be claimed.
 - (f) Share purchase loans for employees
 - (g) Company tax spread over 7 years will = revenue increase of \$36 million in the current year.
 - (h) investment incentives etc. (No revenue implications given for other measures).^{9a}

This report was received and approved by Cabinet on 11 July and the Budget was presented three days later. Throughout the remainder of 1973, the CCPP was preoccupied with acquiring control (and ascendancy) in other fields - wage and price stabilisation policies, the development of an economic strategy and the introduction of "new machinery to implement the Government's economic development and stabilisation policies" - i.e. a replacement for the National Development Council system. Very little explicit discussion of financial policies, expenditure reviews or budgetary management is included in the minutes of CCPP meetings from May to December 1973. However, the question of fiscal management according to party priorities was not forgotten.

On June 22, immediately after the first post-Budget Cabinet meeting, Millen drafted a confidential memo to Rowling, Minister of Finance, reminding him of the current status of various economic strategy papers that had been before the Cabinet and its committees, Cabinet's endorsement of the economic strategy paper presented to it by the CCPP on 26 March (CM 73/14/29), and Cabinet's decision at that time to request all ministers to indicate their policy preferences in terms of their individual portfolios (i.e. an extended time allowance for the initial request made on 18 December 1972). At the Cabinet meeting, Millen wrote, Rowling had indicated his disappointment that only a few reports had been submitted by ministers to the CCPP in response to Cabinet's earlier invitation. Those received had been prepared only at departmental level. "You [Rowling] expressed disappointment that Ministers had not given greater attention to an exercise which is clearly of continuing significance if a successful strategy is to be established so that specific policies can be framed in their right order of priority."

"You [Rowling] recognised," however, that the 26 March minute might be an inadequate framework, and "you explained that you had in hand the preparation of a paper which will identify - in the context of the Government's philosophy of economic strategy - those subjects on which reports by Ministers and their departments are required." The memo went on to recall that this paper was to be presented in the near future, and ministerial cooperation would then be required in drawing up a priority list for policies.⁹¹

Presumably at the suggestion of the Minister of Finance on receiving this informal memo, Lough, Deputy Secretary to the Treasury, was asked to comment on the draft. As Millen had done, Lough replied informally; in neither case was official letterhead, or any file reference, used. Lough made some small amendments,

including the slightly tendentious observation that "As a general comment, 'faster growth' or 'better allocation of resources' should not be looked on as an objective. The objective is probably improving the welfare of the community by better meeting their desires in social economic and 'quality of life' areas. Better use of our resources to achieve higher 'per capita' output and economic growth is a means to bring forth the additional resources we must find to achieve those objectives. We do not want to drift back to % growth in GNP as the end objective.

Regards

[signed] Noel Lough." 92

Millen's draft memo was amended accordingly, dated 13 July, and submitted as an amendment to a paper presented by Rowling to Cabinet for endorsement. The memo included the following note to Ministers:

The memo and its appendices set out, in relation to the framework of the economic policy endorsed by the Government on 26 March 1973 (CM 73/14/29) the progress made on the presentation of reports on major policy measures. Some of the measures were incorporated in the 1973 Budget and others have been implemented outside the Budget provision.

The memo also identifies subjects requiring further work by ministers and their departments and indicates where major policy decisions are required, with the procedure set out for facilitating these decisions.

Particular reference is made to the means of achieving faster economic growth to enable the implementation of Government's social policy. The basic requirements for the fulfilment of this objective require -

- (a) the concentration of the country's productive resources into areas that will maximise returns both internally and externally, and
- (b) the upgrading of the efficiency of supporting and ancillary services for the main productive sectors.

In addition, reference is made to the need for Government to have a firm policy on demand management and in matters affecting incomes and prices. Appendix 1. contains a schedule of topics on which further reports are required from departments, which deadlines defined. Appendix 2. is a summary of measures taken to date on specific policy issues in accordance with Government's stated economic strategy, and points out where policy decisions still need to be made."93

At this point it should be noted that Cabinet agreed with Rowling's arguments for immediate ministerial attention to the protracted task of priority setting, and published this agreement in a Cabinet Minute to that effect, dated 16 July 1973.⁹⁴

Throughout the first three weeks of August the CCPP was preoccupied with difficult wage stabilisation negotiations, and the increasing workload apparently necessitated augmenting the Committee's membership. On 13 July it was agreed that C. Moyle, Minister of Agriculture, should be asked to join the CCPP to assist in the co-ordination of ministers' reports on progress made in implementing major policy measures.⁹⁵ Early in August it was proposed by Freer that J. Walding, Minister of Overseas Trade, be co-opted to the CCPP. In a note in his own hand, the Prime Minister wrote briefly, if somewhat less than warmly, "I have no objection to concurring with this proposal to co-opt MOT in this case. (signed N. K. 17/8/73)"⁹⁶

The first minister to respond to the Cabinet directive (16 July) and make a submission to the CCPP as instructed, was Watt, Minister of Labour, on 20 August.⁹⁷ Treasury had submitted a brief interim report on a minor area of policy interest,⁹⁸ but all other ministerial reports were still outstanding. Ministers were then given another extension of time - until September, the Cabinet secretary recorded, "in recognition of the heavy involvement of Departments in the current stabilisation measures, (although) the Minister of Finance points out that work on longer term policy must continue".⁹⁹ Because it was then realised that three members of the CCPP including the Prime Minister were going to be overseas during September, it was decided to give a further extension till late October, which would give the Minister of Finance adequate time to consider an economic strategy before Christmas, in conjunction with the annual COPE report.

During October and September, however, profound differences of approach to the business of economic management became apparent.¹⁰⁰ The CCPP received conflicting and highly assertive advice from officials in Treasury and the Department of Trade and Industry (each with their own cluster of ministerial and departmental allies). CCPP ministers were in a state of extreme anxiety. One desperate solution appeared to lie in the formation of some sort of informed cabal of well-intentioned private citizens. Ministers and officials exchanged papers as though they were gauntlets, barbed with the claims of their competing interest groups and hurled across the CCPP table with real passion. The seeming incompatibility of belief in what constituted the most appropriate line to take in New Zealand's economic development was complicated by a mutual tendency for both sides to quote the Cabinet endorsement of 26 March as the source of their own authority. The fact that Cabinet had not been privy to the full background to that decision caught the CCPP up in a toil of its own making. In addition, the Committee had been unable to extract from its ministerial colleagues compliance with the request that policy priorities be defined for each department. This was a persistent running sore which the intense, bitter clashes over economic strategy did little to heal. An inner Cabinet, operating by its own wish largely in secret, was proving a rather uncomfortable creation, although ministers "on the outer" cherished strong ambitions to be admitted to this powerful group.

Winchester, in his study of PPB and various review exercises conducted as part of the development of this system, reports that in October 1973 the Government, recognising the pressure on resources in all sectors in the economy, directed that departments should undertake a second existing policy review. This exercise, unlike the generalised survey requested at the beginning of the year, was intended to inform

Ministers on the timing of expenditure for the remainder of the financial year 1973/74. Supplementary Estimates and the forthcoming COPE exercise appeared unlikely to produce evidence of any slowing down in the rate of public sector spending. Problems over stabilisation policies, and protracted and difficult negotiations over wages in particular combined to generate an air of crisis in central government.

Winchester comments as follows:

In particular, departments were asked not to commit expenditure in 1973-74 which could be delayed. They were also warned that Supplementary Estimates would not be entertained unless the department concerned could show that financial requirements could not be met at least in part from savings which could be made elsewhere in the Vote.

Implementation of the Cabinet directive was Treasury's responsibility. Therefore, by Cabinet memorandum the Secretary to the Treasury asked the permanent heads to personally review the timing of remaining expenditure for 1973/74 and make sure that deferrable expenditure would not be committed.

In accordance with the Cabinet directive, departments were to report the results of their reviews to Treasury by mid-November 1973, including details of any under-expenditure by programme for the current financial year. It should be noted that these reviews were not aimed at reducing expenditure, but at deferring the timing to a subsequent year.

The review disclosed a projected over-expenditure of \$18.2 million in 22 Votes and under-expenditure of \$23.8 million in 8 Votes, a net under-expenditure of \$5.6 million. However, in 16 Votes both an over-expenditure and an under-expenditure was projected. This indicated that money was being transferred or reprogrammed by underspending in one area to finance overspending in another. This information was submitted to Cabinet and agreement reached that for the last six months of each financial year a monthly schedule indicating expected outturn for each Vote would be submitted to the Minister of Finance.

However, Treasury did not recommend to Cabinet that departments be directed to defer any of this expenditure to do this. There were no measurable savings from this second 1973 review of existing policies, and there is no evidence to show that any expenditure was deferred as a consequence of it.¹⁰¹

Winchester also reports that Treasury Instructions already required permanent heads to provide for ministers a monthly return of Expenditure under each Vote, and report after September each year on total expected expenditure by Vote and by programme. Departments were to show where any over-expenditure was likely to occur, and report on any corrective action they proposed to avoid this.¹⁰² Clearly, by late 1973, this procedure was either not being employed properly by departments, or was not given sufficient attention by ministers.

On 21 November, during the protracted debate over the economic strategy, CCPP Minutes included the following record:

The Committee agreed that greater coordination should occur at Cabinet level. While Ministers must exercise the authority delegated to them - in line with their portfolio responsibilities - there was nevertheless a continuing requirement for prior consultation in matters which affected the general thrust of Government policy and for which the Cabinet had a collective responsibility. There should be more provision of time in Cabinet for discussion of overall policy and its direction, although in some cases (e.g. policy on containerisation) it would be preferable for the decision to be taken by a smaller group than Cabinet itself.¹⁰³

Thus we can see that although the CCPP was becoming a familiar part of the machinery of central government, regularly consulted by officials from various departments, and beginning to employ the established Cabinet Office procedures (e.g. regular meeting times, regular submission of official papers a few days before meetings, in time for distribution to an approved list of persons) the Ministers who comprised its membership were relatively insecure. Not only did they appear to entertain severe doubts about the ability of their colleagues to respond in a cooperative manner to specific requests for information (such as the policy priorities), but they obviously questioned other ministers' willingness to discipline themselves and their departments in terms of their individual wishes and organisational expenditure ambitions. The oligarchic response to this, common enough in times of stress, was

to turn inward, to reassert their own primacy in decision-making. What the CAPP, frequently attended by only two or three of its full complement, needed was time... time to contemplate the spending policies of the previous government, time to weigh up the merits of conflicting arguments about economic development and industrial relations, time to construct innovative and feasible structures for public participation, with government control, in national planning endeavours. The one grace history was not to allow them was time.

In mid-December, the Committee of Officials on Public Expenditure (COPE) reported to the Minister of Finance, and the confidential report, with its accompanying Treasury comment, was tabled in Cabinet on 17 December. It was intended to be a sobering experience. The Government was informed that existing policy costs would absorb all of the 3 percent increase allowed for in the expenditure strategy, $\frac{+}{-}$ 1½ percent set aside for new policies. The bleak consequence of this was that "there is no allowance for new policies in 1974/75 ." Total forecast costs represented a 14 percent increase on outturn for 1973/74, and "no allowance has been made for further new policies and costs arising from increased oil prices." The report continued in a similar vein:

At this time last year the forecast increase in Government expenditure was 11.9 percent - a figure broadly comparable with this year's 14.1 percent. Actual outturn for 1973/74 is likely to be about 21 percent. The possibility of similar escalation in 1974/75 cannot be ruled out in view of the continued flow of new and costly decisions from Cabinet. This prospect should be avoided at all costs. Last year's result was cushioned somewhat by employing formerly under-utilised resources, but the country is now hard up against ceilings on supply of labour and goods. The prospect of a 14 percent increase in Government expenditure is already too high

- (a) in relation to real growth of the economy
- (b) because it is inflationary, departments are likely to be unable to spend their allocations, and if they do succeed it will be at the cost of perpetual inflation and the frustration of the Government's stabilisation policies.

Current terms of trade are extraordinarily favourable... But a cautious attitude to the future is warranted since this level (115 current index) has been reached only in two of the 30 odd post-war years. The concomitant of such good conditions is very high export incomes and a windfall level of tax receipts. The right policy is not to build permanent expenditure policy on these probably temporary benefits, but to make a more determined effort to divert expenditure likely to make calls on domestic resources in the meantime to overseas sources of supply. A specific policy which should be implemented forthwith is the removal of the 25 percent price loading on import tenders by purchasing departments.

Experience in New Zealand and overseas shows that the main impact of new policy decisions occurs in the years after the first. It is important to bear in mind that decisions already made by Government will have an even larger impact on expenditure levels over the forecast period. In these circumstances, the introduction of new policies should be kept to an absolute minimum. It is Treasury's view that there is no scope for approving substantial additional new policies during the next two years. If new policies continue to be adopted at the present rate next year then drastic cuts in Government expenditure may become necessary in 1975 involving a reversal of policies in mid-stream.

The options open to Government to restrain expenditure which it is suggested you discuss with your colleagues in Cabinet on 17 December are

- (a) defer any further new policy proposals meantime
- (b) invite all Ministers to immediately review the existing activities of their departments and indicate areas where expenditure could be pruned. Ministers should direct their departments to incorporate in their reviews specific proposals for substituting overseas expenditure, designed to minimise the use of domestic resources (a similar ad hoc review was undertaken early this year but did not yield any substantial savings). However, Ministers have now had 12 months experience with the operation of their Departments. This option is recommended by Treasury;
- (c) implementing forthwith removal of 25 percent loading on imported tenders;
- (d) consider implementing an arbitrary percentage cut in forecast net expenditure for all departments (this suggestion has been tried in previous years and found to be unsatisfactory. It is not recommended);
- (e) to lay down (as in the COPE report) guidelines as to areas in Government expenditure where reductions should be sought;
- (f) restrict staff levels, administrative and operating expenditure and capital works in 1974/75 (these measures have also been applied on an ad hoc basis in previous years but offer no long term solution to achieving savings in Government expenditure.)

- (g) consider appointing a special committee along the lines of the Coombs Committee (Australia) 1973, to assess whether existing priorities and expenditure were in line with policy. The Committee would comprise people drawn from outside the Public Service and topline departmental officers seconded for the purpose. This is a longer-term option recommended by Treasury.

Attempts by Government to spend at the 14.1 percent increase rate in 1974/75, or at even higher rates will deprive the private sector of even more of its traditional share of total goods and services. The mechanism by which this would occur would be either

- (a) by inflation. Expenditure at these levels in the private sector would push prices beyond the level where private purchasers could compete; or
- (b) by increasing taxes and charges so that the transfer of purchasing power is made with as little inflationary impact as possible.

Both (a) and (b) are contrary to Government's announced policies. The remaining remedy is therefore (c) a determined policy of reducing forecast levels of Government expenditure. Obviously this means deferring some existing policies, a freeze on new expenditures unless comparable savings are made, and the shift, as far as can be made, to overseas supply sources. 104

Lang had recommended that his report go to both Cabinet and the CCPP. This and each of his other recommendations was agreed to by Cabinet. When the CCPP met two days later, with the Prime Minister overseas, the Treasury report was not specifically itemised among the agenda papers, but, with officials present formally for the first time, there was a noticeable increase in the ministers' grimness of attitude towards various fields. The need for "mandatory" policies, "tough policies" and "real control" in various areas was frequently mentioned. Despite the hitherto almost unparalleled terms of trade, ministers could not help but be depressed by the evidence of profligacy and poor expenditure planning they and their colleagues had displayed before the stern and critical permanent advisers of the central bureaucracy.

The CCPP had met on 13 different occasions during 1973, with Millen, Secretary to the Cabinet, as its secretary from the end

of March on. The Prime Minister, Kirk (Chairman) attended only four of these meetings - the initial discussion (9 January), the two meetings when the Estimates were considered (11 and 16 May) and once more on 6 November. Most of the work of chairing the meetings was done by the Prime Minister's deputy, Watt, who presided over seven meetings in all. He was replaced in the chair on one occasion (6 November, by the Minister of Finance, Rowling, although Kirk was present), and once by Freer, Minister of Trade and Industry. Both Rowling and Freer attended CCPP meetings regularly - the Finance minister was absent on only one occasion, through illness, while Freer missed only two meetings. The Ministers of Agriculture and Overseas Trade, Moyle and Walding attended occasionally but were not admitted as formal members of the CCPP until November 1973. The Secretary to the Cabinet, Millen, recalled that membership of the CCPP was much sought after. It was considered a mark of significance to be invited to attend, and a token of ministers' acceptability in the inner circle of executive power to be formally admitted as a regular member after late 1973.

An interesting symbolic sidelight on the character of this new committee was the fact that its first twelve meetings were held in the Prime Minister's office (whether Kirk was present or not), and after November 1973 in the Cabinet room itself. Millen reported that it was unprecedented, either before or since, for any group other than the Cabinet proper to use this particular sanctum for meetings.

Numerous officials attended the CCPP from time to time during 1973 - Millen, of course, was always present; Lang, Secretary to the Treasury, attended on four occasions, Davey, Secretary of Labour, attended four times (a reflection of the industrial preoccupations of the Committee), and Lythgoe (SSC) attended twice. Various others from the departments of Treasury (Shailes, de Jardine, Malcolm),

Trade and Industry (Clark , Lewin, Datsan and Moriarty) and Agriculture and Fisheries (Ducraft) attended once each.

On 7 November, the CCPP, heavily engaged in negotiating acceptable wage and incomes policies, decided to meet on a regular (rather than ad hoc) basis - every second Wednesday at 8 a.m. With the commencement of this practice, papers for consideration by the Committee were to be submitted to the Secretary by the Monday before the fortnightly meeting. A note to this effect was distributed to all permanent heads and private secretaries, and this information coupled with the formal admission of Treasury and other officials as permanent participants in CCPP meetings from 19 December, gave formal recognition to the presence, and status of the "inner Cabinet" group.

Review of existing policy 1973/74

On 14 December, 1973, Treasury had pointed out to the Minister of Finance and his colleagues that "the forecast level of expenditure for 1974/75 is moving towards a 20 percent per annum increase for the third year running and this level is completely out of step with the trend of real growth and resources."¹⁰⁵ Three days later Cabinet authorised the start of another review of existing policies in a Cabinet Minute which pointed out that with increased government expenditure of about 20 percent in 1974/75, and with the likely financial impact of any approved new policies, drastic cuts in expenditure or significant increases in taxation or borrowing could be necessary. Departments, via their ministers, were instructed to review their existing activities with a view to

- (a) restraining government spending in 1974/75, and
- (b) identifying specific areas where, in the meantime, overseas expenditure could be substituted for domestic funds in order to save domestic labour and resources.¹⁰⁶

These instructions were based on Treasury advice very like that which Lang had given to the Cabinet Economic Committee a year before, when he advocated caution in public sector spending. He had then suggested several approaches. Firstly, to avoid making new commitments until the major policy changes to which the Government was already [i.e. February 1973] pledged had been examined and their full expenditure implications properly assessed. Twelve months later this task had still not been carried out.

Secondly, to carry out a reappraisal of existing policies. "Scope here is limited and apart from minor economies, the main avenue of savings would appear to be in the area of assistance to farmers." The first review of existing policies in 1973 had confirmed Lang's pessimism, although its failures may have been caused at least as much by deficiencies of administrative leadership on Treasury's part and habitual conservatism by other permanent heads as by ministerial laxity.

The third approach Lang had identified was the slowing down of the immediate fulfilment of policy commitments. The second 1973 review, which aimed to defer policy expenditure, was an attempt to experiment, albeit rather unsuccessfully, with this suggestion. Lang had also recommended that consideration be given to easing the mounting pressure on domestic resources by making greater use of the (then) ample overseas resources available to "us." He pointed out that these took the form of a surplus on current account, a continually high level of private capital inflow and very substantial foreign exchange reserves.¹⁰⁷ This advice was included in the Cabinet minute, 17 December 1973, which asked departments to attempt to substitute local for overseas costs. In this first 1974 expenditure review departments were to report on available savings to their ministers during December-January, with the results in Treasury's hands by the end of January. Treasury would

collate the results, and forward a consolidated report to the CCPP. Winchester notes that "as a longer term option, Cabinet agreed to consider appointing a special committee consisting of people drawn from outside the Public Service and top line departmental officials along the lines of the Coombs Committee in Australia."¹⁰⁸ The early, officially unrecorded comment by Kirk in May 1973 had been squirreled away in Treasury, and brought out at what appeared to be an appropriate time. It was an illustration of the feeling of suspicion and even distrust of the Public Service that had appeared in the Labour ministers' discussions over economic strategy the previous year.¹⁰⁹

When Treasury reported to the Minister of Finance on 20 February 1974, the indications were that as in 1973 the review had produced little paydirt. On behalf of Lang, Shailes reported "few areas where Ministers firmly recommended that savings in expenditure could be achieved under existing policies." They had pointed to some areas where, with stringent controls, small gains could be made, but on the whole, Shailes pointed out, the only way to save would be to change policies - a "reappraisal of Government's spending priorities."¹¹⁰

In terms of its second task, the first 1974 review indicated that ministers were unable to find much scope for substituting overseas expenditure, and "on balance and in view of the change in outlook for the balance of payments Treasury recommends that this point not be pursued." The Treasury report concluded bluntly that "unless there are major changes in Government policy, particularly those relating to stabilisation, there is little or no scope for reducing expenditure on existing activities". The recommendation therefore, was that Cabinet "note" the results of the review, and that the report be forwarded to the CCPP for immediate appraisal of the small offerings made by departments, in the light of Treasury's comments on these.¹¹¹

The only significant areas of reduction identified by departments and verified by Treasury were all politically sensitive. The Prime Minister, Kirk, had spent much of 1973 pursuing foreign affairs and was a strong advocate for a generous attitude towards developing countries, particularly in the Pacific. Although a significant reduction on overseas aid was nominated as an area for expenditure savings, this proposition did not meet with Kirk's approval. An inter-departmental committee had proposed that some \$34 million should be spent on aid overall in 1974/75. COPE, with Treasury's support, had recommended that this be reduced to \$24 million. Kirk rejected any such reductions, and Treasury's report to the Cabinet in February 1974 noted that "the Prime Minister considers that worthwhile savings could only be made in areas of activity where cuts of the magnitude [significantly, not quoted in the report] required would mean a major scaling-down of the foreign policy objectives the Government has been pursuing." The reality was that both the Foreign Affairs department and Treasury could satisfy their need to appear virtuous in recommending cuts, since it was perfectly obvious that something as dear to the Prime Minister's heart as this would almost certainly not succeed in Cabinet.

Reductions and/or removal of subsidies in Vote Agriculture and Fisheries, and Vote: Stabilisation, and the lifting of the existing freeze on Post Office, Railways and Electricity charges had also been nominated as areas of worthwhile reductions. Once again, these were particularly hot political potatoes, included in Labour's election platform, but under considerable stress throughout 1973, and in some cases the basis for negotiated agreements reached with much difficulty during the party's first year in office. They were unlikely to go far. A specific change in the milk subsidy, for example, could yield about \$37 million; but at that stage the very idea of making domestic milk more expensive was still anathema

to ministers whose political and sentimental roots lay in the Depression of the 1930's. Similarly, a suggested reduction yielding some \$16 million through the abolition of subsidies on bread and sugar was unlikely to appeal to Labour party men and women whose political lives depended on protecting such basic commodities for their electoral supporters.

In all, four departments had suggested about \$5 million in possible savings; Treasury had suggested that some \$85 million could be added from 16 other Votes. However, in its report Treasury did not make any comment whatsoever on the quality, or the adequacy of departmental replies, which had generally been along the lines that "a reduction would impair our efficiency" or in some other unspecified way reduce their capacity to implement Government policy. In his three line report, Watt, for instance, had found "it difficult to see where any savings could be affected." The departmental advice on which he based this had given him the necessary resolve to resist Treasury (and his colleagues):

I [Secretary of Labour] have re-examined the net expenditure forecasts submitted by the Department [of Labour] for the COPE review and I now confirm that the forecasts were based on minimum requirements for the continuation of existing policies and existing levels of services. The commitment of expenditure under all headings is kept under close control and indeed without such close control it could be expected that spending would be significantly higher than the forecast level.

Restraints on expenditure increases were applied wherever seen as practicable in the course of the forecast exercise. It should be noted that the Department's net expenditure forecast for 1974/75 (\$10,020,000) is less than 3% higher than the estimated outturn for the current financial year (1973/74).

Comparative figures for the three years 1972/73 to 1974/75 are:

	<u>Total net expenditure</u>	<u>Increase on previous year</u>
1972-73	\$9,232,000	30.6 percent
1973-74	\$9,745,000 (est.)	5.6 percent
1974-75	\$10,020,000 (est.)	2.8 percent 112

After a discussion of two areas - migration recruitment and expenditure on employment promotion - the Secretary of Labour added that "it would be

difficult ... to further restrain expenditure and virtually impossible to make any significant savings without looking towards changes of policy and curtailment of existing services. The cutting back of services under any of the Department's main activities (Employment, Immigration and Industrial Relations) could be expected to have an adverse effect on the general industrial relations position and on national productivity..."

In the absence of comprehensive and authoritative alternatives, the department's arguments, with their intimidating caveats, were bound to succeed, despite Treasury's recommendations.

The report from Treasury on the first existing policy review of 1974 was forwarded by Cabinet to the CCPP, as recommended. It remained on the agenda of the Committee for another three months, and there it languished. Winchester observed that "the fact that the ... review was conducted at a time in January when many departmental officials were on holiday (as had happened the previous year), that it was quite superficial (in that procedural guidelines, firm and detailed instructions for its conduct were not provided) and that none of the proposals Treasury suggested [was] supported by economic analysis to demonstrate the wisdom of the actions being proposed, may have had some bearing on the outcome of this review and the lack of action by the Government on the final report."¹¹³

Towards the 1974 Budget

The strategic Budget report to the Minister of Finance (Budget Report No.1) included a number of policy recommendations all pointing in the same direction: slow down public and private spending rates, maintain present levels of government revenue, and actively encourage export-oriented industrial developments.¹¹⁴ This report was forwarded to the CCPP, and followed shortly afterwards by another Treasury paper (14 March 1974) entitled "Net Government Expenditure 1974-75". It was pointed out that

the COPE forecast for 1974-75 represented a 14.1 percent increase on the 1973-74 forecast. However, revisions of actual expenditure in 1973/74 had shown that there was in fact a lower outturn - that is a lower financial base, giving a revised increase of 17.1 percent.

Treasury has received departmental requests for 1974/75 based on Government policies approved to approximately 22 February 1974. Returns have also been received of 'new' policy requests. Some double counting between the reports is evident. A rough check has been made to eliminate the larger items (detailed reviews in two weeks) and allowances have been made for later salary and wage increases during the year, for higher social welfare benefits and for some cost escalation.

At this provisional stage, the departmental requests (including all new policies) before normal pruning look more like costing 25 percent more than the estimated outturns for 1973/74.

Not included are new policy requests by State Advances Corporation (SAC) comprising approximately \$90 million for housing and farm loans and proposals for substituting loans for higher capitalisation of family benefits. These could lift requested expenditure to 28 percent above 1973/74.

Real Expenditure

Cabinet directed COPE to do its work in 1973 on the basis of a 3 percent rise in the cost of existing policies during 1974/75, leaving 1½ percent for 'new' policies. COPE reported that the cost of policies already approved by Government as at August 1973 would absorb nearly all the combined allowance i.e. 4.3 percent.

Budget Report No.1 outlined the general background, i.e. we can contemplate a 5 percent rise in domestic output but a loss of overseas purchasing power because of adverse terms of trade, equivalent to a decline of 4 percent in the gross domestic output.

With only 1 percent increase in real resources thus available from current production for the whole of the public and private sectors, it will obviously be necessary to exercise firm restraint on real growth in Government sector claims on available goods and services, even if, as appears desirable, substantial overseas borrowing will be arranged.

Treasury then went on to describe "Areas for Pruning", arising from the recent Review of Existing Policy by Ministers. It suggested, among other things, reductions in overseas aid and in subsidies, and increases in bulk charges (for example by the Post Office) as means to "release more resources for alternative 'new' policies." Treasury expected to gain about

\$30 million out of its normal pruning of departmental requests and through eliminating double counting. It pointed out that the New Policy report, forwarded to the CCPP on 17 March 1974 would show a total of \$176 million, of which \$45 million was already committed or unavoidable. "The discretionary area", the report stated, was thus about \$133 million, plus the SAC's (approximately) \$90 million policy proposals.

The aim should be a provisional allowance of no more than \$15 million on the grounds that this would lift net Government expenditure in 1974/75 by 19 percent in money terms. This implies a high rate of inflation and a very significant increase in that proportion of the country's resources commanded by central Government - bearing in mind the 1 percent estimated rise in the volume of goods and services available for domestic use before overseas borrowing or use of reserves.

Treasury therefore recommended that no more than \$15 million should be approved for new policy proposals unless savings could be made in such areas as subsidies and Government charges. A further paper (Budget Report No.2) was attached showing recommended subsidy savings. ¹¹⁵ The new policy report (Budget Report No.4) submitted on the same date (14 March) showed that some changes in format had been introduced by Treasury over the 12 month period. There were slight changes in the classifications, with the general effect of tightening up the system. The two schedules to the Report showed 1. Policies approved by Government since September 1973 and,

2. Policies not yet approved which Ministers may wish to introduce during 1974/75 and which will involve expenditure in 1975-76.

Classifications within these schedules were as follows:

Classification A: Commitments: "Policies approved which will involve expenditure in 1974/75 or subsequent years;"

Classification B: Unavoidable (as for 1973);

Classification C: (as for 1973);

Classification D: Delete or defer: Policies which in the opinion of
of Treasury should be deferred or deleted.
These include proposals which are highly
questionable, are not cost-effective, would
not contribute significantly to the attainment
of programme objectives and have not
been backed up with sufficient prior
analysis and written justification.

As an example, Education department bids (made on behalf of the Minister,
P. Amos) looked like this:

	1974/75	1975/76	1976/77
<u>Schedule 1:</u> (comprised 24 policies)	6,108	6,070	5,881
<u>Schedule 2:</u> (comprised 91 policies not yet approved by the Government)	23,667	47,663	51,905
<u>Total</u>	29,775	53,733	57,816

Further, Treasury noted that the Educational Development Conference, conducted
by the Labour Government was likely to produce policy proposals estimated to
cost roughly \$250 million, although there was no indication of where this
calculation had come from.

Treasury then recommended that all policies in Class.C (totalling
\$1,374,000 on the first year, rising to \$1,543,000 in 1976/77) and
Class.D (\$21,778,000 in 1974/75, \$45,593,000 in 1975/76, \$49,817,000 in
1976/77) be reconsidered, or deleted/deferred. Without Class.D, the
total for Schedule 1 would be :

1975/75	1975/76 (\$000)	1976/77	
7,997	8,140	7,999	116

In the light of Treasury's parallel recommendation that all new policies
together total no more than \$15 million, this account of what had already

been approved by the Government allowed for very little manoeuvre.

In an unprecedented step, the CCPP decided to hold a special meeting to consider new policies in Tizard's private home in Auckland on 17 March.¹¹⁷ As usual with Budget papers, classifications were "secret" and distribution limited to the members of the Committee. During the previous weeks the Committee, particularly the Deputy Prime Minister and Minister of Labour, Watt, had been engaged in difficult stabilisation debates with the Employers Federation and the Federation of Labour. The records of all meetings held during this period convey an impression of enormous tension and stress upon individual ministers. The tight report from Treasury on the state of the economy, and the lack of room for satisfaction of party and ministerial ambitions must have contributed to their feelings of pressure and frustration. Kirk took the chair, with all four members, plus Faulkner (Minister for State Services) present. Three Treasury officials, Lang, Green and de Jardine had travelled to Auckland, with the Cabinet Office Secretary, Millen, for the examination.

Treasury began with a brief restatement of the state of affairs. "Any slack that may have existed in resources available to the New Zealand economy had now been fully taken up." It was stated that a tough line was now needed - the maximum for new policies should be \$15 million unless offsetting savings could be found. Two Treasury papers (3994 and 3570) had indicated what specific action might be taken by the ministers. "Attention was drawn to attempts by all Departments to reach for something unattainable in their Votes. The CCPP should insist that no Vote went through unless there was a reasonable assurance that necessary resources would be available to implement proposed policies; otherwise there would simply be a cost escalation."

After this opening, aimed at stiffening resolve, the question of subsidies was discussed. It was stated that increases in oil prices must be passed on, with an accompanying public relations exercise, "for example through an inquiry, or a White Paper... 1972 electoral commitments affected by the energy crisis constituted a new ball game, the rules of which should be drawn up now, rather than in 1975." It was agreed to seek an urgent report from the Monetary and Economic Council on the "economic impact of higher oil prices - as the background to formulation of corrective and compensating policies by the Government." Desperate situations called for drastic remedies. It was agreed that the accumulated deficit in the Wheat Account should be met by a special subsidy of about \$6 million, and the remaining subsidies on bread removed; that the subsidies on sheep meats should be removed by the end of the month; and the wool price stabilisation scheme phased out, if approved by Cabinet when it met the following day. The latter point was to be raised on 18 March by the Minister of Trade and Industry (Freer) but the minutes included the cryptic postscript that "this was not raised in Cabinet on 18 March 1974." Cabinet was to be asked to consider removing the sugar subsidy (which Cabinet in fact deferred, as an item for decision, until later in March). The CCPP deferred discussion on increases elsewhere recommended, such as milk, electricity tariffs, Post Office charges and Rail charges.

The Committee then moved on to discuss Budget Report No.4, on New Policies for 1974/75. 23 Votes were discussed and numerous changes made to the classification for policies - generally moving them up the scale e.g. from D to C or, occasionally C to A. Education's new policies were put against the general background of the Educational Development Conference, from which "a comprehensive plan [was] expected to emerge." The long afternoon ended at 5.30, when the Committee adjourned, intending to reconvene in Wellington two days after Cabinet met, on 20 March.¹¹⁸

In fact, this meeting was cancelled, and when the CCPP met on 22 March, the Prime Minister was absent, so Watt took the chair. The agenda was long, but made somewhat easier to deal with by the decision taken at the beginning that all "D" classifications were to remain in force for 1974/75 unless there were "exceptional circumstances." Nine more Votes were considered, and the group once more adjourned until their regular scheduled meeting on Wednesday 27th.

The day before, on 26 March, Millen sent a memo to the Minister of Trade and Industry, with copies to the Chairman of the CCPP, the Minister of Agriculture (Moyle), the Secretary of Treasury and the Controller and Auditor General confirming that "the CCPP at its meeting on 17/3/74 agreed that the subsidies on sheep meats should be removed from 31/3/74". Another similar memo was sent to Freer noting that on the same day the CCPP had agreed that "the Wool Price Stabilisation Scheme should be phased out and that the timing of this should be decided by Cabinet on 18/3/74 as an oral item submitted by [you]. However, this matter has not yet been raised in Cabinet".¹¹⁹ One may interpret this normal action of reminding ministers of their undertakings as having, on this occasion, a cat-among-the-pigeons effect, since Moyle in particular would obviously be confronted with some political difficulties.

The next three meetings of the CCPP all dealt with highly sensitive wage policy negotiations. Not until 5 April, at 2 p.m. on a Friday afternoon, did the Committee take up the matter of specific budget items again. The five ministers (Kirk in the chair) were present, along with the Minister of Housing, W. Fraser, and three Treasury officials, Lang, W. Green and T. Brewerton. The Secretary had prepared a very full agenda, which was carried over till the following Monday after the weekend adjournment. Three Treasury reports on Housing¹²⁰ took up most early attention, followed by a discussion of a paper on a General Medical Services Benefit.¹²¹ New policy proposals were examined, concentrating now on Treasury's Class. C group. Numerous items were approved for

funding, although departments still had to get financial approval at the appropriate level before money could actually be spent after Estimates announcement. Significantly, all the sums approved were on a one-year basis only. Options on how to deal with the question of the milk subsidy were referred back to Cabinet (which subsequently invited the Minister of Finance to report to it again on this topic in mid-April). Other items on the agenda, including the ill-fated Review of Existing Policy, net Government Expenditure and Economic Trends (both Treasury papers) were not discussed.¹²²

An extremely brief meeting of the CCPP on 9 April was attended by only one ordinary member (Rowling), with Faulkner, Amos and Fraser. Three Treasury officials were present, but the Secretary, Millen, was absent. The (presumably) unusual step was taken of Brewerton [Treasury] taking minutes, which were later countersigned by the Chairman, Rowling, after they had been certified by Millen. The meeting confirmed an agreed housing "package".

A series of tense and difficult meetings followed throughout April and into May, all concerned with the proposals for a General Wage Order, all fraught with extraordinary tension. The Committee had taken to meeting at 7.30 in the morning, or just a little later, and it must have been a slight relief, on 1 May, to revert to their normal practice of meeting at 8 a.m. On that date several decisions affecting the Estimates and the forthcoming Budget were made, such as the agreement to approve a new Police Task Force, and the addition of \$1 million to the \$3 million allocated to Sport and Recreation. Problems of all sorts were now pouring before the Committee. There were on-going discussions on a structure to replace the NDC, debates on whether to take over (and rescue) the Cook Islands Shipping Service, decisions on economic strategy, incentives schemes in the motor industry, debates over the movement in wages, and appropriate adjustments to accommodate these. Budget reports flowed in from Treasury

on Housing, Works, a graduated sales tax on cars, and subsidies. The CCPP worried about housing policies, and discussed the party Caucus view that physical controls should be exercised which would divert resources into low cost housing. In discussing the integration of the Government's 'Growth Strategy' in its 'Overall Economic Strategy', the CCPP emphasised that "conflicts should always be resolved in favour of full employment and growth".

At an urgent Budget meeting on Sunday 12 May, Rowling (the only CCPP member present), with his colleague the Minister of Social Welfare, N. King, two officials from Social Welfare and two Treasury officers (Galvin and Brewerton, who again took the minutes) discussed proposed increases in social security benefits, and approved their inclusion in the forthcoming Estimates. Since only one member of the Committee proper was present, this was, in effect, a solo decision by the Minister of Finance, although of course other members would receive copies of the minutes.¹²³

As May rolled towards June, the pressure to take decisions increased. Through this entire period (until August) the Prime Minister, Kirk, was extremely ill. By the beginning of April it had been obvious that any "boom" enjoyed by the Labour Government was well and truly over; the Prime Minister's health reflected the state of the economy. Kirk's frequent absences from Parliament during April and May threw an enormous burden on his colleagues, particularly Watt and Rowling. These men and their 'inner cabinet' colleagues grappled with the constant demands of other ministers - anxious to secure the best possible funding for policies before the Budget announcement (30 May) - and pressure from unions and employers.

On 7 May, in a post-Cabinet memorandum to the Minister of Finance Millen wrote to Rowling as follows:

When new policies review 1974-75 was raised yesterday at Cabinet some of your colleagues requested more information on the exercise being conducted by the CCPP. They enquired how priorities were ranked and compared portfolio by portfolio, and asked for an indication of areas where new commitments could be established. You undertook to consider what information might be released under various general (but not Vote) headings which would indicate total cost of proposals submitted, approved, deferred etc. In your comments you stressed, among other things, the need for Ministers to order their priorities clearly in their Departments and to cut out dead wood so that greater provision could be made for the introduction of new policies.

(Sgnd. P. Millen)¹²⁴

Given their growing awareness of the enormity of the economic problems presented by the oil crisis and its attendant effects and in the absence of effective leadership and stimulation of the Prime Minister, it is little wonder that not all their decisions were balanced or wise.

In his Financial Statement (Budget speech) to the House of Representatives

Rowling emphasised the inhibiting effects of "changes in world conditions which are beyond our control and which vitally affect New Zealand's interests". He reported an unexpected decline of 2-3% in the "real income" of the country, and the Government's determination to promote policies which would "stimulate exports and production" in response to this situation. He added, however, that "the difficulties of the present situation and the consequent need for economic adjustment" did not diminish the imperative purposes of the Government in terms of its social policies. For this reason high priority would continue to be accorded to social welfare, housing, health and education.

The Minister summarised the Government's recently adopted economic strategy, an important component of which was the "identification and examination of activities using national resources inefficiently to see what improvements [were] possible and to review the level of assistance and protection".

Reporting, in effect, on the outcome of the Government's reviews of existing and new policy, the Minister described substantial increases in proposed expenditure on housing (\$190 million to the S.A.C. and \$55 million for increased rental State house construction, an increase of over \$36 million on 1973/74); an increase of nearly 15 percent (\$65 million) on Education spending, with a 21 percent increase (\$15 million) on education capital works expenditure; and a massive \$66 million increase on Health spending - a provision which allowed "a second year of substantial real growth in hospital services" - with additional expenditure on health benefits amounting to more than \$13 million over 1973/74. Social security benefits (including superannuation) were to be increased to a level 28 percent higher than that prevailing at the end of 1972. In all, the Minister reported that total net Government expenditure for the year ended March 1974 had been 18.6 percent higher than the previous year, and required the borrowing of \$242 million - \$10 million more than had been anticipated in the 1973 budget. The Estimates tabled with the Budget totalled (net) \$3,129 million - 18.8 percent over the 1973/4 Estimates and \$595.8 million more than the actual outturn for 1973/4. This would necessitate an anticipated borrowing of \$159 million (significantly lower, as an estimate than the actual borrowing of 1973/4, quoted as \$241.7 million).¹²⁵

There were clear echoes of Lough's earlier memo (June 1973) in the Minister's concluding remarks. "The Government does not regard economic growth as an objective in itself but rather as a means of bringing about the better social conditions we all desire." The significant fact was that the adoption of policies aimed at improving New Zealand's overall economic position was not, and on the Minister's statement, was not intended to be, at the expense of growth elsewhere, such as the social services field. It was the case, however, that the success of both depended not only on deteriorating external conditions, but on the Government's ability to win agreement from the major pressure groups for its wage and incomes policies, and the relative modesty and care with which the spending ministers built

on the generous base they had been provided with during the past fiscal years.

August 1974 - a time of crisis

By the beginning of August, the ministers in the CCPP were obviously feeling considerable strain. On 2 August, with Kirk in the chair, and Tizard and Walding added to the original five members, the CCPP and its attendant officials began a harried debate on how to control the worsening economic situation. Of immediate interest was the question of import controls, and the problems of timing and quantifying such moves. The minutes for this meeting state:

... excess demand existed for scarce resources. The Prime Minister asked Treasury to review proposed Government expenditure and the financial requirements of the National Roads Board with a view to achieving savings which would enable both a transfer of resources to other sectors such as housing and industry, and a reduction in import requirements.

In addition, Lang (Treasury) was asked to prepare a paper on the selective reduction of interest rates.¹²⁶ The CCPP then adjourned until the following Sunday, when it would consider these pressing matters again. On 4 August, during an afternoon meeting, the CCPP decided to redistribute sales tax on new cars, with appropriate legislation, and to tighten the administration of import licensing "where stocks are too high". Further, Treasury was "instructed to submit for the CCPP's consideration at its regular meeting on 7 August at 8 a.m. proposals for a substantial pruning of public expenditure (including capital items but excluding subsidies)." Recommended cuts adopted by the CCPP would immediately be announced by the Minister of Finance without further reference to Cabinet when he addressed the Sector Councils of the old NDC later that day.¹²⁷

When the Committee met on 7 August, the inquiry ordered three days earlier produced the following Treasury recommendations:

- (i) no increases in staff ceilings from 7 August 1974;
- (ii) no further adjustments to Public Service salaries and wages, although there could be exceptions for the results of the Tradesmen's Ruling Rates survey and "established cases";

- (iii) items in (SEGS) Transport, Communication, Travel, Maintenance, Operation, Upkeep and Rental property and equipment, Materials, Supplies and Services and other operating expenditure all to be held at 95 percent of the 1974/75 allocation;
- (iv) a reduction or deferral of all EDP requirements for all departments while Treasury and the SSC conducted a special review on this to be reported to the CCPP by 23 September 1974;
- (v) National Roads Boards expenditure to be reduced by 5 percent in 1974/75;
- (vi) no new commitments for aid expenditure for 1974/75 except disasters and the special training programme for Island workers in New Zealand; a deferral of large aid projects where possible; and a recommendation that there be no further transfers to trust funds for the bilateral aid programme - "Treasury will no doubt report to the Ministers concerned";
- (vii) no new policy-type proposals for Education until the EDC reports were received - although state aid may need to be considered before then;
- (viii) there should be an inquiry into ("a look at") how to reduce Hospital Board grants, by Treasury and Health officials;
- (ix) review the design and planning of airport terminals;
- (x) accept in principle a limit on the National Development Loan to the New Zealand Broadcasting Corporation (\$6 million) and slow down all broadcasting developments - Treasury to negotiate with the NZBC on this;
- (xi) DMVC to find \$3 million savings, and review the bulk order for vehicles to the value of \$14.5 million;

- (xii) instruct Treasury to circularise all departments that all Supplementary Estimates were to be kept at an absolute minimum, plus the instruction that all supplementary claims must be absorbed where possible, except in the case of most exceptional circumstances;
- (xiii) reissue the Cabinet decision made on 15 October 1973 that no funds would be provided for approved new policies unless half the amounts required were found in departmental savings on existing policies;
- (xiv) instruct departments that new policy proposals not previously approved by the CCPP could go on to the Cabinet agenda only with the express prior permission of the Prime Minister;
- (xv) instruct the departments that savings in one SEG may not be used to cover for over-expenditure in another, even if the department stayed within its overall allocation;
- (xvi) the CCPP should reach a decision on import policy by 12 August.¹²⁸

The Committee was informed that arbitrary (i.e. across the board) reductions appeared to be the only way to achieve substantial savings in expenditure, unless the Government wished to increase charges or remove existing subsidies.

The CCPP acted immediately on six of the 16 areas recommended by Treasury, and their decisions were to be passed on to all permanent heads via a Treasury circular:

- (1) staff ceilings were frozen;
- (2) departments were to stay within the Estimates and Supplementary Estimates, and the latter were to be kept to an absolute minimum;
- (3) transfers of funds from one programme to another to avoid over-expenditure in any particular area, even while this did not entail any change in the overall allocation, were not to be made;
- (4) departments were to report within a few days to Treasury on their plant and equipment expenditure, and Treasury would review these requirements, with a subsequent report to the Minister of Finance

- (5) departments were to consider reducing or deferring their current and proposed EDP requirements, and a report on computer needs would be submitted by the Treasury and the SSC to the Government;
- (6) Specific expenditure groups (mainly operating expenditure) were to be held at 95 percent of the 1974/75 allocation.¹²⁹

Appendix 3A to this study contains a detailed analysis of aspects of this existing policy review by Winchester, the systems expert then employed by the New Zealand Treasury. It is not proposed to rehearse the numerous criticisms Winchester had of the second 1974 review, except to quote his comments concerning the only area where immediate cost reductions were possible (Winchester estimated some \$30 millions could have been "saved" as a result of a 5 percent cut in specific SEGS).

There were a number of reasons why the projected cost reductions evaporated. First, many dispensations were sought by government departments and generally supported by Treasury recommendations to the Government. Viewed in isolation, each case may have seemed a justifiable request, but in total they had the effect of negating the original Cabinet directive to reduce expenditure. Second, departments incurred expenditure without seeking Cabinet or Treasury dispensations. Third, no management control procedures were adopted to prevent over-spending or to ensure that the Cabinet directive would be effectively implemented. Fourth, because the government accounting system [did] not provide for recording outstanding financial obligations and commitments, financial reports [did] not give a complete picture of cost incurred as of the date of these reports. Hence, departmental officials naturally [had] difficulty anticipating how much expenditure [was] being incurred by district and field officers and [could] react only after cash payments [were] made. By that time it [was] too late to initiate corrective actions.

There was no evidence of any sanctions or penalties being imposed on departments which failed to comply with the Cabinet directive for controlling 1974/75 expenditure. Neither could any evidence be found of action by Treasury to do anything about the cost of overruns which occurred or corrective actions taken to strengthen management controls to prevent recurrence of this situation in the future. The fact that no corrective actions were taken to improve

management control procedures and financial systems tends to reinforce the misconception some people apparently have that growth in government expenditure is largely uncontrollable and inevitable, rather than being out of control and something which can be managed more effectively.¹³⁰

Immediately prior to the announcement of the August Review measures, Winchester himself had participated in in-house Treasury discussions on how to improve the general review capacity of the government system. He had advised the Treasury that given the indifferent results of past reviews, a different strategy should be adopted this time. He proposed that an experiment be conducted in which special evaluation teams reviewed the expenditure programmes of the eight biggest spending departments;¹³¹ he drafted a public statement for the announcement of this exercise by the Minister of Finance on 7 August.¹³² Winchester also suggested to Treasury officials that in order to ensure that departments did not later seek to reinstate cuts made to particular SEGs, they should be instructed to apply reductions to programmes and activities. This would have required a re-ordering of priorities, rather than simply an arbitrary one-off reduction for purposes Winchester obviously considered largely cosmetic. To the American consultant's obvious chagrin, neither advice was taken up. His Treasury colleagues did not forward his proposed 8-department review idea, or his drafted statement, to the Government. The idea of programme/activity rather than SEG cuts was not generally received with acclaim, although later Lough, deputy Secretary to the Treasury, did agree to forward the proposal to Douglas, Chairman of the Cabinet Subcommittee on Efficiency in the State Services, and three pilot studies were eventually conducted.¹³³

The CCPP met twice more during August - a meeting planned for 21st was cancelled and the records note that "the only urgent paper - Review of Government Expenditure: Motor Vehicles - was referred instead to Cabinet for decision on Monday 26/8/74." Two days later the CCPP

reconvened, with Watt in the chair, and Ministers Freer, Rowling, Finlay and Tizard present. Three officials from Treasury - (Lang), the Reserve Bank (Low) and Trade and Industry (Datsun) - and two Cabinet office staff members, Millen and Curran attended. A paper on hire purchase was the only agenda item,¹³⁴ but the Committee was informed orally of the worsening economic situation - it was described as "a drastic deterioration." The Monetary and Economic Council's positive estimate of an overseas exchange transaction deficit of \$700 million to March 1975 was passed on to the ministers. It was reported that borrowing was being undertaken but consumer demand was still excessive. "The key factor in a policy to deal with the present Balance of Payments situation was whether or not the level of wages could be held. [If not] the Government would be forced to introduce repressive measures on consumer demand around June 1975."

Officials reported that the Combined State Services Organisation (CSSO) was not prepared to accept the Government's proposal of 11.25 percent wage increases, and sought 4 percent on top of the mandatory 9 percent - that is, a 13 percent increase - backdated to October 1974. Ministers were urged to meet urgently with the chairman of all wage-fixing tribunals.

It was pointed out to ministers that changes in hire purchase arrangements would be insufficient to correct the deteriorating Balance of Payments situation, although substantial borrowing had been arranged to date:

(US)\$150 million from the Bank of International Settlements (including (\$100 million for one year);

(US)\$325 million on a roll-over basis from Lloyds and the Consortium of Banks;

(US)\$1000 million from Iran (arranged with the Shah of Iran during his recent visit to New Zealand);

(US)\$27 million as private placement in Swiss francs;

(US)\$100 million in export credits.

That was a total of \$702 million. It was not intended, officials reported, to borrow from the Euro-dollar market, although a further \$200-250 million could perhaps be borrowed from the IMF. After a somewhat desultory discussion of means to keep domestic interest rates down, and a proposal for increasing the minimum interest rate on hire purchase for second-hand cars and new vehicles, which would be put before Cabinet on 2 September, the Committee adjourned.¹³⁵

Three days later, on 31 August, the Prime Minister and chairman of the CCPP died. His last work in the latter role had been to chair the Sector Councils meeting on 7 August.

Only one comprehensive analysis of expenditure reviews conducted during the first 20 months of Labour's administration appears to exist - that already cited, by Winchester. There can be little question that many of his criticisms of the methods adopted, particularly by Treasury, to conduct reviews and provide financial analyses on behalf of the Ministers of the CCPP, were well founded. Management information systems, both those available to individual departmental permanent heads and to Treasury officials, were less than satisfactory. Instructions for the conduct of the numerous reviews of expenditure on computers, plant and equipment, staff ceiling reductions, expenditure on Supplementary Estimates and so forth were inadequate. The timing of reviews, and the time allowed for reviews, was highly questionable. There were too few occasions on which officers inside Treasury and elsewhere were taken off normal duties in order to give the kind of attention to special exercises that might have produced some lasting results, not only by way of cost reductions but also in terms of improved systems management in the longer term. Treasury did not always report back to ministers on the results of particular reviews - for example, the plant and equipment review was not reported to the Government, nor were any subsequent

instructions circulated to departments which would indicate to them that important information had been gained as a result of that particular exercise. Where reports were made by departments to Treasury and by Treasury to ministers, these often implied that there was a direct and necessary relationship between "wants" and "needs", between general statements of purpose and specific programme objectives.

However, nowhere in his analysis of the 1973-74 reviews of policy does Winchester refer to the political climate which surrounded them. Throughout the months preceding Kirk's death, during his protracted illness, with the problems created by the loss of active, positive, consistent party and Cabinet leadership, Labour's ministers and their principal advisers were engaged in sensitive and difficult debates over the proper nature of a wage and incomes policy; the proper line to take in developing an economic strategy; appropriate measures to adopt in controlling union demands while retaining union support; the kind of planning structure most likely to facilitate Labour's economic strategy (once the profound differences between ministers and officials on this were overcome); and above all, measures which would modify the impact on the economy of the abrupt and virtually unforeseen problems caused by the oil crisis and the change in New Zealand's overseas trading situation. Elsewhere we discuss these problems from another perspective, but here it may be suggested that, in hindsight, Labour ministers had not reached a sufficient level of agreement among themselves, before assuming office, on some important questions of the ideological framework (or the forms of political preferment appropriate to public policy making). Such an agreement would have assisted them, once in office, in coming to terms with officials' differing points of view. The intense pressures of day-to-day business in central Cabinet government do not allow the sort of time that major policy developments require: time to debate, time to let issues lie fallow, time to reconvene discussions away from the daily stress of ministerial decision-making.

The same argument may hold true for key officials, particularly those in the relatively small department of the Treasury. Finance officers and investigating officers had been required to initiate and report on numerous expenditure reviews by August 1974. They were, in effect, competing for the attention of the inner Cabinet against ministers outside the CCPP determined to gain the funds necessary to promote their particular departmental objectives in education, housing, health, social services or farming. Labour's immediate decision in December 1972 to shift important financial and economic policy decision-making away from the traditional Cabinet Economic Committee area, where officials and ministers had an established division of labour, with habitual behaviour of advice and response, into the tiny, highly protected and relatively closed circle of the CCPP had considerable psychological impact on officials. For almost a year, the CCPP ministers operated virtually without an official's committee. During 1973/74 they were obliged to accept the advisory services of the Officials Economic Committee, and placed increasingly heavy reliance on officials in Treasury and the Trade and Industry department. On the one hand distressing reports on the state of the economy led ministers to seek urgent measures for cost cutting in government expenditure. On the other hand, other ministers not privy to all that took place in the CCPP were clearly resistant to attempts to depress their spending ambitions. In the absence of clear leadership, Cabinet itself does not appear to have provided a forum where collective self-denying ordinances about spending could be formulated, consistently applied and regularly evaluated. It would be unwise to accept the Winchester analysis, for all its merits, as providing a comprehensive record of events. The historical distortions created by ignoring, or underestimating, the political motivations and pressures on officials and ministers of the time must be identified if we are to recognise that failures, for example in controlling public sector

expenditure, are political in nature. They illustrate the impact of political conflict in central government at least as strikingly as they do technical systems failures or deficiencies in management style.

The CCPP gets along without Kirk

In a memo to the Minister of Finance (Rowling) some three weeks after the publication of the 1974 Budget and annual Estimates, Millen, secretary to the Cabinet had written as follows:

When the weekly item on new expenditure was discussed in Cabinet on Monday 24 June, you drew attention to the complete turn-around that had occurred in the economic situation during recent weeks. You requested your colleagues to adopt a critical and selective approach to expenditure by Departments, particularly items involving the heavy use of overseas funds. Restraint in the Government sector would also need to be exercised generally if some of the inflationary effect of the 9 percent wage increase was to be absorbed.

Current indicators pointed to a deficit next year in BoP (balance of payments) of the order of \$400-500 million. In the import licensing field, consumer goods should be cut to conserve overseas funds so as to ensure the availability of sufficient materials and plant replacement for industry. It was essential therefore to give emphasis to domestic policies capable of maintaining production; otherwise, unemployment would become inevitable in certain areas.

The Secretary went on to recall discussions in Cabinet about the movement of goods between New Zealand and Australia, current serious threats ("perhaps ... greater ... than at any time since the 1920's") to the international financial structure, and the problem of "rigidities caused by the industrial unions."¹³⁶

Three months later, and only a few days after Kirk's death, a Treasury report to the CCPP showed that there was no likelihood that these earlier predictions would prove unjustified:

1. Excess demand and adverse terms of trade have turned a current account surplus of more than \$300 million in the year ended June 1973 into a deficit of \$145 million in the year ended July 1974 - a net turnaround of \$175 million. The annual rate of deficit could well approach \$700 million in the 1974/75 March year.

There could be some improvement after that if the rate of importing slackens and providing export prices do not deteriorate.

2. New Zealand was fortunate in having high reserves when our terms of trade started to deteriorate. So far we have used more than half of our resources in addition to some borrowing from the B.I.S. Our reserves are down to \$500 million, equivalent to less than three months imports. We cannot afford to allow them to run down much more.

3. We have been very fortunate in having been able to make arrangements to borrow a massive NZ\$375 million which will see us through to early next year. With other credits being arranged this will double overseas public debt in one year. More loans will be needed next year but clearly our international credit rating will drop sharply and we shall find it harder to borrow. Potential lenders including the IMF will want to satisfy themselves that we are taking adequate remedial measures.

4. Our present policies involve heavy risks. If our BoP looks as bad in 12 months as it does now, overseas borrowing will dry up and we might not be able to finance the imports needed to sustain a reasonable level of activity. In these circumstances effective control over our domestic policies becomes increasingly difficult. We would be virtually powerless to prevent a general collapse of confidence which could result in widespread unemployment....

5. The key issue at present is that we can no longer afford the imports needed to sustain the high rate of growth achieved in the last two years. Restraints must be applied to reduce the level of total spending. The problem is how to manage this successfully, while maintaining full employment and reasonable growth rates. Most other countries are dealing with similar problems by conventional measures which have resulted in national unemployment and a world recession. There is a chance that the risks we are taking will pay off provided:

- incomes policies are firmly held:
this means that there can be no significant break in the 11½ percent wage increase. The public service demands must therefore be resisted even at the cost of strikes;
- monetary policy is kept tight:
this does not preclude selective easing in high priority areas;
- Government expenditure is held:
new policies must be deferred until excess pressure has gone out of the economy. It may well be possible to consider some new policies in selected areas aimed at maintaining employment in the second half of 1975.

6. To sum up: If we exclude the policies which are politically unacceptable, the choice is simple. We either hold incomes, keep money tight and restrain Government expenditure or we face the near certain prospect of recession and unemployment next year because we would not be able to pay for necessary imports.

[Signed] H. Lang.¹³⁷

This paper was discussed by the Committee on 11 September and the following day an updated version was tabled at Cabinet.¹³⁸ Cabinet was simultaneously presented with a Treasury memo recommending increases in bulk charges for Railways, Post Office and NZ Electricity department services - increases which, it was stated, would be necessary to cover current deficits in each of these departments. This issue was deferred, but the minutes of 12 September record that:

In summing up the discussion in Cabinet today ... the Prime Minister stated that there was agreement that lines must be held on Government's incomes and monetary policies and that Government must be on guard against an excessive rise in the public sector... Greater emphasis must be placed on maximising production and greater NZ-added value (more processing), particularly for export...

Whatever policies had to be devised, it was essential to get the right message across to the community so that the situation was understood and necessary measures of restraint accepted without denting public confidence in the future of the New Zealand economy. In this connection it would be useful for Ministers to have by them a 'backgrounder' so that they could coordinate [sic]. The Prime Minister added that he contemplated making a 'state of the nation' message.

The Minister in Charge of Publicity [Dr M. Finlay] requested all colleagues concerned to supply him with brief notes on how they saw the situation, the matters of moment, and how these might be handled and presented. He would then produce a 'background'.¹³⁹

A few days later the idea of a "backgrounder" collated by Findlay had expanded to include the possibility of a White Paper against which the Prime Minister (Rowling) could deliver a state of the nation message. In order to allow Finlay to "inject the necessary insights" into Treasury's economic report, Ministers were requested to inform him about (a) urgent current matters; (b) new or projected policies which could be deferred (remembering that "it could be necessary at some later time to re-stimulate activity in the public sector"); (c) a priority rating for all new policies ("which

by definition, include significant extension of all new policies"); and (d) existing policies which could be slowed down phased out, deleted or deferred.

All colleagues are requested to supply Dr Finlay with brief notes on how they see the emerging situation, the matters of moment (i.e. the need for rising expectations to be restrained and social objectives re-ordered within the constraints on the economy) and how these matters might be handled and presented (i.e. to generate a public acceptance of necessary measures which, because they are in the nation's interests, require some sacrifices of narrower interests).

[Signed] Millen.¹⁴⁰

The idea of a public presentation, explaining the Government's present situation and the nation's economic predicament, grew and was embroidered. Problems were discussed: how comprehensive should the prepared public statement be? If it was too lightweight, there would be adverse criticism; if too significant, it may need to move out of the status of a ministerial speech, and become a White Paper, debated in the House. Eventually, at the beginning of October, it was decided to repeat the exercise conducted in August when Kirk was alive. A public meeting or community conference would be held between the CCPP and a carefully selected audience of "significant publics." Emphasis was to be placed not on the facts ("the participants are likely to know the facts anyway") but on how the Government would give a lead in the present situation. Two points would be underlined: firstly, that despite some breaks in the agreed regime for wages (1 July, 1974), the Government would hold the line on prices and incomes; secondly, if overseas borrowing dried up, or the terms of trade worsened, "further measures" now under consideration by the Government would be introduced, their severity depending on the demonstrable restraint exercised by all relevant sectors, including the Government itself.¹⁴¹

A date (later put forward) was set for 16 October, and in Cabinet and Cabinet committees ministers debated with officials the form the public presentation should take. There were strong reservations on the part of

some ministers as to how pessimistic the report should be; others, like Freer and Walding, emphasised the need to present various (albeit unpleasant) alternatives to the community - "this was, they felt, very much an exercise in political leadership."

Ministers were now pushed right up against the hard-edge of electoral office. They felt a real grip of restraint on their room to manoeuvre, caused particularly by the Party's election commitments in 1972. A few days before the public meeting (23 October), the Prime Minister (Rowling) raised this question in Cabinet, and Millen later recorded that

You [the Prime Minister] raised for discussion the inhibitions imposed by undertakings in the 1972 Election Manifesto, and the possibility that in order to be free of these it might be necessary to go to the country. It was felt by many of your colleagues that an election now would be ill-timed, the Government had a mandate to govern and it was surely possible to introduce emergency measures provided the reasons and changed circumstances were put squarely to the people. The holding of a snap election could be counter-productive insofar as it might indicate that the Government was losing its nerve.¹⁴²

While these nervous ministers were preoccupied with the significance of imports and wages growth, they were also concerned about the contribution the forthcoming COPE exercise could make to their deliberations. Treasury had recommended, and in October (1974) the Minister of Finance (Tizard) had agreed, that "no specific growth target should be given to COPE for its 1974 review". COPE was to undertake its "normal" review, culling out new policies, ensuring uniformity in departmental estimations and eliminating "padding" from the forecasts. In addition, it was given a number of special tasks such as identifying areas of significant overseas exchange expenditure, areas for possible early significant increases in foreign exchange earnings, and areas of possible "low import" employment in the government sector.¹⁴³ Simultaneously, in Treasury itself, there was clearly growing criticism as to the efficacy of the COPE exercise. One Treasury officer commented, in

an internal memo written in August, when Government anxiety was peaking, that during COPE "no attempt is made to calculate the effects [of forecasts] on resource allocation, or the significance of Government competing with the private sector for scarce resources. Instead, Treasury suggests that Ministers undertake a review of existing policies to achieve savings in expenditure. Such a review invariably comes up with very little savings with Ministers being reluctant to support measures designed to reduce the spending of their own departments." The author of this critical paper continued to berate his own colleagues:

Fundamental to the whole COPE exercise is the power of COPE as a separate entity to cut departmental forecasts and not have some or all of the cut reinstated at the request of the permanent head. COPE is instructed to undertake a critical examination of departmental requests on existing policy. However, this is impossible when any derogatory comments or constructive suggestions for improvements in forecasting techniques are deleted from the final COPE report. It seems there exists a tacit understanding amongst permanent heads to ensure that no department will be discriminated against, either financially or by report even if such action is warranted. The corollary for departmental forecasters is that provided Permanent Heads can quash any criticism of forecasts levied by COPE subcommittees and perhaps reinstate cuts, then forecasting techniques will not be taken as seriously as they should.¹⁴⁴

As though in provocative echo of this criticism, on 9 October, in what would be the tenth special existing policy review conducted since Labour assumed office two years before,¹⁴⁵ the CCPP had instructed ministers and their departments to review and report on measures which would significantly reduce or defer foreign exchange expenditure. This review was conducted and a report forwarded to the Minister of Finance in early December 1974. The reports from departments (which included very few recommendations of where savings could be effected) showed direct overseas expenditure amounting to \$264 million in 1974-75 "with a forecast real growth to \$301 million and \$324 million in 1975-76 and 1976-77 respectively. This was in addition to \$80 million involved in indirect expenditure on imports, expected to increase to \$97 million by 1976-77."¹⁴⁶ The Treasury pointed

out to ministers that "in 1974-75 New Zealand had used up \$880 million more overseas funds than it had earned. This was estimated to be, in rough terms, about five years normal growth of exports." Again, it was emphasised that much more effective policies concerning imports must be implemented, with substantial reductions in government expenditure of overseas funds. Six specific steps of an "across-the-board" nature were recommended:

- departments were to be instructed that overseas travel allocations in the next year's Estimates should incur no more than 75 percent of the amount provided in 1974/75;
- the same 75 percent restriction should be placed on overseas expenditure under blanket import authorities; more critical review of applications for imports should be conducted by the Government Import Control Committee, which should be provided with a detailed account of the overseas funds implications of all proposals for departmental expenditure;
- hospital boards should be circularised with a request for their cooperation in reducing or deferring overseas expenditure;¹⁴⁷
- a Cabinet circular should be sent to all ministers and departments informing them of the [above] requirements; and
- departments should be asked to specify areas where, although immediate savings could not be made, an in-depth review may be worthwhile.¹⁴⁸

By February 1975, the Government had adopted Treasury's recommendations on overseas expenditure, although the limit on blanket import authorities had been raised to 85 percent of the 1974-75 appropriation. Although some \$21 millions had been estimated as possible savings arising from the review, it was apparent later in 1975 that once again this "special review" approach had been almost completely ineffectual. Expenditure continued to increase, potential savings from this area were not realised. One Treasury source noted that

serious data limitation were inhibiting meaningful analysis of overseas exchange transactions; that it was impossible to use figures on import approvals emanating from the Import Control Committee because only a relatively small proportion of Government imports were subject to the Committee's approval. Hence, there was reason to believe departments were generally ignoring import requirements to restrict overseas expenditure largely because internal procedures were not geared to effective control of overseas expenditure. ¹⁴⁹

Although the October community conference had been considered a success, when the Committee of Officials on Public Expenditure (COPE) reported to the Minister of Finance in late December 1974, the Government was still engaged in intense activities over its wage and incomes policies. It was now clearly apparent that past attempts to restrain spending and resist demand, either through exhortation, review, or direct instruction had been unsuccessful. The costs of existing policy maintenance were becoming prohibitive, and given the severity of the external funds situation, COPE recommended that urgent action be taken to examine the policies which required financial support. In an atmosphere of considerable gloom, on 9 December, the Cabinet authorised the CCPP to take steps recommended by Treasury to lower spending levels through the conduct of an expenditure review to be conducted early in the new year. This review was to be undertaken not by departmental officials on behalf of ministers, as in the past, but by the Treasury itself. The paucity of previous departmental/ministerial offerings indicated the need for a more hard-line Treasury approach. Recommended action was to be reported to the CCPP.

At the beginning of February, a report from Treasury on the current economic situation restated the unpleasant information of the previous year:

The expected downturn in economic activity is now underway. At the same time the BoP position is serious, inflation rates are still high and unemployment has increased. The excess demand conditions of the past two years have been replaced by a situation where, in a number of industries, production is being reduced as a reaction to falling orders, a build-up of stocks and a general decline in business confidence. In due course the easing of investment and consumption demand should be reflected in a fall in imports, but this has not yet taken place...

The CPI for the year to December showed the largest annual increase ever recorded - 12.6 percent. A large contribution has come from the housing group. At the same time wages have shown a rapid increase...

There was another large current account deficit in the month of December. This was almost matched by Government borrowing and a substantial private capital inflow. The current account deficit for the calendar year was \$816 million. 150

Against this background, the CCPP considered Treasury's recommendations from the existing policy review. At its meeting on 5 March, with only Lang and Millen present, four ministers (Tizard, in the chair, Finlay, Faulkner and Moyle) were provided with additional information. Lang commented orally that in 1975/76 existing policies alone would increase Government expenditure by 26 percent. If all new policy requests received in the Treasury during the previous few months were implemented, there would be an increase of 36 percent over the current year's appropriations. As real growth in the economy was "static", and assuming that with critical appraisal of policies there could be only a 30 percent increase in Government expenditure, there would still be, the Secretary warned, a "massive diversion of funds to the Government sector."¹⁵¹

The CCPP therefore directed all departments that for 1975/76 there would be a 50 percent reduction in overtime, and any exceptions to this would require approval by joint ministers (i.e. the Minister of Finance and the minister of the department concerned). Further, all estimates for furniture and fittings were to be held at 75 percent of the 1974/75 allocation, unless there was a special dispensation on this by the Minister of Finance. This provision was expected to yield a saving of \$1.8 million on a voted \$7.4 million. In addition, there was to be an immediate review by the Treasury of policy areas where Treasury officials believed savings could be effected in nine Votes:

- (i) Defence: bringing back New Zealand forces from Singapore. A saving of up to \$16.6 million could be made per annum if the staff affected were reduced in number, rather than redeployed.
- (ii) Foreign Affairs: a reduction in overseas aid as a proportion of GNP, then set at 0.7 percent, recommended to become 0.54 percent, could save about \$20 million in 1975-76.
- (iii) Health: an increase of 10 percent on all charges for laboratory services could produce increased revenue in the area of \$1 million per annum.

(iv) Internal Affairs: a change in policy on the Nelson notional railway, with the elimination of the fixed charging system (a change recommended by COPE in December 1974) could produce savings of about \$1.2 million per annum.

(v) Justice: increased fees and charges, and a change in the existing legal aid policy, could yield increased revenue of \$1 million in the coming fiscal year, and each year thereafter.

(vi) Labour: it was recommended that assisted immigration should become more selective, and Treasury had indicated that there could be a variety of favourable spin-off effects from reducing immigration figures.

(vii) Railways: various rail vehicles intended for purchase could be re-considered in order to achieve an \$11 million saving over three years. Treasury also considered, and the CCPP approved, a review of passenger rail policies.

(viii) Stabilisation: An immediate change in subsidies for bread, eggs, milk and sugar could total savings of over \$81 million.

(ix) Transport: the proposed design of the Wellington airport terminal could include modifications to save \$9 million over the next six years.¹⁵²

It was hoped by the CCPP that recommended savings could be reported later in March, their effects analysed in time for adoption in the forthcoming Estimates. As with earlier existing policy reviews, however, later study indicated that the actual impact of the exercise had been extremely modest. Winchester noted that

Analysis of the Estimates for 1974/75 and 1975/76 [showed] the extent to which departments had complied with the prescribed across-the-board reductions. Of the 35 departments which could have been expected to reduce overtime charges, only 13 made the requisite 50 percent savings. All others sought and obtained exemptions for higher allocations from their ministers and the Minister of Finance so that the anticipated cost reduction dwindled to 27.3 percent - from roughly \$22 million expected to \$12.0 million. Whether the full amount of this reduction [was] attributable to efforts to reduce overtime could not be established. The reduction could have been influenced by other factors, e.g. stating original estimates at levels higher than what was actually required, deferral of planned overtime to subsequent

accounting periods, or changes to assessments of overtime requirements.

The exemptions were supposed to have been allowed in only exceptional circumstances. Whether this was the case in every instance is questionable. In one instance Treasury reported that:

The Ministry of [Transport] could have reorganised its opening hours...so that overtime provision was not overspent and possibly could have opened...for longer hours in the period before the summer holiday. It now transpires that the Ministry has made no attempt to reduce the level of overtime worked...and this indicates that the Ministry's internal check procedures are not effective.

In this case, Treasury supported the request for an additional allocation anyway. 153

The same result was apparent in the requirement for a reduction in furniture and fittings - 15 departments were successful in obtaining exemptions as the Finance ministers considered each application on its individual merits. Some \$1.8 million expected as a saving on this item across all departments was therefore reduced to less than half a million dollars - an amount which was not only trifling in terms of the government's overall needs, but unlikely to be a real saving in terms of the forthcoming Estimates allocations. Winchester commented that in this review, as in others previously conducted, the guidelines for Treasury investigating officers, making their inquiries on behalf of the Finance division of Treasury, were extremely loose and individual officers may interpret the instructions with widely differing degrees of precision. 154

In mid-March the CCPP considered the question of subsidies, but apart from sugar and petrol costs for which prices had already been increased in the light of continued Treasury recommendations in that direction, a proposed bread subsidy was deferred until the new policy review later that month. Treasury had recommended that continued deterioration in the current economic situation suggested the need for another community leaders' conference, possibly on 7 April, to outline the Government's budget strategy. The

timing of both conference and the Budget would be affected by the probable absence overseas of either the Prime Minister or the Minister of Finance from mid-April to early May, the dates set for the Federation of Labour and Labour party conferences (6-9 May and 12-16 May respectively). Treasury recommended an early Budget, possibly on 22 May.

On 20 March, the day before CCPP Ministers began their review of new policy proposals (already previously classified by Treasury in Budget Report No.4), Lang submitted to the CCPP a major fiscal policy paper. He commented sternly and critically on the general situation which required "some unpalatable fiscal decisions." He defined the main problem as "the impact of the Government sector which is far more expansionary than the economy requires or the balance of payments can stand. Government expenditure has been allowed to grow with little restraints and much faster than inflation."

The Secretary then provided a table which demonstrated the extent to which failure to limit the spending ambitions of Ministers and Departments was affecting the Government's room to move:

EXPENDITURE

	1974/75		1975/76	
	\$ [million]	%increase on 1973/74	\$ [million]	%increase on 1974/75
Departmental requests for existing policies:	3,130		4,239	
Add. requests for new policies (votes and investment transactions)	151		416	
Total requests:	3,281	24.6	4,655	40.0
Less normal pruning	-58			
Less new policies not accepted	-87			
Less misc. adjustments	- 7			
Expenditure provision in Budget	3,129	18.3		
New Policies approved after Budget	196			
ESTIMATED TOTAL EXPENDITURE:	3,325	26.3		

The Secretary summarised the revenue situation, expected to total \$3,093,000 (29.3 percent increase on 1973/74) in 1974/75 and \$3,200,000 million in 1975/76 (3.5 percent increase on 1975/76). He suggested a number of tax measures, particularly those which would redistribute income further towards families, and some concessions in company tax. These measures (net) in the coming financial year would cost some \$130-170 million, which would be added to the deficit before borrowing. In summary, the expenditure/revenue situation would be as follows:

DEFICIT BEFORE BORROWING

	1974/75		1975/76	
	\$ [million]	%increase over 1973/74	\$ [million]	%increase over 1974/75
Expenditure	3,325	26.3	4,655	40.0
Less revenue	-3,093	29.3	-3200	3.5
	<hr/>		<hr/>	
	232		1,455	
Add. tax and benefit concessions	<hr/>		<hr/>	
			170*	
	232		1,625	

[*\$170 million was the upper estimate made by Treasury of the net cost of tax concessions and other tax measures proposed in the paper.]

The Secretary then began to bring in the big guns:

Above all, we must maintain external creditworthiness. Both the OECD and the IMF missions have accepted that present policies are reasonable even though they entail considerable risks. Given our current BoP situation, neither of these institutions nor the growing number of our creditors would regard an expenditure increase in the Budget of 40 percent and a deficit before borrowing of over \$1600 million as credible.

In Treasury's view a deficit before borrowing of \$800 million must be regarded as an absolute maximum. Whether we like it or not we must therefore adopt policies leading to a reduction of at least \$800 million.

Failure to make changes of this order would undermine our ability to keep borrowing. Significant losses of borrowing opportunities at this stage would greatly restrict our capacity to import and would lead inevitably to massive increases in unemployment and severe economic and social dislocation.

As in almost all his reports to the Labour Government, Lang explicitly identified the symbiosis between the Government's problems and those of Treasury. However, even the kind of joint responsibility he indicated in the language he employed (there was no distance between the Government and the Treasury, or both and the country as a whole in his use of words like "we" and "our") could not obscure the acute embarrassment for Treasury in the threat of national bankruptcy. After briefly pointing out that cuts in expenditure could not, on their own, be expected to yield the necessary

\$800 million, and direct taxation increases were assumed to be "not feasible", Lang suggested that additional indirect taxes (including a major increase on petrol tax) could produce about \$150 million. His report then continued with an explicit account of past failures, a report which was presented in strongly imperative, moral tones:

[In addition to the taxes suggested above] the rise in Government expenditure must be curbed. Although some presentational changes can be made, some decisions with real impact are also required. There are three major things which should be done:

(a) General change in attitude towards Expenditure :

The conditions of 1973 and early 1974 have allowed Ministers and departments the luxury of regarding money and resources as unlimited and barely relevant to the consideration of desired policy change. Regrettably this attitude still persists and many proposals which are not urgent are accepted because they are desirable. A fundamental change in attitude is a pre-requisite to curbing Government expenditure. As a first step the procedures for approval of policies involving Government expenditure should be strictly adhered to.

The Cabinet should take steps to stop the practice of public commitments being made by individual Ministers without prior approval of the increased expenditure involved. In addition, departments in administering expenditure should be instructed to conform strictly to the prescribed control procedures and have much greater regard, before making expenditure proposals, to the need for economy in the use of public funds.

The Treasury has considered the possibility of recommending an across-the-board cut of say 5 percent, but has concluded that this would not be practicable because the bulk of expenditure consists of salaries, grants and benefits. Salaries could only be reduced by reducing the number of public servants but this presents problems where there is already unemployment. Cuts in grants, e.g. to Hospital Boards or social security beneficiaries would also not be politically feasible. The great difficulty in making significant cuts in on-going programmes at this late stage clearly indicates the need for greater caution in entering into commitments without regard for their implications for future expenditure growth.

(b) Modification of existing policies :

To have any impact, minimum savings of \$100 million should be aimed at. The need to concentrate reductions on activities which do not directly affect employment, and decisions such as those not to raise charges severely limit the scope for significant cuts.

Apart from proposals already submitted by Treasury and reductions in stabilisation subsidies, the only possibility

is to defer new policies already approved, with particular emphasis on major items of capital equipment. These savings would, of course, be in addition to normal pruning of departmental requests.

(c) New Policies:

It is recommended that of the \$416 million uncommitted new policies, only up to \$40 million be approved by the CCPP, provided the \$100 million is saved on existing policies.

Conclusion and Recommendation:

Even with a sizeable cut in new policies, the deficit before borrowing after allowing for tax concessions is likely to be well over \$1,200 million. Although some fiscal reflation is necessary in the early part of 1975/76, a deficit of this size is completely incompatible with control of inflation and external solvency. The following steps should be taken to reduce the deficit to manageable proportions:

- (a) increases in petrol tax and sales tax and introduction of travel tax to increase revenue by an estimated \$150 million;
- (b) a major curb on the excessive rate of increase in Government expenditure by (i) fundamental change in the attitude of both Ministers and departments to approval and control of expenditure;
 - (ii) review of existing policies with the aim of saving \$100 million principally by reduction of stabilisation subsidies;
- (c) holding approvals on new policy not already committed to a maximum of \$40 million, provided \$100 million is saved on existing policies.

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(Sgnd.) H. Lang.

On the following day, with this sobering paper before them (and its author and his Treasury colleagues present), the CCPP held a special meeting, beginning at 8.30a.m. in the Cabinet room. It was to be among the last new policy reviews the Labour administration would conduct. The Prime Minister, Rowling, took the chair, with Tizard, Freer, Finlay, Faulkner and Moyle, and Lang, Shailes, Galvin and de Jardine from Treasury. They set out to examine all the new policy requests. It was apparent that despite past exhortations, requests and instructions, the arguments for frugality and restraint had largely gone unheeded. During its consideration of bids from the Minister of Education, for example, the Committee expressed concern

at the

"fragmented approach adopted by [Amos] in submitting his new policy proposals. In the circumstances the Committee authorised [sic] the provision of finance of \$1 million (1975-76) \$2 million (1976-77) and \$2 million (1977/78) respectively for the 90 new policies marked...in Schedule 2 (i.e. policies not yet approved) and invited the Minister of Education to submit (with a copy to Treasury) a revised list of policies for introduction in 1975/76, totalling no more than this financial restraint...158

Although the adoption of this sort of envelope approach to new policy bidding may have had some immediate benefits in terms of the presentational problems of the forthcoming Estimates, it is apparent from the records of the CCPP's activities that little thought was given to the possible impact of such an instruction. For example, the distortions of current and future policy funding caused by the departmental/ministerial selection of policies which would fit arithmetically into the prescribed totals were not explicitly discussed. The flow-on effects of policies which were selected and approved as part of this arbitrary packaging were not described or explicitly predicted. The extent to which there would be a build-up of pressure for policies not funded during the current new policy exercise, but irresistible later for other reasons (such as their political nature) and therefore bound to recur outside the more stringent parameters of the special new policy review, was not taken fully into account.

Eventually the Committee stated its intention to insist that all financial approvals must be obtained by spending departments at the appropriate level, when seeking to implement new policies, approved by the CCPP. It was added (as another partial solution to the presentational problem) that new policies would not be announced until after the Budget unless there was a special reason for doing so. Treasury was then asked to provide details of the estimated out-turn for each Vote in 1974-75, plus the requested allocation for 1975-76, and the proportion of new policy (approved for inclusion by the CCPP) in the Vote provision for each department.

A few days later, on 26 March, the CCPP reconvened to consider a range of special topics, the review of existing policies and the new policies proposals. One paper for this meeting was given an unusual "Top Secret" classification, which requires a signed receipt showing that the person named has received documents as scheduled (in this case they dealt with the possible withdrawal of New Zealand forces from Singapore).¹⁵⁷ Other papers were given the usual pre-Budget "Secret" classification. Rowling took the chair, with regular CCPP members Tizard, Freer, Finlay, Faulkner and Moyle, plus Millen from the Cabinet Office. Other officials joined the Committee at relevant points. The Committee agreed on the phased withdrawal of troops from Singapore, and decided that this should be discussed with the Singaporean Prime Minister Lee Kuan Yew during his visit to New Zealand in early April. It was decided to allocate \$1m. for land purchase for Rolleston, a new town near Christchurch, and pay \$10 million subsidy to the Wheat Board to offset trading losses, charging this to Unauthorised Expenditure 1974-75. Stock and station agents had sought financial assistance, and it was decided to provide them with confidential notice that \$20 million would be made available through the Rural Bank for re-financing farm debts in 1975/76.

The Committee agreed on only one new policy item - an increase in milk by 2 cents per bottle, to be carried out immediately after the matter had been referred to and endorsed by the party Caucus. Decisions on bread, flour and butter subsidies were deferred, while decisions about petrol and fuel were postponed until later Budget considerations.

Eight existing policy items were discussed, and in five cases changes were agreed: a reduction on overseas development assistance for butter sales; an increase in Justice department fees (to yield about \$4 million); the abolition of Labour's assisted passage immigration policy, with a general review of immigration policies; the cancellation of Railways purchases of new wagons (about \$11 million worth) and a review of all other van and

passenger rail services; and a decision not to fund any modifications to the Wellington airport terminal. Health charges were to remain untouched, Defence policies were to continue with the same level of funding, and there would be no further action on the Nelson notional railway. It was anticipated that Cabinet would endorse all these decisions.

The Committee also recorded in its minutes that items with a "D" classification from Treasury (delete/defer) were not to be re-submitted at any time during 1975-76 unless their authors received prior approval from the Prime Minister via the Secretary of Cabinet and even then they would proceed only with the explicit approval of the CCPP.¹⁵⁸

Throughout April various items classified as "existing policy review" and "new policy" were debated: minor matters related to energy savings were tabled along with some of wider significance, such as a decision on 2 April to approve the provision of funds for the conversion to coal in industry.¹⁵⁹ On 9 April, with no other officials than Millen present during the deliberations, the CCPP decided to defer its earlier decision on assisted immigration pending further information, and to invite the Minister of Immigration to attend the next meeting for consultation. At the same time, in what was optimistically described as the "final new policies review", the addition of various items, such as the approval of costs for community use of school recreational buildings (Vote: Internal Affairs) and some instructions that departments should absorb some costs (e.g. Social Welfare to absorb \$600 for the Social Welfare Council Tourist and Publicity to absorb \$30,000 for research and promotion in tourism) were allowed.¹⁶⁰ The Minister of Education, Amos, had responded to the earlier instruction on fitting his preferred new policies into the prescribed sums for the three forward years, and the Committee noted that "Minister of Education's proposals worth \$998,000 are within the financial

constraints laid down in PP(75)M10 (p.3)." Accordingly these items were to be included in the 1975-76 Estimates. The Committee added, however, that:

with reference to the Minister's comments under Priority 1: Integration of Private Schools in para.6 of his paper, [it] directed that the Minister be advised that the amount of \$1,500,000 approved for this item was by way of further interim assistance in increasing the percentage of State salary costs paid to independent primary and secondary schools which would relieve the situation in their accounts and be a further step towards integration; and that the Committee regarded as premature the Minister's recommendation to provide funds in the Main Estimates 1975/76 for their specific purpose of meeting the costs of the Integration of Private Schools because it is believed this proposal would take some time to be worked through. (In short, what could be put on the Main Estimates under this heading would only be notional at this stage; it might therefore be better to change the heading under which provision for \$1,500,000 had already been approved.) 16/

Treasury had already reported to the CCPP on difficulties it had had in isolating various costs in the funds for Education and Hospital Boards, particularly furniture and fittings which, under the earlier existing policy review, was supposed to be set at 75 percent of the 1974/75 allocation. It was therefore agreed by the CCPP (9 April) that the Minister of Finance should write to the various Hospital and Education Boards requesting them to restrain expenditure for 1975-76 as far as practicable below the 1974-75 levels on overtime, furniture, fittings and imports. At this stage (unlike the more direct approach adopted some six years later by the then-Minister of Health, Gair [National]) the letter was both optimistic and conciliatory:

[To the Chairmen of Health and Education Boards]:
You may be aware that Government, as part of its policy to restrain growth in Government expenditure, and ease pressure on overseas funds, has taken steps to curb departmental expenditure in 1975-76. In general terms all departments have been directed to plan to restrict expenditure below 1974-75 levels in certain key areas, including overtime, furniture and fittings, and expenditure on imports. You will appreciate the difficulties involved in determining the portion of your grant expended in the above three areas and the undesirability from both Government's and your own point of view, in making arbitrary cuts at the time the 1975-76 grant levels were decided. No such action eventuated, or was indeed contemplated, when allocations were set.

It is not proposed that specific guidelines be issued to you in planning the disposition of your Boards' expenditure in 1975-76. Nevertheless, it will be readily apparent to you that financial planning and priorities should be in the general tenor of Government spending elsewhere if the Government's objectives are to be attained.

In planning your Boards' expenditure in 1975-76 therefore would you please emphasise the need for restraint in the three areas. I would request you to restrain expenditure in these areas so far as is practicable below the 1974-75 levels. It is not, of course, intended that the restraints be applied to the extent that the level of service offered is seriously affected or that efficiency is significantly reduced. I am confident of your cooperation and assistance in taking steps available to you without deleterious effects on your Board's activities.¹⁶²

The following day (10 April) a Cabinet memo was sent to all Ministers and all permanent heads on the 1975-76 New Policy Review. They were informed that (1) reviews had been completed and Ministers would be informed individually of the provisions that would be made in the Estimates for new and existing policies;

(2) the provision which Treasury added to the 1975-76 Estimates after consultation with Departments may vary due to costing revisions or the departments' ability to absorb expenditure. Financial approval at the appropriate level would still have to be obtained before actual expenditure was committed.

(3) "D" items were not to be re-submitted throughout 1975-76 unless [Ministers] gained prior approval of the Prime Minister through the Secretary to Cabinet and the approval of the CCPP with its specific recommendation to Cabinet. If the Prime Minister did not approve, then the CCPP could not either.¹⁶³

During April, and in the weeks leading up to the finalisation of the Estimates and publication of the Budget on 22 May, the CCPP gave its greatest attention to matters of revenue and wages and incomes policies. Wages claims were threatened, and the Treasury and other officials, along with ministers, were extremely anxious to secure union agreement to a freeze on wages, or at least a deferral of wage push, until after the Budget

announcement. A Treasury paper on personal income tax (Budget Report No.12), submitted on 4 April to the CCPP and amended, with other supplementary papers as Budget Report No.12, in early May, included the following comment on revenue-expenditure difficulties :

The Committee (5 May 1975) noted the change in the estimated deficit before borrowing from \$395 million in 1974/75 to \$1 082 million in 1975-76, against a background that whereas expenditure in 1975-76 would increase by 21.69 percent, revenue could only rise by 1.7 percent (in contrast with 29.7 percent and 26.3 percent respectively in 1974/75).

This change was said to be too big to be credible in international circles. Unless the deficit could be reduced to a level of \$800 million it would be extremely difficult to borrow overseas on acceptable terms or to satisfy our creditors that New Zealand was serious in taking remedial action. At least another \$150 million in revenue ought to be found.

The general question of unfreezing Government charges was also discussed. Some members of the Committee felt that consideration could be given to announcing a phased timetable for unfreezing the charges over a period starting, say, with the Budget and lasting well into 1976; these measures should be presented as a necessary corrective of the distortions in the economy that had occurred because of the Government's undertakings in the 1972 Manifesto.¹⁶⁴

Distribution of this part of the CCPP's discussions was limited to the Prime Minister, the Minister of Finance, the Secretary to the Treasury and Millen (secretary). Sensitive topics such as the creation of state services jobs for unemployed persons, and the revenue implications of not increasing railways, electricity and Post Office charges caused protracted and exhausting debate, with various exchanges between the Caucus (which rejected the suggestions for an increase in the price of town milk, and the proposal for an increase in the Family Benefit) and the Committee. Correspondence was exchanged between Treasury and the ministers on the question of capital gains and net wealth tax. Treasury strongly rejected the idea of capital gains tax on the grounds that

(a) profits of gains arising from sale of land primarily used for farming or agricultural business or a residence for the taxpayer [would] be exempt (under current law);

- (b) current assessments (under Property Speculation Tax Land and Income Tax Act 1954 and Land Amendment (No 3) 1974) already raked in \$350,000 and covered main capital gains;
- (c) the case for taxation of capital gains was based on the principle of equity. If it were accepted that any system of taxation should embody the principle of treating equally those who are in a like position, it would be difficult to justify the exclusion of capital gains from the tax base
- (d) administrative problems - it would be necessary to clearly define categories of assets subject to tax and specify method of computing capital gains;
- (e) for practical and other purposes most countries which taxed capital gains exempted certain assets e.g. main private residence, personal assets up to a certain limit, motor vehicles, farms.

A general exemption was normally granted to eliminate a large number of small assessments and as a means of allowing for inflation. Exemptions such as these eroded the tax base.

- (f) on overseas experience, capital gains tax was unlikely to produce significant source of revenue, e.g. OECD study showed that of 13 members with capital gains tax, only 2 percent of their income came from that tax.

Wealth tax was suggested where income tax did not in itself appear to be a sufficient measure of taxable capacity. Problems were that

- (a) it was administratively dreadful i.e. would need an annual return of the value of assets and liabilities of individuals and companies; It "would place considerable workload on limited number of independent professional valuers."

- (b) no country had wealth tax which produced significant revenue;
- (c) neither the Ross nor the Asprey (Australia) inquiries had recommended wealth tax.¹⁶⁵

Numerous revenue producing measures, of a relatively minor kind, were approved and passed on to Cabinet for endorsement, and a few days before the publication of the Estimates the CCPP agreed that there should be increases in benefits for women, with legislation to bring those into effect introduced within 12 months. Some new benefits were approved as a result of a recently conducted Survey of the Aged.

Immediately before the Budget day, a simmering problem - housing - began to peak. The Minister of Housing (Douglas) joined the Committee on 21 May, with some strong claims. Firstly, he pointed out, there had been a fall in the number of building permits issued in five urban centres, and this was causing problems; secondly, the Government's target of 30,000 new houses completed in 1975 would not be reached on the basis of present policies; thirdly, \$4 million was needed to provide additional loans for young people:

A number of points made by Treasury [Lang and Brewerton] were disputed by the Minister [Douglas]. He claimed that the diversion of \$4 million would not reduce the number of developed sections coming onto the market since it would be taken from the \$24 million allocated for the purchase of raw land. Effect of this reduced purchase would not be felt for 3 or 4 years. In the interim, the number of sections sold would increase....

The Secretary of Treasury pointed out that the Minister of Housing sought \$30 million for land purchase and development for the 1975/76 financial year. He had received approval for \$24 million and was now proposing to reduce this to \$20 million. In Treasury's view it was likely that the need would subsequently arise for an increase in the land purchase and development allocation if funds were diverted from it. Treasury was said to agree with the need to provide housing and maintain employment in the building industry, but the present proposal was, in essence, seeking an increase in the loan limit for a small number of people. Such a proposal appeared to be socially unjust. All Government Departments involved in the housing programme were said to have agreed that a target of 30,000 houses was required. A consideration quite separate from the housing programme was the maintenance of employment. It appeared that the transfer of \$4 million for loans on sections was not the most cost-effective way of maintaining employment. If information now available indicated that the original forecast of 30,000 units would not be achieved then a complete reappraisal of the housing programme was required and action should not be taken on a piecemeal basis.

The Minister of Finance asked his Housing colleague why there had been a drop in house building and

the Minister of Housing indicated that in the near future he would be asking the Committee to agree to... the contingency programme for 20,000 houses in specific areas [as in] the housing programme. The view was expressed that before this contingency programme was introduced the whole housing field including the proposal to increase section loans should be reviewed.

The Douglas plan was therefore deferred, and a review of housing requested.¹⁶⁶

This discussion provides an illustration of the sort of attempt by Ministers to retain for their own varied purposes the funds available, from time to time, as a result of defective planning, over-estimations, or changes in the behaviour of a particular population. On this occasion, Treasury was clearly disinclined to recommend that Housing should benefit from a switch of funds to an area where the consequences could not be clearly defined.

Not only the Housing Minister, but Moyle, Minister of Agriculture, spent time knocking at the CCPP door before the Budget was finalised. Moyle had requested more money and various incentives for farmers, and had asked the Treasury to provide suggestions which would "meet the Minister's proposals but not involve expenditure." In a subsequent Budget report, Treasury had proposed tax exemption for cooperatives in agriculture and fishing, in order to encourage a "ploughback" of investment.¹⁶⁷ Moyle had gone back to the CCPP on receipt of this paper, and requested assistance to sharemilkers wishing to purchase farms. Again, Treasury did not recommend any immediate provision of funds, although a week before the Budget announcement the CCPP did agree that in his speech to the House the Minister of Finance might "hint" that a scheme along these lines was now being worked out by the Government. (On 22 May, in the Budget, Tizard stated that

It has also been decided to provide additional aid to certain sharemilkers buying their first dairy farm. This will take the form of an interest-free suspensory loan to sharemilkers who are required to sell a substantial part of their sharemilking herd when buying a farm with smaller carrying capacity. The loan will be repayable if the farmer concerned ceases to farm within

10 years of borrowing the money. The Minister of Agriculture and Fisheries will announce details in due course of all the new measures of assistance for the agricultural sector. 168)

A Cabinet meeting was held on Sunday 11 May to finalise the Budget strategy. A whole raft of papers and Treasury reports, mainly concerned with different sources of revenue and subsidies and other forms of assistance, were considered. Some papers (e.g. Budget reports concerned with sales tax on bitumen, fuel savings on private planes, fertiliser subsidies, noxious weeds, the fishing industry, taxation exemption for cooperatives, social security benefits and the study grant for students) were distributed to all ministers, and retained by all. Others, dealing with more sensitive matters (such as sales tax, overseas travel restrictions, bulk charges, indirect taxes, structural assistance to industry and to dairy farmers, and monetary policy) were retained only by members of the CCPP. Millen noted that all papers [were] to be stored and retained in accordance with the rules that normally apply to Cabinet papers i.e. released only on a 'need to know' basis. 169

Three days later the CCPP rejected a proposal from officials for a lower rate of company tax for firms with a demonstrable export performance, but agreed that they would allow for a deduction from assessable income from increased exports to be raised with a new market export tax incentive introduced once officials had produced an acceptable definition of what constituted new markets. Several changes to earlier decisions, such as bank rates, petrol price increases and sales tax were implemented by Order in Council regulations two days before the Budget announcement. 170

The tone of the opening statement in the Budget was fairly aggressive given the problems it announced: "The Government's policies call for a continued high rate of increase in its spending and some concessions in the field of taxation." 171 The Public Accounts, already published, had had the following main features:

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Total net Government expenditure (for 1974/75) amounted to \$3,214 million, an increase of 26.2 percent over the previous year; revenue and other receipts totalled \$3,020 million. This represented an increase of 26.3 percent, and left \$194 million of net expenditure to be financed by borrowing. Estimates for the 1975-76 year showed an increase of over 19 percent in net expenditure, with only a 10.3 percent increase in taxation and other receipts. This meant that an estimated \$487 million would have to be borrowed.¹⁷² Thus, between the time when Treasury reported in early May on an estimated 21.69 percent increase in expenditure, with a probable deficit of over \$1000 million to be covered by borrowing and the Budget presentation, the CCPP and the Cabinet (endorsing the inner group's decisions), had managed to produce a paper reduction in the deficit of nearly \$400 million. It was, as the next year's outturn figures demonstrated, illusory. Table 2 of the 1976 Budget showed that for the 1975-76 year some \$1,000 million had been required to finance the government's borrowing requirements.

The last six months of the CCPP

Two weeks after the 1975 Budget, the Minister of Finance submitted a memo drafted in Treasury. It was endorsed and later distributed to ministers. It was entitled Control of Expenditure 1975-76.

1. Ministers will be aware of the magnitude of over-expenditure by departments in the 1974-75 financial year amounting in total to some \$171.2 million. This is in excess of the statutory limit by about \$120 million. While some of this expenditure was unavoidable, in particular that due to salary and wage increases not provided for in the Estimates, and to a lesser extent the circumstances prevailing in the building and construction industry, it is evident that there remains room for considerable improvement in control of expenditure.
2. In the present economic circumstances and having regard to the size of the Budget deficit before borrowing, a similar situation during this year is clearly not tolerable. It is therefore appropriate for me, at this time, to draw your attention to the obligation placed on Ministers and Permanent Heads to avoid a recurrence in 1975-76. First, the relevant section of Treasury instructions states that Permanent Heads are themselves responsible for keeping expenditure on each item within and if possible appreciably below the appropriation limit. The outcome for 1974-75 has

demonstrated the need in some cases for a review of procedures and for stricter control to ensure these responsibilities are fulfilled. Permanent Heads should keep ministers fully informed of the likely Vote outturn and discuss correction action as appropriate.

Secondly, when an approval is obtained to overspend the amount provided for an item, this does not in itself authorise over-spending on the amount appropriated to the Vote, the general principle being that savings are to be made elsewhere. It is intended that this principle be strictly enforced during 1975-76.

3. It is imperative that greater effort be made to restrain expenditure within the Estimates provision. Although a number of specific directives to restrain expenditure, including overtime, furniture and fittings and foreign exchange spending have been promulgated, substantial dispensations have been made in some cases to framing the 1975-76 Estimates, thus reinforcing the need to constrain expenditure within the appropriated levels.

4. You are requested to note that the \$50 million provision for Supplementary Estimates is already committed for likely benefit increases under the Budget. Provision in the Supplementaries for departmental expenditure outside these areas must, of necessity, be kept to the absolute minimum. Only exceptional circumstances will be considered by the Minister of Finance for inclusion in additional appropriations.

5. In this context the scope for introduction of further new policy proposals in 1975-76 is virtually negligible and Ministers are urged to defer proposed new expenditure. You will be required to show evidence of a genuine search of the Vote and indicate areas where specific savings are to be made before any new policy is approved. Cabinet has recognised the absolute need to refrain from approving additional new policies between the Budget and the election and the continued cooperation of all Ministers is of the utmost importance.¹⁷³

Within three weeks it was apparent that this sort of moral reminder, whether endorsed by Cabinet as a self-denying ordinance or not, had little if any effect across the whole range of portfolio responsibilities. On 24 June Millen distributed a memo to all ministers recalling that "the Minister of Finance noted in Cabinet on 23 June that expenditure in April-May was running at a rate well in excess of previous years."¹⁷⁴ Matters which had with difficulty been held off by the CCPP before the Budget - housing, farming, private school integration, National Roads Board funds - were now brought back to them by their Ministers. Douglas (Housing)

continued to press for further dispensations for switching funds, based on the review conducted at the CCPP's earlier request. The Committee agreed (18 June) to recommend to Cabinet that \$4 million should be transferred from the \$36 million Land Purchase and Land Development programme to finance loans on houses to be built on section "and thus reduce pressure on Housing Corporation finance during the current financial year." Ministers were concerned about how much preference should be given to house loans and the impact of this on their regional development policy, especially in the Auckland area, where it was suggested most of the transferred funds should go (and where several Government members had tenuous electoral majorities). On 2 July it was decided to suspend all loans on existing houses, except in special cases or where public servants were on transfer, and to continue to make loans available to low income borrowers. At first ministers felt that, subject to discussion with the banks and the Public Trust Office, these changes in housing policy could be publicly announced, but later "at a resumed meeting at which the level of capital involvement in Housing was discussed, the Committee directed that no announcement [sic] be made, or action taken to refer to Caucus the above decisions...pending a full report by Officials to the Committee" in a week's time on the possible financial requirements of Housing and other Votes.¹⁷⁵

This report, dated 8 July, and forwarded from Treasury to the CCPP, was entitled baldly Government Expenditure.

1. The Budget provided for an increase in Government expenditure of 19 percent in 1975-76. For the first three months ended June Government expenditure has increased by 48 percent compared with the same period in last year.

If advances to Housing Corporation, Rural Bank and DFC are included this increase becomes 57 percent. Continuation of this trend could result in a loss of credibility of Government's policies both in New Zealand and overseas, and seriously prejudice the success of those policies for maintaining employment while reducing price inflation and conserving foreign exchange.

2. Following the Committee's direction last week, Treasury, in consultation with departments, has made rough estimates of likely over-expenditure for the year to 31 March 1976. The results are appalling. In the absence of Government

action, present estimates indicate over-expenditure among big spenders as follows (minor over-expenditure which in total would add up to many millions have not been included):

	\$m	
Housing Corporation	39	
Electricity (could be as high as \$45 million)	30	
Health	25	
Stabilisation	24	
Railways	16	
Rural Bank	9	
Post Office	12	
Social Welfare	14	
Offshore Mining-Petroleum development	10	
Works	5	
Broadcasting	7	
Agriculture	5	196
Misc. new policies not yet approved (including Christmas bonus)	20	
State services salaries (allowing for only 2½ percent + \$1.40 from 7 July and minor increase from January 1976)	37	
Social Security benefits (from July and January)	46	
	299	
	50	
<u>OVEREXPENDITURE:</u>		\$249 million

3. As revenue is not likely to exceed the estimates, the deficit before borrowing for 1975-76 and growth in financing transactions could therefore be \$250 m higher than estimated at Budget time.

Conclusion

4. Policies for increasing Government spending on employment, creating low import content programmes to counter any rise in unemployment, seems to have been interpreted as a signal to relax control of expenditure across the board. It now appears to be the view of several spending agencies that money and the use of resources involved are irrelevant. This attitude to expenditure control cannot be allowed to continue.

5. If measures are not taken to reduce drastically the expected excess of \$250 million in Government expenditure for 1975-76, the inevitable consequences will be either a resurgence of major inflationary pressures in New Zealand, or external bankruptcy, or both.¹⁷⁶

Treasury recommended that (a) Ministers with significant over-expenditure be asked to report to the Minister of Finance in one week showing - reasons; preventive measures; and (b) where further action was needed Treasury and the department should report to the CCPP. The Committee accepted this paper, and on 9 July directed that Treasury's recommendations be put into effect.¹⁷⁷ The following day, to reinforce the message, Tizard submitted a paper to Cabinet, reporting on Treasury's Government Expenditure paper and listing those departments with an excessive spending level:

Department	Spent to June	% Voted Spent	Average proportion past three years
Agriculture and Fisheries	76.2	42.2	24.1
Defence	41.3	23.0	21.0
Education	151.1	25.4	22.4
Electricity supply	56.5	25.8	18.4
Forest Service	17.2	21.8	19.9
Government Printer	3.4	22.3	16.4
Health	136.3	24.2	19.2
Labour	3.4	26.3	18.5
Lands and Survey	11.9	21.7	18.6
Maori Affairs	10.0	23.6	19.0
Post Office	Not applicable		
Railways	50.5	20.6	17.3
Social Welfare	241.1	30.0	21.3
Stabilisation	34.5	22.0	16.6
SSC	5.0	16.5	9.2
Transport	14.8	25.7	20.4
Works and Development	26.9	28.6	20.4
<u>Investment Transactions</u>			
BCNZ (Broadcasting)	2.0	20.0	NA
Offshore Mining	12.5	19.5	NA
<u>Financing Transactions</u>			
Rural Bank Finance Corporation	19.3	21.2	NA
Housing Corporation	51.5	18.0	NA ¹⁷⁸

Winchester suggested that "one logical explanation for the rapid growth in expenditure, apart from any impact of inflation [was] that pressures to introduce new policies and to expand existing ones plus the backlog of deferred expenditure had built up to dangerously high levels." He also noted the deficiencies of the existing system for government accounting, which was incapable of providing the detailed financial analyses Treasury needed to identify the causes of cost growth as they developed.¹⁷⁹ Most significantly, the problems previously noted - failure to ensure that recommended savings were actually achieved, that approval to finance a new policy area was actually accompanied by a real compensatory saving in an existing area, and "the effects of approving deferrals" from the preceding COPE exercise in the next draft Estimates - combined to exaggerate the general political difficulties of behaviour control.

The pillorying approach to expenditure/cost management and control adopted at this point in Labour's administration produced some nerve-racking results. In the very brief time permitted, departments reported directly to Treasury, which forwarded their findings to the Minister of Finance:

1. Treasury report 30 (10 July) indicated that total net Government expenditure to 30 June 1975 (three months) was 47.9 percent higher than the same period in 1974-75.
2. Actual outturn at 31 July (excluding RBFC, NZHC and DFC) is 43 percent higher than the same time 1974-75.
3. Latest information from Ministers confirms that the deficit pre-borrowing and in financing transactions will be approximately \$256 million higher than expected at Budget time i.e. at least \$200 million will be required in Supplementary Estimates if you are to avoid classification as 'overexpenditure'. This allows for only 2½ percent in State Service wages and salaries.
4. Annex A lists departments' reasons and their commitments to hold to the Main Estimates to March 1976.

5. Key reasons given by departments for estimated over-expenditure in 1975-76 are as follows:

- (a) increased personnel costs largely because employment in the public sector is running at a higher level than provided for
- (b) more rapid progress on works programmes
- (c) decreasing delivery times for orders
- (d) rate of price inflation - especially for overseas items - greater than expected by departments, or by Treasury when Main Estimates finalised
- (e) decline in trading revenue in some departments.

6. There is limited scope for reductions over some of the largest areas of Government expenditure such as personnel costs and many works activities because of the possible adverse effects reductions might have upon employment in either the public or private sectors. If additional increase from 9 July in State Services wages and salaries cannot be held to 2½ percent the Government may face the need to introduce some restrictions even here.

7. As the position is so serious and because there are relatively few areas where significant savings can be expected it is all the more important to act quickly to maximise savings where possible for as great a part of this financial year as possible.

8. Major cuts can only be achieved by significant and widespread changes in present policies. See Annex B for general across-the-board measures.

9. One major problem is the attitude prevalent at all levels of Government that the public sector can command a limitless supply of resources. Consideration must be given to ways of changing this attitude and of replacing it by an equally widespread appreciation of the seriousness of the position and of the need to secure economies and savings where possible.

10. Recommended:

- Review of specified areas by 20 August
- Consider across-the-board measures .

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At its meeting on 5 August the CCPP adopted all Treasury's recommendations, including across-the-board measures dealing with personnel, works and plant and equipment.^{18f} A number of special reviews were initiated,

with reports to be submitted by 20 August. The results of these were as follows:

- By 7 August, the Broadcasting Corporation of New Zealand reported that it would be able to reduce spending levels by only \$2m. Treasury supported this "because of the level of BC's commitments. Programme to be financed by National Development Loan account, within very strict control limits."

- By 19 August there was a report on why the amounts for noxious weed control were so high. It had been found that apparently more farmers than estimated or expected had responded to the Government's provision on noxious weeds, and that the amount of 3.5 million reported as needed on 1 August 1975 could in fact increase to \$6 million (although only \$0.5 million had been provided in the Estimates for this purpose.)

It was agreed that the provision of any more funds here should be deferred until the next fiscal year.

- At the same time, the Ministry of Works and Development reported that because of the inadequate amount provided for the Housing Corporation (there had been nothing in the Estimates) they would now have to defer all new buildings, including land purchase, to the amount of \$19.6 million, plus \$2.9m. for plant purchase.

- Treasury recommended that in Vote: Agriculture and Fisheries there should be restrictions on staff recruitment, and on works. They also recommended that the Agriculture Ministry should absorb all plant and equipment costs. The Ministry requested more time to study this. However, although the time was allowed, there is no evidence in the minutes of the CCPP that this topic was conclusively dealt with before the November General Election.

- Later in August Treasury recommended, and the Committee agreed, that Hospital Boards should be held to a spending level of \$9.7 million, with a review of all health benefits - although, as was pointed out, there could be no promise of reductions here.
- The Committee also agreed that savings in the Railways Vote could be made by a deferral of \$5.9 million in the works programme, and by considering the closing-down of certain railway lines, which could produce some \$3 million.
- It was decided to cut Education salaries by a limited amount, and make some adjustment in Post Office costs. On 8 September, the CCPP decided to refer back to Cabinet its earlier request for consideration of an increase in bulk charges with the timing of this announcement to be made at the discretion of the Committee. The timing question revolved around whether charges should be increased immediately, or before the coming elections, or deferred until later. In the event, the CCPP decided to wait until after the elections before announcing its intentions on bulk charges.¹⁸²

Numerous expenditure items were submitted to the Committee throughout August-September. Salary questions concerning pay rates for state servants were a matter of conflict between the State Services Coordinating Committee and the Combined State Service Organisations (the 'union' voice). The Government was under pressure to move from its decision that nothing higher than a 2.25 percent increase was permissible and was threatened with the embarrassment of a hotly disputed public debate on this before the State Services tribunal.

Absent ministers complicated the Committee's ability to deal with specific expenditure review items. Special ad hoc pleas, such as that from T. McGuigan, Minister of Health, for additional funds for the Auckland Hospital Board, were favourably received. Meetings were packed - the agenda for 27 August alone, for example, included the following items, all with expenditure implications: a review of Works and Development expenditure; dealing with the black beetle and noxious weeds; review of Agriculture and Fisheries expenditure; over-expenditure in the Electricity department; State Services pay rates; a claim for salary increase by primary teachers; review of specific Vote: Education expenditure items; Health funding matters; government expenditure on the Railways, and the allocation of funds for overseas aid. In most cases, propositions were deferred or the department instructed to absorb additional costs. Nonetheless, there was clearly a pre-election build-up in pressure from interest groups in fields such as health and education, from the farming community, from state servants, from quasi-government agents such as the National Roads Boards, and from those involved in developing significant or massive plans such as the Clutha Valley Development. Spending agents attempted to get as much as possible up to the CCPP to ensure that items were already in the expenditure/planning pipeline, with as firm a commitment by Government as possible, before the General Election campaign.

Lengthy and difficult debates took place between officials, spending ministers, Treasury officers and members of the CCPP. On September 3, for example, after a long discussion of the State Services pay question, and another on a proposed Severance Bill, the Committee considered a major claim by primary teachers for improved salary rates. Education department officials reported that the teachers' union, the New Zealand Educational Institute (NZEI), was unhappy about the long delay experienced in having this matter resolved. The Ministers of Education and the State Services were asked to convene a meeting with the NZEI to discuss their grievances.

Primary education groups now believed that they could get parity with secondary teachers, and that broadbanding (a change in the schools' grading system which eliminated a number of steps required for pay increases) could be introduced. Lang (Treasury) objected to the whole matter under discussion. He pointed out that the Education Department had already proposed 120 New Policies in 1975 (despite injunctions for restraint), and this particular item had not been among them. Further, the Education department was likely to over-spend its 1975/76 allocation by about \$40 million, without the requested additional provision for salaries. He pointed out that there was a surplus of primary teachers; that a successful primary claim would undoubtedly escalate into a new secondary claim, and, finally, that the primary teachers' claim far exceeded existing Government policy. If it went to the State Services Tribunal, he believed, the Government would undoubtedly be able to justify its case for refusal. Williams, Chairman of the State Services Commission disagreed with his Treasury colleague on the last point, while the Education department officials, Boag and Miller, insisted that the benchmarks (parity) question must be addressed. The matter was deferred for one week, with an indication that even then it would probably be declined. At the same time the CCPP directed that in view of Education department's likely net over-expenditure, \$4 million should be cut from their allocation.¹⁸³

Similar reductions were ordered in Electricity (\$4m), Railways (to find \$5.9m by deferral or deletion of approved capital works, with a request to look for further savings in that Vote), and Overseas Aid (to maintain its planned expenditure level). On the other hand, questions of Health expenditure seemed to reduce the CCPP to despair. Given the forecasted over-expenditure of \$30.4 million, and an additional grant (approved) of \$9.7 million to the Auckland Hospital Board, there was obviously a financial crisis in this Vote. The Committee instructed that there should be a review of health benefits, though with no real expectation that over-expenditure could be reduced by significant amounts. Although the Post

Office was instructed to defer capital works spending worth \$500,000, the Committee approved the allocation of an additional \$2.6 million to enable that department to employ more school leavers (based on an earlier commitment to ensure that all unemployed persons in this category should be in paid work by June 1976.) At the same time, a further \$250,000 was approved for other projects.¹⁸⁴

During the second week of September 1975 the teachers salaries' problem became more acute. The CCPP was informed by the Education department (10 September) that the Post Primary Teachers Association was reacting very badly to proposals for benchmarks/parity, and that there was a real threat of a primary teachers' strike. In what was apparently his first appearance before the Committee, W. Renwick, Director General of Education, indicated that education interest groups had found new grounds to support the NZEI claim, although he assured the Committee that he did have 'contingency plans' in hand should the threatened strike eventuate. Galvin, of the Treasury, urged the Committee to take all necessary steps to keep the question away from the State Services Tribunal, and again Williams hotly disputed the wisdom of this strategy. Eventually the Committee decided to approve the suspension of departmental negotiations with the NZEI while the PPTA counter claim was being negotiated, but noted that the primary teachers did have a legal right to lodge an immediate claim with the Tribunal.¹⁸⁵

The Committee then went on to approve an additional \$5.2 million for the second stage of a second television channel, on the grounds presented by officials, and politically persuasive at that stage of an election year, that "further delay would cause public unrest." The Committee had been inundated with reports on the Clutha Valley Development, and requested a summary report on this within a few days. At the same time, however, it approved \$40 million for expenditure on construction in the Cromwell area, to

be spread over the next six years but, by implication, available for public announcement prior to the 1975 elections.¹⁸⁶

Over the next month the Committee made a considerable number of ad hoc decisions (including the decision to approve an allowance for state servants pay, to be conveyed in a "carefully worded" comment to the State Services Tribunal). Unemployment was worsening, and additional sums (for example, \$12.5 million to Hospital and Education Boards) were approved for the employment of "special workers". One commercial enterprise initiated by the Government on the West Coast, the Mataii company, the subject of numerous disturbing reports during the preceding months, was finally placed in receivership, on the decision of the CCPP, on 1 October.¹⁸⁷

On 13 October the CCPP decided to discontinue its regular meetings (in view of the imminent election campaign) unless directed by Cabinet to reconvene. Three such special meetings were held, the last on Thursday, November 6 1975. The matter of Electricity department over-expenditure (\$52 million, on top of the Main Estimates provision and the Supplementary Estimates allocation, which together totalled \$185 million) was sadly noted, but there seemed little likelihood of effective reductions at this stage.

Right up to the final CCPP meeting, the Ministers of Education (Amos) and Housing (Douglas) continued to press their departmental ambitions on the Committee. Amos, for example, produced a request to establish, first, a community college in Northland, and then a general authority for a policy on the establishment of other community colleges. On 28 October Amos and two Education department officials, Renwick and Garrett appeared before the Committee to argue their case. Tizard was in the chair, with his colleagues Freer, Faulkner, Moyle and Walding, and three Treasury officials (headed by Lang.) The Committee immediately

asked the Minister why the proposal for community colleges had not been included in his new policies. Amos replied that buildings for a technical institute were already under construction at Whangarei and that this was within existing policy. It was now proposed to use these buildings for a community college. The additional cost in 1975-76 (about \$15,000) could be met from provision in Vote: Education for growth in Senior Technical Education.

The view was expressed [presumably by Treasury] that the proposal was clearly new policy since it would commit substantial new expenditure in future years. A community college was expected to cost \$243,000 more than a technical institute for buildings and equipment and \$60,000 more per annum for staffing and expenses of operating...

As well as seeking authority to establish Northland Community College the Minister also sought approval of a new policy covering the establishment of subsequent community colleges. He [Amos] stated that if the Government's policy [Manifesto] for community colleges was to appear credible, a general policy was required. A counter view expressed was that the establishment of the Hawkes Bay Community College showed that policy was being fulfilled and that while it might be necessary to approve the Northland College now, the general policy should not be considered outside the annual new policies review.

The CCPP agreed to allow the Education department an additional \$15,000 for the establishment of the Northland College and noted that the Minister of Education would submit further proposals for community colleges in 1976-77 New Policy review and that "this submission would take into account the experience gained in the establishment and operation of the Hawkes Bay community college."¹⁸⁸

One other education matter was discussed at this special meeting - the question of the primary teachers salary scale. Although the question had been put to Cabinet, it had been referred back to the CCPP, with full authority delegated by Cabinet (which had its mind more on election matters) for the Committee to make a final decision. The PPTA had already lodged a relativities claim. The Minister of the State Services (Faulkner) had obtained the agreement of the joint NZEI/PPTA and Education Services

Committee (ESC) for discussions on relativities. During these, the PPTA had elected to accept a general wage increase for the State Services (arising out of the application of the half yearly survey) in place of a special claim. However, no agreement had been reached between the two teachers' unions on benchmarks. The ESC had heard claims, and made its own recommendation; the PPTA had immediately withdrawn from the negotiations, thereby eliminating the primary teachers' option to go to the State Services Tribunal.

Williams (SSC) recommended, and the CCPP favoured, the establishment by the Government of proper relativities between the two professions, with advice on these to be received from the NZEI and the PPTA, who could then appeal to the Tribunal. A tentative recommendation was floated for a one step margin, favouring secondary school teachers, and with a number of specific features. Although Renwick reported that a primary teachers' strike was still possible, he advised that this could be averted if the Government claimed that it was going to the State Services Tribunal to avoid breaking its own stabilisation policies. The CCPP agreed to adopt this strategy.¹⁸⁹

Before going further it is worthwhile at this point to retrace our steps slightly, and very briefly note the parallel activities of the CCPP in its 1975 relationship to COPE. On 4 July a Treasury circular to all permanent heads had initiated the next COPE review. Officials were reminded of COPE's responsibility "to survey Government's expenditure requirements over a three year period; to establish that departmental forecasts represented a realistic assessment of the costs of existing policies; and to analyse and inform the Government of the effects on these policies of keeping within the expenditure targets imposed by the Government's economic and financial objectives."¹⁹⁰

Departments were instructed to report to Treasury by late August: an additional note informed them that a circular regarding new policies would be issued in December. A number of general instructions, such as the continuation of an emphasis on programme and activity analysis, and the need to have strict regard for rules concerning justifications, were included. The practice of identifying 'grey areas' between new and existing policy initiated in 1974, was to continue and would be expanded; departments were to provide a written reconciliation of any differences between their forecasted costs of existing policy for 1976-77 and the 1975-76 Estimates provision; and special COPE reviews of matters such as DMVC requirements, works programmes, and science budgets were to be expected. Particular attention was to be given to the details of wage and salaries calculations for the three forward years, on a programme basis. An appendix to the Circular provided a definition of what constituted "existing policy" and what constituted "new" policy: 'Existing policies' are those policies approved before 29 August and which will incur expenditure before 31 March 1976. A 'new policy' was

an expenditure proposal which introduces a new activity or significantly alters the size, scale or quality of an existing activity. New policy proposals include those which -

- (a) introduce new activities e.g. new grants
- (b) alter the size or basis of a subsidy or grant unless such change is in accordance with a Government-approved automatic formula (Note: where an increase in the amount of grants is based on approved formula to cover personnel costs, this is not considered to be new policy)
- (c) extend existing services where such an extension has not been approved by Government, e.g. a substantial increase in overseas or internal expenditure on tourist promotion
- (d) cause a radical alteration in the performance or nature of an existing service e.g. computerisation of a service currently performed by clerical personnel; create an EDP master file.
- (e) change replacement policies or capital or equipment
- (f) re-programme funds i.e. shifting funds between programmes or activities.^{19/}

An additional instruction to Treasury investigating officers noted that new policies approved for 1975-76 only were to be excluded.¹⁹² Although no explanation for this was specified in this memo, the obvious implication was that ad hoc approvals during an election year should not be taken too seriously when they were given only a one-year costing, particularly when they had been generated by the (1975) March-April new policy exercise before the Budget. Under no circumstances were they to be accepted or regarded as having the status of an existing policy. Prices were to be as at 1 July 1975, with no allowance for price changes since that date, except in the case of personnel costs.

COPF itself decided to recommend that for the 1975 exercise additional "special tasks" should be undertaken on behalf of the Government (subject to Cabinet approval, which was in fact obtained):

- (i) to identify and quantify areas included in forecasts which [required] the expenditure of overseas funds, establish the growth from the current year's provision, and examine and report on the degree of commitment in each forecast year;
- (ii) identify and qualify the provision in 1975-76 and forecast years for activities undertaken in line with the Government's policy of promoting temporary employment and ensure that specific approval [existed] in each case;
- (iii) draw to the attention of Government those areas which [were] considered to be increasing at a significant rate
- (iv) identify and quantify areas in departmental forecasts which [represented] open-minded commitments of public funds.¹⁹³

Treasury investigating officers were instructed to have special regard for "any areas of significance or disagreement which [emerged] during the COPE review" and could be included in any later review of existing policies, such as had been conducted in recent years. The Director of Finance I, de Jardine, pointed out that "the next [such] review is likely to be of more significance than in previous years", and TIO's should search carefully for potential areas to pin point as capable of expenditure reduction.¹⁹⁴ Although one Treasury officer, R. Hurnard, had suggested that

no increase should be permitted for staff ceilings on existing policies, Lang and his senior advisers decided that a figure of 1 percent over-all (i.e. not arithmetically to each department) would be feasible,¹⁹⁶ and with the concurrence of the State Service Commission and the Cabinet Committee on the State Services this figure was set.¹⁹⁶

A Treasury paper to the CCPP elaborated on certain features of COPE and the general financial situation.¹⁹⁷ On 28 August the CCPP agreed to give COPE specific instructions as to expenditure targets and special tasks: If certain assumptions were accepted on growth (1976-77:0.0 growth; 1977-78:2.0 growth; 1978-79:2.0 growth) - the implication was that forecasts should be reduced as follows:

For 1976-77 by \$328 million (from the base year, i.e. the 1975-76 Estimates base);

1977-78 by \$344 million;

1978-79 by \$419 million

Cabinet endorsed this recommendation by the CCPP¹⁹⁸ and the decision was to be distributed as a Cabinet Minute (29 September) which read as follows:

COPE: TARGETS FOR GOVERNMENT EXPENDITURE 1977-79

At the meeting on 29 September 1975 Cabinet directed COPE to

- (a) survey Government expenditure requirements over a three year period
- (b) estimate what departmental forecasts represent a realistic assessment of cost of existing Government policy
- (c) analyse and inform Government of the effect of reducing forecasts by \$328m. 1976/77
\$344m. 1977/78
\$419m. 1978/79

so as to stay within target rates of growth.

The Minute then reiterated its approval for the "special tasks" (described above) that the COPE committee, via Treasury, had suggested COPE should undertake.¹⁹⁹

It was going to be essential that these instructions were followed carefully and rigourously if there was to be any change to what Lang (Chairman of COPE) had stated a few weeks earlier to his Public Service peers at the initial meeting of COPE:

...when departments had previously been requested to make every endeavour to make savings no areas had in fact emerged. All departments [are] presently well ahead of the Estimates provision, particularly the big spenders; as a first step departments should try to live within their Estimates. [Emphasis added.]²⁰⁰

The Secretary had already reported to the Minister of Finance and the CCPP on aspects of the Government's past performance, and the implications of this for future expenditure:

The 1975 Budget provided for a 19.1 percent rate of growth in government expenditure in the 1975-76 financial year. Historically this was a very high rate of growth but was justifiable on the grounds that it would help to maintain demand in the economy (and consequently incomes and employment) through a period when private sector demand was expected to weaken significantly.

There are indications that demand in the private sector is now reviving and that it may wish to claim a much larger share of resources in 1976-77 than at present. Unless the public sector is prepared to accommodate this claim, by restraining its own rate of growth (which in fact is much greater than 19.1 percent), there will be increased pressure on real resources and a resurgence of demand inflation which would again increase the demand for imports. In the light of our balance of payments difficulties, this situation cannot be allowed to develop. For this reason it is essential that the rate of growth in government expenditure (existing and new policies) be restrained as nearly as possible to zero growth in real terms in the next financial year...

Experience has shown that it is much easier to increase expenditure from a low base, if and when this appears desirable, than it is to achieve reductions on a high base of already approved policies...²⁰¹

One penultimate hiccup occurred in the progress of the 1975 COPE exercise. It illustrates, among other things, the problems caused by pressure of the forthcoming elections, and some deficiencies in the Labour Cabinet's ability to maintain a collective and disciplined approach to executive government. A query had been raised by Lang as to whether or not Cabinet had actually intended to agree with the COPE recommendations on forecast targets

(Cabinet Minute 29 September). Rowling had been absent when Cabinet gave its assent, but Tizard, Minister of Finance had been in the Chair, and Lang noted in a memo to Battersby, that "M/F [Minister of Finance] has previously declined recommendation [on effects of specific reductions in order to stay within target rates of growth]." On 8 October, a week after the Cabinet meeting, a Treasury officer sent a memo to Lang and Battersby, Assistant Secretary to the Treasury, in which he made the following points:

I asked Cabinet Office to issue an amended Cabinet minute deleting the reference to targets. They made the following points:

- (a) Mr Tizard was chairing Cabinet when the COPE paper was discussed;
- (b) He introduced it and seemed happy with all the recommendations listed;
- (c) He signed the Minute as it now appears.

In the circumstances Mr McLeod does not think it would be appropriate for Cabinet Office to issue an amended minute unless they were asked to do so by Mr Tizard. He suggests we take the matter up with Mr Tizard. The Minute is addressed to the Minister of Finance and Cabinet Office has confirmed that other Departments did not and will not receive a copy. I suggest we leave the Minute as it is but not circulate it. Alternatively, we could write a note to the Minister to check that he has not changed his mind but as COPE is now halfway through its examination of Votes it is a little too late to change tack now.

(Sgnd.) M.J. Moriarty.²⁰²

Lang approved the latter option - a note to the Minister of Finance, although he indicated to Moriarty that there was no hurry for this to be done.²⁰³ A note (dated 17 October) to Tizard included the comment that "it was my [Lang's] understanding that you had not intended this particular

Such sophisticated balancing of advisory and political services, as is hinted at here on Lang's part, is characteristic of the subtle servant-master relationships at the centre. As Professor J. Roberts has remarked in another setting, a pavanne of advance and retreat is performed, aimed not to entertain but to survive without embarrassment to either set of dancers.²⁰⁵ However, regardless of the ministers' minor difficulties, and before COPE met to consider its final report to the Government, the Labour party was heavily defeated at the polls by National, headed by Muldoon.

Summary of the Labour administration.

When the Labour party came to office in November 1972, several developments had already been initiated, and were advanced further between 1972-75, in the business of fiscal control and expenditure planning. The introduction of PPB, as an appropriate system for planning and evaluating the allocation of resources through government agencies, had had considerable impact on the thinking and the behaviour of some public servants, particularly in the Treasury. The adoption of an output/outcomes orientation in the investigative and decision-making procedures was, as Laking had noted, not only a common sense approach to the business of resource management. It was also becoming an administrative and political necessity, as the heavily loaded welfare state grappled with problems of rising costs for goods and services, increasing demands for support and encouragement from a more diversified industrial sector, and a volatile world market for New Zealand exports, with the threat of serious imbalances between import costs and export profits.

A changing intellectual and conceptual approach to resource management required the modification of existing systems, and the adoption of new procedures for budgetary management and expenditure planning. In 1970, the National government had approved the Treasury-based COPE system for policy costing and forecasting, and within a year or two it was apparent

to financial managers and senior officials that this pre-Estimates exercise could become an indispensable element in the budgetary process. It clearly distinguished the respective roles of ministers (who were not directly involved in the COPE system, but received an annual report from their most senior advisers on existing policy costs and predictions), Treasury (which was central to the COPE system, but not required to take full responsibility for either the costing or forecasting tasks), and the spending departments themselves. The deliberate implication of spending agents in the annual budgetary process - setting the poachers to catch the gamekeepers - was possibly one of the most significant post-war changes in the New Zealand government's financial history. It may almost be regarded as a democratisation process, insofar as responsibilities were distributed more equitably amongst those with the political authority to make financial decisions, and the responsibility to account, through ministers, for their use of public resources.

By the same token, however, COPE may be regarded as a function of the continual redistribution of financial power among specific constant elites - Treasury officers, permanent heads, senior finance officers in departments, and ministers. Certainly for the first six or seven years of its operations, the COPE system was not only characteristically confidential but a rather mysterious piece of government machinery, poorly-understood by officials at middle levels and below, and relatively unknown to outside interest groups engaged in negotiations with the government over resource allocations.

By early 1972, Treasury officers had recognised that one of COPE's important deficiencies was its inability to distinguish between existing and new policy costs. Departments were therefore required to separate these out and identify their differences as clearly as possible. Thereby, the COPE review would genuinely demonstrate the financial base of government policy,

and highlight areas where discretionary choices by ministers and Treasury could be consciously made. However, as Winchester commented, "in 1972, despite intentions of Treasury and the Cabinet Economic Committee to use the [first] new policies report for priority setting and decision making on what to include in the Budget, Cabinet merely noted the report. Hence it appears that it served only as an information document."²⁰⁶

This informational aspect of the new policies report, which has been provided by the review since 1972, is of course an important part of any "early warning" approach to planning. But as Winchester suggests, on its own this contribution to the problems of resource allocation was of limited value unless supplemented by other advantages. During the 1972-75 period of Labour administration, there was considerable pressure on officials and ministers, particularly those involved in the CCPP network, to sharpen up the instrumental role of the "new policy" review phase, and increase its value firstly as a planning tool and, much more energetically, as a means of cost control.

While from 1973 onward there was an emphasis on improving the available definitions of difference between existing and new policies, the cybernetic value of this was somewhat obscured by the political style of the inner Cabinet (the CCPP), and the administrative style of its principal advisers in Treasury and the Department of Trade and Industry and other senior officials.

Further, Winchester has demonstrated the extent to which the COPE exercise and the Main and Supplementary Estimates reviews were capable of distortion (in terms of their formal intentions). Spending agents were anxious to ensure that new policy proposals entered the expenditure pipeline, or were not entirely eliminated from it, during these vulnerable phases of the budgetary cycle.²⁰⁷ The CCPP had started with a firm intention to define a sharp line of difference between ministers (as policy coordinators, and expenditure planners who would determine spending priorities in an

atmosphere not dominated by public officials) and the conventional advisers to Government, notably those in the Treasury. But such a clear division of labour simply could not be sustained. Other aspects of the communication networks remained geared to the needs of the permanent bureaucracy, elaborated over a long period of more stable working relations with the National party administration.

The slightly herculean task which the five members of Labour's inner cabinet took upon themselves was complicated by a number of critical difficulties:

- (i) whatever their general objectives before gaining office, the leaders of the parliamentary Labour party were either not adequately informed about the workings of existing systems for cost control and expenditure planning, or they did not anticipate the implications of these for the achievement of political objectives;
- (ii) the immediate distance created between the elite CCPP group and other spending ministers, totally inexperienced in Cabinet government, provoked, rather than damped down, the ambitions of the latter. The initial excitement of electoral success, the apparently optimistic statement of New Zealand's economic circumstances, the lack of reserve in undertaking new financial commitments before these had been comprehensively reviewed in the light of existing financial obligations and policy costs all contributed to the difficulties of the government in its first 18 months of office. They massively complicated the CCPP's later need to restrain their colleagues' ambitions;
- (iii) the insertion of an additional node into the established networks of advice-consideration-decision-recommendation, which had previously centred on the Cabinet Economic Committee and Cabinet itself, was much more than a minor innovation in executive style. Inevitably, given the seniority of the ministers who comprised the CCPP (but complicated by the frequent

absences of the then-Prime Minister, Kirk, and his death in 1974), the CCPP began to exert almost centrifugal force on the flow of information into the central system of communication and control. Because no specific sub-system was established at the outset to differentiate between the sorts of information which reached the CCPP, the Committee itself quickly began to suffer from information overload. The opportunity to evaluate material previously worked over by officials specifically and exclusively committed to realising the CCPP's formal responsibilities (to identify priorities, and ensure that policy proposals conformed to these) was lost as a vast amount of relatively raw data passed before the ministers. The Targets Advisory Group could not fulfil this role in time. While it would be an exaggeration to claim that the CCPP was simply the Cabinet Economic Committee in a different guise, it is, however, the case that the CEC met infrequently, was the object of much less interest to officials and other ministers, and played only a minor role during Labour's term of office.

(iv) An unmanageable confusion of demands, requests, advisory reports, informational documents, "housekeeping" accounts, "machinery of government" plans and so forth flowed in to the CCPP during its three years life. The CCPP not only took upon itself (and inevitably failed to extricate itself from, later) the central role of resource allocation and approval, prior to Cabinet endorsement. It engaged in direct face-to-face negotiations with powerful and determined pressure groups over wages and salaries. It conducted these negotiations while simultaneously trying to come to terms with the concepts and implications of a wage and incomes policy, couched in terms of general principle as well as specific emphasis. It approved the conduct of various existing and new policy reviews while actually engaged in working out the theoretical basis of macro-policies on economic development. It considered and approved the introduction of departmental policies on industrial and social development while simultaneously grappling

with the considerable intellectual and political problems of what constituted a desirable long-term economic and industrial strategy for New Zealand as a whole.

(v) The CCPP planned to restructure existing systems for advice and information exchange established as part of the NDC, while itself supervising and reacting to the details of direct encounters with pressure groups during the community conferences it sponsored. Unable to assure itself, or its own caucus, that reliance could be placed on a quasi-governmental system for economic and social planning and public participation, it redefined its own initial role to include that of the former National Development Council. The CCPP, whatever its private intentions, was forced by changing economic circumstances to attempt to implicate the major generators of policy-cost demand in its own political burdens. The community conferences, whatever the public rhetoric, were intended as vehicles to persuade interests outside central government itself that through some form of social and economic contract, which would include restraint on the pressure on the government itself for policy development and expenditure, better government could result. But the agents of demand were unlikely and in the event unwilling to accept a share of this political burden, particularly after 1973/74.

(vi) The loss of symbolic instruments for cohesion and public support (notably with the death of Kirk, and his replacement by Rowling) forced the CCPP to turn inwards, towards officials who themselves suffered from serious differences of view as to how the Government's political and economic objectives could best be achieved in a deteriorating economic climate.

During the period of Labour administration, important advances in the expenditure planning - cost control system did occur. The establishment of the CCPP itself was part of this, along with the sophistication of the COPE system, the proliferation of experiments in policy review,

the adoption of a computer-based financial forecasting system, and improvements in the definitional framework for new policy bids. In several ways the stage was set for the later attempt made under the National government, which assumed office in November 1975, to re-define not only the conceptual framework and definitions of expenditure policy and decision-making, but to sharpen up role differences between ministers and officials.

Rather than create an inner Cabinet, as Labour had done, with an inevitable propensity to concentrate upon itself a substantial range of tasks and responsibilities, the National government widened the supportive services directly available to Cabinet, while restoring the traditional role of some networks such as the CEC. On the one hand (with the benefit that previous attention to this had already been given by officials in Cabinet office and the State Services Commission), the office of Prime Minister was supplemented by the creation of a new network of information and advice in the Advisory group.²⁰³ With a narrow focus in terms of its reporting functions, but wide powers to track significant data for its political master, the Prime Minister's department could quickly and more accurately alert the senior minister to developments he could not otherwise follow. Since, in this case, the Prime Minister was also the Minister of Finance, the value of this supplementary system has been considerable. It has become both a protective device and a legitimate means of survey for the individual holding the key role in the executive system.

On the other hand, as part of an inevitable process of systems development and information refinement initiated with COPE and the endorsement of PPB as an appropriate style of expenditure consideration, the National government reallocated its own executive roles. The enormous business of expenditure and resource allocation was channelled towards a

new filter agency - the Cabinet Committee on Expenditure. This additional node, less grandiose in conception than the CCPP but absorbing some of that Committee's essential features, was provided with the necessary delegated authority to allow the cybernetic experiment to proceed. Unlike Labour's decision over the CCPP, the Prime Minister/Minister of Finance was not a direct participant. His primary interest, supplemented by the work of his own advisory group, could return to the CEC. The CCEX was an elaboration of the earlier National experiment with the Cabinet Committee on Government Expenditure where financial messages could be de-coded, initially by officials (which Labour was only eventually obliged to see as necessary for the CCPP), re-scrambled for Cabinet consideration, and processed for dissemination to the spending departments.

During the 1975-80 period the most serious work on the fiscal system was directed towards ensuring that the definitions which were applied to expenditure policies (existing or proposed) were in themselves an explicit indication to spending agents of their political acceptability. Once a definition had been negotiated, through COPE and the existing and new policy review phases of the annual budgetary cycle, it should serve not as an invitation to further dispute but as an agreed principle of future behaviour. In addition, Treasury (encouraged and actively led by an energetic Associate Minister of Finance) attempted to rationalise the division of labour between ministers and officials that had become so confused during the Labour term.

CHAPTER FOUR

Part III: Old Horses, New Colours: The Cabinet Committee on Expenditure, 1975-78. (The panels interposed in the text indicate other important political decisions and activities of the government during this period).

Introduction

On 15 December, 1975, a fortnight after the success of the National Party at the polls, Cabinet, let by Prime Minister and Minister of Finance Muldoon, agreed to call a special meeting of permanent heads to "outline to them the economic situation and the major policy issues and emphasise the need for further control over expenditure".²⁰⁹ Muldoon had had considerable experience in the business of budgetary management, both as an active and forthright member of the Public Expenditure Committee during the 1960s, and as Minister of Finance when COPE was introduced and the experiment conducted with a Cabinet Committee on Government Expenditure.

<p>16 December: Loan of \$US200 million (\$NZ191 million) from an international group of financial institutions to finance Government's half interest in development of Maui offshore natural gas field.</p>

The meeting with permanent heads was set down for 22 December, three days before Christmas and just after the Committee of Officials on Public Expenditure (COPE) submitted their annual report to the Minister of Finance.

The COPE report stated that the Committee's review structure allowed

both Ministers and officials to see the longer term expenditure requirements for existing policies of their own departments in the context of the requirements of all other departments. Forecasts are prepared in constant prices to eliminate inflation of wages and other costs, and accordingly the resulting indication of growth in Government expenditure is in 'real' terms.

Expenditure under permanent legislative authority was not included in the COPE survey, but nonetheless the findings of the Committee provided the new Government with a pretty good indication of the fiscal situation that history had created for it:

(\$millions)

	Voted	July 1975 Prices	
	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78</u> <u>1978/79</u>
Main and Supp. Estimates*	3,302		
Amended Departmental requests for existing policies		3,566	3,638 3,766
Rate of increase %		8.0	2.0 3.5
Forecast levels recommended by COPE		3,413	3,454 3,522
Rate of increase %		3.4	1.2 2.0
Net adjustments by COPE		153	184 244

However, 1975/76 includes about \$135 million for certain subsidies and other types of expenditure not provided for in the forecast years. Examples are the additional public service pay day in 1975/76 (estimated at \$25 million) and certain agricultural subsidies (noted elsewhere in the Report). Adjusted for these items, the base year (1975/76) becomes \$3,167 million, and the percentages are then amended as follows:

Departmental requests:	12.6%	2.0%	3.5%
COPE recommendations:	7.8%	1.2%	2.0%

*Supplementary Estimates included to the extent of their non-devaluation effects only.

The Report then went on to state as strongly as possible the caveat that "because of the forecasting base used and some of the assumptions which have had to be adopted by the Committee, these figures significantly understate both the real and money costs of existing policy in the forecast years." (The "assumptions" mentioned are described in the 1975 COPE report.²¹¹ In addition, the Committee reported to the Government on the "additional tasks" it had undertaken with the agreement of the previous Labour administration. Its findings on (a) items forecast to include overseas expenditure indicated that overall approximately 12 percent of recommended COPE levels would be absorbed in this way. The Committee considered that (b) insufficient allowance had been made for the Government's

existing policy on funding temporary employment - apart from some "negligible amounts" in the operating Votes of departments like the Forest Service, only \$2 million had been approved for Labour for this (despite a voted provision of \$8.65 million in the 1975/76 Estimates). (The question of overtime allowances had been problematic for the Committee, which recommended a special survey of these requirements before the 1976/77 Estimates; indeed, serious reservations were expressed or implied in relation to the whole field of staffing requirements.)

COPE's strongest comments were reserved for (c) their inquiries into "open-ended commitments". In an appendix, the Report listed the major examples of such policies, although this excluded completely all trading department activities "which on a very broad view could also be regarded as open-ended". The Committee stated that

The items listed total some \$1,150 million per annum which comprises approximately 33 percent of the COPE recommended levels of Government expenditure. The Committee is concerned that such a very high proportion of Government expenditure should be open-ended and therefore not subject to strict budgetary control. The Committee considered that there was scope for greater control (for example by programming expenditure on items such as sewerage subsidies) although it recognised that in many cases this could only be achieved by a positive Government decision to modify the existing policy. Government may wish to consider this matter further.

Finally, the Report noted that

(COPE's) recommended level of \$3,413 million on existing policies for 1976/77 represents an increase of 3.4 percent on the previous year, or of the order of 7.8 percent if adjustments are made for certain non-recurring or special items. Given the assumptions used by the Committee it is clear that substantial additional expenditure will be unavoidable. (This) should be viewed in the light of recent Treasury reports to Government which predict an increase in Government spending for 1976/77 of about 18 percent. The Treasury figures use COPE recommended levels as a starting point, and make adjustments for cost changes since July and approvals since 29 August 1975, as well as including expenditure outside the COPE review structure such as expenditure under Permanent Legislative Authority.²¹²

One point which had been made by the COPE Working Party to the Committee on 9 December was not passed on by COPE in its Final Report to

the Minister of Finance a week later. This concerned various disparities noted by the Working Party and regarded as constituting a serious general allocative and predictive problem: that is, "lack of total cost disclosure. It would seem that the full costs associated with a scheme are not always disclosed when the proposal is being considered for approval."²¹³ The nearest COPE came to elaborating on this stringent criticism of departmental behaviour was to point out to the Government that the levels it recommended may be affected by price changes, devaluation and other modifications arising since the cut-off dates set down in its original instructions to the Departments.

A further omission from the final COPE report had also been made by the Working Party in its advice to permanent heads. It concerned another "additional task" required by the Labour government: to identify "those areas of existing policy which were considered to be increasing at a significant rate." COPE had decided early on that it would regard as significant a 10 percent rate of growth (i.e. over and above the base year 1975/76) in any of the forecast activities. The Working party had reported that almost all activities, programmes and Votes fell into this category, and that a detailed account would amount to a rehearsal of the great bulk of Government expenditure.²¹⁴ COPE accepted that this would be superfluous, so this point was not remarked upon specifically to the Minister on 18 December.

COPE members had had many anxieties in the preparation of their 1975 Report, stimulated in part no doubt by the change of Government, their own knowledge of the probable informational needs of the incoming National administration, and their expectations about the formidable finance Minister. At the last COPE meeting some permanent heads "expressed doubts in the confidence that COPE could have in placing its report before the Government." Some felt that to base forecasts on the amounts voted in the Estimates was unrealistic - a better base, they argued, was provided in the estimated

outturn of annual expenditure. However, Lang was adamant on this point - he asserted that voted appropriations constituted the only legitimate basis for forecasting departmental expenditure and alone could ensure the necessary discipline in preparing COPE returns. A number of objections and worries were raised about the techniques and procedures of COPE as a forecasting exercise, although the senior men present agreed that the whole business of costing, approving and predicting expenditure policies needed urgent attention:

The Committee considered ways of improving the current reviews of existing and new policy. In the field of existing policy it was considered that our aims should be to obtain greater Government involvement in setting priorities for existing policy expenditure. With new policies, the Committee felt that the time of Cabinet Committees was being wasted on the many new policies with minor costs. To meet these objectives Mr Lang suggested that a small Cabinet group of one or two Ministers could be set up to review (possibly with the assistance of officials) existing policy spending and priorities as well as to consider new spending initiatives. The group could be given delegated authority within fairly generous limits, with cases of disagreement, or in excess of the limits being resolved by the appropriate Cabinet Committee. This suggestion was received favourably by the Committee.

Mr Lang outlined several Treasury proposals for tighter control of Government spending. It was proposed to institute a monthly cash flow budgeting system for departmental spending, and in the longer term after appropriate legislation was passed, to make expenditure under permanent legislative authority subject to review by the Public Expenditure Committee.

Mr Lang also spoke on the economy. The meeting adjourned at 4.00 p.m. (Emphasis added).²¹⁵

Thus the Secretary of the Treasury strategically introduced the most senior government officials to the idea of a new piece of government machinery the Cabinet Committee on Expenditure. The tactful implication of this kite-flying was that the new committee was nothing to do with the old CCPP; indeed, any new group's place on the hierarchy of Cabinet structures, Lang soothingly suggested, would be very much that of a junior partner. Anything outside its terms of reference or explicit delegation would have to be channelled for approval/discussion through old-established networks of

influence such as the CEC, the CCSS or the Cabinet Works Committee.

Without direct access to the relevant Cabinet minutes, it is not possible for us to do more than speculate on how far the idea for this new expenditure survey system at Cabinet level was the creature of the new Ministers themselves. However, the record (above) of the 1975 COPE meeting strongly suggests that Treasury realised quite clearly that no matter how disappointing in terms of its actual impact on spending behaviour, the kind of work done by Labour's CCPP must be carried on with the change of Government. Like COPE itself, certain structural modifications to existing systems, once tested, became indispensable, if the agents of central Government were to cope with the complex and extensive financial data that required analysis and decision.

The Cabinet Committee on Expenditure (CCEX): The first six months

On the day the Prime Minister met with the permanent heads of the public service (22 December 1975) he presented precisely the messages recommended to him by Treasury: all departments were to begin a new system of preparing a monthly cash budget; they were to submit statements to Treasury each month comparing the budget with actual expenditure to date (authority to require this, the Minister asserted, would be obtained later by him from the Cabinet). Expenditure under Permanent Legislative Authority was to be tightened up, and Muldoon informed permanent heads that Treasury had been asked to introduce appropriate administrative controls in this area. Finally, the officials were informed that Cabinet had authorised a review of charges for services performed by Government departments (excluding trading departments), with a view to increasing such charges in line with cost increases in recent years.²¹⁶

The Government now formalised the plan outlined by Lang to his

public service colleagues in COPE. Cabinet set up the new Cabinet Committee on Expenditure, to be chaired by Gair (Minister for National and regional development, but with no servicing department in either of these portfolio roles), and including D. Thomson (then Minister of Defence and Justice) and Holyoake (former Prime Minister, then Minister of State). Again, as with most neophyte cabinet committees, Millen, Secretary to the Cabinet, acted as secretary. Four Treasury men (who also formed the main Working Party for the COPE secretariat) with the usual senior-junior mix, acted as advisers.

The new system was thus very carefully guarded in its membership. Apart from the energetic and ambitious Gair, the ministers were experienced members of both the National party and the Cabinet system. While neither Thomson nor Holyoake might necessarily bring to the work of the Committee any radical financial insights, they would ensure that nothing was done that their highly developed political instincts rejected as premature or rash. Holyoake's seniority alone gave the Committee some initial standing. However, the fact that the Minister of Finance/Prime Minister was not directly involved suggests that the CCEx provided both a useful place to divert the paternalistic attention of the "elder statesman" while Holyoake remained in the Government caucus, and was at the same time a sensible use of Holyoake's considerable experience (and memory) of government. The officials, working directly out of the Finance division of Treasury and with many years accumulated experience in COPE, and in dealing with CCPP, would ensure that procedures adopted conformed to the general thrust of Treasury's adaptation to change since the early 1970s.

At its meeting on 22 December, Cabinet accepted Treasury's recommendation that "there should be a comprehensive review in the first few months of 1976 and the need to continue all existing Government policies (CM 75/52/12 refers)... The review process will involve departments, Ministers and

ultimately the Cabinet Committee on Expenditure in a critical and fundamental reappraisal of all existing policies."²¹⁷ Winchester suggests that Treasury simply dusted off the old scheme it had presented to the Labour government after it took up office in November 1972.²¹⁸ Indeed, there is a very close (but, it might be suggested, necessary) similarity between the terms of reference for the first review of existing policies conducted by the Government in 1973 and that initiated for 1975/76. When Treasury circularised departments informing them of the review (8 January 1976) it pointed out that:

- (a) Departments are to review the need to continue all expenditure activities and to report to their Minister (with two copies of the report to Treasury) by 13 February 1976 on areas of expenditure in their votes:
 - (i) which are incompatible with the Government's election manifesto or may be inconsistent with the philosophy or approach implicit in the Manifesto;
 - (ii) which are of less relevance to the needs and concerns of New Zealand society today than when they were first introduced;
 - (iii) where Government's objectives could be achieved more efficiently by other means;
 - (iv) which are of relatively low priority and which could be curtailed, deferred or dropped either to accommodate new policies or to achieve savings in Government expenditure;
- (b) In carrying out the review Departments should give particular emphasis to examining expenditure activities involving substantial overseas funds;
- (c) In all cases an estimate of the value of gross savings resulting from the proposals recommended should be shown for the three years 1976/77, to 1978/79. In addition, the effect, if any, on revenue and the amount of any overseas funds involved should be stated.

Ministers have been invited by Cabinet to report to the Minister of Finance (with two copies of the report to Treasury) by 1 March 1976 on the measures they propose to take in (a) above to reduce expenditure on existing policies. These reports will be collated by Treasury for submission to the Cabinet Committee on Expenditure.

It was pointed out to the departments that Treasury had also "been requested" (on its own advice) to report "independently" to the CCEX on cost-saving measures. "With the obvious exception of any across-the-board measures, the Treasury reports proposing possible savings in any individual Vote will, where possible, be considered by the CCEX at the same time as the Minister's recommendations".²¹⁹

Thus it was established that from the outset Treasury would have a direct and explicit interest in the work of the new Committee, and would, in effect, vet ministerial offerings and accompany these by a financial report, as was supposed to be done with all policy proposals to Cabinet. The initial rejection of officials by Labour's CCPP was not to be repeated in this National government innovation.

The only striking difference between the first 1976 existing policy review²²⁰ instructions, and those distributed after the change of government in November 1972, was the explicit manner in which Treasury's role was described. There were, however, still no detailed instructions on how to conduct the review; no special time allowance was made for officers to be freed for the first 1976 review; and no explicit schedule indicated the precise manner in which information was to be presented. As before, the historical timing of the change of government, immediately before Christmas and the January-February summer vacations, was certain to have its effect.

As the Prime Minister had announced in December, Treasury also informed permanent heads, in the 8 January circular, that a review of charges for services provided by non-trading departments was to be conducted, with the intention of finding justifications for increases. This review was to be forwarded directly to the Minister of Finance (and Treasury) by 13 February "with recommended new rates" which, wherever possible, would cover the full costs of the service provided.²²¹

At the same time, Treasury circularised all departments advising them that a review of new policies would be carried out during February-March 1976. It was stated that the explicit intention of this review was to avoid ad hoc submissions on new policy, with departments/ministers putting proposals up throughout the year. Although Treasury had attempted to avoid this piecemeal process under the Labour government, a new dimension now was added - the CCEX. The circular of 8 January informed officials that the (CCEX) would carry out a

preliminary examination of all new policies and will have authority to approve policies involving expenditure of up to \$50,000 per annum. The Committee will make recommendations to Cabinet on proposals involving annual expenditure greater than this amount.

There was an additional injunction to the effect that any new policy proposal that did not succeed in the forthcoming review, or was deferred by the CCEX, was not to be submitted through spending ministers to Cabinet until it had first been forwarded, through Millen, Secretary of the Cabinet, to the Prime Minister, and had obtained his approval as a Cabinet agenda item.²²² Although a definition of what constituted a new policy was included, and departments were required to order their bids according to their ministers' priorities (and, so far as possible, with some explicit indication that they were in accord with the Government's election manifesto), there was no categorical requirement that new costs must represent a substitution for existing costs. Nor was any specific upper aggregated limits on new policy expenditure approvals suggested as a constraint.

12 January:	Government bread subsidy reduced.
26 January:	Announcement of general wage increase of 9 cents per hour or \$3.60 per week, estimated to increase national wage bill by 3.2%. Social security benefits increased by 7.9 percent in line with increase in CPI in second half of 1975.
1 February:	Rail charges increased and Government milk subsidy reduced, doubling the price of milk to consumers.
2 February:	Import deposits scheme introduced, effective for one year, applying to about 7½ percent of total imports. Most postal charges increased substantially.
13 February:	\$NZ 37 Million Government loan in Deutschmarks through international banking syndicate announced.
18 February:	Government banned raising of new local authority loans for other than specially exempted work until end of September 1976

- 3 March: Series of monetary measures announced, including:
- increases in interest rates on government and local authority securities
 - revocation of Interest on Deposits regulations which controlled deposit rates in most financial institutions
 - increases in maximum savings bank interest rates
 - abolition of control over trading bank overdraft lending rates
 - tightening of hire purchase regulations for colour TV and motor vehicles
 - increases in Government lending rates through Housing Corporation and Rural Banking and Finance Company
 - increases in rentals for state houses
 - reduction of government security ratios applying to savings banks by 2 percentage points to assist the housing industry
- 19 March: Further drawing of \$NZ 53 million from IMF 1975 oil facility
- 30 March: NZ agrees under "voluntary restraint scheme", to limit beef sales to USA in 1976
- 1 April: Bread and flour subsidies abolished. Electricity charges increased by about 40 percent at retail level. Remaining telephone charges increased.
- 2 April: Import licensing schedule for the 1967/77 year again fixed at the same value as the previous year.
- 22 April: Task force (chairman: Frank Holmes) established to review social and economic planning
- 28 April: Further drawing of \$NZ 56 million from IMF compensatory financing facility. Subsidies on eggs and butter abolished. Reductions in Government expenditure and freeze on State Service staff levels announced.

14 May:	Income stabilisation scheme for woolgrowers announced. Economic package announced, including:
	- wage order of 7 percent, subject to maximum of \$7 per week (applicable 25 June 1976)
	- one year freeze on wage and salary agreements
	- professional fees and charges, as well as company dividends frozen for one year
	- increases in local authority loan interest rates and extension of restriction on new loans to March 1977
21 May:	Government borrowing of US \$50 million on the Eurodollar market announced

Cabinet office records include CCEX files from the beginning of May, when in a series of three meetings the Committee examined the results of the 1976 New Policy review.²²³ Decisions were recorded as part of Budget Report No. 2 to the Minister of Finance. On 3 June the three Ministers, with only Millen (Secretary) present, considered a highly confidential review item on Foreign Policy and Administration. They were later joined by officials for the rest of a very long pre-Budget agenda including, for example, an item on Education proposals, discussed with the Minister of Education (Gandar) and five of his senior departmental officials led by the Director-General, (Renwick, and his deputy, P. Boag). Four Treasury men advised the Committee on the Education review,²²⁴ with its accompanying Treasury report.²²⁵ The recorded discussions illustrate how the CCEX began its task:

CCEX agreed: re Category 2 policies (i.e. policies not approved before 29 August 1975/put up for consideration by Ministers as part of the New Policy Review for the 1976/77 Estimates) for inclusion in the Main Estimates, to a further provision of \$416,000 for Education grants for 1976/77 (on top of the \$2,448 million already recommended to Cabinet) to be spread over the following years by the Minister of Education, in general to increase these grants

(a) by 12½% but with a maximum of 15% on any one grant:

- Priority 1.4 Play centre running costs
- 1.6 Primary school maintenance costs
- 1.8 Primary - general expenses

- 1.12 Primary - free text books
- 1.14 Secondary schools: general
- 1.17 Secondary schools: free text books
- 1.20 and 21: Assistance to private schools
- 1.23 Technical Institutes - general;

(b) and to further provision of

(i) \$166,000 for remuneration of examiners, moderators and supervisors (Priority 2), i.e. a total of \$326,000 subject to the increases complying with the Professional Charges (Price Freeze) Regulations 1976;

(ii) 2 additional staff for Additional Teaching positions in Special Education Service (Priority 3) i.e. a total of 12 staff, costing \$18,000.

The CCEX also decided, on the basis of a referral of this matter to it from Cabinet, to recommend to Cabinet that it approve:

(i) changes in the procedures for the advertisement of positions and the appointment of teachers in their first three years of service so that

- basic scale positions could be reserved solely for Year 2 and 3 teachers (approximately 3,600 positions in 1977) and
- teachers in Years 1-3 of service could apply for permanent positions;

(ii) a change in the procedure for the staffing of primary schools to the continuous staffing principle for all schools with a grading roll over 155 on an overall teacher: pupil ratio of 1.31. Special provisions were to remain for schools with "special education needs" and currently staffed on better than 1:35 schedules.

The CCEX "noted" that the above changes would provide "adequate control" over the primary school staffing and that there would be "no need in future to provide supernumerary employment for bonded teachers". They accepted advice that any school building alterations or additions to cater for the improved staff ratio were, "in the view of the Education Department", expected to be minor and could be "phased in over a period of years and the costs met from within existing allocations". The Committee accepted that the changes in primary staffing could be implemented "at no extra cost", but that there would be a reduction in positions authorised under Reg. 36 of the Education

Regulations (Staffing and Salaries) and a reduction in the positions approved by Cabinet for the introduction of 1:20 ratios in infant classes. The Department was

- authorised to draft the necessary Regulation amendments.

The CCEX also noted a decision of the Industrial Commission to approve a new rate of pay for part time clerical assistants in schools. The cost of this item would be \$318,900 (including arrears) in 1976/77, and \$182,000 in future "as a full year cost."²²⁶

10 June:	Government borrowing of NZ\$102 million through a Swiss banking syndicate announced.
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A memo, dated 15 June (i.e. just over a week after this CCEX discussion) was later sent by Millen to Gandar, Minister of Education, with a copy to the Minister of Finance. It suggests that despite the Government's widely publicised intentions to regard its first year in office as one of Retrench and Save, it still saw new expenditure decisions as a series of benefits bestowed by beneficent ministers on a grateful and expectant public:

Vote Education: 1976/77 New Policy Review: Increase in Grants

At the meeting of Cabinet yesterday you sought authority to announce to the Secondary Principals Association on 17 June the increase in the general grant which has been approved at an estimated cost of \$780,000 for the year ending 31 March 1977.

The Minister of Finance and your colleagues in Cabinet agreed. Also invited you to announce as soon as possible all the other increases in grants recently approved in the New Policy review i.e. included in Priority 4 of your original submission. It was felt that it would be better to announce all of these at one time than reserve them for announcement on Budget night.

It is my understanding that the increase in the general expenses grant for secondary schools is computed as follows:

Light, Heating and Water (inflation proof)	\$280,000
Increase approved by CCEX as advised on 19 May	\$350,000
	(which excludes L, H & W)
Approved by CCEX 3 June	\$150,000
	(an extra amount drawn from further provision of \$416,000 for education grants) ²²⁷

The CCEX informally adopted a quasi-judicial procedure, from February 1976: individual spending ministers, whose new policy bids had been investigated by Treasury and tabled before the Committee, were invited to attend the relevant meeting, accompanied by any of their officials, during the "taking of evidence". When their own Vote was being discussed they could ask for a "private conference" with the three CCEX ministers and their Treasury advisers after the departmental officers had withdrawn. They could debate the Committee's opinion of their own Vote, but must withdraw when final decisions were taken by the CCEX.²²⁸ Those involved in the first few months of the operation of the new committee agree that despite some rather over-excited newsmedia speculation and optimistic estimations of the "damage" the CCEX did to departmental and ministerial expectations in the first existing-new policy reviews, its initial impact was more symbolic than real. An attempt to apply the discipline of a tit-for-tat requirement was relatively easily thwarted by skilled and determined ministers who had yet to accept the constraints of a pre-Cabinet filtering system.

16 June:	Rail freight charges increased by an average of 25 percent
17 June:	Wage freeze regulations relaxed to permit renegotiation of conditions of employment and reimbursing payments, and, in some cases, wage rates, subject to the approval of the appropriate wage-fixing body.
22 June:	EEC sets import quota for New Zealand butter in the years 1979-80 of 125,000, 120,000 and 115,000 tonnes respectively.
26 June:	Government borrowing of NZ \$33 million from a Swiss banking syndicate announced.
9 July:	Government borrowing of NZ \$74 million from a Middle East source announced.
15 July:	Government announced an overseas Swiss franc loan raising of NZ \$31 million by the National Provident Fund, for on-lending to harbour boards for container port development.

29 July:

1976-77 Budget announced. Main features included:

- incentives, either by suspensory loans or tax deductions, for permanent increases in farm livestock numbers, estimated to cost \$90 million over an 8-year period
- reduction in the fertiliser price subsidy from \$36 per tonne to \$25 per tonne, and changes in fertiliser spreading bounty rates
- introduction of a tax on foreign fishing vessels calling at New Zealand ports (ranging from \$1000 to \$5000)
- reduction of the first-year depreciation allowance on plant and machinery to 25 percent, and introduction of new allowances for investment in plant and machinery contributing substantially to increased export production (20 percent); in priority regions (up to 20 percent); consistent with the Government's industrial development policies (up to 40 percent); and in the farming and fishing sectors (40 percent). The first two allowances could be added; all four to terminate on 31 March 1980.
- existing export incentives extended to 31 March 1980, with some modifications
- increases in sales tax rates on some luxury items
- introduction of 10 percent sales tax on machinery, with provision for exemption to farming, fishing and forestry sectors, some public services and where principally used for export production
- 27 percent increase in duties on tobacco products, 16 percent increase in duties on spirits, and 33 percent increase in duties on imported beer.
- introduction of 10 percent tax on fare component of foreign travel tickets
- replacement of progressive company tax structure by flat company tax rates of 45 percent for resident

companies and 50 percent for non-resident companies; increase in maximum tax rate for life insurance companies from 18 to 30 percent; changes in rates of land tax

- tax rebate of \$6 per week for families on low incomes
- announcement of rate for National Superannuation benefit; rates to be adjusted six-monthly in line with wage movements
- increase in social security benefits of 9.1 percent, in line with increase in CPI in first half of 1976
- reductions in estate and gift duties

In his first Financial Statement to the House of Representatives on 29 July, 1976 (an unusually late Budget date), Muldoon was understandably grim about the legacy left him and his Cabinet on assuming office:

The first [major problem] was a record and growing rate of inflation; the second was a massive and increasing deficit of Government revenue as against Government expenditure (the full extent of which had not previously been disclosed); the third was a massive external current account deficit which was failing to respond to such Government measures as had been taken and which was continuing to run at a rate far greater than all previous Government predictions; the fourth major problem was a level of unemployment which seasonally was running at a near-record peak with every indication that it would increase rather than diminish. (Emphasis added)

Treasury's apparently ineffectual advice to the previous Government (which was not, in any case, supported by effective budgetary control systems) was pointedly quoted:

[A reasonably high standard of living] can only be achieved... if we are prepared to exercise restraint in good times and, as a capital importing country, limit increases in consumption which lead to the expenditure of external funds. A failure to understand this simple fact, particularly during 1973, had compounded the inevitable problems arising from an international downturn in farm product prices and a massive increase in the price of oil-based products during 1974 and 1975. (Emphasis added)

Further, the Minister served notice that tighter financial control was going to be applied, regardless, he bravely stated, of its impact on sectional interest, pressure group reaction or "personal interest". He did not explicitly define how far this should be construed to include ministers themselves. The Budget stated without preamble that the CCEX had been established "to investigate whether economies could be made in Government spending programmes." The Minister claimed that the committee had been able to achieve "significant economies" - in particular in encouraging Cabinet to insist that staff ceilings in the public service were held at prescribed levels. Although Muldoon went on to say that the Government had "succeeded in cutting over \$550 million off the deficit before borrowing of \$1,400 million which was projected for 1976/77 "when they took office seven months before, this was, from the public's point of view, something of a straw man. The outgoing Labour government had not announced that it had accepted advice as to an anticipated deficit of these proportions, and no official Government or Treasury forecasts to that effect had been published at or around the time of the General Election in 1975.

Net expenditure (as described in the 1976 Budget) was stated as \$4,597 million, which may be compared with COPE's very conservative recommendation for existing policy for 1976/77 of \$3,413 million.²²⁹ Between December 1975, when COPE's report had been forwarded to the Minister of Finance and (July 1976) an amount in excess of \$1000 million had been added to the recommended financial base. Although as Muldoon pointed out the rate of growth for the current fiscal year had been reduced from over 26 percent in 1975/76 to nearly 5 percent, the Budget included no detailed outline of how the Government intended to ensure that both the overall total of policy expenditure (which was, in the Minister's own words, "massive") and the growth rate would be restrained in future. One

guiding principle was, however, established: the proportion of Gross National Product absorbed by the public sector. The minister commented that this had risen by 12 percent between 1972/73 and 1975/76 - apparently an intolerable rate of increase, so far as the National Government was concerned.²³⁰ This remained a political touchstone of Government expenditure policy during the next few years.

Thus the Prime Minister/Minister of Finance's imprimatur was added to the reputation of the CCEX in mid-1976. Its general objectives were publicly restated - identify economies, achieve policy cost savings, reinforce Cabinet's directives on matters such as staffing levels, promote the general objectives of reduced deficit levels and restraint in the growth of public sector appropriation of national resources. Its membership remained unchanged throughout 1976, and its place in the central executive system became more assured. Unlike the earlier Cabinet Committee on Government Expenditure^{or} Labour's CCPP, its role was to be neither that of a one-off exercise in money-grubbing nor an inner Cabinet towards which a wide variety of data flowed. It would have none of the direct responsibility for wage and prices policies appropriated by the CCPP, which was now returned to the CEC, with the Prime Minister as its direct controlling agent. The CCEX (unlike the CCPP) would not have among its tasks the problems of medium-to-long term planning - it was announced in the Budget that the Government had established a special task force "to consider the future of social and economic planning" and recommend "a planning framework to deal with these issues."²³¹

One important step was thus taken towards a clearer definition of roles inside central executive networks. Immediate and critical expenditure questions would be kept strictly inside the new Cabinet sub system, with Treasury closely implicated as advisers and confidants. Related issues, such as the sources of revenue available to or needed by the Government, and control over factors such as wages, which contributed to inflationary pressures, would be siphoned back to that part of the Cabinet system of

most personal and professional interest to the Prime Minister and his economic advisers in Treasury - the CEC. The general, and potentially valuable planning and coordinating role of the CCPP, where all economic and fiscal information had been channelled, was dispensed with. In part, this was because the style of political management preferred by the National party differed markedly from that of its political opponents. In part, it was because given the extreme vulnerability of the CCPP to information overload, it was obvious to Treasury that more precise and specific role allocation was necessary if effective decisions were to be taken by central Government agencies. Further, with this new division of labour Treasury was able to regain its central role as economic and financial coordinator, moving directly between the various Cabinet committees, its relationship to the Minister of Finance greatly strengthened by Muldoon's parallel role as Prime Minister. Since the Prime Minister's new advisory group was headed by a senior Treasury officer, Galvin, Treasury's interest over this development was protected.²³² The balance of power shifted away from the uncomfortable, if interesting, experiment of the CCPP back to a more conventional Cabinet system, dominated (in this case) by a highly assertive strategist in the position of prime minister.

The CCEX from mid 1976-1977

A fortnight after the 1976 Budget announcement, the CCEX met to consider a very long agenda which included not only items such as the Hospital Works programme, expenditure on immigrants fares, staffing in the Ministry of Works, and university financing, but the outstanding question of the 1976 Review of Existing policy. Only Gair and Holyoake were present, with Battersby, Brewerton and Burns from Treasury, Millen (Secretary) and spending ministers and their departmental advisers as required. Although the points canvassed were specific to various agenda items, they identified a number of general problems. For example, during the discussion of capital works in hospital development, concerns were

raised as to the adequacy of information which provided the basis for decisions. Ministers and Treasury officials queried the flow of works projects, and the duration of major building programmes. It was recorded that the Committee sought "greater precision in setting priorities both within and between hospital boards and in the national context." This was essential if "the necessary degree of phased expenditure was to be attained." It had been announced in the Budget that the Government had approved over \$30 million worth of new hospital board buildings due for completion in the current financial year. Yet by 13 August the Committee had been informed that probable over-expenditure would necessitate an additional financial provision for hospital works programmes in the Supplementary Estimates. The timing (as well as the aggregate size) of the financial resources allocated to capital works was a continuing source of worry to the CCEX.

Any similar reservations the Government may have had about expenditure on universities were only alluded to in the cryptic record of this meeting that "the Committee rescinded its decision of 9 April to initiate a review of the 1977/78 and subsequent provisions of the university block grants" - presumably a decision taken in the light of the fact that the overall quinquennial consideration of university funding would begin in 1979. Various reports and reviews were requested by the Committee - for example on computers, legal aid and South Island mines. The minutes for this meeting noted that Treasury would continue to monitor "outstanding issues" and report periodically on these to the Committee.²³³

<p>17 August: Price and rent freeze imposed, effective for up to 9 months</p>

The CCEX met once more during August to consider matters held over, or arising since the Budget, and on 3 September visited the national Police College to satisfy themselves about claims that facilities were "rundown". As a result of this inspection, Treasury, the Ministry of Works and the

Police were instructed to prepare a paper on future work on the College, and an indication of any inefficiencies in the police training curricula "that are likely to result from an extension in the phasing of the (construction) work". It must have been the source of considerable satisfaction to police officials to be given such an open-ended invitation. Indeed, the Police appeared to be at least as successful in winning the ear of National government ministers as they had under the Labour administration. Only the mildest reproach about financial procedures was incorporated in CCEX records for transmission to the Minister of Police:

(The CCEX) invited the Minister of Police to make greater use of the new policies review technique in planning expenditure and in bringing to the Government's attention changing police requirements e.g. SWAT, so that the Government is properly informed and better placed to assess the right order of priorities in the longer term. ²³⁴

<p>22 September: Government security interest rates increased</p>

By the end of September, with the build up of items requiring review and consideration by the CCEX, Gair was in a position to agree with Millen that a standardised schedule for the Committee's activities was necessary. The CCEX had met ten times between May and late September and its nodal position in the information networks was apparently assured. Communication of data requested by the Committee, or, on its behalf by Treasury, and ministerial examination of analyses, reviews and reports required the smoother incorporation of the Committee into the Cabinet system. Millen, in a memo to the Chairman, gave the following advice:

In view of the demands being placed on this Committee, and the many requests for advance notice of meetings, I think we should endeavour to establish a standard weekly meeting time like we do to the Economic, SS (State Services), Works and Legislative committees of Cabinet.

My staff suggests (three options):

- (a) alternative Tuesdays (alternating with the Cabinet Committee on Communications
- (b) Wednesday, in between the standard times for SS and Works Committees

(c) Fridays at 2.30 : which would probably mean that I could no longer act as Secretary on a regular basis because of my weekly Cabinet commitments which usually involve me in work right through until Tuesday midday (including part of the weekend). However it may be possible to rearrange duties of Cabinet Office staff to take account of such a change.

(Please advise)

Should you wish to move in this direction, please let me know so that a suitable oral item can be advised to the P.M.²³⁵

Gair returned this memo, annotated to inform the Secretary that his preference was for alternate Tuesdays for the remainder of 1976, with the Friday time-slot used whenever there was a particularly heavy workload, such as existing and new policy reviews - although, as he pointed out, when the House was not in session other afternoons could be used for this as well.²³⁶

30 September: Government borrowing of NZ\$42 million in Deutschmarks through an international banking syndicate.

On 1 October 1976 a letter was sent from Millen to Gair with copies to Thomson, Holyoake, Templeton and the Secretary of the Treasury informing them that the schedule for the CCEX would be raised in Cabinet as an oral item, and noting that

The level of activity in the CCEX is comparable with the four committees which presently have standard meeting times each week; these have become well established. Having regard to the pattern of Ministers commitments the most practicable spot for the fifth standard time would be Tuesdays at 9 a.m. This would provide one and a half hours per week for the transaction of regular business. For heavier periods of work when, for example, reviews of existing and new policy are held involving most portfolios it will of course be necessary to schedule additional meetings... For obvious reasons we should avoid establishing a standard meeting time for any committee on a Monday or Friday.

In recent months the CC on Communications has been meeting on most Tuesdays at 9 a.m. in order to get through the work connected with the establishment of the new Broadcasting structure. [This should be much lighter from October on, and this CC] could then meet as needed like other CCs, e.g. on Family Affairs etc.²³⁷

Thus, by a variety of signals, the significant actors in the central system were advised that the CCEX had been accepted as an integral part of existing systems for executive policy and decision-making; that its work was more critical than other committees with a limited or one-off purpose; that its over-riding interest in financial matters required regular, indeed weekly attention, rather than occasional or ad hoc timing during the budgetary cycle; that it would continue to be manned at a senior ministerial level; that it would continue to absorb the continuing and systematic attention of important divisions in the Treasury; that the "special" reviews of new and existing policy with which it had been concerned could now be regarded as regular, standard phases of the budgetary process. This advice had repercussions throughout the central networks - the registrar of the Cabinet Office, Nell Danskie, for example, commented in retrospect that "the file on the CCEX had initially been kept just as a continuation of the old CAB 121/9/1 (which had been started with the Cabinet Committee on Policy and Priorities, Financial affairs). But it was changed from now on to CAB 121/9/1/1 - I didn't realise how big it was going to become."²³⁸

While its Cabinet colleagues were considering this proposal, the CCEX continued to meet as before to consider the Supplementary Estimates and various ad hoc items. After some ten months learning about the state of government finances it was apparently beginning to gain confidence in its own right to instruct. On 8 October, for example, in a Review of Education Grants (a major and critical component of the Education Vote), the minister (Gandar) had requested \$10.511 million; on the basis of Treasury's advice the CCEX was prepared to recommend only \$5.609 million. The minutes of this meeting indicate how the Committee and its principal advisers were attempting to tighten up the criteria for expenditure bids and cost estimates, particularly where these had in the past given considerable discretionary power to the department, and reduced the scope for cost

reductions. The Committee now asserted that spending agents should not simply assume that movements in costs would be fully or partially compensated, and commented on a number of aspects of current and recommended procedures. Certain "principles" were henceforth to be adopted "in respect of education grants":

- (i) Quantitative increases in grants will be established and announced prior to the commencement of the academic year to which they relate;
- (ii) qualitative improvements will continue to be dealt with under New Policy procedures.

Grants announced will be final and authorities will be required to budget within their grant income within the following exceptions for which supplementary grants may be sought;

- (i) subsequent general wage increases which cannot be absorbed and for which no provision has been made in the grant;
- (ii) special circumstances which arise, the cost of which cannot be absorbed and for which no provision has been made in the grant;
- (iii) where the basis used in determining the grant is estimated i.e. projected rolls or student hours, adjustments will be made to the final grant in line with the actual figures where these are available.

The authorities will have a greater responsibility for controlling their expenditure in that they will be held accountable for that part of their expenditure which is controllable. Should deficits occur which are not eligible for supplementation (as above) the excess costs are to be met by the controlling authority from its own funds. Grants will be calculated on rolls or some other appropriate basis and where staff salaries are included these will be based on approved establishments.

Grant increases may have regard to the movement in costs which have occurred from the date of the previous grant and will not necessarily be tied to movements in any price index. For the purposes of COPE forecasts (then in train) grants will be calculated at 1 July prices. Final grants will be determined in October and may or may not include a further price adjustment.

The basis for determining grants will be reviewed at least every three years to ensure that the formula remains current. Once the required levels of grant increase has been established the Minister of Education will seek Cabinet approval to the new grant rates to enable announcements to be made in November of each year. Submissions for increases will isolate compensation for inflation and, where appropriate, normal growth e.g. increases in school rolls.

Provision for Grant Integration (assistance to integrating private schools) will be reviewed on the basis of the adjusted integration programme in October each year.

(Emphasis added) 239

Despite the apparently severe tone of this decision, the Education department gained a number of important scheduled "rights"; regular, pre-Christmas announcement of approved education grant rates; an assurance that demographic factors, unforeseen changes in circumstances, shifts in wages and salaries and changes in the existing formulae for grant approvals e.g. staff:pupil ratios, where estimates proved out of line with actual experience, could all be presented as grounds for increased education funds; although forecasts of grants (for COPE) must be in 1 July prices, considerations raised during the Supplementary Estimates review could have a favourable impact on the grants announced in November. The only mandatory requirements of any significance were applied, not to the department itself, but to the controlling authorities - the Education Boards, which would be "expected" to act responsibly and with self-restraint in any area of discretionary spending.

The brave words included ⁱⁿ the CCEX's formal decisions could not conceal the fact that this substantial element in Government's annual expenditure totals was extremely difficult to pin down, given the paucity of appropriate information, and the difficulty of insisting on quantification of critical cost-related elements. Taking the review of grants out of the ordinary budgetary cycle (despite the injunction that qualitative improvements, not defined as volume growth, or any other more precise term, were to be put up only during the New Policy review phase) eliminated some problems for Education officials, and provided grounds for numerous problems in future years as cost-cutting became an important motivation for the CCEX.

The first regular meeting of the CCEX, under its new timetable, was held, with Gair in the chair, on November 9 1976. Like the CCPP before it, this Committee had taken almost a full twelve months to establish itself reasonably securely in the consciousness of officials and others. A recorded discussion which took place on 9 November on funding for the Industrial Relations Centre indicates the sort of interests that this

Committee was developing, and its potential value in sorting out areas of potential political conflict without so frustrating ministers that they would later attempt to avoid the proper financial procedures and go straight to Cabinet:

It was pointed out in discussion that the funding should be through Labour rather than Education, otherwise there would be a risk of overlapping arising from block grant funding. The (University Grants Committee) normally resisted tagging small portions of a block grant. On the other hand, special grants for particular activities which the State desired to be carried out in the University environment had become well established. The proposal seemed to fall into this kind of category.

(The CCEX) agreed that industrial relations training is badly needed in New Zealand and should be accorded a high priority in Government programmes; agreed that Government should assume responsibility for the 'full normal operating costs' of the IRC (but excluding financial requirements for studies which are of specific interest to the social partners (undefined) as part of its policy to increase industrial relations training in New Zealand;

approved (various amounts) as a direct grant;

noted that in the long term expenditure for the IRC should be met from the universities' quinquennial grant;

agreed that the contribution of the social partners should remain a substantial portion of the total funding of the Centre;

noted that the I R Advisory Committee will continue to have a watching brief over the Centre's activities.240

It would be a simple matter to point up the gaps in this discussion - the undoubted opportunities for powerful lobbies to sustain small empires, to feed off the state, to avoid drawing themselves to the future attention of the Committee, to inhibit the urgency with which the CCEX might approach the question of approved grants during any witch hunt for crumbs of money in a crisis, to bask in the high priority accorded by trustful and optimistic ministers to an activity the worth of which was far from proven (if indeed demonstrable), yet attractive in that industrial relations were a painful thorn in the side of all recent governments. On the other hand, we can also observe that while this discussion might not demonstrate any zestful ministerial determination to eliminate open-ended expenditure policies, it did illustrate the significance that the Committee, as an executive instrument for moderation, had acquired in the minds of spending

agents. Lobbyists stroked the egos of the ministers by engaging them in apparently grand considerations of the industrial future of New Zealand; they were prepared to offer up to the members of this Committee as a precaution against a future rainy day when they needed some flexibility, some soft areas which could be sacrificed to more pressing needs; they were sensitive to the political arguments most likely to move members of the National government - for example the proposal for a joint endeavour, with the private sector (the social partners) in the business of government. They were prepared to use this Committee. That alone indicated the importance it was acquiring in the networks of authority, however immature the networks of information exchange at this stage. The CCEX was becoming seen as a credible vehicle for approaching the Government, and despite its strong Treasury associations, it was, like all ministerial groups, susceptible to political persuasion. It was a sign of strength not of weakness.

- 16 November: Legislation introduced to impose levies on natural gas and coal produced in New Zealand from 1 January 1977.
- 30 November: Devaluation of New Zealand dollar by 7 percent against all currencies except Australian dollar. i.e. a net appreciation of 12.7 percent against Australian dollar and overall effective devaluation of 2.7 percent.
- 1 December: Announcement of further drawing of NZ \$64.6 million from the IMF Compensatory Financing Facility, bringing New Zealand to its maximum drawing entitlement under this facility.
- 9 December: Economic statement including announcement of directives to trading banks and finance companies both to reduce the rate of growth of lending and to shift emphasis towards priority areas, particularly those with export potential, and extension of the import deposit scheme to 2 August 1977.

- 13 December: Temporary additional tax incentives (expiring 31 March 1978) announced to assist non-traditional exports following the devaluation of the Australian dollar; extension restriction on local authorities to raise loans for capital works.
- 15 December: Report of the Task Force on Economic and Social Planning (Holmes) released: Substantial increases in passenger fares on railways, bus services and rail ferries announced.

The Committee's workload escalated. A wide range of items were submitted for its consideration, making substantial demands on the experience, capacity and time of the three ministers involved: environmental reporting, foreign aid, afforestation projects, fees payable by overseas students, rates policy, hospital boards financial allocations, Post Office development, over-expenditure in various areas such as Transport. The Committee took upon itself the authority to consider any financial grants whenever these came up for regular review during the financial year - e.g. in Education, or Water and Soil conservation. New policy items still not harnessed to the annual review phase were submitted; Treasury sought CCEX approval for the format of its instructions to departments for the next year's review of existing policy; a major paper on Government Expenditure 1977/78-1979/80 was placed before the Committee: the Secretary of Treasury reported, and the Committee noted, the difference between the COPE level of expenditure for 1977/78 (\$3974 million) and the estimated total expenditure figure of \$5290 million, submitted to Cabinet on 2 December.²⁴¹ On 17 December the CCEX agreed that the current freeze on Public Service staff ceilings should continue for the 1977/78 financial year. Treasury submitted a timetable of financial reviews for the coming year, and with a raft of matters still to be considered, the CCEX broke, on 17 December for the summer holiday period.²⁴²

- 20 December: New Zealand agrees, under "voluntary restraint scheme" to limit beef shipments to the USA in 1977 - but with a slight increase on previous year's limit.
Revaluation of New Zealand dollar by 2 percent, reducing the 2.7 percent effective depreciation of November 30 to 0.8 percent.
- 22 December: Initial rates for National Superannuation announced.
- 1 January 1977: Coal, gas and natural gas prices increased by 25 percent, 40 percent and 25-30 percent respectively.
- 31 January: Government announced increases in Social Security benefits of 6 percent, in line with rise in CIP in second half of 1976.
- 9 February: Government borrows NZ\$31 million through a Dutch consortium.

By the end of its first year of operation, the CCEX had acquired an enviable reputation, a regular and highly visible meeting slot in the crowded Parliamentary week, and its own servicing network (for example K. Marshall began to take over from Millen after sitting in for several meetings although he shared this with another Cabinet Office secretary for a brief period). The Committee did not reconvene until the beginning of February, which released some of its members to spend time on the Cabinet Works Committee in the interim. At this stage, in real terms, the CCEX had not gone much further than making its presence felt, but when it began its meetings in 1977 it established the now-familiar procedure of calling for occasional reports on reviews already instituted, or identified by COPE report as desirable. Depending on the reputation of the spending minister or department under investigation, CCEX requests of this sort became more or less peremptory, although as its agenda filled up, and new policies and existing policies generated by the annual reviews were tabled for its consideration, the ad hoc reports often slipped by unexamined (if, indeed, ever actually prepared by departments).

Despite the reliance Cabinet as a whole now began to place on the Committee, and the regard with which departmental officials approached it, the chairman, Gair, continued to have difficulty in gaining his colleagues' cooperation in his rather thankless task. His complaints were very like those that had earlier been voiced in the forum of the CCPP - ministers were often slow to respond to requests for information, niggardly in what they did provide, or even deliberately obstructive. They were often less than enthusiastic about personal attendance, preferring for many months to take the older policy-appropriation route of minister-Cabinet direct, despite instructions that matters could be raised only if approved in advance by the Secretary of the Cabinet and the Prime Minister.

Throughout 1977-78, the Chairman found that his colleagues were very inclined to resist the summons to attend the Committee hearings. On 18 March 1977, for example, Gair and Millen drafted a memo for Cabinet:

Difficulty is being experienced in processing the work of the CCEX by Ministers indicating that they are unable to attend many of the meetings of the Committee. This is resulting in an accumulation of items for consideration...

It went on to point out that the value of the weekly time and other occasions set aside for policy review was diminished "where Ministers have absented themselves." The memo finished abruptly:

Please keep your diary clear. (Signed) George Gair.²⁴³

Nevertheless, the CCEX steadily built up the groundwork for its later successes in policy review and expenditure restraint. It was able to give attention to matters previously difficult for Cabinet, always under pressure, to consider - the standardisation of procedures for policy and expenditure review in different departments; the criteria that should be applied in determining levels of subsidies to functions such as water and soil conservation; factors influencing the levels of incentives approved by the Government to develop various activities; the respective contributions

of central and local authorities, as a matter of political, if not economic principle, in various fields. It became the appropriate agency for review and approval of matters falling outside the delegated powers of joint ministers. It had some flexibility to examine the impact of certain tagged items, or agreed formulae or the use of earlier-approved indices used for cost/price estimation and expenditure predictions. For instance, the policy bases for government grants were, on direct instruction, sometimes required for CCEX analysis. Many "perks" available in such activities as overseas travel or the use of departmental vehicles, indulgently allowed when times were good, were continually recalled for Committee investigation and Treasury review; subsidies, charges for services, staff ratios, and the automatic ratcheting of items such as heat, light and water were queried; a number of reviews, nominated by Treasury or COPE or both were approved by the CCEX. In February 1977, for example, the Cabinet Office drafted an additional instruction to be included in the forthcoming reviews of new and existing policy. Its inclusion was clearly generated not only by pressing financial circumstances, but by the improved capacity that the CCEX was providing for the executive system to deal with financial information:

Review of Existing Policies:

In addition to the information provided by each department in terms of Cabinet Office Circular CO (76) 36, a further report should be prepared indicating those existing policies in order of priority which would need to be curtailed, deleted or substantially revised if the total Vote of the department, as agreed by COPE, was reduced by
2 percent
4 percent and
6 percent respectively.

(Note: this information is required from all departments, including those who filed nil returns for the Existing Policy review.)

Review of New Policy:

Ministers and Permanent Heads are requested to make themselves available at the meetings to discuss new policy proposals in March and April, and to submit further possible existing expenditure savings as well, proposals or items that can be offered in full or partial substitution for all new policies which are sought for introduction in 1977/78. These substitutions should be in addition to proposed reductions made or offered during the review of Existing Policies. ²⁴⁴

The CCEX itself directed Treasury to provide it with a report detailing the figures to be used in undertaking the expenditure reviews for 1977/78. It had, in addition, by this time become the appropriate channel for Treasury to transmit information about over-expenditure of overall Votes - data which could greatly contribute to the comprehensive nature of the Committee's scanning capacity.

On 8 February, as part of a crowded agenda, the Committee considered information provided by its own members about their work commitments, and the amount of time they would be able to give in future to the Committee. Thomson (absent from this meeting) had reported that he would be virtually unavailable because of his involvement on the Human Rights Commission. However, Gair and Holyoake were both able to carry on, and as a result Cabinet directed that in future all ministers should give priority to their attendance at this Committee's meetings, whether as members or as supplicants.²⁴⁵

Treasury recommended to the Committee at this time that the sum of \$200 million should be set as a target for the reduction of expenditure in the review of existing policies (1977/78).²⁴⁶ With this goal in mind, the Committee agreed that most outstanding matters remaining since the 1976 Review should be cleared out of the way by the end of March 1977. The recorded discussion of two CCEX meetings in February illustrate how it went about its review (bearing in mind its main objective - to find an extra \$200 million):

Review of Existing Policies: Public Trust Office

There was a discussion of the degree to which the self-financing operations of a State agency like the Public Trust Office could, or should, in contrast to a Government department, be given administrative independence in its statutory and commercial responsibilities, and thus be exempt from detailed aspects of expenditure control such as maintenance of buildings in terms of the best returns for clients.

It was said that the maintenance item in the Vote was now unrealistically low. It was accepted that State agencies must, in their operations, reflect the tenor of the Government's economic policy e.g. in their building

programmes and staff numbers. However, it would be difficult to establish precise parameters for autonomous control by the PTO of those of its activities which would be in competition with private enterprise. The Government must be left free to intervene if the right balance between State and private enterprise was to be maintained. ²⁴⁷

A later discussion on the Review of Education policies was considerably less philosophical. Gair and Holyoake were present, with their four Treasury advisers and (on this occasion) Millen as secretary.

Gandar (Education) presented himself, accompanied by a four-man team of officials headed by the Assistant Director-General of Education,

Boag. The CCEX began by noting various "adjustments" to Vote: Education since the COPE survey: additions approved by Joint ministers, or, in one case, Cabinet itself, totalled some \$3.5 million (including an additional \$2.2 for Education grants); and subtractions totalling \$6,200,000 which included a reduction of \$5 million on capital works, and the rest taken off funds for teachers colleges. The net reduction overall amounted to \$2,033,000 on COPE's recommended level.

Twenty five items had been included in the general Education existing policies review, affecting every programme in the Vote. In many cases an additional, or more detailed review was called for, and towards the end of the meeting the Ministers decided that any new policies approved by the Government must be matched by specific savings elsewhere in the Vote, additional to those already achieved in the existing policy review. A suggestion from Gandar that "it might be possible to save up to a further \$1,500,000 in 1977/78 by taking \$1 million off the basic grant to secondary schools and \$500,000 off land purchases and buildings for Technical Institutes" was noted - and subsequently amended, on 25 February, to read (less threateningly) "savings up to \$1 million" with only \$500,000 offered for the secondary school grant, and no specific reference to technical institutes at all. ²⁴⁸

2 March: Wage Hearing Tribunal approves general wage order of 6 percent, effective from 14 March 1977.

During this 1977 review period, the CCEX developed a number of standard responses in dealing with existing policy items submitted for its consideration. There may be categorised as follows:

- (1) either approve the COPE provision for a programme,
- (2) or approve the Department's revised estimate,
- (3) or accept the Treasury recommendation for a reduction in the COPE provision on a particular item or activity or programme,
- (4) or ask for a reconciliation of differences between officials, or a presentation of further argument by the Department under consideration and Treasury (this happened particularly when Treasury was recommending a reduction in the COPE recommended level).

Approvals for departmental bids over COPE's recommended levels were given on ground that

- (a) new, or more precise information on the cost component of existing policies than had been available to COPE had persuaded the CCEX: or
- (b) costs expected to "come to charge" in 1976/77 would now not appear till later (therefore the CCEX could approve a higher figure for Year 2); or
- (c) some new or compelling argument by the spending minister and his officials persuaded the CCEX to change the COPE recommendation; or
- (d) price and cost movements could be shown to have moved upwards since COPE conducted its survey, and the CCEX accepted this as grounds for revision upwards.

Other, more specific grounds for agreeing to COPE levels included the following considerations:

- (a) approval by CCEX of a department's argument for a particular formula or index would remove the possibility of regular review, so that a favourable decision made now would ensure future ratchetting by creating an approved precedent (a Treasury argument);
- (b) the item should more properly come under the New Policy review procedures (a Treasury argument). On the other hand, the CCEX would sometimes give approval for an increase "subject to an estimation" i.e. the discretion of the spending department (which did not then have to be vetted again by the CCEX) on the grounds that better service or higher standards of performance would result. Again, approval might be granted for an increase on the grounds that the activity or programme would attract private capital e.g. into forestry. On another review item the Committee might accept Treasury's recommendation that no additional money should be provided for an activity at this stage, but instead (or very often in the interim) it agreed to a review or investigation of the matter by one or more departments separately or jointly, with or without Treasury, with a view to improving the arguments/case for the policy. For example, the CCEX would instruct officials to submit a report on the matter before or after the next Budget, or instruct the department concerned to report on the matter to the CCEX on an annual basis, or at longer intervals - which was, of course, seen by spenders as an attractive invitation to try again.

On 9 March a proposal before the CCEX for a special review of financial management and control in Government departments was favourably received. The Committee approved the engagement of two accountants (under terms specified in Section 21 of the Public Revenues Act 1953) for six months, at a fee of \$15,000 each, starting in August 1977.²⁴⁹ This little-recognised (albeit formal) involvement by the CCEX in the Controller and

Auditor General's 1978 report was a further illustration of its increasing participation in the executive system. The review itself subsequently generated some severe criticisms of the procedures and management information systems of state departments, which were then taken^{up}/not only by the Audit Office and Treasury, but the parliamentary Public Expenditure Committee.

It is apparent from the Cabinet records that there were many situations in which the Committee, advised by the Treasury, could not find any way to recommend savings, even where it was sensed that these were potentially available. It might be reduced to fairly weak gestures (which could have a negative impact politically) such as an approved increase in the revenue-generating activities of the Audit department (fee charges for services). On occasions memos like those below would effectively record a failure to discover surplus "fat":

(re Customs, 9 March, 1977) The CCEX noted that in the circumstances outlined in the Treasury memo, there is little opportunity for a reduction or deferral of expenditure below levels recommended by COPE if the Department is to fulfil its functions as set out by statute.²⁵⁰

Or again:

The Committee noted the Treasury memo that there is little opportunity for reduction or deferral... without it resulting in the Department being unable effectively to fulfil its functions... and providing (an existing) service.²⁶¹

This sort of comment accompanied the Committee's review of policies in departments such as Customs, Government Life, the Legislative department, the State Services (including the National Research Advisory Council and the Computer Services Division), the Valuation department, the Housing Corporation, State Insurance and the Crown Law Office. With few exceptions, the pickings in these areas, even where incompetence or over-optimistic estimates were suspected, would be relatively unimportant compared with what it was believed could be taken from the large expenditure areas, and the sectors in receipt of subsidy and other transfer payments.

At other times, a Treasury recommendation, for all its apparent good sense, would not succeed because it was felt that its adoption could be excessively restrictive in an area where political gains were possible, as with the Ministry of Works. In March 1977 for example, Treasury recommended that cost constraint clauses should be incorporated in all new contracts for construction work, with a view to ensuring that programmed cash levels in the works programmes of other departments were not exceeded in any financial year. The Committee rejected this, although it did direct the MWD "to incorporate cash constraint clauses... where the Ministry considers this advisable."²⁵² Old empires, historical (and politically advantageous) relationships between the Ministry and the building and construction industry would not be jeopardised in the immediate interests of financial economy.

As the first 1977 Existing Policy review continued through March, the Committee employed other strategies where actual cost recovery proved elusive - for example, the CCEX instructed the Social Welfare Minister and his officials not to change the rate of a particular benefit, but to slow down the period over which payments were made - euphemistically defining this as the "Additional Benefit Waiting Period".²⁵³ Very small items of expenditure were sometimes eliminated (for little if any possible gain, except the probably pointless alienation of distant officials and their clients) - for example, the CCEX "saved" \$10,000 by discontinuing a research grant to the Maori Affairs department.²⁵⁴ More rarely, the CCEX would simply endorse the flow-on effects on spending of decisions made elsewhere, such as a CCSS decision to cut DSIR staffing provisions, thereby reducing the COPE level for that department by \$700,000.²⁵⁵

In March (1977), as the Committee continued its demanding schedule of meetings for the existing policy review, Holyoake (appointed by the Government as the Governor-General) was replaced by Templeton, deputy Minister of Finance. Thomson, whose time was heavily committed to a number of other areas, rarely attended CCEX, and Templeton was

frequently absent. The bulk of the work was therefore done by Gair alone, with Battersby and T. Brewerton (later to join the Transport department) as the key Treasury advisers.

The capital works programme for the Government was submitted to the Committee for examination and approval during March. This inevitably reduced the time it could give to existing policy items, and placed it under considerable pressure in view of its own earlier decision to get that review out of the way before taking up the question of new policy bids. Matters which had caused much soul-searching when they appeared before the old CCPP, such as changes in the funding levels for the Post Office's services, were efficiently (if somewhat modestly) dealt with:

(re Post Office review): "Confirmed for planning purposes \$35,893 million for Programme 1 (Administration and General) in 1977/78; this represented a saving on COPE of \$1 million".

Additional small items under this Vote were taken as "savings" - for example, the abolition of counter services in selected Post Offices; the approval of fees for Post Office directories and other previously "free" items - although the CCEX stated that "this is a sensitive area and progressive savings only are capable of achievement". Administrative costs were tinkered with, for example, in a Committee decision that in future only two reminder notices should be sent to persons renting PO property before telephones were cut off (a saving of about \$100,000 per year).²⁵⁶

The Committee also considered various across-the-board cuts recommended by the Treasury, but in most cases, for example, Internal Affairs, "declined to agree to Treasury (paper 4879) recommendations on 2, 4 and 6 percent reductions on COPE levels". It did, however, make some minor adjustments in this and other votes, and usually invited the Minister to report back to it on his reaction to their proposals. Treasury was often obliged to accept defeat (for example in Vote:Railways) since they themselves had been unable to come up with any suggestions as to how

the Committee could make across-the-board recommended cuts stick, either at the level of the individual Minister, or before Cabinet.

Various signals were picked up by the watchful actors in the system during CCEX meetings. For example, on 23 March, in a "secret" memo to the permanent head of the Treasury, Marshall (CCEX Secretary) pointed out that "the CCEX, in reviewing Vote: Agriculture and Fisheries, indicated that the Budget may not be until after July. Officials were to have regard to further strategy to cope with this eventuality when considering the various reports to be furnished by the Minister of Agriculture and Fisheries as directed by the CCEX. Would you please bring this to the attention of those officers in your department who need to know".²⁵⁷ As with all Budget-related information, of course, the final instruction confirmed the secrecy of the proceedings.

Another hoary chestnut that had caused much difficulty for the Labour government - the Nelson notional railway - reappeared during the 1977 existing policy review, and, like their predecessors, the CCEX ministers decided that this political hot potato should be recommended for phasing out "after the next election."²⁵⁸ Sometimes extra-Committee influences were directly felt: for example, on 25 March, in an investigation of Vote: Ministry of Works and Development, the minutes recorded that, re the setting of consultants' fees:

it was agreed that consideration of expenditure on consultants fees be deferred until the situation has been reviewed in the light of the Prime Minister's recommendation that a further \$2 million be added to the Works programme to assist private sector architects and engineers.²⁵⁹

Again we witness the influence of old-established connections between this Ministry, its Minister (Young), and the powerful members of the various professions and business interests associated with capital (works) investment. One item (mentioned elsewhere in Chapter 5) - Developmental Roading, went through without recorded comment on its apparently standard level of \$2 million for each of the next three financial years.

The Health Vote, ardently defended by the Minister, Gill received what could only be regarded as favourable treatment. On 30 March, when this major expenditure area was before the Committee for existing policy review, the minutes included the following decisions:

- (re) General Medical Services benefit: declined Treasury recommendation to lower rate and thus save about \$6.7 million (\$2 million in the current year);
 - Fees for laboratory services: declined Treasury recommendation to increase fee charges to save approximately \$2.5 million in a full year;
 - National Superannuation: Higher rates of medical benefits: (Minister requested to look at ways to save by removing eligibility of special rate General Medical Services Benefit for wives under age of 60 and the consequences of doing the same thing for all superannuitants);
 - Plunket: invited the Minister, the department and Treasury to investigate reclassifying Plunket/Karitane hospitals as some form of social institution and transferring their administration to the Department of Social Welfare;
 - Grants: Noted that with the new control procedures instituted in 1976/77 whereby Hospital Board operating grants are split between salaries and wages and other operating expenditure some success has been achieved in maintaining tighter controls on Hospital Board expenditure; directed Treasury and the Department of Health to advise what else could be done to improve control and in particular the direction of any growth or improvement factor that may be granted as a result of 1977/78 New Policies Review;
- Approved Capital Works levels.

The Minister of Health was now granted his request for time to inform the CCEX on what he wanted to be considered favourably in the new policy review: that is, "his personal viewpoint". Category 1 items had already been approved; the Committee now wanted to hear arguments in favour of Category 2 (31 items), particularly those listed as the Minister's first preferences - family medicine scheme, practice nurse subsidy scheme extension, and health centre construction. It was pointed out that items 32-58 had not been placed in any particular order of priority, but were simply grouped "in the order of the Department's bureaux". Gill then discussed various policies which he personally favoured. "It was stated that he was particularly anxious that the growth figure for health expenditure be set at a minimum of 2 percent with 1 percent being retained

for new project implementation".²⁶⁰ The CCEX "noted" the minister's priorities - and its difficulty in resisting became legendary throughout the central system, a reputation which both inhibited and assisted his successor, Gair, when in 1980 he began a highly publicized attempt to restrain spending on the public health system in its present institutionalised, professionally-dominated form.

31 March:	Import licensing schedule for 1977/78 year again fixed at the same value as previous year.
1 April:	Petrol prices increased by 9.6 percent (which implied a rise of over 30 percent in retail price of electricity). Fifth and final step to equal pay for female workers effective from this date.
12 April:	Government borrows NZ \$87 million through an international banking syndicate.
19 April:	Housing package announced, incorporating reductions in the government security ratios applied to trustee and private savings banks on 30 April and 31 July, releasing \$30 million for home mortgage finance; an increase in Housing Corporation loans available for the purchase of existing houses; and removal of cost limits on loans for new house construction. A target of 55 percent private sector finance and 45 percent public sector finance for housing announced; and a building target in the 1977/78 year of 26,000-28,000 new houses.

Despite its efforts, items from the existing policy review (including matters outstanding from 1976) were still coming before the CCEX until the end of April. In mid-April the three CCEX ministers, Gair, Thomson and Templeton accepted Treasury's proposed timetable for the review of New

policies in May, with the recorded note that the Minister of Finance, Muldoon, would be invited to attend on May 3 and 4, and again on 17 May (the day set aside for appeals from frustrated ministers) "to avoid Ministers engaging in protracted appeals to the Committee for reinstatement of their new policy proposals."²⁶¹ In the event it appears that Muldoon did not take up this invitation, but there could scarcely be more telling confirmation of the effect the Prime Minister was capable of having on his colleagues, or the extent to which his power was husbanded and used by those responsible for restraint when they felt their own authority might prove inadequate to the task set them.

An interesting illustration of interest group pressure and its effect on the executive system appears in the records of a CCEX meeting held on 19 April. The Committee discussed the reinstatement of an earlier "economy measure" that had proved politically impossible for the Minister responsible (Gandar) to sustain:

Reinstatement of conditions of employment of relief teachers

It was stated that this was the Minister of Education's first priority for ... 1977/78 and in view of the public controversy the cessation of this scheme had generated it was considered most necessary that the scheme be reinstated from Term 2, 1977. Any further deferral of the introduction of the new scheme would have grave political implications.... Difficult to estimate the annual cost as many schools did not use their full entitlement of relief teachers; this was particularly so in country schools where (relief) was not available. Officials stated that the PPTA was agreeable to reduce use of relief teachers towards the end of the year when teachers tended to be under utilised. It was agreed that (the policy, with an estimated cost of \$2.4 million) should be approved for immediate announcement after Cabinet approval.²⁶²

This was one horse that neither the department nor the minister had been able to run, and it is likely that the abortive attempt was responsible, in part, for the "grave political" costs Gandar himself paid in November 1978, when, to the surprise of many, he lost his Rangatikei seat to newcomer Bruce Beetham, Social Credit leader - and ex-school teacher.

The New Policy review began on 3 May. All agenda items coming before the Committee, since they carried with them the most sensitive Budget classification, were "secret" and circulated strictly on a "need to know" basis. The three ministers assembled with Battersby (Treasury) and Mike Wintringham (the junior Treasury officer responsible for processing the 1977/78 pre-Estimates procedures) and Millen from the Cabinet office. The records state that

Concern was expressed that three Votes, Education, Railways and Transport new policy proposals take up \$20 million of approximately \$30 million uncommitted at present for NP 1977/78. Accordingly it was decided that these three votes should be dealt with first before other departments.

It was considered that there should be some sort of flagging process for politically sensitive longer lead-time items; however, these must not be seen as commitments for the 1978 Budget.

(Emphasis added) ²⁶³

Thus expressing their shock and disapproval, the CCEX began. It appears that attempts to find substantial financial gains in their existing policy review had been relatively unsuccessful. They were now obliged to act within very tight fiscal guidelines (\$30 million was, in the words of one official, "peanuts" compared with what was requested). However, the records of their meetings do not indicate whether any more useful strategy than moral and political outrage was devised to buttress their determination.

Education had produced its typically expansive shopping list - that year some 90 items were submitted by Gandar. The Committee reclassified some items, such as additional funds for General Expenses grants to schools (announced, as agreed, some months earlier, and apparently already insufficient) and all pre-school items were downgraded. However, a reduced building programme was approved, as was one expensive proposal to establish senior technical divisions in secondary schools, and another to extend the scope and amount of bursary provisions for university and other students. Certain policies, such as assistance to the parents of handicapped children, with relatively minor cost implications (and even those only

vaguely spelt out) were sympathetically received, since every minister could see political gains from this inexpensive and largely symbolic gesture. The Government's growing interest in technical training was reflected in the Committee's general political concern over this area, as expressed in its instruction to the departments of Labour and Education that they jointly prepare "a short analysis of the balance of advantage in a reduction of apprenticeship training and a shortage of trained trade skills. This analysis should point out the qualitative areas in education where major commitments will expand the Education Vote in future years (e.g. bursaries)."²⁶⁴

The Committee was plainly diffident about its capacity to make effective reductions, or restrain apparently inevitable growth in this critical Vote. Interestingly enough, the records of this meeting and that held the following day do not state that any Education officials were present, so presumably the CCEX could avoid the persuasive strategies of the skilled officials who worked in this field. Nonetheless, they obviously suspected that if Gandar went to Cabinet with complaints, supported by the department's advice (or, from another standpoint, barely veiled threats) on outraged response to frustration by powerful education lobbies then the CCEX itself would lose, in part at least, both money and face. They cautiously agreed to defer Priorities 1-7 (all concerning administrative policies) until the completion of their New Policy review, and to place other Education bids "on a reserve list" for implementation in 1977/78" only if sufficient funds became available at a later date."²⁶⁵

9 May:	Government announces extension of freeze on wages, professional charges, director's fees and dividends till 14 August 1977.
15 May:	Rail and rail ferry freight charges increased by an average of 9 percent.

Although the Committee had timetabled only one day for appeals, they

in fact met for this purpose on at least two occasions. The notes attached to the agenda for the first appeal day - 17 May, outlined the formal procedures:

1. Individual ministers will have only the/those appendix(ces) relevant to their own portfolio(s).
2. Summary of items submitted for reconsideration is attached for information of members of CCEX only [sic].
3. In view of the length of meeting, Ministers are requested to limit officials to an absolute minimum [The usual gangs without which some departments never moved were not, apparently to be present to intimidate or unsettle the Committee].
4. Where acting Ministers will be present the attendance of senior Departmental officials is requested [don't send a boy to do a man's work].
5. As final decisions on NP have to be taken at this meeting so that the NP package can go to Cabinet on 23 May, [appeals] will be dealt with even if the Minister is absent, and cannot be deferred till a later date.
6. Where the Minister can't be present it is essential that his Permanent Head represent him with the necessary authority to act on his behalf. [presumably added for those who could not read, or chose to mis-interpret the significance of the earlier point 4].

Items submitted for re-consideration
from the following departments:

Foreign Affairs (2)
Overseas Trade (2)
Labour (1)
Agriculture (1)
Maori Affairs (1)
DTI (1)
Justice (1)
Lands (2)
Tourism (1)
Fisheries (1)
Regional development (1)
Transport (2)
Works and Development (1)
Police (1)
Social Welfare (1)
Internal Affairs (2)
Forestry (1)
Education (9). 266

Again we can see at work the strategy Education spenders had so successfully employed in the past. In the assertive manner of entirely confident evangelists, strongly convinced of the significance of their function in government, highly skilled in the sensitive operation of those political taps that could be turned on (or, more rarely in their case, off), politically astute and in constant touch with the demand sources (teachers, parents and

students) of their field through Education's complicated system of dual management by Departmental and lay controllers and advisers, still oriented towards the profession from which almost all of them were drawn, they proved more than a match for the CCEX. They stubbornly bombarded it with bids, and were unbending in seeking their full re-instatement. The following table indicates the outcome of this particular engagement, with policies classified according to how the CCEX dealt with the appeal: (Education) appeal items approved in part, with specific tags attached):

1. Establishment of technical divisions in secondary Schools:

Initial request, \$141,000

Treasury classification; Cl

Initial CCEX recommendation: D

Minister's appeal request: \$141,000

2. Extended trade training for paramedics:

Initial request: \$390,000

Treasury classification: D

Initial CCEX recommendation: flag, to be advised on political implications

Minister's appeal request: \$390,000

3. Establishment of community colleges:

Initial request: \$593,000

Treasury classification: D

CCEX initial recommendation: D

Minister's appeal request: \$593,000

4. Adjustments to Standard Tertiary Bursary:

Initial request: \$120,000

Treasury classification: D

CCEX initial recommendation: D

Minister's appeal request: \$120,000

5. Loans to private schools for capital works:

Initial request: \$1,500,000

Treasury recommendation: D

CCEX initial recommendation: D

Minister's appeal request: \$250,000 for 1977/78

\$1,250,000 for 1978/79

(Appeal items approved in full):

6. Expansion in-service teacher training:

Initial request: \$100,000

Treasury recommendation: D

CCEX initial recommendation: D

Minister's appeal request: \$100,000

7. Financial grant to professional teachers association (ATCC):

Initial request: \$9,000

Treasury Recommendation: C1

CCEX initial recommendation: D

Minister's appeal request: \$9,000

8. Vehicles for regional educational programmes (CAP and CES):

Initial request: \$12,000

Treasury recommendation: C1

CCEX initial recommendation: put on reserve list (i.e. to be
approved if funds became available)

Minister's appeal request: \$12,000

(Appeal items declined):

9. Financial assistance for the Pacific Island Foundation:

Initial request: \$100,000

Treasury recommendation: C2

CCEX initial recommendation: reserve, and if anything provide
half only

Minister's appeal request: \$100,000²⁶⁷

It is not too difficult to ascertain where the Ministers perceived their party's political interests to lie.

Other Votes enjoyed slightly less favourable overall treatment, although the following guide to those arguments which were well received (or rejected) by the CCEX, suggests that officials and ministers were neither markedly inhibited, nor cowed, in approaching the appeal authority. Successful arguments may be clustered on the following lines, with a possible interpretation of each in parentheses:

1. Part of the money could be provided now, as requested, and the rest could be built into the Supplementary Estimates later (success to the Department);
2. The new policy bid was part of an election manifesto commitment in 1975 (success to both spending department and its minister);
3. The item was an otherwise unpopular charity/public need which the Government could benefit from supporting, such as Prisoners Aid Rehabilitation, at relatively minor real cost (combined moral, political and financial virtue);
4. The equipment for which additional funds were sought was potentially dangerous without modification (avoidance of industrial strife);
5. The item, if approved and announced strategically would "attract favourable publicity in the latter half of 1978" (the ever-present fixation with electoral timing);
6. Funding for this item would assist the solution of politically sensitive problems, such as drug abuse (again, working on the conscience - and relative ignorance - of the CCEX);
7. The item needed funding because it represented a "genuine social need", such as the requested car allowance for foster home parents (a Departmental favourite);
8. The item should be agreed to and approved in principle now, but the department must undertake to find alternative sources of money for funding before financial approval would be given (a minor flexing of Treasury muscle);

9. The item was part of an earlier-approved plan/programme (a failure to apply/hold to the definitional niceties of New and Existing policy criteria - success to the department)
10. A change in policy direction necessitated new spending - for example, trade commissioners were to be located by the Government in the Middle East, rather than Los Angeles, but this decision had since been reversed, with unforeseen costs to the Department (which gained a bonus to be laid at the feet of Ministers' earlier lack of prescience);
11. The item proposed was the start of a long-term provision for what "may initially appear to be only a short term problem", such as unemployment (this issue was still to be discussed in hushed whispers);
12. The imposition of a new control could begin if the item was funded, and although it may be costly in the first instance it would produce future cost savings e.g. noxious weed control procedures (go back to the CCEP's handouts to this insatiable policy);²⁶⁸
13. The item represented some special and attractive minority need, such as subsidies for Maori maraes (a relatively costless political gain);
14. A transfer from one programme to another of some activity, with the same price tag, nonetheless required CCEX approval under the current rules.

The Education Vote produced some variations on these themes. For example,

1. The bid was allowed, recognising that it was in fact "just" an increase on COPE, "not necessarily a new policy as such";
2. The bid was allowed, to commence in 1978, but the costs were to be shared with another department, such as Labour (apprenticeship training);
3. The bulk of a new policy was allowed (such as community colleges to be started in Whangarei, Rotorua and Southland, all politically interesting as marginal electorates but not elsewhere, such as Wanganui ^{or} Timaru _^ where, among other considerations, the Opposition could be said to have a safe electoral hold, making a gift to these areas politically

wasteful). The latter items were deferred until after the General Elections in 1978.

4. The new policy bid was just an "administrative" device to "remove anomalies" in some existing policy, such as the STB scheme;
5. The item (e.g. loans to private schools, mainly Roman Catholic) was "part of a long-term Government plan", and could not be deferred "without serious consequences" for the intended (and publicly expected) action (this sacred cow was then and later generously fattened by Ministers);
6. An item was approved because the Department undertook (with protest) to find the necessary sum in some existing activity or programme.

A straightforward appeal for help or sympathy, totally unsupported by any new evidence or compelling argument, usually failed, although occasionally, as with the bid for money for the Pacific Island Education Foundation, a matter which might have some political merit was referred to Cabinet for final decision.²⁶⁹

Although, on its own say-so, the Committee was supposed to present its findings to Cabinet on 23 May, it was still heavily involved in the appeals on 24th. Various items had been returned, such as the Health Vote policies, and here, with time running short, CCEX decisions were more symbolic than real:

Approved a 'stabilisation' grant to Hospital Boards of \$6 million in the Main Estimates 1977/78.

Directed that Boards be informed that this amount should be regarded as an advance against the total grant for 1977/78, and that approval thereto by Government is without commitment as to such further amount as may be approved for this purpose following the review at Supplementary Estimates.²⁷⁰

With a defiant penultimate twitch, the exhausted Committee boldly decided that they would not approve the "basic growth" formula constructed by ingenious Health spenders as another way of maintaining their hold over public funds - but even this was ineffectual, as Cabinet later listened sympathetically to the Minister's (Gill) arguments in favour of this technical nicety. At two more meetings (31 May and 8 June) the

Committee attempted to wrap up the reviews of new and existing policy, the Treasury report on the 1977/78 Estimates reviews, and other ad hoc reports on items such as the Land Development and Settlement Programme. In these meetings before the Budget, it approved an additional (late entry) policy for Energy²⁷¹ - an area of future costs which even at this stage scarcely appears to have impressed Ministers as a contender in the field. On 14 June, just over a month before Budget night, the Committee, closely warned of the need for secrecy, considered the following disconcerting item:

(Re Budget 1977/78):

The Associate Minister of Finance advised the CCEX that figures prepared for the Budget so far indicate that in 1977/78 there will be a 19 percent increase in Government expenditure, which represents 38 percent of GNP.

The CCEX was advised that the Prime Minister was aware of this increase in Government expenditure and he had asked for further details particularly of the salary and wage increases which are 75 percent of this increase.

It was stated that the deficit before borrowing should be lower in this year than that experienced in 1976/77. It was generally agreed that in the text of the Budget there should be a statement that the Government had inherited a situation where Government expenditure was 41 percent of GNP, while a target of 38 percent of GNP had been aimed for, 36 percent had been achieved. This year it has not been possible to hold expenditure because cuts made last year could not be maintained thereby resulting in Government expenditure exceeding the 1977/78 position and attaining a level of 38 percent of GNP.²⁷²

Only ten copies of this extraordinary document were made, and they were distributed, with a high security classification, to the CCEX, the Minister of Finance and the Secretary of Treasury only. Perhaps the only retrospective comment that is needed is to observe that when an official memo bearing such unpleasant news, requiring such a devious response, describes a fiscal deficit as something the Government "experiences", that is precisely what it means. Political animals like ministers and senior officials, in their physical and emotional behaviour, honed by many electoral campaigns and stimulated by intense and profound ambition, quite literally "feel" the impact of this sort of information in their quivering

nerve-ends.

14 June:	Reserve Bank announced intention to begin some limited dealing in commercial bills and trading bank transferable certificates of deposit in the secondary market.
15 June:	Government borrows about NZ \$103 million from Swiss sources.

Existing and new items were considered in the run up to the Budget (21 July) as ministers and their departments raced against the clock to ensure that precious policies were supported, and lodged firmly in the expenditure pipeline before the public announcement of the Estimates. Once they missed that bus, they had to face the difficult task - now complicated by the CCEX and the vigilant if anxious Treasury - of getting policies funded through the Supplementary Estimates, or padded into their COPE forecasts. Old chestnuts continued to turn up - a recorded discussion on the Nelson notional railway, which had produced many headaches for the CCPP and which the CCEX hoped to silence until after the 1978 Elections, provides an illustration:

(28 June) Oral item:

It was stated that since the 1975 election, the Government subsidy on the Nelson Notional Railway had been taken twice to Cabinet with a view to abolishing it. However, the Government's hands were tied as there had been an undertaking in the 1975 Manifesto that the subsidy would not be abolished in the present term. Ministers wished investigations to be carried out on ways that the Government could terminate (this) subsidy. This must be announced prior to the 1978 General Election so that the Government would have a mandate to abolish the subsidy in 1979.²⁷³

The question was to be reviewed again by the CCEX in March 1978. Education questions were particularly difficult to suppress. On 5 July (three weeks before the Budget announcement) the question of "teachers college surplus" was submitted for examination by the Committee. It was a highly political matter:

The Committee advised that a sub-committee which has been set up on teacher training has presented a report to the Minister of Education which he has agreed to release to interested parties. Among other things it covers teachers college staffing.

The Committee was concerned that release of the report before it was studied carefully by Ministers could commit Government to further escalation of the staffing levels for teachers colleges.

The report set out a new staffing organisation for teachers colleges which would increase the number of teachers from the approved level of 501 to 576 (which was more than the present supply). However, the increase was mainly in the area of primary teachers' tutors. Since February this year attrition had taken place in the staffing surplus of teachers colleges and the surplus now stands at 34.6 over entitlement. The surplus is not just in the number of teachers but tends to express itself in particular speciality subjects.

The Chairman was concerned that there may be a failure of the administration of teachers colleges to see the size of the problem overall as there would be a natural tendency to relate only to the small surplus in a particular college.

The paper attached (by Education)... details a growth trend that gets worse year by year until 1980 which is as far as forecasts are now made.

The Chairman therefore asked why staff could not be taken from teachers colleges and channelled to secondary schools where there were now staffing shortages which it was proposed to fill by overseas recruitment. Officials agreed that this partial solution to the problem could be investigated by the Department.

The CCEX was advised that Treasury's viewpoint was that the Department is trying to formalize the present situation and justify the over-staffing levels by achieving a lower ratio of teachers to students, whatever way it may be phrased in the report.

Education officials informed the CCEX that instead of the proposed reporting date of 31 July 1977 they would prefer to report nearer the end of August when the Sub-Committee's report on Teacher College Training would have been studied by interested parties for a sufficient time to allow feedback to the Department.

If a report was not to be presented until the end of August then the CCEX wished the Minister of Education to consult them at the next meeting, so they could be advised on the likely outturn of the report.

This was particularly important as the Committee wished a decision to be taken on the clearing of the teachers surplus so that the new school year would start in 1978 with staffing at approved levels only.

The matter was deferred, inviting the Minister of Education to submit a report by July 31 on ways of eliminating present and projected future surplus, including the costs, and other implications of

- (i) closure of one or more colleges (treatment of redundancies, relocation of staff etc.);

- (ii) realignment specialities between colleges (possibly on staff sharing, effect on teaching curriculum);
- (iii) complete moratorium on staff hiring (implications of continuing with present ad hoc procedure, possibilities for greater stringency on existing hiring procedures).

Finally, the Committee emphasised that the Minister of Education must withhold the report until after 12 July 1977, and his meeting with the CCEX.²⁷⁴ When Gair, and his colleagues Thomson and Templeton re-convened with Gandar and two of his advisers (Ross and Munn) they had before them a paper entitled: Two year Courses Primary Teacher Training. The record of the meeting suggests that the CCEX were but babes in this thorny administrative and professional wood. However their authority was acknowledged in the proper ritual:

There was a discussion on the kind of person the broadened criteria would attract to primary teaching and it was stated that each case would be taken on its merits. Discussion then centred on whether the two-year courses... should be implemented at all colleges or only at two teachers colleges as recommended by Treasury.

- Agreed that
- a) broadened criteria on a trial basis from 1978;
 - b) selection of applicants for this course to be based on a credit system along the lines set out (in the Department's submission);
 - c) there should be a maximum of 200 entrants to the course, details and effects on course quotas to be decided at the time the annual intakes for 1978 are approved;
 - d) urgent discussions to be held with representatives of teachers colleges likely to be involved and service organisations with a view to establishing course outlines, selection procedures and additional staff requirements;
 - e) following (d) the preparation of a report (to be submitted to the CCEX);
 - f) to attract applicants to the new course, an accelerated recruitment campaign will be needed and an additional financial provision of \$2000 may thus be needed in the Supplementary Estimates;
 - g) a research project to be developed to evaluate the effectiveness of the 2-year trained students compared with the 3 year trainees.

Agreed that present Div. A2 course be subsumed under new trial course and offered in all colleges.

Approved provision of \$83,000 in 1977/78 Estimates to cover additional demands made by new trial course.

Authorised Ministers of Finance and Education to approve special provision of 7 teachers college staff to implement trial course in teachers colleges.

(Re) Teachers College staffing surplus:

It was stated that there may be some difficulty in eliminating the surplus by the beginning of 1978 and one of the complicating factors was that there was confusion over the employing authority for lecturers as they were not employed under the State Services Act, and also there was no standard redundancy agreement for teachers in teachers colleges, unlike those in technical institutes.²⁷⁵

Finally, the CCEX instructed that a joint paper, by Treasury and Education, on the financial implications of the proposals and its decisions be submitted to it by 2 August - i.e. a fortnight after the Budget. This paper was to include (a) an estimate of the net savings that might accrue from removing the surplus, taking into account the options and suggestions raised in the Department's paper, and (b) reference to steps that would need to be taken "to assist controlling authorities in identifying individual lecturers to be deployed."²⁷⁶ Whatever the Department did with this final instruction, the Education officials had ensured that their flanks were well covered. They were reasonably safe in encouraging the CCEX to give them the authority they needed, in their teachers' college planning, to anticipate the impact of projected demographic changes in schools' population and, by implication, the integration of private schools into the public system.

At the same meeting, the CCEX gave a considerable amount of time to the problem of the relationship between National Superannuitants and health benefits. This, and other matters still outstanding from the 1977 Existing Policy review, occupied its attention until two days before the Budget announcement (21 July). In the final rush to complete its formal responsibilities, approval for an additional \$60 million for Hospital Board Works was given by the "Round Robin" procedure occasionally adopted when there was some urgency.

When the Minister of Finance reported to Parliament on 21 July, his address faithfully incorporated Treasury's suggested presentation, of which the CCEX had been advised in June. The Public Accounts for 1976/77

showed that net Government expenditure had totalled \$4,504 million - an increase of 2.7 percent over the previous year's outturn. An 18 percent increase in revenue had reduced the amount actually borrowed to cover the Government's deficit from \$1002 million in 1975/76 to \$506 million in the 1976/77 fiscal year. However, "necessary increases in social services expenditure and pay increases to State servants" had affected the Government's ability to hold the line. For the 1977/78 financial year, spending was expected to rise by 18.8 percent (net \$5,350 million in total). Nonetheless, the Minister reported, this should not be regarded as evidence of failure on the Government's part:

When the Government took office 20 months ago, it inherited a situation where Government expenditure had grown to approximately 41 percent of GNP. Last year we succeeded in bringing expenditure down to approximately 38 percent of GNP [no calculations of how this proportion had been obtained were included] ... This year, the indications are that Government expenditure will amount to about 38 percent of GNP which is still consistent with the long term objective of reducing Government expenditure as a proportion of GNP.

The Minister also estimated that "less than \$400 million" would have to be borrowed to cover the probable Government's deficit in financing net expenditure. (As it turned out, the next Budget statement (1978) showed that this 1977 estimate had been somewhat optimistic. Net expenditure recorded in the 1977/78 Public Accounts amounted to \$5,669 million, 5 percent over the Estimate made in July 1977; actual borrowing for 1977/78 had been \$694 million, compared with the \$382 million estimated in July 1977.) In his 1978 Budget, the Minister avoided the now-sensitive matter of total Government expenditure as a proportion of GNP (and his 1977 Estimate that this would be about 38 percent), and engaged instead in a minor exercise in public mystification by referring to the deficit itself - "the estimated deficit for 1978/79 represents 6.4 percent of projected Gross National Product." In a defensive note, he pointed out that "the deficit in 1975/76 [i.e. the fiscal year for which, presumably, the Labour government could still be regarded as

responsible] was 9.2. percent of GNP, a substantially higher proportion.")

21 July: The 1977/78 Budget introduced to Parliament. The central government deficit was budgeted to decrease from \$506 million in 1976/77 to \$382 million. Some important features were:

- increase in tax rebate for low income families
- \$94 million spread over 5 years allocated to replacement of urban transport rolling stock
- additional \$35 million for mortgage lending made available through the reduction in government securities ratio for savings banks
- income-tested social welfare benefits not subject to tax increased from late July to give full compensation for price increases
- inflation-adjusted savings bonds introduced.

30 July: Import deposit scheme extended by six months to 2 February 1978.

Toward the 1978/79 Estimates:

Immediately after the Budget announcement, the CCEX returned to its consideration of existing policy items still under review, and various "new policy" proposals which if approved would later comprise part of Treasury's Category A schedule for the next financial year. One item discussed on 2 August illustrates the type of debate which could occur between officials before the Committee. An "additional" sum of \$1 million had been appropriated for the water and soil division of the Ministry of Works, but its precise use had not been decided upon before the Estimates were tabled. J. Wight (MWD) and Battersby (Treasury) disagreed over the basis for decision-choice. The minutes

recorded that the money was

intended for those projects which would come into production quickly and give an almost immediate return. In particular, in agreeing to the increased expenditure, Cabinet had not wished to implement new projects which would lead to long term commitments. It was understood that these longer term projects should be provided for under the basic annual water and soil projects.

The Ministry of Works, Wight reported, did not agree with Treasury's argument that projects recommended for adoption (and funding) should be evaluated on the basis of the economic rate of return which each project would accrue. The Ministry claimed that this was not the best way to assess the potential value of any given project. The "economic rate of return", Wight stated, was "theoretical prior to a scheme being implemented, as it was based on a large number of physical assumptions, and those assumptions (were) seldom if ever tested as to their sensitivity before a project (was) started." In addition, he pointed out, the "economic rate of return" was only one of "a number of parameters" which should decide whether specific projects were undertaken. He suggested to the Ministers that "other considerations" be taken into account (apart from the nicety of some unsubstantiated but prescribed financial return), including matters such as "technical and engineering details; land holder interest and need; environmental impact of the scheme; the water resource situation; the readiness of the scheme for commencement."

Wight stated assertively that the Ministry "did not agree" with the "high priority" placed by Treasury on "those projects which were primarily for sheep and beef producing areas. MWD contended that the other agricultural areas such as cropping, horticulture and dairying required adequate attention if farms... were not to have their production severely limited." In particular, Wight stated, "the MWD is trying to keep a balance between short term works which have a high rate of immediate return and longer term works... which have a rate of return which varies from only average to very high."²⁷⁷

The Committee accepted Treasury's recommendation in this case, but did provide a bonus for the Ministry by instructing that a start be made on a long-term project which the Water and Soil division was promoting in the Mataura valley. Although one may regard MWD's arguments as simplistic or naive, it should be noted that this department, more perhaps than any other, acted as an essential financial and economic moderator for the Government. It was the MWD's traditional responsibility to have available projects of varying complexity and cost to allow for that "fine tuning" which conventional political wisdom regarded as necessary both politically and economically. In addition, it must keep its huge empire of political alliances, with a wide range of professional and technical interests, intact. The relationship between central and local government, as well as political parties, individual members of Parliament and local pressure groups, was highly sensitive to the manipulation of capital works funds.

The second matter discussed at the same meeting (2 August) was Education expenditure. This was still under existing policy review, and the officials and the Minister of Education came before the CCEX several times with arguments for other expensive and always complex old and new proposals. As instructed some weeks earlier, the Education officials had re-examined the matter of staffing in teachers colleges, and a plan to phase out at least one established college was beginning to shape up. On 2 August, Ross and Munn (Education) reported to Gair (who had been left by Templeton and Thomson to deal with this matter on his own) that college staff could be reduced by 35 persons. Gair asked which teachers' college would be closed if staff were "declared redundant". The officials replied that Dunedin and Waikato were being considered for closure, but both proposals had generated considerable controversy in the Department of Education, and as yet no firm decision had been made. The minutes of this meeting record the following arguments:

There were two issues involved [in the Department's report to the Committee] and these were not entirely related to the staffing of teachers colleges. Not only was the staffing level being investigated, but it was also proposed that the accommodation at teachers colleges would be investigated by an Education department team in the near future. It was considered by the Department that there could well be some classroom space available in teachers colleges which could be utilised by other organisations. Accordingly, the Committee considered that it would be useful to have a report on the economic use of teachers college facilities by 30 September 1977 if possible (so that a decision on alternative use or closure could be made before the beginning of the 1978 school year).²⁷⁸

The subtle relationship between ministers and officials is suggested here - a ritual scanning of each other's viewpoint, an intricate sounding out of how far, at any one time, each is prepared to go, what the tolerance for future action and decision is likely to be, how far planning will be approved even in principle, where electoral and other political interests are likely to be involved, how much time and effort it is worth giving to any particular plan at any particular time. All parties present at this discussion were aware that unless the necessary agreement could be reached inside the department on this matter (thus demonstrating that the officials could manage their own client groups), neither the Education minister nor the CCEX could proceed safely. In any case, a delay past the beginning of 1978 would cause a deferral of the whole question, since its electoral implications were tacit but quite real.

14 August:	Free collective wage bargaining re-introduced subject to observance of 12-months nil registration of agreements in Arbitration Court.
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During its next five meetings, the Committee was preoccupied with Health and Education. Six policy matters approved in the pre-Budget New Policy review for the Health vote now came before the Ministers for financial approval... and extension. For example, Gill now wanted an increase of 10 percent in the benefits paid for specialists' work.

(Eventually all this Minister's proposals were approved, subject to Cabinet endorsement in mid-October, when the thorny matter of the rate of the General Medical Benefit (GMS) would be discussed.

On 4 October the Supplementary Estimates were "reviewed", along with an additional Education department proposal for funding primary school textbooks, and a report on the cost of the Health department's GMS benefit, due to go to Cabinet four days later. It was painfully obvious by now, if it had not been before, that the \$50 million "set aside" for supplementary expenditure in the 1977/78 Estimates would be totally inadequate. In connection with capital works for Universities, for example, the MWD reported to the Committee that although \$25 million had been provided for this in the Main Estimates, "the Department's latest computer run indicates that an outturn of expenditure on that item, for 1977/78 (would) be \$28.8 million". An additional \$4 million would be needed from the Supplementary Estimates "pool" for this activity alone.²⁷⁹

New policy items, slipping neatly through Treasury's formal budgetary net of regularised reviews, were submitted and incorporated in the CCEX agenda. For example (4 October again), the Committee decided to recommend to Cabinet that it approve the Education department's bid for money to print a new mathematics textbook (at a cost of \$426,000), to be included in the Estimates for 1978/79. In this way various "Category 1" items were built up as the basis for the next year's New Policy review. The Committee did attempt, somewhat feebly, to gain some kind of hold over this weak area of fiscal control. For example, it suggested that the Education department improve its own planning procedures by developing a "book programme" in the same way as it had a "building programme", so that, by implication, controlling authorities could get an early warning on the scope and cost of what the department regarded as its basic resources along with capital works, and trained personnel. Just in case the department should think this overly critical, however, a week later, the Committee approved a programme for reading materials for "infants" on

the following basis:

\$25,300 in 1978/79 Vote

\$495,000 in 1979/80 Vote

\$494,000 in 1980/81 Vote.

The folly of such decisions was pointed out (though not, it seems, avoided) on the same day, when de Jardine (Treasury) advised the Committee that "including those Supplementary Estimates items approved on 4 October, those approved at this meeting (11 October) for reference to Cabinet on 17 October, and revised health benefits package approved by Cabinet on 10 October, the Supplementaries to date [total] approximately \$103 million. This compares with provision in the Supplementary Estimates for 1976/77 of \$77 million. The provision in the Main Estimates for 1977/78 for Supplementary Estimates was \$50 million."²⁸⁰ No comment on this oral item was recorded. It is, however, worth noting that the \$77 million reported by de Jardine as having been included in the estimates for Supplementary expenditure in 1976/77 had actually been published, in the fiscal convention of the time, as only \$50 million in the 1976 Budget Table 2.

Testing the value of the CCEX: a Treasury scouting party or a fiscal Tar-Baby?

By late 1977 the CCEX had been established for the best part of two years. On Cabinet's authority and Treasury's advice it had conducted one review of existing policy in 1976, and another (still ongoing) during 1977. Special inquiries had been made into the basis of staffing policies (and their costs) and capital works programmes. Two reviews of new policy had been conducted, prior to the 1976 and 1977 Budgets. Although the two existing policy reviews had been modestly successful ("savings" were estimated at \$180 million in 1976 and \$40 million in 1977), new policy proposals approved subsequently by the Government, additional salary payments to state servants, and the rising costs of most Government programmes had easily consumed any possible gains. Ministers had been

invited (and exhorted) to examine their departmental activities in the light of their experience of Government since 1975, and identify any areas where existing policies could be modified, with a hoped-for saving in expenditure. However, most of the people directly involved in the business of budgetary preparation and expenditure management were increasingly concerned about the effectiveness of the existing systems, since, notwithstanding its early promise, the CCEX on its own obviously could achieve neither the investigative capacity nor the restraining influence that growth in government spending appeared to demand.

An embryonic Cabinet Committee on Planning had been set up, alongside the establishment of the New Zealand Planning Council.²⁸¹ Although these new elements in central government were only tentatively welded onto the executive system, the Cabinet committee did complement the work of the CCEX, and served a useful purpose for those in Treasury and elsewhere who sought reform. On 23 August, the Cabinet Committee on Planning instructed Treasury and other officials to look into the possibility of linking the COPE exercise (which concerned existing policies) with the new policy review.²⁸²

Treasury officials, notably Hamilton (Finance I), were at pains to point out that such a proposal would not provide the answers ministers wanted. Firstly, it was suggested, COPE must be seen as an exercise in cost determination, not a review of the need for or desirability of particular policies. The subsequent existing policy review provided the opportunity for an evaluation of policies themselves, and their expenditure implications. Secondly, if Budget information was to remain as highly classified as it had been in the past, a comparison of new policy proposals alongside the COPE review would jeopardise the confidentiality of the former - with obvious implications for ministers keen to appear beneficent before the electorate on Budget night. Thirdly, Treasury considered that the "logistical" difficulties of conducting simultaneous COPE-Existing-New policy reviews put such a proposal outside the scope of the existing staff resources of the central system. "The heaviest burden... would fall upon

Treasury and on departmental accountants at a time when many of the latter are also occupied with the Parliamentary review of main and supplementary estimates."²⁸³

Treasury's marked preference was to "streamline" the administration of the COPE system, and to combine the existing and new policy reviews, leaving COPE, as it was, primarily a costing exercise. Hamilton, for example, argued that "although the 1976 [CCEX existing policy] review obviously led to worthwhile savings in Government expenditure, the results of the 1977 review, while reinforcing the Government's wishes to reduce growth in expenditure, demonstrated that in their present form annual, large-scale, across-the-board reviews of all Votes were unlikely to result in further significant savings. Treasury and other departments, notably those associated with COPE, consider a change in approach is necessary." Hamilton then went on to suggest the concept, so frequently surfacing and equally often suppressed in the past, of "compensatory savings" although this label was to come later, with the rest of "the Quigley school of thought." In a paper drafted on 14 September 1977 Hamilton outlined the system which was gradually accepted in principle at least by his colleagues and the ministers, and partially adopted, three years later:

Ministers and their departments [should] be directed that as a general principle no new policy will be considered for implementation in 1978 unless the Minister can first demonstrate to the Cabinet Committee on Expenditure that equivalent savings can be made in the operations of his department. Furthermore, when the proposal has a programmed life of more than one year, it must be demonstrated that savings will apply to ensuing years also.

Although the policy would be intended to have a general application it will obviously be necessary to make allowances for those Ministers who are unable to provide savings, as against those who may be unwilling, if essential and high priority new policies are to proceed. If the continued emphasis on savings is to have a significant effect any deviation from this general principle must be seen to apply only to exceptional cases. The success of the new approach will therefore depend heavily on the Cabinet Committee on Expenditure's evaluation of the Minister's justification as to why a new policy should be determined as "exceptional." We would expect that the individual Ministers [would] be

present during the discussion of their policies. Treasury will of course continue to report on each new policy; it may be appropriate to augment our present classification of new policy proposals by a further sub-category of "exceptional."

It will also be in the Committee's discretion whether, in deciding not to proceed with a proposed new policy, any accompanying proposed savings should still be effected.

In effect, this directive will require a Minister to carry out a searching review of his department's operations with a view to determining which policies and functions are either redundant or are of sufficiently low priority to warrant phasing out or down. In principle, only after potential savings are identified can proposals for new policies be submitted. The initiative will lie with the Minister and not, as was the case in the past, with Treasury which to a greater or less degree, was responsible for suggesting areas of potential savings.²⁸⁴

Further, Hamilton recalled that an unsuccessful attempt had been made in 1977 to offset new policies' costs against savings elsewhere, but on that occasion the adoption of new policies by the CCEX (and Cabinet) was not conditional on savings being found, and it was this aspect that Treasury now wished to emphasise. The proposal was recommended for distribution to both the CCEX and the Cabinet Committee on Planning, with the specific recommendation that there be no separate review of existing policies in early 1978, but that new policies proposed for implementation in 1978/79 "be supported by proposals for effecting equivalent savings elsewhere."²⁸⁵

Hamilton's arguments reinforced the hand of those now commencing the COPE review, conducted as usual as the basis for the next year's Estimates. In the draft of his address to the Committee, Lough, (Secretary to the Treasury) for example, advised COPE that the "overall message" for 1978/79 must, once again, be on restraint and even more careful expenditure planning. All decisions about expenditure priorities must be made in the light of the Government's appraisal of the economic situation, with "a large balance of payments deficit, a continuing high rate of inflation and a generally weak labour market picture." As Lang's successor saw it, the problems of fiscal planning and control centred on the question of

large variations in Government expenditure for economic planning and objectives.... Initially, there is the information problem. We simply run up against data and analytical limitations when trying to forecast economic trends as turning points. Even when we have identified them there is inevitably a lag involved in deciding whether or not to take action. We then have to plan and design expenditure measures - this is the exercise which we are about to undertake (i.e. the COPE review). Almost six months will elapse before 1978/79 priorities will begin to be implemented, and response, in terms of domestic activity, may take up to one year to commence: the multiplier process may take additional time to work itself out. In other words, we are talking of a total timespan of perhaps 18 months to two years.... Another limitation of [an increase in] Government expenditure relates to its entrenchment effects. Given the large proportion which salary and wages bear to total expenditure (it has been estimated at around 40 percent) any large increase in Government expenditure normally involves increasing staff levels. Yet it is difficult for political reasons to lay off staff and probably undesirable for efficiency reasons. In other words the variation tends to be one way.... All this may sound to you like a heavy dose of fiscal conservatism - and maybe it is. The arguments are nevertheless valid and it is my view that they will play an important part in future Government planning.286

On 4 October, Hamilton drafted another paper, this time intended as

expenditure system over which they now had some control, they turned out to be less interested in letting the Planning Council in on the act. The Expenditure Strategy paper included a recommendation from the Cabinet Committee on Planning that Cabinet approve amended terms of reference for COPE, and changes in its membership (presumably incorporating direct Planning Council co-option). This would involve the appointment of additional staff in both Treasury and the Council, to service the modified COPE group, and in addition special access would be needed to enable the Planning Council to "communicate with the Government and departments in the context of its possible involvement in the COPE exercise."

The CCEX was somewhat cool. The matter was set aside, and attention focussed on what was of more interest to the Committee - its own activities in "setting Estimates levels for 1978/79." This was probably a critical point in the history of the Planning Council, marking its continuing formal exclusion from an area to which at least some of its members were extremely ambitious to gain direct and authoritative entry. This setback before the CCEX was among the influences forcing the NZPC's reliance on informal networks and other extra-Cabinet strategies.

The CCEX now discussed, at some length, Treasury's proposals for combining the existing and new policy reviews, and the principles for decision which the Committee might adopt. The minutes record that

ministers were not certain that the (tit-for-tat) proposal was either workable or equitable. There would be three categories of departments, two of which would give the Committee some concern. The department which would make savings in Existing policies to balance New Policy proposals would be easy to deal with.

However, departments which require more funding for New Policies than they could make savings in expenditure on Existing Policies, and departments which, because of their activity had no New Policies, and which could have finance cut from their existing policies would be of concern to both Ministers in charge of the departments and the Committee. 239

Thus the ministers shrank from the nasty task that Treasury wanted to lay on them. None of the three men was himself responsible for a significant amount of expenditure. However, the combination of their very recent

experiences at the hands of determined spenders like Gill (Health) or convincing strategists like the men from the Education department, and the fact that 1978 was an election year, meant that fiscal restraint, attractive as a political virtue in 1976, appeared somewhat less worthwhile politically a year or so later. They optimistically suggested to Battersby and Hamilton that at present the Committee saw existing and new policies "in their totality, and consequently monies (could) be re-distributed amongst departments with some degree of equality and with an overview of complete Government expenditure." Battersby and Hamilton, fully aware of the effectiveness with which principles like equity operated, and their impact on actual spending levels each year, made no reported comment on this somewhat grandiose claim.

The Committee plugged bravely on, defending itself and its colleagues by pointing out that "under the new proposal, a department whose existing policies could not be cut back but whose new policies were of such importance that they had to be implemented would be at a significant advantage to other departments in the allocation of finance." No specific examples of such departments were cited, but no doubt any number of politically "unavoidable" policies could have been suggested by each of the men present. The Treasury officials responded by suggesting that perhaps the CCEX had taken the pitcher to the well too often already, under the present system - an Existing Policy review had been conducted in each of the past two years and Departments' existing policies had, perhaps, been "milked dry". Treasury stated that it saw very little scope for further savings, if reviews were attempted in this way again (and, as Battersby and Hamilton were aware, as they had been conducted on several other occasions by the old CCPP). They strongly recommended that the only alternative was a "major re-thinking on the policy in some department's existing programmes."

It was something of an impasse. Desultory discussion followed, as Ministers and officials cast about for a more acceptable way to say and do

the thing they both knew ought to be attempted. Zero-based budgeting was toyed with. Then the Chairman, Gair, suggested that perhaps each department's overall Vote could be cut by 10 percent, and "they would have to fight to gain restitution of these monies." He added that "any money left over at the end of this exercise could then be used for redistribution among departments for New Policies." The records include no comment on either of these counsels of despair, but we may imagine that within moments each person must have had a quick image of their probable effect on official and ministerial behaviour, and the administrative headaches involved.

The officials restated Treasury's position, urging the Committee to come to an early decision since instructions for existing and new policy reviews (in fact already drafted and waiting in Treasury) must be distributed as soon as possible. It was also suggested that this was the time when ministers should be asked what National Party 1975 Election Manifesto items had not as yet been implemented but which the ministers considered must be introduced.

The first draft of the minutes for this meeting concluded with the words "the Committee agreed to recommend to Cabinet that it consider the recommendation in E(77)227 [i.e. the Treasury paper] that Cabinet agree...." This was subsequently amended (though without written explanation retained in the Cabinet office file) and distributed as follows:

The Committee agreed to recommend to Cabinet that it discuss and note at its meeting on 25 October the following proposals contained in E(77)227 prior to the Cabinet Committee on Expenditure and the Cabinet Committee on Planning, at their meetings on 27 October and 1 November respectively, arriving at recommendations on the proposal for final reference to and decision by Cabinet:

- (i) Ministers are to continue to exercise restraint in expenditure incurred through their departments in 1978/79 and later years;
- (ii) Ministers are to carry out a wide review of departmental operations with a view to determining which policies and functions are either redundant or are of sufficiently low priority to warrant phasing out or down;

- (iii) New Policy proposals for implementation in 1978/79 must be supported by proposals for effecting equivalent savings elsewhere;
- (iv) a change in the concept together with a reinforcement of the continuous need to restrain expenditure embodied in recommendations (i) - (iii) above may be promulgated by issue of a draft (Cabinet Office) circular attached to Treasury report 7104 annexed to E(77)227.

The above to be considered by the CCEX between the 25-28 October, depending on the legislative programme before the House.²⁹⁰

As the Treasury officials knew from long experience they could steel ministers and officials with salutary reports on the economic situation; they could experiment with some new systemic refinement like the CCEX or even the Planning Council; they could take Ministers into their confidence, and share their private councils. But although some might come quite near the water, in the end they would drink only if the most powerful actors in the systems obliged them to do so. And in this case the main actors were in Cabinet itself. The Prime Minister/Minister of Finance, now supported by his own advisory group, with its economic, rather than fiscal, preoccupations, and his most forthright colleagues, themselves committed to massive expenditure programmes or keen to promote new developments through the CEC and other sub-systems, held sway. In the end, a strong commitment to tit-for-tat was just too much to ask of the CCEX ministers, and the timing - a bare year before the next election - was still against Treasury.

The Prime Minister was out of the country for some time during October, and at the end of the month, after his return, the Government introduced a mini-budget. Mr Muldoon justified this later, in his 1978 Budget speech, as follows:

Following my attendance at the annual meetings of the International Monetary Fund and the World Bank... I took the view that there would be no upturn in the world economy which would have an impact on the New Zealand economy, and accordingly I introduced a major package of economic measures...

This "package" had included an additional family benefit payment for

children, an across-the-board income tax cut of 5 percent (to take effect from February 1, 1978), additional spending on public policies [i.e. additional to the resources already allocated in the Supplementary Estimates - for which, it will be recalled, only \$50 million had been allowed in July 1977] - and various other "monetary measures." In total, the Minister stated, (although it was difficult to work out from the Budget speech what was actually included in the total), "all these measures amount to some \$770 million at an annual rate." They were intended to provide "a substantial and timely stimulus [to help] steady the economy during a crucial period." The action may also perhaps have been construed as an unavoidable inter-Budget device to formalise expenditures and other politically-motivated actions which it would be both uncomfortable and difficult to justify without explanation in the Estimates and Budget announcement six or eight months later.

28 October: Package of measures introduced in Parliament included:

- lifting of hire purchase restrictions on most consumer goods
- announcement special extra family benefit payment of \$25 per child (cost: \$25 million)
- across-the-board income tax cut of 5 percent
- increased public works expenditure of \$16 million
- reduction in trading banks reserve asset ratio
- compensatory deposit scheme to be introduced to offset seasonal liquidity squeeze on trading banks during tax payment period

From late October until 20th December, when the CCEX assembled before disbanding for the Christmas break, ministers and officials engaged in a fascinating game of avoidance-behaviour as they struggled to apportion

responsibility for expenditure control among the elites of the central system with as little embarrassment as possible to themselves. On 27 October, after the proposals for reforming the basis of decisions on expenditure policies had been debated in Cabinet itself, the Committee met to consider their colleagues' reactions. Gair and his two ministerial colleagues were joined as usual by Battersby, who was accompanied by Bob de Jardine from Finance I (Treasury). Both Marshall (Cabinet Office Secretary) and his superior officer, Millen were present to record what took place - a possible reflection on the amendment that had been deemed necessary in the minutes of the previous meeting of the Committee. The meeting began quite calmly with a brief review of ongoing discussions between Treasury and the Planning Council on how the latter might be involved in the COPE exercise. Treasury apparently agreed with most of what the NZPC Chairman, wanted. The SSC, on the other hand, was unhappy about the suggestion that additional staff would be necessary to service an expanded/augmented COPE, and had pointed out, with still umbrage, that "some of the work which is proposed to be undertaken by Treasury staff will be duplicated by SSC management audits."²⁹¹

Nobody really liked poachers, although all were prepared to use them on occasions, and in this case the likely outcome would be to drop the Planning Council, as the interloper threatened to exacerbate strife between old rivals. We see here the beginning of what later became a more-or-less habitual practice (albeit highly informal, since officially the Planning Council was an entirely "independent" commentator on Government behaviour). The new body would be encouraged to make an occasional semi-public announcement when it was either unnecessary (or undesirable) that the Government or its agents make it themselves. On this occasion, for example, it was suggested, and favourably received, that a paper on the medium-run outlook for the economy and its implications for Government policy generally would "probably be prepared by the Officials Committee on Planning or the

Planning Council, rather than Treasury as originally proposed."²⁹² At least this was one task that could be handed over with impunity, since it was both unpopular and difficult. It should not be imagined that there was, in the relevant records, any suggestion of cynicism or disdain among ministers or Treasury officials in their discussions about the Planning Council. But the fact was it was a creature of the innermost political system, an executive tool, and for at least a year or two it would be necessary to try a few experiments to test its ultimate usefulness to those in office and their principal advisers.

The CCEX now moved towards the meat of their agenda. Gair began (clearly reporting on Cabinet's reaction) by stating that the formula proposed for the existing and new policy reviews in 1978 "really only meets one situation, and that is where a department maintains the balance between the savings it makes on existing policies and the additional expenditure it requires for new policy." Cabinet apparently distrusted the suggestion that any surplus funds would ever find their way back into specific Votes, should ministers be virtuous enough to propose savings without tying them up promptly with successful new policy bids. Gair reported that rewards for good behaviour were seen as "only fortuitous" - particularly unattractive since "no credit" would be given to ministers, and, by implication, even electoral brownie points could not be won: who wanted to show himself as an effective Scrooge?

In a rather smooth reversal of recorded responsibility for the next proposal put to Cabinet - an arbitrary cut of about 10-20 percent from all Votes, the Chairman stated that this alternative, which he described as having been "put forward by Treasury", had been seen as "unreasonable." The CCEX pointed out that departments with large expenditure, such as Social Welfare (Minister: F.J. Walker, a close friend and respected colleague of the Prime Minister), would have to bear a heavy loss, as would departments whose major expenditure was in the payment of salaries -

e.g. Customs. The main purpose for initiating the present exercise in the first place, it was pointed out, was to "strive to find a new formula for re-adjusting Government expenditure in 1978" since the present Existing Policy review "had largely exhausted all savings that can be made in departments' present expenditure."²⁹³

Without any more evidence than this, we can see how the political status of the CCEX participants was thus re-established. The Ministers had been very hard pressed at the previous meeting. Recent economic reports had been alarming; over-runs in expenditure requiring additional approvals in the Supplementary Estimates had been extremely disconcerting. To all intents and purposes the Committee had failed in its task of finding \$200 million before the 1977/78 Estimates; COPE was underway, and already there were signs of a marked increase in the forecasts of cost of existing policies; the coming election year meant that there would be pressure from other ministers to get policies into the pipeline while they could still do them some good. The three CCEX ministers, all serious about the potential contribution their Committee could make to good Government (as well as more venal electoral purposes), had then been vulnerable to Treasury's arguments. Although, at the last minute, they had declined to make a strong recommendation to Cabinet, even the watered-down version had apparently caused collegial alarm and despondency. And they had been revived by their colleagues' antipathy to the tit-for-tat idea as a general and continuing principle of behaviour. Treasury must now understand that its proposals were in doubt, that whatever encouragement officials had been given up till now could not be expected with the same degree of compliance in the future. In particular, responsibility for the most extreme suggestions should be correctly attributed - to officials. Such is the nature of the central system, the small, intense village where ultimate victory goes to whoever stands last in the field, that the officials must accept the implied rebuke, confident that their day would come.

The minutes noted that there now followed a "wide-ranging discussion" over possible ways of incurring savings in Government expenditure, most of them firmly couched in the rhetoric of "rigorous examination" or the organisation of resources "for maximum return". Some suggestions - like placing a global limit on individual expenditure items/activities such as travel - were apparently well received, but the areas Treasury nominated for such treatment were unfortunate: "these named areas are those where arbitrary and in some cases ruthless cuts have already been made, and the Committee considers that in many cases, while short term savings may accrue from such cuts, in the long term these savings may be only imaginary."

The Committee did think it had been useful in previous years to have some sort of target figure in mind, and the most popular indicator of such a goal was the proportion of GNP absorbed by the public sector. Templeton felt that "a reasonable figure" would be around 36 percent of GNP - but this ratio obviously raised doubts. The minutes recorded the comment that

while the priorities in the last Budget had been in the expenditure fields of Health, Education and Social Welfare [none of which had actually been cited in the July Budget as having the highest priority, although simple arithmetic suggested their pre-eminence] there was a need to reassess the Government's priorities of expenditure and, if necessary, to shift the balance of expenditure to other fields. While it would be useful to set Government expenditure as a percentage of GNP for the year, this must be set at a deliberately low level in view of two variables:

- (a) the cost of outstanding manifesto items and
- (b) the flexibility which must be maintained between Departments where there is a need seen by the Government to change the emphasis of departmental spending.

Clearly Templeton's horse would not run very far. Another which might was in the area of staffing, and the enormous costs of personnel. It was agreed that the sinking-lid policy now in operation must be maintained, and the inconvenient anomaly of having to employ additional workers (the source for which was rising unemployment) could be coped with by identifying such people as engaged on "special work", and thus not covered by the sinking lid.

A wistful glance was made towards the principle of shifting resources to the private sector in a brief discussion on whether work now done by the state could be farmed out to private contractors. But, regretfully, the CCEX agreed that savings could not be guaranteed. Indeed, Treasury pointed out that increased spending might result, although one profitable vein could be mined if private firms were to carry out work now done by departments, and charge the public directly, so that there ^{was} "no need for departments to be involved." Little came of this, and (like the next suggestion) it languished in the minds of ministers and others for some time. It was briefly proposed that perhaps departments could be clustered according to certain principles, with funds apportioned according to whether they represented Productive Priorities (e.g. Agriculture and Fisheries), National Priorities (such as Defence and Foreign Affairs), Large Spending Priorities (such as Social Welfare, Health and Education), or were Servicing or Trading areas. But at this stage such an idea was rather too transparent, and it gained little attention until the Canadian "envelope" system was discussed in 1980-81.

Finally, the Committee, like three Musketeers, reaffirmed one of their principal loyalties: "while undertaking the Existing and New Policy Reviews next year, [we must] give the Minister of Finance manoeuvrability to allow for tax restructuring in 1978". It was then agreed that a new paper on the whole subject should be prepared for the 1 November meeting, and, after that, for forwarding to the Cabinet Committee on Planning. Meantime, Ministers were asked to cost any remaining Manifesto items still outstanding.²⁹⁴

By the time the CCEX met again, Cabinet had decided how far it was prepared to let the Planning Council enter the formal networks of its expenditure system. Not, it seemed, very far at all. However, a draft paper on expenditure control based on the discussions held on 27 October, was adopted for submission through Templeton (Associate Minister of

Finance) to Muldoon and thence to Cabinet a week later. The minutes noted that both Gair and Templeton indicated their willingness to discuss the matter in person with the Minister of Finance before the Cabinet meeting.²⁹⁵ There was no further discussion of the expenditure system, as such, during November, and the CCEX now turned to some urgent matters requiring its attention.

Ministers who had sensed danger in the Treasury proposals for expenditure reform lost no time in reasserting their rights, and ensuring that policies needing preferential treatment by the Government were firmly lodged in the pipeline, in case there were any changes of significance in the pre-Estimates Reviews. Meetings held during November and December were dominated by Education and Health department items, including the annual task of examining and approving the grants to be made to the statutory boards. The Education department's earlier bid for money to cover the publication of new infant readers was approved at the levels requested (i.e. \$25,300 in 1978/79 and nearly half a million each of the next two years, after the Elections). The CCEX also agreed to support the Minister of Education's proposal for the preparation of new mathematics books, a programme with massive forward costs totalling \$88,000 in 1978/79, \$433,000 in 1979/80, over half a million the next year and slightly less in each of the next fiscal years till March 1983. Total estimated expenditure on this publication-printing programme over the next five fiscal years was over \$1,800,000. Approval for specific stages in the programme was to be given by Joint Ministers, i.e. without subsequent reference to the CCEX or Cabinet, thus illustrating how funds might be locked in to particular programmes for several years. The Government Printer had argued successfully to retain the printing contract for the Education department, but it was accepted that the printers would need 18 months lead time before publication could be expected.²⁹⁶

Another major Education matter before the Committee during this period was its investigation of teachers colleges, and the Department's plans

for the future use of this capital resource. Officials had been asked to prepare a report on the economic use of existing colleges, based on their own suggestion that an alternative to redundancies/closure might be to find other uses for the facilities. In November 1977, the only proposal reported by Ross and his colleagues was that the psychology department at Otago university might be interested in taking over the Dunedin Teachers College, while 6 "dismountable" (semi-permanent) buildings at Auckland and Dunedin could be relocated elsewhere if projected secondary school rolls figures were realised. The question of teachers colleges did not come before the Committee again for several months.²⁹⁷

However, discussions on how far the Government should go in funding community-related school-based activities had considerable future significance. During the 1976/77 Existing Policy review, the Committee's reductions in departmental expenditure on "continued education extension classes" in secondary schools had contributed to the \$180 million it "saved" in that first CCEX year. The Education officials now confronted the CCEX with the question of whether resources for this activity should be returned to their pre-1976/77 levels. "Treasury was of the opinion that if the Committee did wish to resume that (1975/76) level of activity then the expenditure should be considered as a new policy proposal in 1978. This would have the effect of any change that could be made to the programme not being implemented until the 1979 academic year." This proposition was favourably received, and, in another contribution to later "Category A" Budget items, the CCEX recorded the following decisions:

- (i) to approve as New Policy for 1978/79 the provision of an additional \$50,000 in Vote: Education for the introduction of a "trial scheme" for administering and funding extension classes in selected schools;
- (ii) noted that the policy approved in (i) would enable only a small pilot scheme to be set up, but would provide "enough to meet the Minister of Education's 1975 National Party Manifesto requirements;

(iii) directed the Department to report back later to the CCEX on the level of the programme that could be implemented in 1978 (i.e. before the next Election) on the sum allowed.²⁹⁸

On 24 November, the Committee conducted a "review" of Education grants. Templeton was present for only part of this vital meeting, but his two ministerial colleagues were supported by Battersby (Treasury) and two other Treasury men, including the investigating officer responsible for Vote: Education, N. Stirling. Gandar was accompanied by A. Hinton, a very senior Education official and the deputy director of Finance (Education), M. Burns. The secretary recorded the discussion:

There was discussion of the various proposals contained in the paper (EX(77)250) and how they could be broken down into quantitative and qualitative improvements. Treasury considered that the qualitative matters in Education grants should be deferred until the 1978/79 New Policy Review. The timing of any amendment to the grant was most important. Education Boards required final figures before Christmas to enable them to plan for the 1978 academic year. [The principle already agreed to by the CCEX the year before.]

The various options available to the Committee as set out in the Treasury report were discussed. There was particular emphasis on that option which provided for a full adjustment for shortfall or over-provision with a projection of 12 percent in 1978 giving a cost in that year of \$4.168 million.

Education officials stated that this option was the most sensible for the Government to choose and provided the best basis for presenting the Government's case.

The Minister considered that this option placed him in a defensible position in view of the commitments he had to Education authorities.

If this option was accepted it was the view of the Chairman and endorsed by the Committee that this option would make provision for full adjustment for shortfall but the principle of full adjustment was not accepted by the Government for future years.

If inflation was less than 12 percent in 1978 then Education authorities would have received an over-adjustment and consequently provision in the following year would be marked down accordingly.

There was limited discussion of the so-called "cosmetic" amendments to the Education Grants [Decided to leave these over to the next meeting]. It was agreed to recommend to Cabinet an increase in grants to Education controlling authorities at an annual additional cost of \$4.168 million, giving full adjustment for shortfall or over-provision with a projection of 12 percent in 1978....²⁹⁹

Five days later, the CCEX continued this discussion. This time Boag, deputy Director General of Education accompanied Gandar, with Hinton and Burns. The Department had put up an additional paper on funding what was known as the renewals reserve account - the tagged component of Education grants which allowed spending bodies to replace innumerable items of equipment and other goods, at their own discretion. The departmental representatives argued that if qualitative increases in Education grants were to be deferred until the 1978/79 New Policy review, then they would form part of the Budget, and would, accordingly, "not be available for implementation until the 1979 academic year." Treasury disagreed completely with this line of argument - on the contrary, as Battersby and Stirling saw it, any approved increase, classified as a new policy for 1978/79, could be announced by the Minister immediately after the new policy review in March 1978.

However, the Minister's case rested largely on the timing of the proposal. Education Boards required early notification of the funding levels for the next academic year, and accordingly he would prefer to see as much of the decision as possible taken now, with little or no deferral until the 1978/79 New Policy Review.

It was agreed that the decision on these grants would have to be made on political judgement as it would be better to add the qualitative increases being considered by the Committee to the quantitative increase that the Minister had gained at Cabinet this week (CM77/45/24).

[Emphasis added]

The Minister and his officials had won - at least for the time being (which was the only time scale of any significance to those who recognised the force of marginal increments, however these were packaged). The Committee went on to "note" that detailed rates giving effect to percentage increases in education grants were subject to delegated approval by the Minister of Education at the appropriate time, and agreed to recommend to Cabinet that:

it approve an additional \$1 million in 1978/79 to be apportioned by the Minister as he sees fit among

- (a) payment of grant for notional rolls on the highest rate of the secondary schools general expenses grant formula

- (b) calculation of an ancillary staffing allowance for secondary schools on the basis of notional rolls
- (c) adjustment to the administrative staffing formula for the provision of an additional 5 hours per week for small secondary schools
- (d) qualitative improvements in grants to secondary schools and technical institutes.

The Minister and his officials assured the CCEX that this would be their last request for special treatment before the next Estimates, an undertaking which was recorded in the minutes as follows:

This \$1 million will be the final figure for 1978/79 and the Minister will not be seeking more money for this purpose in the New Policy review 1978/79 (i.e. this \$1 million will in effect be a Category A approved New Policy 1978/79).³⁰⁰

The problems of funding the public education system did not, however, go away. Between late November and Christmas, the CCEX received a paper on Vocational Guidance Counsellors, and the Department proposed a new policy which would involve appointing 52 more persons to do this work over the next 5 years. The Committee approved a phasing in of these specialist staff members, but recorded that this should be regarded in future as "committed policy" (i.e. Category A) in 1978/79 New Policy and all subsequent reviews.³⁰¹ On 13 December Gair and Thomson also approved the addition of \$25,000 to the annual grant of \$100,000 for administering another Education department activity - the New Zealand/United States Education Foundation.³⁰² There was no recorded discussion of the educational (or any other benefits) of this policy, although the CCEX did suggest that it should be reviewed in 5 years time. In the meantime, it was lodged safely among the pre-new policy review items as a "Category A" priority.

Education funding caused some anxious political moments - but its voracious welfare companion, Vote: Health, was at least as bothersome. On 29 November (the same day as Gandar won his case for an Education grants increase of 12 percent), Gill and Walker (Health and Social Welfare respectively), accompanied by four officials, presented a case for a "new policy" on "capital subsidies for accommodation for the aged."³⁰³

The "aged" had done fairly well, under the 1975 National Government. However, the National Superannuation scheme that had proved such an electoral success had turned out to be a potential albatross of rather alarming financial proportions. The CCEX had earlier called for a Treasury report on its likely ongoing cost to the Government, and how this could be offset by savings in other age-related areas such as health benefits for superannuitants. On 21 November, Treasury reported that National Superannuation would require the annual net addition of some \$79m. . "A planning level of \$86.7 million [for the scheme] implies borrowing of \$44 million. If the government wishes to implement [a] computerised scheme, borrowing of \$50 million would be needed." On 21 November the CCEX, "by consensus" agreed that the proposal to computerise the National Superannuation scheme should be given the highest priority for implementation in 1978/79. "Accordingly it would have first option on monies available in 1978/79 New Policies Review and indeed may pre-empt any other new policies being instituted in anything but a minor way next year." At the same time, the significance of this was alluded to in the recorded comment by Treasury that provisional indications of the capital works planning levels approved by Cabinet for existing policies for 1978/79 were well over \$86 million - and that simply making "source deductions" from the National Superannuation scheme to meet telephone accounts and television licence fees for superannuitants, and the use of on-line computer facilities of the Post Office for the new cash National Superannuation payment system would absorb most of this \$86 million, with massive borrowing implications.³⁰⁴ The policy was a financial nightmare.

Nonetheless, the CCEX was quite susceptible to the further arguments put forward by the persuasive Gill and his offsider, Walker, when they sought more new resources for the same demographic sector of the electorate. The Committee was advised that 10 projects for accommodation for "the aged" were due to go to tender immediately. Gill assured the meeting that only the consultants' fees for these tenders would fall into

the current financial year, with "the rest" spread over the next two years. Treasury, represented by Battersby, retorted forthrightly that the Health department had not even listed these ten projects among the community health projects it had submitted for consideration in August, just a few months earlier. Gill replied with equal aggression that it had simply not been possible, as Treasury implied, to finance the accommodation projects out of the recently established "beer and baccy fund" (tax revenue from beer and tobacco) - indeed, he stated piously, he had never ever contemplated using this source of money, which everyone knew was tagged for new community projects, on a policy like accommodation for the aged. After all, he pointed out, this proposal was "an entrenched policy.... The public would not have accepted the levying of a new tax for innovative community projects if they saw that the money was only being used for quantitative improvements to existing policies." Although some may have been tempted, no one commented that as yet the public had not had an opportunity to comment on how it felt about either the new tax or the uses to which it was put, since the decision to tag funds from beer and tobacco for community health had only been announced in July 1977, and there had been neither a referendum nor a general election to record the popular mandate on this question.

In any case, the Minister's policy was accepted. The minutes recorded that

the general consensus of the Committee was that as there was some money, estimated to be about \$500,000, available for community health projects which would not be expended this year, then this should be taken up in the community health aspects of this proposal. (Emphasis added)

The Committee, as it had authority from Cabinet to act on these matters (CM 77/45/13) noted

- that the Minister gives high priority to the proposal for 1978/79 New Policy review (part of the proposal becomes Category A approved for New Policy 1978/79);
- that the part of the proposal which is properly community health services will be funded by beer/baccy taxes;
- approved up to 100 percent increase on the subsidy for

religious and welfare organisations for land, building development of old people's accommodation, including larger size of unit (for) the warden's residence;

(Emphasis added)

- noted that the initial provision in 1978/79 estimates under Health: Programme 8: Welfare Services: Accommodation for the Aged will be \$5.2 million;
- deferred an additional \$1.2 million [requested] till the New Policy Review 1978/79.³⁰⁵

During his term as Minister of Health, Gill, himself a Roman Catholic and a strong opponent of woman seeking high quality, readily accessible facilities for abortion, was highly sensitive to certain electoral claims on the public purse. It was quite in keeping with the ideological and political interests of his party that he should protect and promote the welfare of voluntary organisations who focused on elderly voters. This gave them something of an edge over other sections of the population with rather less success in attracting his political attention, or gaining preferential treatment by him and his colleagues. Certainly, when the Minister of Finance presented his Government's point of view on health services in his 1978 Budget speech, the pathos of the condition of the over-60s in New Zealand was poignantly evoked:

New community care policies planned for introduction this year include a special subsidy for institutions caring for the frail aged and the provision of additional funding for hospital boards wishing to develop home help programmes.

The next major Health items considered by the CCEX came before it on 13 and 20 December, straight after two exhausting meetings on the expenditure strategy indicated by COPE as appropriate for the coming fiscal year. We will return to those strategy meetings shortly, but whatever their decisions in one direction, the CCEX ministers found (yet again) that some collegial demands were simply irresistible.

The pre-Christmas task of allocating funds to statutory bodies in the education field had its counterpart in the annual review of Hospital grants. In November 1977, Treasury had recommended to the CCEX that Hospital Boards should be advised of their financial allocations for 1978/79 as soon as possible, and that any growth in this area should be assessed in terms of the levels approved in December 1976. However,

Treasury also pointed out that not only had there been a significant deterioration in the economic situation during the past twelve months, but it had also become "customary" for policy reviews to take place in March each year, when "a total overview of Government expenditure was available." The implication of this was that any growth in Hospital Board grants should be reviewed as part of the New Policy exercise some three or four months hence. Gill found this a very unattractive point of view. On 13 December, before Gair and Thomson, he expressed his concern that "the basic growth component of Hospital Board expenditure should continue as an essential part of Hospital Board financing." The Committee was prepared to see some merit in this, but on the other hand they could not see their way clear to permit more than a minor allowance for growth. They decided to tackle the question in a different way. The Public Expenditure Committee had recently recommended that procedures for the allocation of money to Hospital Boards should be tightened up, with the establishment of a better framework for phasing resources into the health system each financial year. The CCEX decided to use this suggestion from the select committee, and recommended to Cabinet that the following "timetable" be approved:

- (a) the level of the base allocation should be set in relation to the level approved in December of the preceding year;
- (b) advice on the substantive portion of any growth allocation approved by the Cabinet should be made available to Hospital Boards in December, together with the main grant;
- (c) as much as possible of any stabilisation grant approved for Hospital Board use should be announced at the beginning of the financial year, with adjustment "if necessary" by September (i.e. around the usual time for approving Supplementary Estimates payments);
- (d) the last point was to include both "new commissioning" and community care - an attempt to harness health spending to a regular budgetary cycle.³⁰⁶

The "timetable" for Hospital Board grants, and the amounts approved, were then itemised as follows:

<u>Item</u>	<u>Timing for decisions</u>	<u>Amount: 1978/79</u>
1. Basic allocation	Immediate (December)	(\$)485,148 million
2. Basic growth	Immediate	2,424 million
3. Stabilisation: Wage and salary costs of 1977/78 changes:	March 1978	To be determined in March 1978
Price increases: 1st six months:	March 1978	"
2nd six months:	Sept/Oct. 1978	"
4. <u>New commissionings:</u>		
Ongoing projects:	April/May 1978	"
New projects (part year) as and when approved by Joint Ministers:		
5. <u>Community care:</u>		
Ongoing projects:	April/May 1978	"
New projects: as in 4. above		

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The Minister of Health, however, did not respond well to disciplinary regimes. He lost no time ensuring that his chagrin (needless, one might have supposed, in retrospect) over this officious harnessing of a major spending agency was recognised by those concerned. At its last pre-Christmas meeting, on 20 December, the Committee was not in festive spirit. The Minister had issued a press release which "positively indicated" that the subsidy for fees for private hospital geriatric patients would be increased, this to be effective from the beginning of July 1977. The Committee requested his attendance at the meeting - a directive described in the minutes as "by invitation." Gill's press statement was read aloud to the three CCEX ministers, a small cluster of Treasury men, and two Health department officials. "In view of this public statement the Committee considered that it was bound to agree to backdating of the present request to 1 July 1977." It was a small but significant illustration

of the efficacy of the constitutional principle of collective ministerial responsibility.

The minutes for this somewhat tense meeting continued:

In July a report had been requested on the practicability of introducing a system whereby private hospitals accepting Hospital Board geriatric patients should be required, to justify any increases in their charges. This report was not available as yet because departments did not have the manpower resources available necessary to undertake the work. The Committee was disturbed by the lack of progress in commencing work on this report and the hope was expressed that no further application by the Minister of Health for an increase in the subsidy in fees for private hospital geriatric patients will need to be made before his report is ready.

(The Committee then agreed to the recommended increase, but noted that the report was to be before it by the end of February 1978.) 308

13 December:	To help boost corporate cash flows, a temporary tax relief scheme estimated at \$75 million was announced.
16 December:	Agreement signed on \$45,500 million revolving bank credit in London.

We now retrace our steps in this brief account of how ministers and officials tested the tolerance of the fiscal system to observe the progress of two other matters considered by the Committee in the end of the year meetings. The first was the capital works programme, which had been formulated during the COPE review, had gone to the Cabinet Works Committee, and now needed another ministerial tick before it could be fed into the final COPE report. The second matter was the Expenditure Strategy for the coming year; we will deal with them in the order in which they were submitted to the CCEX.

On 22 November, the Committee had before it a paper entitled Works Programme 1978/79: Tentative Levels³⁰⁹ (along with several new policy items intended to go into the "Category A" list, and a paper on Government Expenditure as at October 1977).

Battersby and Hamilton represented Treasury, with the Commissioner of Works, McLeod, the Director of the Planning branch of MWD, Wight, and two other Works officials. They reported that the programme level for housing construction for 1977/78 was \$58,599,000, but the cash level (conventionally forecast a year before below the programme level) was \$58,700,000. They added that the indicative programme and cash levels for 1978/79 - \$52 million - were only an indication for planning and did not represent a lower housing construction target.

Overall, the cash level for capital works was estimated at \$713,810,000 for 1978/79 - an increase of 10 percent over the cash level for the previous financial year, 1977/78. However, again it was pointed out that there was no necessary cause for ministerial alarm in this, since the amount "in effect" represented a "reduction in real terms of 4 percent against the 1977/78 cash level which was \$646,688,000 (plus \$10 million unauthorised expenditure which was allocated for additional small works in October 1977)."

Ministers were assured that the cash level indicated would be sufficient to meet the department's immediate requirements and "still leave the 4 percent increase previously mentioned for latter modification of the programme if any projects are deemed necessary for implementation in 1978" - Election year. The minutes continued as follows:

The Commissioner of Works was asked what this cash level would mean in terms of the effect a lower real level would have on the construction industry. He advised the Committee that the construction industry was brought down to a level which had previously been thought to mean considerable trouble for the industry. In fact this was not the case. Those firms who had put off staff and complained to the Government about the level of construction being undertaken are those who have been used to more forward orders on their books. Only a few minor firms have actually gone out of business. The bigger professional firms have, in many cases, actually taken on staff and the MWD must conclude that the current level of activity is satisfactory for the nation's requirements.³¹⁰

It was a masterly summary of the economic situation as analysed by one of the executive's most significant agents of fiscal intervention. Whatever reservations may have been felt (or stated, unrecorded) were swept aside by this confident, stoic, and reassuring report on the health of the labour market.

The opportunity was provided for anyone so disposed to feel that overly generous fattening in the past was now under appropriate control - if construction contractors or others couldn't take the heat, they should get out of the kitchen. The discussion concluded with a patient explanation of the relationship between cash and planning programme levels - a device which often appeared to baffle and frustrate all but a few in MWD and Treasury. "It was stated that if both levels were the same and the departments were instructed not to overspend, this had led in the past to under-expenditure. The aim was next year to keep the spending level up by a lower actual cash level. The MWD is keeping a constant monitor on expenditure on construction projects." Again, the almost soporific soothing of ministers by old hands.

The CCEX approved the Works Programme, and the tentative allocations, and "noted" that the forthcoming COPE report would include the recommended levels in its forecasts of Government expenditure for the next three years.³¹¹

On 2 December, Treasury forwarded to the CCEX a paper entitled Government Expenditure Targets³¹² (based on a summary of the Review of Existing Policy submitted earlier.) The Associate Minister of Finance, Templeton, recommended that the CCEX agree with Treasury that

- (a) government expenditure targets should be consistent with Government's medium term economic objectives;
- (b) the major medium term economic objective (reducing BoP to manageable level) implied a growth target rate in real government expenditure on goods and services of not greater than around 2 percent per annum;

- (c) the COPE report, which made no allowance at all for new policies, showed that forecast expenditure on existing policies already substantially exceeded the target of a 2 percent growth rate in spending.

An accompanying Treasury paper (2 December 1977) described two reference points for such targets.

- (i) the outlook for the domestic economy in the coming year, with a view to using variations in Government expenditure as a part of Government's demand management policy. In this context the most relevant item is the projected deficit before borrowing, or
- (ii) the medium term outlook, with a view to ensuring that growth in Government expenditure is consistent with the Government's medium term goals.

The paper analysed both approaches, and reached the conclusion that the major difficulties were (a) early identification of recessions and booms; (b) the long time lag involved in planning Government spending changes; (c) uncertainty, because of this lag, over the effects of increased government spending, and (d) the inherent rigidities in spending on public projects - most particularly the rigidity caused by staff who could not be dumped.

Treasury's careful economic primer then went on to suggest that:

a more useful and less costly approach would be to maintain a stable growth in Government expenditure while more actively employing direct and indirect taxation for stabilisation purposes. This policy would have the added advantage of producing a more certain economic environment in which individuals and businesses could plan, and would permit more sensible resource management in both the public and private sectors

Since Government spending is an unsuitable short term instrument, it should be reviewed in the context of medium term objectives The main medium term objective is a sustained improvement in the balance of payments. Achievement in this will require a shift of resources into export industries, plus restraint in the domestic A protected market allows inferior technology and lower technical efficiency to prevail. [Thus] in order to have an increased proportion of GNP going to export,

domestic spending, including Government expenditure, must rise at a slower rate than the overall growth rate. We should aim for the highest GNP growth rate consistent with a return to a BoP equilibrium in the medium term. The growth in domestic spending should then be stabilised at a level below the GNP growth until a large enough diversion to exports has been achieved ...

[P]olicies [must] stabilise consumption through the more active use of taxation variations. Moreover, any changes in Government expenditure should be limited to those areas which can be designed to terminate within a specified period and avoid commitment to future expenditure (for example, certain capital works projects). This practice however, has an important shortcoming: projects selected on this basis may be of lower priority on the grounds of their economic or social worth, thereby giving rise to efficiency costs ... Government spending should therefore be set with reference to medium-term GNP. Short-run variations should not be used.

The officials then set out the medium-term options, as they saw them: The Government should aim at a BoP deficit by 1985 of 2.5 percent of GNP, which would allow a substantial growth rate of GNP of about 3 percent per annum, provided that real consumption was held to an annual average of around 2 percent. This was seen as dependent on

- (a) feasible growth rates for both agricultural and non-traditional exports, and
- (b) reasonably favourable terms of trade outlook - say 80. That meant in summary, that if real government expenditure growth exceeded the recommended rate, "real private consumption needs to be restrained to a lower level."

COPE forecasts for 1978/79 showed a growth rate of total government spending of 3.8 percent. However, the paper continued, when trading departments (forecast to show a surplus in 1978/79) were excluded from

this calculation, then growth of government spending in real terms became 4.5 percent (including transfer payments and subsidies which grew at a slower rate). "Therefore, the growth in spending on goods and services i.e. the increased use of real resources is around 7 percent. That 7 percent growth should be compared with the suggested target growth rate of 2 percent."³¹³

Appended to the Government Expenditure Targets paper was a quantitative analysis, prepared by Treasury, of the medium-term projections, giving details of the assumptions used:

(i) the present structural BoP deficit (after eliminating cyclical factors) was estimated by deducing the trends in the ratios of imports and exports to GNP between 1954/55 and 1977/78 (using Officials' Economic Committee's OET estimates for the final two years). A terms of trade of 75-85 was assumed, which was the Officials' "best guess" at the average terms of trade over the next five years;

(ii) using expected New Zealand and world price movements, a real GNP growth rate of 3 percent per annum (roughly the growth over the past 10 years) and estimates of the price and income elasticities of imports, the likely growth in the value of imports was calculated.

(iii) the level of investment required to achieve the 3 percent growth rate of GNP was estimated, and subtracted from Gross National Expenditure ($GNE = GNP + imports - exports$) to obtain a feasible consumption growth.³¹⁴

This comprehensive paper was based largely on work done by the officials Economic Committee, chaired and convened by the Secretary to the Treasury, Lough, as the counterpart to the ministerial Cabinet Economic Committee (CEC). Attached to the CEC was a working party, chaired at that time by J. McKenzie (later appointed deputy Secretary to the Treasury) and including various officials such as Stirling (Education TIO), up

to the level of Section Head. Although the CCEX had behind it the considerable services of the Finance and Investigating divisions of the Treasury, and was advised by a senior Treasury officer - Battersby - and other experienced men, it did not have the same symbiotic relationship with a permanent officials committee as was true for most other major Cabinet Committees. The COPE group was not, essentially, a ministerial handmaiden, except insofar as it reported finally to the Minister of Finance and through his office to Cabinet as a whole. It was primarily a Treasury tool, however successfully the fiction of the autonomy of COPE was maintained.

In any case, it had taken until the end of 1977, when the CCEX began to consider the third COPE report to the National government, for Treasury and the other permanent advisers to accept the authority of the CCEX, and its status and role in the existing networks of power and influence. But COPE itself did not have a permanent all-year-round existence. Its ongoing influence had to be sustained from December to December by the members of the COPE secretariat - and they were all Treasury people, with a modest input from the SSC. So we may consider that the attention that CEC and Treasury officials gave to the CCEX in providing this quite detailed explanation of expenditure patterns and their economic impact was in itself a token of the effectiveness with which the Gair committee had been incorporated into the central executive systems.

On 6 and 7 December, the three most confidential and vital papers then circulating among some small elite groups in the central system were all before the CCEX, giving it comparable status with the CEC and a significant "filtering" responsibility on behalf of Cabinet and the Prime Minister. These papers were: Government Expenditure Targets,³¹⁵ the COPE report for 1978/79 to 1980/81,³¹⁶ and a paper on Government Expenditure 1978/79 - 1980/81.³¹⁷ All papers were highly classified with the usual pre-Budget "secret" tag. The three ministers - Gair, Thomson and Templeton - were advised by an unusually large group of Treasury officials,

including C. Terry, the deputy Secretary, with Battersby and de Jardine, and three others - Chetwin, Ashwell and Prebble. Marshall took the minutes, which began with a bald summary of the main points raised:

- Gross National Product (GNP) could be expected to show no growth in real terms in 1978/79;
- Government expenditure should remain relatively stable as a proportion of GNP;
- The COPE projections showed that the cost of existing policies would increase in 1978/79 at the rate of 3.8 percent over 1977/78, based on 1 July 1977 prices:

With this economic skeleton before it, the Committee could now address itself to developing an appropriate fiscal strategy to guide Cabinet's behaviour over the next few months. Treasury had suggested that taxation, both direct and indirect, was a more effective instrument for stabilisation than Government expenditure (a point we noted in the draft of Lough's opening speech to the new COPE group some months earlier). Gair expressed his concern that this may not take account of the inflationary impact of raising indirect taxes. Treasury pointed out that in New Zealand the indirect tax base, at present, was relatively narrow, so that the "burden of stabilisation" would fall on direct taxation. Steps had been taken already to allow for such a development - \$200 million had been set aside in the expenditure forecasts for the coming year to allow for tax restructuring - not anything particularly radical, but sufficient to permit a limited adjustment of the tax scales. The alternatives, of course, were to make substantial increases in indirect taxes - or severe reductions in Government expenditure. "Essentially", Treasury stated, "it [is] a choice between tax reductions or public expenditure cuts." Treasury officials added that proposals for the tax readjustment in 1978/79 were already being investigated.

In an almost exact replay of the advice given to the old CCPP in its last year of operation, Treasury argued that government spending was "an unsuitable instrument" for short term economic control, and should therefore be reviewed "in the context of medium term objectives." Since the major

medium-term objective of the present Government was "a sustained improvement in the balance of payments", there was no other means to its achievement except to shift resources into "internationally competitive industries as well as restraint of the domestic market."

With this advice in mind, the Committee now turned to the COPE report, with its functional classification of net forecast expenditure.

Particular attention was paid to the division of the 3.8 percent increase in voted government expenditure on existing policies in 1978/79 among

Administration (an increase of over 3 percent)

Development of industry (nearly 2 percent up on 1977/78)

Education (1.4 percent increase)

Social Welfare (a massive 7 percent increase), and

Health (2.9 percent increase).

Treasury officers emphasised that although voted government spending was expected to rise by 3.8 percent, the "actual outlay" on goods and services ("which is an important economic factor facing the Government") would rise by up to nearly 7 percent overall. Although allocations to transfer payment was expected to increase by well over 4 percent in real terms, this was a slight reduction in the rate experienced in previous years.

One economic problem in the business of budgetary planning was explained by the officials. It arose because various expenditure items were bundled together in accounting categories such as "Goods and Services" or "Transfer payments" which tended to mask the differing economic impact of components in each cluster. For example, the effect of Hospital Board grants was quite different, in economic terms, from that of National Superannuation payments, although from an administrative point of view both were labelled "transfer payments." Treasury suggested that the former were more correctly regarded as "goods and services" - and their exclusion from this category of expenditure meant that certain important considerations were understated or obscured. For instance, it was pointed out, "expenditure on goods and services in 1978/79 [would be] of primary importance

because it [represented] final outlay, whereas expenditure on transfers and benefits [was] partially offset by tax revenue and [represented] largely a distribution of income."

The minutes did not record how far ministers took this point, or its effect, if any, on their deliberations. Instead, it seems, they moved on to another problem highlighted in the COPE report - the probable increase in personnel needed to service existing policies - the projected increase of 1 percent represented 660 staff members, with obvious and massive salary implications.

It was reported that the permanent heads on COPE had felt that the "sinking lid" formula had now been "exploited" for as long as was tolerable. However, the CCEX was disinclined to be moved by this argument, preferring, as no doubt its Treasury advisers suggested, that "even if there was some liberalisation of the policy, a 'sinking lid' formula should still apply in order to encourage control and mobility in Government staff as well as to maintain a relativity with growth in the workforce generally." There appeared to be no consideration whatsoever of the actual consequences of this decision for existing policies themselves. It was apparently assumed that slowing down the delivery of existing policies would not have any necessary and fundamental impact on the nature of the policies per se. There was no recorded discussion - and indeed no supplementary analysis - of this question. By the end of 1980 it was still the subject of considerable concern in many quarters, not only among departmental officials working under stress but among those in Treasury who believed that it was a grossly blunt instrument, administratively and politically convenient, but with quite unexamined consequences for policy implementation, and the achievement of Government objectives.

The discussion on the question of staffing was recorded as follows:

It was pointed out that around 42 percent of Government expenditure was devoted to personnel. The relationship of Government staff numbers to the total work force was therefore examined by the Committee.

There would probably be no significant increase in the country's work force next year. It had been assumed in the COPE exercise that the total labour force would increase by

0.5 percent in 1978,

0.4 percent in 1979 and

0.5 percent in 1980.

This represented an increase from 1,220,000 in the labour force as at April 1, 1978 to 1,231,000 as at April 1, 1980.

From the figures given in the COPE report it was seen that State Services staff numbers had risen as a percentage of the total labour force from 20.3 percent at April 1, 1971 to 21.2 percent at April 1, 1977.

In projecting staff increases for the next three years, COPE had kept State Services staff numbers, as a percentage of the estimated labour force, at a constant 21.2 percent. In the longer term, there should be a close correlation between the respective growths of the Government and the total work forces. This principle should be extended to other parts of the public sector, including Local Authorities.

It is difficult to find records of any theoretical debate in justification of this argument, other than references to political and administrative symbolism. It parallels the argument already quoted - that Government expenditure is somehow usefully evaluated as a proportion of GNP. Since the concept of GNP and the overall size of the work force are themselves creations of macro and micro economic factors, both unevenly susceptible to, and variously created by, past Government decisions, both GNP and the overall national level of employment may be regarded, in part at least, as among the larger-scale consequences of past government decisions and choices. The welfare state context is critical to changes in both factors. The size of the public service, in staff terms, and the level and rate of expenditure by the public sector are similarly both caused by, and the causes of, particular economic (and fiscal) circumstances. All four factors - overall levels of employment, specific levels of employment in state services, the rate and level of public spending and the size of GNP - have extremely complex historical causes. In the context of the New Zealand welfare state, they are predominantly political in nature. Comparing any two factors for the purpose of annual allocative decision-making, or even for forecasting by central Government agents,

is of doubtful value. Clearly, however, there are rhetorical and symbolic purposes which bear little obvious relationship to the theoretician's need for politically neutral models. In any case, the CCEX trod softly away from the shadows of conceptual analysis, and addressed itself to more immediate questions.

Attention was drawn to the projected increases in hospital staff numbers of 942 in 1978

940 in 1979 and

1000 in 1980,

which seemed contrary to the nil trend in the other Services. Health Service employment totals are calculated on average fulltime equivalents and as such do not represent a 'head count' but only an indication of the industry's use of manpower.

While hospital services have experienced substantial growth rates in recent years, this level of increase has slowed and the COPE figures assume (sic) growth rates of 2 percent per annum for the immediate future.

The question was asked (as well it might!) whether the hospital building programme generated some of this increase in staff levels. Hospital Boards had not been subject to the State Services 'sinking lid' formula and this had been reflected in the continuing growth in staff numbers in that field.

This discussion neatly illustrates a problem caused by a characteristic feature of New Zealand's state welfare administration. On the one hand, the historical autonomy of hospital and education boards was desirable in principle, in that it encouraged lay involvement in the business of running the state machine, with all the attendant democratic advantages that this implied. On the other hand - as political evidence might predict - the statutory boards gained substantial (and highly elitist) power, standing like equals against the central state bureaucracy. The boards were buttressed by professional lobbies with real political and economic clout: doctors, nurses, teachers, associated industrial sectors with a large stake in the investment decisions of public policy makers, and so forth. It was no wonder that when Gair left the CCEX and took up the unwieldy double burden of the Health and Social Welfare portfolios in 1979, most of his public attention was directed towards the hospital boards and their spending behaviour.

Again, no comprehensive discussion of this occurred in this CCEX context. The pressures of time and the need for urgent decisions, coupled with the complexity of the whole staffing question in a complex and highly bureaucratised system put it outside the scope of that particular meeting. Nonetheless, somewhere, sometime it would have to be tackled, since the application of a tourniquet like the SSC's sinking lid was a very crude approach to planning, for all its disciplinary effects.

Another matter that had caused discomfort in the past could also be traced, by implication at least, to planning deficiencies in the State Services Commission. It was the question of growth in the numbers of "special workers". Officials reported that in some departments these had become "an institution...."

These departments had a continuing need for these workers and regarded them as a permanent feature of their workforce. To some extent they used these special workers to relieve pressure on the workloads generated by the controls of staff ceilings and the sinking lid formula. Treasury considered that the number of special workers in departments and the use to which they are being put required analysis.

Whose task should that be? Lack of ongoing analysis to assist both ministers and Treasury was a running sore.

Ministers quickly moved on to one specific aspect, and "expressed surprise" at the COPE forecast of a projected growth in Post Office staff numbers of 654 in 1978. Officials quickly replied that this rise reflected the "ability of the Post Office to recruit up to its approved staff ceiling by 1978/79". It might have appeared that some adjustment here was required - on the other hand, like a few other areas, Post Office work was a convenient blotting pad for "surplus" labour in the market.

The Committee now turned its attention to a question that was of considerable moment - energy. In the COPE report it was stated that:

the NZED (New Zealand Electricity Department) had assessed fuel requirements for thermal power stations at \$54.17 million in 1978/79
\$59.03 million in 1979/80 and
\$46.01 million in 1980/81.

A substantial drop in fuel requirements for the 1980/81 year was noted which largely reflected in increased reliance on hydro and geothermal power stations by 1980/81 coupled with the Huntly power station coming on stream.

It is not intended here to enter the dense thickets of recent energy planning by central Government. Indeed, the CCEX did not attempt to explore the implications of this policy matter in any detail, but simply received Treasury's report stating that COPE had considered that the NZED had introduced new policies, needing specific approvals outside COPE's terms of reference. COPE had therefore reduced the Department's forecasts by \$4.06 million in each of the first two forecast years. This battle would be fought elsewhere.

However, an appendix to the COPE report pointed out, somewhat disconcertingly, that when details of net forecast expenditure were clustered together in functional categories, "development of industry" was projected to decrease by nearly 2 percent in 1978/79, by 4.7 percent in 1979/80 and by 5.5 percent in 1980/81. The explanation offered was that the Mines department would have "surplus capacity" by that time, with a tapering off of mining over the next year or so. It was assumed, therefore that the NZED would "be in a profit situation by 1978/79." Later, some must have looked back wistfully on those fantasies from below the massive battlements of the soon-to-be created Energy ministry.

The third paper was now considered. Treasury had reported that its own research showed that the largest feasible rate of growth in Government spending on goods and services "consistent with the Government's medium term objective of reducing the balance of payments deficit to a sustainable level" was around 2 percent per year. The New Zealand Planning Council had suggested that New Zealand "should be able to maintain a real growth rate of about 3 percent per annum" provided there was continuing export growth. Treasury saw no reason to compete with this projected overall growth rate in public sector spending trends.

The CCEX decided that the most helpful way to present all this unappealing information to their colleagues would be through a visual aid of some sort - preferably a graph, presented on a single sheet of paper, showing all the "relevant figures over a time-span of 1977/78 to 1984/85 covering:GNP,

- Government expenditure in its major divisions and
- State Services staff figures."

The Ministers also felt that it would be "useful" to have an early indication of New Policies likely to be put up by ministers for funding in 1978/79, including any National Party 1975 General Election Manifesto items not yet implemented. Treasury replied that it hoped to have all this information from departments by the end of January. The data would then be collated and presented in a suitable form for ministerial digestion. It was agreed (significantly, for Hamilton's argument earlier that there was no longer much point in simply repeating the existing policy review exercise) that reviews of existing and new policy would be held before the 1978/79 Estimates were compiled, probably in late February-early March of the new year.

Treasury's paper had included a number of suggestions as to how the Government could extricate itself from the bind of apparently inevitable increases in its own spending rates and levels. But old chestnuts looked no more appealing now than they ever did : a 5-10 percent cut in each department's Vote, with specific CCEX approval required before there could be any restoration of funds still looked like a good way to lose your friends and activate your enemies. On the other hand, there had been some very stern warnings from creditors about spending, and they had much the same effect on nervous National party ministers as they had had on their luckless Labour predecessors. The IMF would look very unkindly on any increase in Government spending as a percentage of GNP - and certainly would not favour anything over the ratio achieved in 1977/78. Since GNP growth was likely to be "minimal", spenders were going to need

strong hands at the reins. Treasury reported that its own projections of expenditure for 1978/79 indicated a total of some \$6,469 million - equal to about 38.1 percent of GNP, and well in excess of anything the IMF had in mind.

The Committee took a brave stand - steeling itself, as much as anyone else, against the coming late-summer reviews. It would propose a target of 36 percent of GNP (\$6,100 million) for the next financial year - but would recommend that "for planning purposes" that target should be 37.2 percent of GNP, or \$6,300 million in cash terms. It recommended the COPE report to its Cabinet colleagues, and outlined an expenditure strategy for adoption in time for the pre-Estimates exercises:

Recommended to Cabinet that it

- (a) agree that Government expenditure targets should be consistent with the Government's medium term economic objectives of achieving a sustained improvement in the BoP and providing a sound basis for economic growth;
- (b) note that, given average terms of trade of around 80 and feasible growth rates in agriculture and non-traditional export volumes (around 2 percent, and 7 percent respectively) the achievement of both a rate of growth in GNP at 3 percent per annum and reduction in the BoP deficit to a manageable level by the mid 1980s will require that the rate of growth in real Government expenditure on goods and services over this period should not exceed 2 percent per annum on average;
- (c) note that the COPE forecast of Government expenditure for 1978/79 which makes no allowance for New Policies implies an increase in Government expenditure on goods and services of about 7 percent;
- (d) note that if the medium term objectives of a 2 percent growth in Government expenditure on goods and services is to be achieved for 1978/79, forecast expenditure would have to be reduced by about \$170 million.

This would also have the effect of bringing the Government expenditure as a proportion of GNP down to about 37.2 percent which is the same proportion achieved in 1977/78 and is recommended by the IMF.

- (e) consider the target of either 36 or 37.2 percent of GNP as the level of Government expenditure for 1978/79, which implies a reduction of \$370 million or \$170 million respectively below the projected level of \$6,469 million (i.e. to \$6,100 or \$6,300 million respectively.)
- (f) note that options which can be implemented to achieve the target reduction in expenditure for goods and services for the 1978/79 year are:

- (i) allow no New Policies until they have been justified and departments show equivalent savings in existing expenditure;
- (ii) reduce specific expenditure groups by a percentage;
- (iii) restrict the 1978/79 Estimates to the COPE recommended levels (at 1 July 1977 prices)

- plus salary and wage increases and benefit increases and provision for New Policy. Departments to absorb all price and volume increases from 1 July 1977 to 1 January 1978 unless provision for all or part of this increase is agreed to by the CCEX;
- (iv) similar to (iii) above, but to allow say a 3 percent increase in SEG's 2 - 6:
- SEG 2 - travel transport and communication
 - 3 - maintenance, upkeep, renewal
 - 4/5 - materials, supplies and services
 - 6 - other operating expenditure.
- Any additional provision to be approved by the CCEX (Treasury estimates that a 6 percent increase in the SEGs from 1 July 1977 to 1 January 1978 would total about \$70 million);
- (v) hold functions of the recommended COPE levels for SEGs. 2 - 6 for 1978/79 if they do not meet the criteria of
- keeping down the demand for imports
 - reducing the level of unemployment
 - give priority to developmental programmes with export potential, for example, land development, rural water supply, forestry.³¹⁸

Millen signed it off, and nine copies were made for distribution to the three CCEX ministers, the Secretary of Treasury (2) and the Prime Minister (4, interestingly not directed to Muldoon as Minister of Finance). The Committee, no doubt rather jaded by its intensive discussions, now awaited Cabinet's reaction to this "strategic plan". The Minister of Health, Gill, kept them busy with his somewhat expansive arrangements for the health system, as we have seen.

Summary of developments 1971-77

This break in the history of the CCEX as fiscal Tar-Baby provides an appropriate moment to comment briefly on the period from 1971-1977 and to indicate the relationship between the CCEX, the CCPP and the early National government experiment - Muldoon's Cabinet Committee on Government Expenditure (CCGE).

The CCGE, a task force of ministers, convened by the Minister of Finance, was a large and somewhat cumbersome affair. Its only real information was whatever the convenor chose to filter to it, and limited Treasury reports on the arithmetic of adding expenses onto COPE. It had no conceptual or administrative base, nor was any specific sub-system developed to service it. In effect it was a sub-committee of the Cabinet Economic Committee. The CEC still retained its conventional responsibility

for budgetary matters, although, as it remained under the National Party, it was preoccupied with revenue questions. The special CCGE task force of 1971/72 had a brief paring role, and its relative success was tucked away in ministerial and other memories to be dusted off and remodelled later.

The (Labour) CCPP's interest in the relationship between party policy, departmental policies and resource allocation eventually gave Treasury the tool it needed to experiment with certain systemic modifications indicated by the PPB "philosophy". As COPE generated more and more potentially useful information it became increasingly urgent to reallocate decision-making roles. The CCPP showed clearly that ministers could be actively recruited to authorise specific reviews of existing policy. They could be organised so that they were reliably available for special pre-Budget reviews of new policy. They could be encouraged to present themselves to their colleagues, to departmental officials and even to outside audiences of "community leaders" as high-status offsidiers to Treasury and the Minister of Finance, the traditional minder of the public purse. The CCPP should be regarded not as antagonists, spoiling for resources which only the Treasury and the Minister of Finance could deny or apportion, but as joint partners in expenditure planning. As allies, some of the load - and some of the inevitable culpability - could be shared.

Among other things this greatly reinforced the development of collective ministerial government. It also began to knit executive elites of elected and non-elected officials more tightly together. The networks of formal and informal influence, authority and coercion in central government became more complex as ministers and officials worked intensely alongside each other to "construct the National Budget." The gradual introduction of computerised management information systems both symbolised and emphasised these developments. Those who could not (or would not) come to grips with either the physical data systems or the preferred norms of resource allocation were forced to rely on other strategies. This reaction in itself began to affect the political

character of the central executive networks.

Within two years of its establishment, the CCEX had become an essential component in the diversification of Treasury's powers. Not only did that department retain its traditional membership of Cabinet sub-systems like the CEC, the Cabinet Works Committee and the Cabinet Committee on the State Services, it had effectively coopted ministers to assist it in forging a new channel to Cabinet - the CCEX. This multi-dimensional network mirrored developments in prime ministerial roles and functions. Muldoon not only acquired a new advisory group in the remodelled Prime Minister's department - a department headed by Galvin, the heir apparent of Treasury, after Lough. The Prime Minister also acquired another leg to the fiscal stool supported in the past mainly by the CEC. As Minister of Finance, he was superior to the associate and deputy finance ministers. The CCEX did not need to directly occupy his limited time or personal attention. His command over the Finance portfolio was sufficient. But the CCEX was becoming an invaluable balance to both older-established and emerging Cabinet committee cliques. Until 1980 at least, it appeared that the CCEX would move little further ahead of collegial opinion than the Minister of Finance-cum-Prime Minister allowed it to go. It served both symbolic and informational purposes, carefully manned, it could add another dimension to the powerful office occupied by Muldoon, master puppeteer and incrementalist whom it would be difficult to regard as anything other than profoundly cautious, instinctively pragmatic.

The CCEX : the end of the second year

When Cabinet met again on 12 December 1977, it debated the economic strategy proposed by the three CCEX ministers and their Treasury advisers. In general, the plan was acceptable. Its disciplinary character was appropriate to the prevailing economic circumstances, and its rigour was consistent with the general stance adopted by the Government's chief

Financial spokesman in the preceding years. It was agreed that wherever public servants could take the strain, they should be made to do so. Ministers were to be left with as much political leeway as possible. But the CCEX recommendation contained some political hooks that were too sharp for Cabinet to tolerate at that stage. In the end, the name of the game was not exemplary government in terms of efficiency and economy, justified outputs and well-analysed inputs; it was winning the next election, with all the political implications that goal entailed.

So, departments were to be instructed to prepare their Estimates for 1978/79 on the basis of COPE-recommended levels (i.e. in 1 July 1977 prices) updated only for "known wage, salary and benefit increases and policies approved since 31 August 1977." The freeze on staff ceilings in the State Services was to remain in force until the end of the next financial year - 31 March 1979. The sinking lid policy was to stay in force for the same period, with staff levels held to those of the current year, plus any approvals given since COPE reported, less a further 1½ percent every financial year. Post Office and Railways staff (hitherto outside the sinking lid) were to be disciplined in the same way as all other state servants - ministers stated that "this (would) create a pool of vacancies in each (of these departments) which could be re-allocated as need is established".

The Estimates provision for plant and equipment was set at 75 percent of the 1977/78 allocation; so far as possible overseas travel was to be kept at the same level in 1978/79 as that provided for in 1977/78; warning was given that reductions may be required before the Estimates in other expenditure groups.

Cabinet agreed that "as a general principle" expenditure and staffing restraints placed on departments should also apply to the funding of non-government organisations - but their political instincts suggested that a loophole must be left here, and the circular finally authorised by the CCEX on the basis of Cabinet's decisions stated that "it may be necessary

to moderate restraints in those cases where approved revenue-matching, demographic or similar formulae exist." This was the first hard evidence from the Cabinet meeting that old loyalties, old priorities, were still in good currency.

Both as a matter of administrative and financial necessity, and as a means of widening this loophole slightly, the Cabinet minute of 12 December also recorded that the CCEX had been given full authority to approve departures from any of the expenditure rules except those relating to staff levels and the sinking lid application.

Cabinet was not ready for the precise application of "tit-for-tat". The Minute recorded that "when New Policies are submitted regard will be given to the ability of departments to propose savings in Existing Policies. In the absence of significant savings being offered, the CCEX [will have] the right to review recent expenditure approvals."³¹⁹ [Emphasis added]. Indeed, it is likely that no element of the expenditure system was yet geared up for a hard tit-for-tat line, since tolerance of all sorts, political, fiscal and economic precluded its rigid application at that stage, even in theory.

When the CCEX met to promulgate Cabinet's rulings on 20 December it also had before it a summary of what Treasury currently regarded as areas of fiscal concern, requiring special attention in the coming review of existing policies:

(i) overseas aid: this had come up before the old CCPP on a number of occasions. Both Treasury and spending ministers saw it as a somewhat vulnerable component of the real substance of resources. The National Party Prime Minister did not share his predecessor, Kirk's, preoccupation with this expenditure policy, although its merits as a means of encouraging exports and trade (as well as some symbolic value) was not under-estimated. Departments were warned that the CCEX would be looking for a level of about \$55 million for overseas aid in 1978/79 - "which figure is based on commitments."

(ii) Works programme levels: the CCEX was directed to re-assess these with a view to reducing the allocation for activities which involved large amounts of overseas expenditure. Domestic activities, even where they had significant implications for employment, should not be permitted to upset the promotion of the Government's objective of an improved balance of payments situation.

(iii) Fertiliser subsidy: Although the proposed review of this transfer payment might affect something farmers regarded as a well-deserved token of support in appreciation for their votes, it was not really a dangerous directive. The CCEX was simply required to "review" the level of expenditure in this area "in the light of any new agricultural policies". In the event, money for fertilisers was shifted from one pocket of the agricultural community to the other in the 1978 Budget.³²⁰

(iv) Finally, Hospital and Educational Building: The CCEX was directed to review possibilities for slowing down the development and commissioning of new works in these two sectors. The review would bear little, if any, relationship to either educational or health policy per se - it was to be conducted solely for the purpose of economic regulation of the construction and associated industries. The CCEX was to put the brake on only "where this could be accomplished without disruptions of a kind which would result in unnecessary expenditure in the longer term."

"Fine-tuning" was a pretty imprecise science - as Lough had pointed out in his speech to his peers at the start of the 1977 COPE review:

Almost six months will elapse before 1978/79 priorities will begin to be implemented and response, in terms of domestic activity may take up to one year to commence: the multiplier process may take an additional time to work itself out. In other words, we are talking of a total timespan of perhaps 18 months to two years. In simple terms it may mean that we end up operating on the wrong end of the business cycle - measures which were intended to be anti-cyclical end up pro-cyclical and exacerbate all those problems we sought to alleviate. Weak trends originally identified in private sector consumption and investment could reverse themselves in a year and the addition of strong Government expenditure may simply spill over into prices and the balance of payments.³²¹

Before Cabinet and the CCEX departed for Christmas, the Cabinet Committee on the State Services was invited (by the CCEX) to proceed with determining staff ceilings in 1978/79; Ministers were asked again for Manifesto items not already implemented - with costs separated from other urgent New Policy costs, both to be included in their returns for the New Policy Review for 1978/79. Treasury was instructed to send out to all departments a circular advising them of the current instructions for the next Review of Existing Policy and the 1978/79 Main Estimates. As usual, departmental accountants would spend most of the New Zealand summer among their colleagues' policy bids and endless computer printouts. Finally, departments were to be informed that a detailed timetable for presenting submissions to the CCEX for the Existing, New and Estimates reviews would be circulated shortly. There was an almost palpable sigh of relief as the pre-Christmas files for the class of '75 were closed for the holidays.

The impetus for systemic reform, and a significant modification of the norms and criteria used in evaluating various expenditure options, had been deflected. Although various officials, inside Treasury and elsewhere, were conscious of the need to keep reform in mind, it was necessarily deferred until the housekeeping of putting the Estimates and Budget for 1978/79 together was completed. After that, history would produce its own catalyst - we discuss this as part of the development of the "Quigley school" of thought in Part IV of this Chapter. The CCEX Tar-Baby was set aside for the time being.

Putting the 1978/79 Estimates to bed:

Summer or winter, however, spenders were always susceptible to pressure and continually on the move. It will be recalled that on 24 November the Minister of Education and his officials had gratefully assured the CCEX that its decision to support a 12 percent increase in Education grants would suffice until the next year's allocation. But on 15 December, barely three weeks later, a paper was sent over to Treasury entitled Additional Grants. It argued for increases in General Expenses grants over the 1977 levels to take effect from 1 April 1978. They were to be divided as follows:

Primary schools:	27.5 percent increase
Secondary schools:	18.1 - 23.1 percent increase
Technical institutes:	22.0 percent increase

The background paper to these figures, entitled Qualitative Improvements in General Expenses Grants presented the Department's case. It was to the historian a somewhat superficial analysis:

(A) Objectives:

Secondary Schools: To provide for the necessary qualitative increases in the general expenses grant to secondary schools to cover changes in the curricula.

(B) Present Policy:

Regulations provide for grants by joint ministerial approval (Education and Finance). The grant is reviewed annually and provision is made for the increase in costs incurred since the previous review.

(C) Alternatives:

The alternative is to continue to provide for inflation in annual reviews and to make no qualitative improvements. However, this would result in a further decline in teaching standards.

(F) Justification:

The last qualitative increase in this grant was 1966. A "comprehensive review" was carried out in 1974 and very substantial increases in the then provisions were recommended (\$2.3 million, in fact). Subsequently "the needs were re-examined and a more conservative estimate of additional requirements was \$1.7 million." This represented a 47 percent increase on current rates. "There is a need for qualitative increases in this grant bearing in mind that in the last 10 years there have been many changes in the curriculum and there are more sophisticated teaching aids in use....[The Treasury Investigating Officer for Vote: Education commented on the margin: How much use?...]...in schools. Having regard to the current economic situation there is still a good case for provision in the grant to meet the cost of school operations and it is suggested that a figure of \$0.5 million would go some way towards meeting some of the higher costs which are freely complained of by the teaching organisations...There is mounting criticism by school principals in particular at the need to levy parents to supplement the General Expenses Grant. Although some schools can manage on the grant, an increasing percentage are running into deficit. Whilst the increase recommended for cost escalation will go some way towards assisting these schools there is "a real need for further grants to enable schools to balance their budgets."

The TIO commented orally [to the writer] on this that "we need to delineate what a school spends money on, and adopt a policy of providing for 'acceptable' elements of this expenditure - i.e. chalk and dusters. But not school trips or something like that - it would probably be essential

for schools to know this...."

The departmental paper continued, this time looking at Technical Institutes..:

(A) Objectives:

To provide for grants to technical institutes which will adequately meet their operating costs, in particular to implement the proposals of a review committee set up to investigate this question.

. . .

(C) Proposal: new formula for determining General Expenses Grant "on a reassessment of the present day needs of institutes and the necessity to ensure a more flexible and equitable system of determining grants."

(E) Alternatives:

(i) retain current formula - "it is not expected that this formula, even with upward adjustments in rates, will continue to meet the needs of institutes.

(ii) adopt new formula...

(F) Justification:

(i) "It is clear that the current formula is not meeting the needs of institutes. Two institutes, Wellington and CIT, have incurred substantial deficits over the years and have reached the stage where there is no possibility of the amount being recouped from any increase in the present rates.

(ii) The current formula is based on a review made in 1973. Since then the institutes have developed considerably and consequently this formula is no longer appropriate to their needs...

(iii) The new formula proposed will be more flexible in approach and will result in a more equitable distribution of the funds made available...than [before]. These

conditions will considerably avoid [sic] the current deterioration in the financial position of the institutes, provided that provision is made for the deficits of the two institutes mentioned above."

The TIO commented on this argument: "What about the recent Review committee's report? - \$129,000 was provided recently for an increase in the Technical Institutes General Expenses grant to be apportioned by the Department of Education - I understand this was used to offset deficits, in particular at the CIT - what the hell do they need now!"

[The Department of Education now asked for a further \$160,000 to cover deficits alone, exclusive of any sums requested as part of a modified grant formula.]

The departmental argument continued:

Primary schools:

(A) Objectives: To provide qualitative improvements in the grant payable.

. . .

(C) Alternative: annual provision for inflation and
no grant

. . .

(F) Justification:

"During 1973 a comprehensive review was made of the essential needs of school committees for incidental expenses. Arising from this review, a case was submitted to Government for a substantial increase in the allowance for items such as classroom requisites, cleaning, maintenance art and craft materials etc. Approximately half of the amounts sought were approved, the deficiency [sic] was 40 cents per pupil. As the last qualitative increase was in February 1974 it

would be reasonable to seek say half of the deficiency for this year and this would cost \$100,000."

The TIO commented orally on this proposal that "the increase in the grant at the time of the last qualitative review was detailed, so much per major cost item - the papers are on the file.... It would be interesting to compare the old split up, as recommended by the investigating committee - with the rates as they now stand - further, get Education to specify exactly where they would put the extra few cents for each cost element..."

In his report on the departmental proposals, the Treasury officer pointed out that they were a regurgitation of arguments included in a paper that went to the Associate Minister of Finance (Templeton) on 17 November 1977, proposing increased grants for the 1978/79 year. The "terms of reference" now quoted by Treasury to remind Ministers of the context of this policy were as follows:

The COEX approved the adoption of new procedures for the future review of education grants on 8 October 1976.

"These procedures were used for the first time in setting grants levels for the current year. The principles to be followed include:

- (a) (i) quantitative increases established and announced prior to the beginning of the academic years to which they relate
- (ii) qualitative improvements continue to be dealt with under New Policies procedures.
- (b) grant increases may have regard to the movement in costs which have occurred from the date of the previous grant and will not necessarily be tied to movement in any price index."

The matter would go before the Committee sometime during the new year's financial review period.

But this request for additional funds, sought outside the "normal" phase of the budgetary cycle to which Treasury tried to restrain them, was not the only Education problem awaiting the CCEX in the new year. On 31 January the Committee (Gair in the chair, with Thomson), met with Gandar (Education Minister), two members of the University Grants Committee, and Miller and Burns, the Department's financial officers. Battersby and a representative of the SSC were at hand for the Committee. The main item on the agenda was the University Block Grants, on which Treasury had reported as usual. Marshall reported the proceedings:

It was pointed out, and recognised by the Committee that the Universities would have to cope with some 5000 more enrolments in 1978 than had been envisaged i.e. 12½ percent more students.

The UGC had adopted an extremely conservative approach in seeking to ameliorate major strains in the system. The UGC had therefore requested only \$7 million out of a possible \$15 million increase for the 1978 calendar year which involved the non-appointment of staff to the extent of some 550, despite the growth in student numbers.

It was apparently a most effective display by the UGC of self-denial under pressure. Although some, particularly in Treasury, had severe doubts about how the UGC did its calculations, and the accuracy of its statistical methods, the ministers were persuaded to accept that Treasury's recommendation - no more than \$2 million - was on the whole unreasonable. The UGC pointed out that of this \$2 million, \$1.7 million represented price escalation in "operating items" other than salaries and wages, thus leaving only \$300,000 to meet the incidental costs of coping with the extra students.

The Minister of Education stated, with considerable effect, that he was prepared to accept the \$2 million increase as an interim amount "in line with the Government's directive that expenditure and staffing constraints [were] to be applied to the funding of non-governmental organisations such as educational institutes" [Cabinet's pre-Christmas resolution]. However, he sought an assurance from the CCEX that it would recognise his "request"

for the balance of \$5 million for increases other than non-staff operating costs, to be examined as "unavoidable growth in operating Estimates of Expenditure." [Emphasis added]

For reasons which were not recorded in the minutes, the CCEX agreed to this request to by-pass the existing procedures, and decided to

approve an additional \$2 million for block grants to universities for 1978/79 (no specification stated); note that the UGC will be seeking a further \$5 million in the 1978 Estimates Review recognising that the amount sought is not to be treated as New Policy; note that provision for the additional grant would need to be made in Vote: Education for 1978/79 and 1979/80.³²²

Herein lay the seeds of much later contention, when the universities claimed to have been given an additional sum essential to their operation, and thus part of the base, and Treasury claimed that the amount approved was a strictly tagged "one-off" amount, not to be built in to the basic allocation to the UGC.

2 February 1978: Measures to increase liquidity and relax controls on consumer spending announced

During this period before the formal commencement of the reviews of existing and new policy, the CCEX was mainly concerned with the capital works programme, which had last come before it in conjunction with the COPE report. On 14 February, Gair and Templeton were informed by Battersby and Hamilton (Treasury) that most items on the Capital Works Programme were "not contentious", and therefore it was agreed that attendance at the meeting by Ministers and officials [would be] "optional." This of course was because most matters of conflict were resolved before they ever reached the CCEX - inside the MWD itself, in the carefully stage-managed meetings with Wight and his colleagues; in the Cabinet Works Committee; and in the constant to-and-froing between the MWD and Treasury, where officials were both confident

and experienced in handling this substantial component of public spending.

Twelve departmental programmes were to be examined and on almost all occasions only the Committee, two Treasury officials and Wight were present. The CCEX first "noted" the usual quarterly progress report on Works spending (up to 31 December 1977) and received an outline of how the 1978/79 programme was beginning to shape up. The MWD suggested, and the Ministers concurred, that they should present their clients' cases individually for re-assessment by the CCEX. It was further agreed that this "re-assessment", where it indicated a reduction in allocations for programme levels, should be "largely confined to Defence, Education, Electric Supply, Health and Psychiatric buildings, Transport (airports) and the Post Office telecommunication division."

In addition, the Committee "noted that the level of expenditure on 1978/79 departmental works programmes anticipated [would be] the minimum level which [could] be achieved without further adversely affecting the construction industry."

The historical mission of the MWD was to build things, not to avoid building them. But if prevailing economic and other circumstances indicated a need for the latter, then ministers were going to be shown that this would have its costs. Officials stated that "the real result" of their virtue in constraining public works to a "minimum" would be a downward trend in the construction levels. In addition, "the mix between continuing works and new starts reflected in the 1978/79 Works programme will in future result in a further reduction in the pipeline of completed works." It is doubtful whether CCEX ministers fully understood the complexities of works planning and programming, but during the next months this hint of future problems would become a matter of more intense electoral as well as fiscal interest as departmental officials sought to explain what would happen if a school or a road or an irrigation project did not materialise.

One small item concerned "developmental roading." Unlike most other Works items, the provisional programme and the cash levels for this were identical - \$3.250 million in both cases for 1978/79. It was explained that the provisional programme provided for "an increased allocation over previous years: approximately \$500,000 extra had been provided for Crown land roading, including rural roading, reflecting Government policy to accelerate farm settlement, while approximately \$250,000 had been added to both district roading and backblocks access, including rural bridging." There was apparently no ministerial interest in seeking detailed justification of these increases.

Another programme with identical programme - cash levels was in Maori Affairs: Land Settlement and Housing. Both were set at \$1,460,000 for 1978/79 with the same amount for programme levels in each of the two following fiscal years. Justice (Public buildings, Court-houses) was set at \$2.5 million for planning purposes for three years, with \$2.25 million as cash in the coming year. The cash level for most other Votes was taken back from the programme level to the nearest round million or some other minor ritual reduction. For example, in Vote: Education (University Buildings) the programme provision for 1978/79, 1979/80 and 1980/81 was \$17.5 million respectively. The cash level for 1978/79 was set at \$17 million. Consideration of capital works matters remained on the CCEX agenda for several meetings throughout March 1978.³²³

<p>14 February: Loan of \$158 million raised on the Swiss capital market</p>
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In the same period, before the start of the new policy review, Education officials kept up their pressure on the Committee. On 14 February, for example, Ross (Education) was invited to speak to a paper entitled

"Normal Growth in Technical Institutes, Community Colleges and Senior Technical Divisions - 1978 and 1979 Academic years". The Department was seeking a substantial increase in the funds provided for staff in these institutions over and above the levels recommended by COPE in December 1977. Treasury had contested the department's application with some vigour, pointing out that the additional personnel represented an aggregate increase for normal growth of over 5 percent (and, if all new policies proposed for Education for staff were added in, costs for staff were calculated to increase by 7.7 percent). However, the CCEX approved an increase in tutors for all three kinds of tertiary institutions "for normal growth for 1978 academic year to 100 e.f.t. (equivalent fulltime) tutors", i.e. 20 more people than COPE recommended - to the tune of \$280,000 over the 1978/79 level recommend by COPE two months before.

Treasury's counterpunching did have a minor impact on ministers. They agreed that for planning and forecasting purposes the Department of Education should use "an assumed growth factor of 4 percent, equivalent to 84 eft tutors for the 1979 academic year."³²⁴ From the Department's point of view, however, this was a distant battle and its most immediate "needs" had been satisfied.

Other departments had, similarly, "discovered" since COPE that their earlier estimates and forecasts had been inadequate. On 21 February, for example, with a very long agenda before it, the CCEX considered numerous Capital Works matters, several New Policy questions, and various outstanding review items such as the result of an earlier request for a report on hostels for dental nurses. Again, Gair and Templeton carried the burden for Cabinet, with Battersby and Hamilton as advisers, and Marshall (Secretary) recording decisions. No other officials appeared except Wight, on works items. It was reported to the Committee that since the tabling of the Supplementary Estimates, "more

people had become unemployed than had been expected", so the Labour department now needed approval to overspend its appropriation by some \$4 million. After permitting this extra bite at the cherry, the Committee then agreed to Treasury's suggestion that funding for publicity and public relations activities in several Votes should be the subject of special attention during the forthcoming Existing Policy Review. The departments of Railways, Post Office, Ministry of Works and Defence were singled out. Behind this suggestion lay some quite thorny matters, such as recruitment policies, increasingly sophisticated consumers of their costly services, and so forth. Apart from that, departments like the Ministry of Works and Defence depended to a very large extent on the

in-house publications with which they welded their own bureaucracies together, and attempted to solve problems born of internal communication and "professional" education in unwieldy organisations. At this meeting the Committee also dealt with a semi-housekeeping matter which had become complicated because of Cabinet's pre-Christmas adoption of the expenditure strategy. Treasury now sought, and was granted, authority "to approve minor increases in departmental draft Estimates in respect of price increases which have occurred since 1 July 1977 for normal operating expenditure which is incurred within New Zealand in cases where the departments and Treasury agree to the proposed levels and there are no curtailments in departmental services." On the one hand, this would avoid the situation where ministers had to be bothered with unavoidable adjustments to individual Votes; on the other hand, it was an additional responsibility for Treasury to record all these decisions, as individual Treasury officers made them, and continue to analyse their impact on the built-in fat of departmental funding.³²⁵

The Committee was prepared to be modestly resolute on some matters - a Health department bid for additional money for capital works for hospital building was turned down. The department had argued that a change in the location of a particular project involved more money than initially requested, and this would be spread over the next 3-4 years. The CCEX saw this as an in-house problem for the Hospital Boards, and would not support it - at this stage at least. A week later the Health department came back again, this time with more details on the proposal, and again the CCEX held it off a little longer. ³²⁶

But the Education department adopted a different strategy - its paper on the Hardship Allowance for tertiary students in receipt of a Standard Tertiary Bursary would lift the lid off a Pandora's box that continued to buzz for several years. D. Garrett, the Education official most involved in policies for funding university and other post-school study, was accompanied by the aggressive M. Burns (finance) and J. Young from Personnel. Gandar led these Education officials, and Treasury's Battersby was accompanied by A. Garden, one of a tiny minority of women working inside the central executive system. She was handling this aspect of Vote: Education, and was a colleague of N. Stirling in the Investigating division.

The brief record of the meeting contained many hints of profound disagreement over how the public education system should be planned and funded:

In the 1977 academic year, out of 11,000 tertiary students on the abated bursary rate there were 420 approved applications for extra assistance. In the 1976 year 320 cases were approved. It was stated that the type of student applying for extra assistance either had parents on a low income, parents with either more children as secondary/tertiary students, or were supported by a solo parent. There were several applications in 1977 from students whose parents were dairy farmers whose income had dropped significantly, and who could not support a child at a tertiary institution.

Treasury, as usual, was presented by the would-be spenders as unsympathetic to an honest welfare argument. Habitual roles were reaffirmed: Treasury as hard-nosed penny pincher, department as politically sensitive, socially responsible Portia, protecting the welfare state. The very suggestion that the department's fiscal policies should be based on incisive well-thought out economic and social arguments was abruptly rejected by these officials, as it had been, by implication earlier, by the UGC. Yet in many cases Treasury was not averse to sound argument - what it did oppose was transparent, ill-prepared or sycophantic posturing with little theoretical practical substance to back it up. In this as in many other such situations the only appeal made by a spending department was to ministers' prejudices, and in the absence of anything more solid to work on, ministers readily demonstrated that prejudice would influence decisions.

It was stated that there were two major arguments against Treasury's viewpoint [which compared the Department's] recommended \$26 bursary payment plus \$5 hardship allowance, total \$31, with the comparable unemployment benefit rate for under-20 year olds of \$31.50 (the unemployment benefit for single beneficiaries over 20 is \$41.30).

Firstly, [the Department argued] the unemployment beneficiary expects to be on a benefit for a finite amount of time, the average being 3-4 weeks; whilst the student is on a tertiary bursary for 40 weeks of the year. To a certain extent the unemployed can adjust their expenditure to match the benefit which they receive, while a student cannot do this to the same extent, especially if in a hall of residence.

The records do not state whether this patently weak line of argument was disputed at the time by Treasury, or whether any further supporting data was required of departmental officials. The CCEX did briefly discuss an alternative Treasury proposal for loans to students, but decided that the interest rates available to students "tended to be prohibitive." Again, there was no record of debate on how this could be explored further, although officials were instructed to give "more thought" to the proposal. Eventually the Committee gave the Director-General of Education authority

to grant up to \$7 per week additional hardship money for students on an "unabated" bursary rate. This was to be classified by Treasury and the Minister as Item 4 of Education New Policies, with a Category A rating - i.e. committed for inclusion in the 1978/79 Estimates.³²⁷ All this was some time before the New Policy review proper actually took place.

A week later, education officials were back again before the Committee, with the UGC responding to a Treasury report on the fees payable by overseas students. Gair was ill, and his colleagues Templeton and Thomson, with Battersby, held the fort. Treasury had suggested that overseas students should be charged higher fees for study at New Zealand universities - a recommendation in line with the Government's general arguments for increasing fees for services wherever possible. The CCEX was curtly "advised" by the UGC that "the Government cannot set University fees." This legal nicety, which purported to set the recipients of massive public resources outside the scope of ordinary ministerial investigation and control, was an abrupt surprise. It was stated that "the individual university councils set the fees, with the concurrence of the UGC. Individual councils could refuse to differentiate between local and (overseas) students, especially overseas private students [i.e. those not studying on the basis of some inter-governmental agreement such as the Colombo Plan]. [emphasis added].

In the face of this show of confidence born of many years successfully protesting the inalienable rights to autonomy of these "seats of higher learning", Treasury argued that in the circumstances "the only way of enforcing the Government's wishes on the individual University Councils would be to set the quinquennial grants at a lower rate and instruct the councils to recover the shortfall by setting a differential rate for overseas students". The UGC then quoted the United Kingdom example where "the universities had refused to set a differential rate for

overseas students and had accepted a loss of revenue rather than try and set up a cumbersome and expensive administration procedure".

However, the UGC had friends everywhere in court - it informed the CCEX that its desire to continue the present quota system was supported by the Ministry of Foreign Affairs. Both the UGC and the Ministry considered that there had "been a tendency in the past" to use the training of overseas students in New Zealand as a substitute for other forms of overseas aid. However, they pointed out, it was a hidden virtue, since this fact was not able to be reported as overseas aid according to the terms of reference employed by the Government's Development Assistance Committee. But it was, they suggested, none the less real. The UGC pointed out that a limit had been set on the numbers of overseas students who could be admitted in 1978 - somewhere between 330 and 340.

Eventually the CCEX "noted" that the UGC had predicted a "significant reduction" of 55 percent in Malaysian students seeking 1978 admission. It was clearly uncertain what to do with this sensitive problem, and ordered that it be referred back again to the CCEX for reconsideration in a year's time, as part of the 1979 review of Existing Policies. Officials were to recommend ways of setting total targets for achievement by 1981.³²⁸

By the beginning of April, the reviews of New Policy had begun. First up, on 4 April, was Education with a paper submitted to the Committee less than 24 hours before it began its examination.

Like his predecessor Amos, Gandar was not neutral about public education. The rate of spending and the capacity of the Education sector to command a significant overall share of public resources suggested that it was pointless to give the portfolio to a skilled old hand with Cabinet seniority. Better to experiment (as happened 12 months later) with a neophyte, M. Wellington, who might be less successful before the CCEX and other guardians of the public purse.

In the meantime however, Gandar, apparently not recognising the invasion of his own electorate by Social Credit, put his considerable energies into advancing the cause of education. He was a member of a university council; his academic qualifications and courteous conscientious approach to his portfolio had recommend him highly to the senior departmental officials. He was seen as neither gauche nor ignorant. His urbane but persistent style had proved invaluable to the department over the previous two years. He acknowledged the universities' claim to be independent of direct political influence; he accepted the need to provide financial support for tertiary students; he appreciated, and smoothed away, difficulties in finding resources for his government's policy of integrating private schools (mainly Roman Catholic) into the lay state system; in public he was apparently sensitive to the claims of new contenders, like the advocates of better pre-school education or child care establishments, and he adopted a liberal public stance on a number of areas such as sex equality in education.

Unlike Amos, who not only frequently distressed his CCPP colleagues, but had seriously alienated many powerful bureaucrats with his idiosyncratic administrative style and impulsive support for various educational causes, Gandar was seen as a "reliable" minister by his officials, and many established client groups. The period of his administration was to become a source of nostalgia some time later, after the 1978 General Election and Gandar's abrupt dismissal by his electorate.

One of Gandar's interests was rural education. This interest was rooted in the demographic basis of the National party and his personal electoral background. The rapid post-war urbanisation of New Zealand, and massive surge of students entering the school and post-school systems, was only now beginning to tail away. It was argued that history had left the rural sector ill-nourished and disadvantaged. Gandar therefore

submitted, among his new policy proposals for 1978/79 (and bearing the coming election in mind), a paper on improving the staff/pupil ratio in country schools. Treasury had adopted a negative stance on this since, as their report to the Committee suggested, the longer-term implications of an improved ratio were predictably expensive. The Minister wanted to change the ratio from 1 teacher to 27 pupils to 1:25, in rural schools. This would effectively give them preferential treatment over their urban counterparts.

The Minister had been informed of Treasury's view, and had decided to modify his original claim somewhat. He stated "I have reconsidered the whole proposal in the light of (Treasury's) reservation and I now submit a revised proposal providing for the implementation of the 1:25 teacher/pupil ratio in Grades II, III and IV rural schools". The Minister's first bid had been dated 3 April; Treasury's reply had been immediate, and on 4 April the Minister demonstrated the financial revision he proposed:

	<u>New Proposal</u>	<u>Old Proposal</u>	<u>Difference</u>
1978/79	\$36,000	\$52,000	-\$16,000
1979/80	\$323,000	\$345,000	-\$22,000
1980/81	\$941,000	\$581,000	+\$370,000
Full year cost	\$1,403,000	\$1,013,000	+\$390,000

The revised bid suggested deficiencies in the Minister's initial case for funding. Treasury remained unimpressed. Battersby, Hamilton and Stirling stood firm on "the substances" of their argument: the new policy now proposed would provide "an additional 187 teachers for eight schools only. The reduction in teacher/pupil ratio to 1:25 would not be applied to 'six-year schools'. It is considered that the pressure may emerge for a reduction in ratio to 1:25 for these 'six-year schools' which would involve an additional 103 teachers". The Minister was backed up by his most senior men, Renwick, Director-General of Education and Miller, chief finance officer for the department. They retaliated energetically against the implication that they had devised a strategy to keep Education's foot in the door. The Minister recommended,

and the CCEX approved, the "revised" new policy proposal for rural school staffing. The Committee approved the use of resources to provide a 1:25 teacher/pupil ratio in Grades II, III and IV rural 'eight-year' schools, noting specifically that this provision would not apply to six-year schools.

In all, 36 new policy proposals put up by the Education Minister were approved at this meeting, and Gandar was invited to identify those he wished to announce before the Budget. The total amount for the 36 new Education policies was:

(1978/79)	\$1,915,000
(1979/80)	\$4,570,000
(1980/81)	\$6,125,000

The effect of these policies on the Department's forecast "base", would be the annual full-year addition of nearly \$8 million to the price of public education in this Vote alone.³²⁹

When the State Services Commission officials presented themselves to the CCEX on 5 April, with EDP new policies for 16 departments, they had ranked the bids, and, with Treasury officials, classified their recommendations for earlier assimilation by Ministers. The SSC reported that the priorities it accorded were based on the following factors:

1. the necessity to maintain existing EDP systems;
2. the need to implement Government policy, particularly in the social service areas;
3. the feasibility of implementing each proposal: this related particularly to the ability of the Commission and departments to provide adequately trained staff for running the EDP systems;
4. the need to conserve overseas funds, as most of the proposals had a high overseas content; and
5. the expected return to the Government on the proposed investment.

Officials pointed out that the shortage of skilled EDP personnel

in New Zealand meant that there was a limit to the volume of additional new work that could be undertaken. In addition, they stated, they had been sensitive to the "need" to keep expenditure on computer installation within the level prescribed for 1978/79 - \$8.5 million. This money included two major proposals that had already been approved - (a) the "deduction service and new payment method" for beneficiaries of National Superannuation payments (which was estimated at a cost of \$7.345 million over three years), and (b) the installation of an "aeronautical fixed telecommunication network" for the Ministry of Transport, which totalled \$3.037 million over two years, starting from the 1979/80 financial year.

Ministers were necessarily silent before the report on the price of computerising National Superannuation transfers. This cat needed no whipping by officials. The massive costs of the scheme were far outside anything its proponents had had in mind when National party policy-makers set out to win their share of the electoral market back from the Labour government in 1975. Nor was there any suggestion that the hidden cost of payments to the over-60 year old section of the population should be drawn to the attention of the electorate in any public statement of Government's spending history. But the price of introducing the two policies specified above would be carried elsewhere. Given the costs of the new bids, and the decision to maintain existing systems, there was no need to observe that this was largely a political, rather than an administrative problem.

The SSC and Treasury agreed that under the circumstances "only one new major EDP system could be established in any one financial year". Ministers whose departments found this hard to take would have to devise their own strategies for deferral of bureaucrats' ambitions, as well as preparing themselves to resist the commercial pressures of the sellers of the new technology. It presented at least as difficult a challenge to the SSC as it did to the CCEX. But the

arguments for EDP installation were more acceptable when ministers realised that reductions could be made in salary payments to state workers. In discussing the Post Office new policy bids, for example, it was pointed out that "the main saving which would result from placing all telephone accounts (approximately \$1 million in the next financial year) on its computer network would be the abolition of need for current 15 staff employed on producing addressograph plates".³³⁰ It was to prove an increasingly attractive line of debate.

This was a difficult area of expenditure planning - for one thing, many officials, including ministers, were still either unfamiliar with, or apprehensive about the technical aspects of computerised information systems. It had been suggested on a number of occasions that the replacement of manual systems by computerised forecasting in financial matters in Treasury (FFS) was a marked advance. That this did not show up in some compensatory improvement in executive control over expenditure in the public sector was a matter of bewilderment, as well as frustration, to decision-makers. The professional EDP experts were naturally enthusiastic, and presented their case with apparent confidence. In any case, the Emperor's new computerised clothes were clearly acknowledged by most people in central government as a fashion with impeccable overseas authority - and very impressive multi-national backing. Few were prepared to demonstrate either their personal or their professional doubts about either the demonstrable efficacy or growing cost of the "scientifically based" systems on the business of government.

6 April:	for 1978/79, import licensing schedule to allow increase in value of consumer and other goods of 7 and 12½ percent respectively.
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The next day (6 April), Vote: Education once more appeared on the CCEX agenda. The UGC had been advised before Christmas that if it accepted \$2 million then, it could still come back to the Committee for an extra \$5 million before the Estimates were finalised. By the beginning of April the universities had additional complaints to make to the Government. They had been successful in getting Treasury and the ministers to recognise that extra cash would be needed for Post Office charges and technical equipment (the former a flow-on from the Government's decision to increase P.O. charges in October 1977). But now the Treasury was attempting to resist the UGC's expectation that it's request for an additional \$5 million for the next two financial years would be favourably reviewed. Treasury had gone so far as to recommend that the Committee (CCEX) should make no immediate decision on this matter, but should agree to reconsider a proposal for increased expenditure the following year (i.e. in the second to last year of the last quadrennium grant). The notion was clearly preposterous, although Treasury appeared quite serious - the presence of S. McLeod, Deputy Secretary of the Treasury, at the meeting on 6 April, with Hamilton from the Finance division, emphasised this. The minutes continued the record of the UGC's arguments:

The additional \$2 million approved by Cabinet in February 1978 for block grants to universities for 1978/79 and 1979/80 would be largely taken up by increased prices for heat, light, and water.

The increased costs of these items were seen by the UGC as an entirely undeserved burden over which the universities had had no control, since the Government had made a general ruling about increasing the charges for these essential commodities, independent of university advice. Further, the Minister (Gandar) and officials went on, the "additional provision" took no account of other increases in the costs of running universities. It was pointed out that there had been major increases in non-salary costs in the areas of equipment and materials,

especially library books and periodicals. While the grants were protected for salary increases they were not for non-salary costs. The present grants to meet the universities' running costs were approved in 1975. They were

based on estimates of student numbers and costs as these were in 1973/74.

Enrolments were now running over 500 internal and extramural students more than were estimated and the universities were short of about 670 teaching staff.

To give the CCEX some comparative basis for this report, the Minister suggested that 5000 extra students represented (in total) 5 secondary schools or "one complete university."

By now the advocates of preferential treatment for the universities were in full flight: they pressed home the picture of tertiary penury by asserting that "even after the \$2 million extra grant had been paid," the universities would still be at least \$12 million in the red. The UGC had reassessed its current budget, and suggested that over the three years to the end of 1978 the universities would have to absorb a shortfall of some \$33 million. It was very big business in academia, and ministers were asked to recall a Cabinet decision on university grants in October 1975:

- (i) that the universities will be advised that compelling circumstances may arise which could make it necessary for the Government to review the grants, and
- (ii) if the financial circumstances of universities are seriously affected by inflation, the UGC may seek a subsequent review (CM75/43/30 refers).

The CCEX, haunted by the past and the Labour Government's loopholes, capitulated almost without a struggle. The minutes recorded their "concern" that block grants should continue to be "viable" and that universities "should be compensated for increases in equipment and materials costs, library books and periodicals, postages and telephones, printing and stationery, and fares and freight." It was decided to approve the provision of an additional \$533,000 for price increases, comprising \$350,000 for Post Office charges and \$183,000 for technical institutes equipment in Vote: Education for 1978/79. This was just a necessary sop - the real meat of that decision came in what was added:

1. It was agreed to note that when Cabinet approved on 20 October 1975 the quadrennium block grants for universities which run from 1 April 1976 to 31 March 1980 the Cabinet noted that the universities [would be entitled to come back for adjustments in the light of compelling circumstances and the financial consequences of inflation];
2. approve an additional \$1 million for block grants to the universities for 1978/79 and 1979/80;
3. note that the UGC had requested a total additional provision of \$7 million for block grants to universities for 1978/79 and 1979/80, and that the approval (of an additional \$1 million) together with the additional \$2 million approved in February 1978 gives a total additional provision of \$3 million for block grants in each of the next two financial years.³³¹

Marshall was extremely careful to get the record right. As with other occasions of successful advocacy of specific policies, such as the integration of private schools, it was obvious that political and fiscal victory would go to whoever got his argument in hard cold print, able to be quoted as an unmitigable precedent. The UGC had a very long memory - even if Treasury officials considered that this was well overdue for challenge in the light of more modern methods of public expenditure planning.

Various other more or less costly new policy bids were considered by the CCEX after this exhausting battle, and at later meetings. Treasury had prepared a paper on a proposal to set up trade centres in North America and South East Asia. Like everything else, it seemed, nothing could be done on the cheap and these were likely to cost more than \$600,000. The ministers were also worried about evidence of a continuing rise in unemployment, and the consequent pressure for the State to employ more temporary workers (TEPs). In an attempt to mask the extent of this problem, it was suggested and agreed that all the TEPs employed by the Forest Service (usually a reliable source of occasional jobs, but now embarrassingly overloaded) should be reclassified under Labour department control. However, the CCEX noted that "only the cost of work

performed under the TEP which clearly contributes to the formation of forest assets will be reflected in the accounts of Production: Forests, and in the [department's] review of its normal planting programme the Forest Service will consult with the Department of Labour to ensure that the employment implications are fully taken into account." It was a complex and anxious business, particularly with so many eager observers ready to take the published Budget tables apart in June and deliberately trying to confuse the public with accusations of stress in Government.

Any project which seemed to have revenue-potential was considered but they were disappointingly rare. On 11 April the Committee approved a Health department bid for \$98,500 in 1978/79 and \$73,000 each year after that to be paid to the National Hormone Laboratory in Auckland. There, under the guidance of a clutch of professors, experiments were being conducted on pituitary hormone extraction, which appeared to have a small overseas market. But this potential gain was quickly eroded by the simultaneous decision to authorise the expenditure of \$1.5 million in Vote: Health Estimates for a consultant firm's "assistance" in developing computers for health services. This decision required endorsement by the Cabinet Committee on the State Services.³³² There was no other recorded discussion of the topic, which was to become the subject of a public controversy and an official inquiry by the Controller and Auditor-General a few years later.

The Police needed more staff - which was considered a new policy matter; establishment of a new Ministry of Energy headquarters would require an initial allocation of well over \$400,000, which included the cost of employing 35 new staff members and equipping them adequately.

On 11 April appeals against past CCEX decisions were heard - nine departments sought to have their allocations reconsidered. The discussion on Vote: Internal Affairs indicates what was likely to move the CCEX to modify past choices. The Minister, Highet, and permanent head, P. O'Dea, an oldtimer in the business of government rituals, presented the department's

case:

As New Policy, the Department had requested an additional \$300,000 to bring the total funding for the Queen Elizabeth II Arts Council in 1978/79 to \$2 million. [They were allocated only \$250,000, and the department sought a reinstatement of the outstanding \$50,000].

It was a modest enough request, and the Minister made his case strongly. His colleagues could readily appreciate that he and his officials might be ardent in the cause of Culture, but they were not without sound business acumen:

It was stated that the areas in which lottery profits could be distributed was restricted and the Minister of Internal Affairs wanted to be able to approach the Lotteries Board of Control with an application for additional funding for the QUEII from lottery profits while showing that the Government had increased the allocation to the Council. In 1975 the previous Government had approved the funding level of \$1.5 million to the Council and the Minister wished it to be seen that a significant increase on that funding had been approved by this Government.

The Committee agreed to an additional \$50,000 to QE II over the \$200,000 (sic) given, equalling total \$2 million, provided the additional \$50,000 was funded from savings made elsewhere in Vote: Internal Affairs.

In the interests of appearing at least as capable of appreciating fine things as the Labour party, this did not appear to present any insuperable obstacles to the men from Internal Affairs. Indeed, the Minister had good reason to feel he had made a successful appearance, since he had also won an additional \$10,000 for the regional Arts Councils, which was an increase of 102 percent on the 1977/78 appropriation.

Not only was the National party prepared to support the arts, however. Hight was granted an additional sum for the department's Sport and Recreation grant, which he was permitted to announce to a forthcoming conference of local bodies. He was given this small token, the CCEX minutes recorded, because "it would be the only proposal from the Local Government Committee that would be incorporated in the 1978 Budget for expenditure this year." It wasn't much to offer local bodies, but it would have to do in the meantime.

Foreign Affairs had found they couldn't live on their new policies without support, and the Ministry was granted an additional \$10,000 for a proposed PR scheme; Energy needed another \$30,000 for its energy conservation programme. But Social Welfare's request for additional money for local support services (mainly to be used by women) was declined. The CCEX had received a copy of the Officials Economic Committee paper on the state of the economy as at February 1978, and there was clearly a limit to those charitable handouts they felt they must make. Gill's department - Health - was one such "unavoidable" area. The Minister had asked for a \$3 million increase on the estimate of \$12 million for daily benefits payable to private maternity hospital patients and private hospital patients. The CCEX allowed this to go through to the Estimates.³³³

Between mid-April and late May, the CCEX met only three more times before the Budget was announced on 1 June. Its reviews of existing and new policies were effectively over for this year, and only a few outstanding items continued to trickle in as the centre of activity shifted back to Treasury and the Minister of Finance. On 9 May, for example, a minor sum - the least the Committee felt it could support - was approved for the Estimates on Small Business Agencies. There was much talk about the desirability of the policy itself, but in view of the small amount the ministers felt they could afford, the CCEX decided that it would be better not to draw any attention to this in the Budget speech. The manifesto commitment would just have to stand on its own. If anyone had an interest in it, the Minister of Finance could quite honestly report that sustenance had been provided. Unforeseen matters, like flooding in the Hutt valley, were given finance: the member for Western Hutt, W. Lambert, whose electoral hold was relatively slight, could do with the opportunity to announce that the Government would provide an immediate payment of \$50,000 to relieve distress, and a further (unallocated) sum of \$500,000 which would be made available in the form of a concessional loan.³³⁴

On 23 May, just a week before the Budget was published, the Committee decided not to meet again unless "anything urgent arises or papers are referred to the CCEX by Cabinet." Nothing did. The meeting scheduled for 30 May was cancelled, and the CCEX took a short break after its strenuous months of work. The Minister of Finance paid tribute to their labours in his Financial Statement: "Since its establishment in 1976 the Cabinet Committee on Expenditure has continued to play a key role in achieving economies in Government spending programmes. As well as appraising existing Government policies the Committee has contributed to the restraint exercised over the growth in State Services staff numbers. In addition to ensuring that its important social and economic policies can be implemented the Government's scrutiny of expenditure programmes was aimed at keeping down the demand for imports, reducing the level of unemployment and giving priority to development programmes."³³⁵

All this was by way of introduction to the somewhat unpalatable announcement by the Minister that net spending was expected to rise by 16.5 percent on the previous year. The Public Accounts for the year just ended, to 31 March 1978, had shown that the actual outturn for expenditure had been nearly 24 percent over the 1976/77 result, and despite the sterling work of the CCEX it appeared that the trend would continue. The Minister estimated that the amount the Government would have to borrow in the 1978/79 year, to cover the predicted deficit of \$1,050 million, would be almost twice that actually borrowed in 1976/77. The Minister was understandably disinclined to demonstrate how far his Government had gone towards its goal of reducing public spending as a proportion of Gross National Product. It was stated instead that the "estimated deficit for 1978/79 [represented] 6.4 percent" of projected GNP. Since the 1975-76 deficit had been 9.2 percent of GNP, this was somehow more comfortable and straightforward than confusing the public with a comparison of total spending relative to GNP. One

significant innovation appeared in Budget Table 2, where the estimate for supplementary expenditure was increased from the traditional \$50m to the more realistic prediction of \$250 million.

- 1 June: The 1978/79 Budget introduced in Parliament provided for a budget deficit of \$1,050 million compared with an outturn of \$694 million in 1977/78. Some important features of the Budget were:
- new tax rates introduced giving income tax reductions of up to \$382 per year on taxable incomes in the range of \$3000 to \$22,000 per year;
 - single family tax rebate raised from \$208 to \$260 per year;
 - petrol tax raised to give 2 cents per litre increase in price;
 - Railway charges raised by 12½ per cent as from 1 July;
 - \$60 million paid to farmers for drought relief;
 - Minimum farm prices for wool, meat and dairy products established;
 - \$55 million provided for a variety of job-creation programmes.

The Cabinet Committee on Expenditure: preparing for the new evangelists

As we have observed before, one of Treasury's major functions is to analyse and describe the economic and fiscal context for annual budgetary decisions by ministers. By the late 1970's, as we have seen, this Treasury analysis was fed directly into a new ministerial sub-system with a filtering responsibility on behalf of Cabinet - the CCEX. Unlike the long-established CEC, the terms of reference of the CCEX specifically addressed its members to the expenditure side of the Budget. The Committee's role was to reduce the level of "noise" caused by disagreements between spending and control agents. Unlike COPE, or the Main and Supplementary Estimates reviews, where only officials participated directly up to the stage of final reporting to the Minister of Finance, the CCEX represented a network of ministers (spending and non-spending) and officials (both spending and control agents, such as Treasury, the MWD and the SSC). By the beginning of 1978, despite the strong reservations of some officials in the Finance and Investigating divisions of Treasury, this network was activated principally during two more or less ritualised phases of the annual financial cycle - the reviews of existing policies and of new policy proposals. Concerns had developed mainly because the information circulated during these reviews could not easily be processed into the pre-Budget period (say February-May each year), but spilled over into the post-Budget period.

To some extent, this spill-over was desirable. Just as the parliamentary Public Expenditure Committee was able to perform much of its most useful work through its post-expenditure reviews, so the CCEX needed time to give detailed consideration to matters of existing policy, outside the ordinary timetable of Estimates compilation. However, the permanent status of the Committee invited spending agents to use the CCEX to exploit any opportunities that they could discover to gain quasi-Cabinet approval for policies which were either clearly "new" or could be disguised in some

way as "existing".

Since at the beginning of 1978 neither Cabinet nor other control agents had been able to agree on a sufficiently tight code of spending rules (such as mandatory tit for tat), the behaviour and attitudes of control agents in the CCEX network assumed critical importance. As has been indicated, even quite vigorous and cautious CCEX ministers and advisers found it extremely difficult to resist the appeals that spending agents made to the Committee's prejudices, fears, ambitions and other points of political vulnerability.

It will be recalled that during the 1972-5 period of Labour government, a number of problems debilitating the CCPP were caused by the fact that only this inner Cabinet was party to the full Cabinet-level discussions about the parameters of fiscal planning. Initially, even Treasury and other officials had been excluded. When it was found that ministers on their own could not handle the volume or the complexity of budget information entering that small, intense network, the CCPP was forced to relax its own exclusive nature. Treasury officials were admitted; gradually other control agents were admitted; eventually officials from most departments, bent on tracking down the most powerful authority for spending decisions, were included. By the end of 1975 the number of ministers directly involved had increased. The original elite was invaded and the purity of the inner Cabinet in effect, degraded.

However, the Cabinet as a whole was never fully in control of (or privy to) information (or expenditure rules) which guided the decisions of the CCPP. For example, the debate over the export-oriented economic strategy adopted early in 1973, discussed over many difficult months by CCPP ministers and officials, was not replicated in its entirety in full Cabinet. As a result, either because of their relative ignorance of the economic consequences of their own policy decisions and spending priorities, or their lack of agreement on the specific impact an agreed economic strategy should have

on policies in their portfolio-areas, many Labour ministers with spending roles found it difficult to accept fiscal restraint. This difficulty could not be obviated by Labour's attempts to involve selected community leaders in the Government's expenditure problems.

Clearly, the incremental model of decision-making, coupled with the conventional Westminster/Whitehall model of executive government, indicates that most governmental decisions will be the outcome of negotiated agreement between parties contesting shares of limited resources. However, the main problems in the New Zealand system of budgetary management derived from the fact that not only were physical resources, such as money, limited; fiscal information itself was treated as a scarce resource. Thus, gaining access to essential information was itself an outcome of success in negotiated conflict resolution.

By early 1978, Treasury and some ministers had learned a great deal by ten years experience. It was agreed that so far as possible the rules and principles guiding fiscal control agents must be made explicit. COPE, for example, continually refined, and often disseminated, the formal rules and informal codes of behaviour that would be appropriate in any annual exercise of cost prediction. Messages that were not suitable for communication by Treasury circular (either because their written specification would unnecessarily alarm or forewarn ministers/spending departments, or because they were not capable of precise definition, given technical and other difficulties) were conveyed by the setting of informal norms. On the whole, COPE members adopted Treasury's ethic of frugality, reliability and honesty. Wherever possible, the formal rules were overtly applied; when this was impossible, or for some reason distasteful or inappropriate, other covert rules were applied.

Further, by early 1978, Treasury and other control agents operating through the CCEX networks had learned that as far as possible the ground-rules for special exercises such as the new and existing policy reviews,

and the preparation of draft Estimates, must be precise, and familiar to all contenders. The purposes of PPB were latent but none the less still powerful towards the end of the 1970's. Departmental officials were encouraged (and sometimes obliged) to examine the outcomes of spending policies in other than financial terms. They were invited to describe the reasons why they had developed particular spending habits; they were sometimes even provided with specific opportunities for formal education through Treasury/SSC courses, seminars and so forth on fiscal management; they were encouraged to employ management-level staff with special diagnostic qualifications in policy and expenditure audit.

At the same time, by early 1978, ministers on the CCEX had to a considerable extent been taken into the confidence of Treasury. Information that before 1970 was communicated to only a very small network dominated by the Prime Minister, the Minister of Finance and the Cabinet Economic Committee was now circulated to the CCEX network, and some even found its way into the sub-Cabinet system of the parliamentary caucus. More ministers were familiar with the jargon of economic and developmental planning; those who had gained experience through induction systems like the Public Expenditure Committee were acquainted with some of the major influences on departmental spending, and the structural constraints on effective fiscal control. By 1978 the rhetoric of PPB could not generate the same excitement and interest among ministers as it had when Douglas (M.P.) and Winchester and others hurled themselves against the barricades of pragmatism, habit and caution during the mid-1970's. These would-be reformers had misjudged both the political character of the executive system and the complexity of changes that would be required in the minds, and the behaviour, of spending and control agents as the reality of economic recession became apparent. Nonetheless, they were able to demonstrate that both administrative rationality and embedded expectations of growth were susceptible to logical and technical analysis, and perhaps, reform.

On the one hand, by the end of the 1970's, political preferment was no longer an entirely respectable qualification for continued control over a given (and often major) share of public resources. On the other hand, shifting political and economic priorities were forcing central executive agencies to discover more effective economic arguments for significant reform of the system for fiscal planning and resource allocation.

Over about ten years from the late 1960's, the COPE-based system for (a) expenditure prediction and (b) financial allocation had evolved in such a way that responsibility for these tasks had been re-distributed among various executive sub-systems of interest and influence - a new division of labour among existing elites. As we have seen, one nodal cluster had formed around COPE itself. Here Treasury's influence and control

the quality of elected ministers was usually crucial: their personal intelligence, their individual and collective learning capacity, their individual commitment to agreed purposes, their ability to work on a cooperative basis, the amount of energy and time they were prepared to devote to specific financial tasks, the identity and effectiveness of certain mavericks (we may compare the differing impact of, say Rowling and Muldoon - their relative Cabinet status and opposing party affiliations are only partial explanations as to why one was more influential than the other in fiscal management and expenditure manipulation). In addition, the timing of various attempts at reform was important: in 1967, for example, Treasury managers were open to proposals for internal re-organisation but less amenable to suggestions that the department's constitutional relationship with the Cabinet system, or the parliamentary-based select committee system needed re-assessment. In December 1972, new Labour ministers were prepared to embark on a detailed analysis of the political desirability of their portfolio responsibilities. However, within only a few months they were unwilling to risk exposing their tender ambitions to ideological or technical re-assessment. In late 1977, CCEX ministers were at the point of accepting the deficiencies of current expenditure guidelines for analysis, but incapable of persuading their Cabinet colleagues that the coming election year was the right time to start changing the rules.

Further, political symbols, such as the "size" of the public deficit, the "level" of inflation, the balance of payments "outlook" or the "level" of employment in the labour market, had fluctuating significance. Labour ministers, for example, asserted publicly that full employment was their guiding principle. But in fact they marched to the beat of a different economic drummer, and approved (or neglected to specify) other economic and social priorities perceived as having more immediate electoral importance. National party ministers proclaimed the rhetoric of balance - in overseas

payments, in the relationship between public spending and GNP, in the relative shares of the labour market occupied by the public and private sectors. But, like their party opponents, they too found that other needs, such as electoral volatility or the approval of international lending agencies, distorted their preferred symbols of governmental purpose.

From time to time, different clusters of interests assumed varying importance in the executive networks of information and control: on occasion, officials in, say, the State Services Commission, or in aggressive spending departments, took the limelight; particularly ministers, such as Freer, Douglas, Gill, or, more notably, Muldoon, with their own "teams" of officials or extra-governmental allies in the professions and industry, enjoyed temporary dominance; semi-autonomous actors, such as people in the universities, the NZ Planning Council, the trade unions or primary producers association, were either coopted by political patrons, or employed for specific administrative purposes by officials; these and innumerable other minor actors such as the Controller and Auditor-General or the occasional social or administrative evangelist exercised strong, if unpredictable, influence over both Treasury officials and decisions about money allocation. This influence depended increasingly on how far such competing elements formed cybernetic nodes directly involved in the COPE-based networks.

Nonetheless, the single most important question was: Who defines the formal and informal rules for expenditure planning and fiscal allocation, on a continuing basis. This had always been the key indicator of political power in the central executive networks. Ten years after the institution of COPE its importance had been significantly re-emphasised because of the changing economic and political circumstances of the New Zealand welfare state. Authority to define the formal rules need not

imply the right to define the informal rules, so that Treasury's power rested on its ability to assume both formal and informal roles. Since information itself is the critical resource in expenditure planning and resource allocation, an understanding of the character of Treasury's role is central to any analysis of political behaviour in the New Zealand government.

NOTES

Chapter Four

Part I:

1. Jack W. Carlson, 'The Status and Next Steps for Planning, Programming and Budgeting', in The Analysis and Evaluation of Public Expenditures: The PPB System, A Compendium of Papers submitted to the Subcommittee on Economy in Government of the Joint Economic Committee, Congress of the United States, Volume 2, Part IV, (Washington: US Government Printing Office, 1969) pp.613-4.
2. See, for example, Hazel Henderson, 'The Entropy State', in Corporate Planning: Techniques and Applications, (ed) Robert J. Allio and Malcolm W. Pennington, (New York: AMACOM: A division of American Management Associations, 1979), pp.75-81.
3. CM 70/54/45. Copy in Ty/4/71 Vol.I. Treasury records, Wellington, N.Z.
4. The classification has importance mainly during the pre-Budget period. After the release of the annual Budget, documents so stamped lose their urgency and are filed in departmental records or on officials' desks for ready reference.
5. S/M B: Estimated Government Appropriated Expenditure 1971-72; 16 October, 1970. T3/4/71 Vol.I. Treasury records, Wellington, N.Z. See Appendix 3B.
6. Ty 5311, Government Finances 1970-71: Provisional Forecasts. T3/1/2;S/M, 16 October, 1980.
7. T3/4/71. S/M 12. 18 October, 1970. Treasury records, Wellington.
8. See, for example, Nigel S. Roberts, 'The New Zealand General Election of 1972' New Zealand Politics: A Reader, (ed) Stephen Levine, (Melbourne: Cheshire Publishing Pty, Ltd. 1975), pp.99-114. Stephen Levine and Juliet Lodge, The New Zealand General Election of 1975, New Zealand Studies in Politics, (Wellington: Price Milburn for New Zealand University Press, 1976), pp.3-10.
9. Ty circular 1970/51; 3/12/70. T3/3/71. Treasury records, Wellington, N.Z.
10. One interesting aspect of the central allocative system is the language of supplication which ministers and Treasury employ in "inviting", "recommending" and "requesting" and "drawing (to the) attention" of departments that they should behave in certain ways. It was a feature of the implementation and development of PPBS that many former "requests" and "invitations" were translated into standardised procedural form, thus reducing the number of occasions on which this superficially supplicant approach was necessary. By the same token, however, continued use of such constitutionally archaic but politically realistic etiquette demonstrates something of the relationship between elective officials (e.g. ministers) and permanent officials (e.g. permanent heads). In addition, it should be noted that the continued use of the language of "requests" and "invitations" lends impact of its corollary - the imperative language of "Cabinet instructs", "Cabinet directs" and "Cabinet requires".

The elective executive must hold back, and discipline, its use of imperatives if it is to retain any effective working control over the bureaucracy. The semantic hierarchy is highly significant, and remains a feature of the contemporary central allocative/decision-making system.

11. Treasury, 18 December, Government Expenditure, T3/4/71. Treasury records, Wellington, N.Z. See also Appendix 3B (2 copies).
12. CM 70/54/45/ Copy in T3/4/71. Vol.I. Treasury records, Wellington, N.Z.
13. T3/4/71, Treasury records, Wellington, N.Z.
14. Ty 6073, T3/4/71. Treasury records, Wellington, N.Z.
15. CM 71/1/18. Copy in T3/4/71. Vol.I. Treasury records, Wellington, N.Z.
16. Ibid. Received in Treasury 27/1/71.
17. T3/4/71. "Confidential". Government Expenditure 1971-72 - Feasibility Reports. 20/1/71. Treasury records, Wellington, N.Z.
18. Education was, however, a running sore throughout the decade. For example in October 1970, after the Minister of Finance had asked the Secretary of Treasury to amplify reasons for the increase in government expenditure for 1970/71 forecast by Treasury, Lough had replied that:

"46% of the increase [sic] can be attributed to increases in education expenditure; 13% to increased defence expenditure and 12% to increased health expenditure."(i)

Early in 1972 in a paper to the Minister of Finance on forecasts of expenditure for 1971/72, identifying the causes of anticipated over-expenditure (by some \$11 millions), the Assistant Secretary of Treasury (Shailes) commented:

"On 9 December 1971 in report 8796 the forecast over-expenditure in Vote: Education was \$0.5 million. The department is now forecasting an over-expenditure of \$8.0 million. This major shift in the forecast indicates that this department's problems with regard to expenditure could have yet to be overcome. For the past 4 years over-expenditure on this Vote has been as follows:

	(\$000)				
	<u>1967/68</u>	<u>1968/69</u>	<u>1969/70</u>	<u>1970/71</u>	<u>1971/72</u>
Actual over-expenditure	1,176	2,984	6,073	7,093	8,010

The situation revealed above shows a marked deterioration in the department's ability to keep expenditure within reasonable limits. In an attempt to prevent over-expenditure in this financial year, Treasury did not trim the department's requests. Notwithstanding this, forecast over-expenditure for 1971/72 continues to follow an upward trend.

The department is reporting to the Minister of Finance on the

reasons for the over-expenditure. You may wish to discuss the whole situation with your colleague the Minister of Education." (ii)

In the event, the problem of Education spending worsened. The General Elections of November 1972 brought the Labour Party - explicitly committed to social services spending - to office. In his 1973 Budget, the new Minister of Finance (Rowling) reported provision for a 14 percent increase in the 1973/74 Education estimates over the previous year (iii); in 1974 the same Minister announced an estimated 15 percent increase in expenditure over the 1973/74 financial outturn (i.e. actual expenditure) on Education (iv); in the 1975 Budget the next Minister of Finance (R.J. Tizard) announced that estimated spending on Education in the coming fiscal year would constitute a massive \$216 million more than expenditure in the same Vote in 1972-3. "These figures", he stated, "represent a very substantial boost to investment in education and reflect the importance that the Government attaches to the place of education in New Zealand." (v) There were undoubtedly listeners who felt that other factors, such as the apparently irresistible demands of the education fraternity, may have contributed to this somewhat gratuitous ministerial assertion. Even the attempted determined bite at this fat cherry by the first CCEX was rather feebly reported by Muldoon (then Minister of Finance) as follows:

"The restraints effected within Vote: Education have been minimal compared with those in other areas and reflect the Government's recognition of the important place of Education in New Zealand society. In fact, the Estimates provide for a total expenditure of \$696 million in 1976-77 for Vote: Education, an increase of \$66 million. This rate of increase is nearly double that of the rise in Government expenditure as a whole." (vi)

It was not, however, until the end of the decade and the commencement of a series of annual reviews of existing and new policies by a collectively-determined group of ministers and Treasury officials that the psychology of constraint began to impress itself on the thinking - if not the behaviour - of education authorities.

- (i) T3/4/71; SM (a), 18 October 1970. Treasury records.
 - (ii) Ty 9079, Ty 3/4/82. 4 February 1972. Treasury records.
 - (iii) B.6. 1973. p.28.
 - (iv) B.6. 1974. p.20.
 - (v) B.6. 1975. p.19.
 - (vi) B.6. 1976. p.37.
19. CM 71/2/22 in Ty 3/4/71. Vol.1. Treasury records.
 20. CX (71) M.1. Ty 3/4/81. Vol.1. Treasury records.
 21. Cabinet note to the Minister of Finance from the Secretary of Cabinet, 1 February 1971. Government Expenditure 1971/72. T3/4/71. Treasury records.
 22. Ty 6106; T3/4/71. 1 February 1971. Treasury records.
 23. Ty 6133; t3/4/71. 4 February 1971. Government Expenditure 1971/72. Treasury records. See also Appendix 3B.

24. CM 71/3/23. In T3/4/71. Treasury records.
25. CM 71/3/25. In T3/4/71. Treasury records.
26. Financial Allocations 1971/72. Treasury circular 1971/72. Treasury records. See also Appendix 3B.
27. Ibid., pp.4-5.
28. Report to the Postmaster-General from POHQ, Wellington, 12 February 1971. T3/4/71. Treasury records. See also Appendix 3B.
29. Ty 6220, 15 February 1971. Government Expenditure. T3/4/71. Treasury records. See also Appendix 3B.
30. Treasury circular, 1971/15, 29 March 1971. T3/4/71. Treasury records. See also Appendix 3B.
31. Treasury Instructions, 1973. The Treasury, Wellington, N.Z.
32. Over-expenditure of Votes. Treasury circular 1971/9. T3/4/71. Treasury records.
33. GX (71) M3. 3 March 1971. 'Confidential'. In Ty 3/4/71. Treasury records, Wellington, N.Z.
34. Memorandum for Cabinet. Government Expenditure. From the office of the Minister of Finance, 4 March 1971. In T3/4/71. Treasury records, Wellington, N.Z.
35. An unsigned Treasury memo dated 3 March 1971 defined the SSC formula used for determining staff ceilings for 1971/72:

"Based on count of 'heads' (i.e. those being paid) including supernumerary cadets, at 31 January 1971 (as directed by Cabinet, CM 71/1/18);

Adjust by up to 1% for appointments being processed (in terms of CM 71/1/19);

Deduct - people on retirement at 31 January 1971;
 - bursars (on extended study leave);
 supernumerary cadets (down to previous ceiling);

Exclude staff on extended L.W.O.P. who have been replaced;

Include - staff on L.W.O.P. who have not been replaced;
 - those retiring after 31 January 1971;
 - wage workers (i.e. 'permanent' wage workers such as tea ladies and storemen but not project wage workers etc.);
 - temporary staff;
 - part-time workers (equate to full time)."

At the Cabinet meeting on 26 January 1971 (decisions from which were incorporated in CM 1/1/18) those principles for calculation of staff ceilings had been adopted. They had been drawn up by the SSC in discussions with Treasury, and from February 1971 Treasury looked at ways of making the same principles apply to the Railways and Post Office staffs (ref T/3/4/71 Shailes (for Treasury) to Muldoon, Minister of Finance). On 26 January special provisions had been made for the Health Department in terms of dental nurse trainees

and nurse trainees in mental hospitals. Cabinet was advised at the time that its decision to allow only 1% increase over 1970/71 staff levels for the 1971/72 fiscal year would be "inadequate to meet the demands on departmental services" in many departments; accordingly the chairman of the SSC, I.G. Lythgoe suggested that there would be "a number of requests for increases... coming forward for Cabinet Committee consideration".

(Letter from I.G. Lythgoe, SSC, to Hon. B.E. Talboys, Chairman of the Cabinet Committee of the State Services; 25 February 1971. In T3/4/71. Treasury records. Wellington, N.Z.).

36. CM 71/9/23/ Caucus. Education Expenditure 1971/72. In T3/4/71, Vol. I. Treasury records, Wellington, N.Z.
37. In Ty 6466, 17 March 1971. Over-expenditure of Votes. In T3/4/71. Treasury records, Wellington, N.Z.
38. Ty 651, 29 March 1971. Works Programme T3/4/71. Treasury records, Wellington, N.Z.
39. ACS/LDC. 31 March 1971. Estimates 1971/72. T3/4/71. Vol.I. Treasury records, Wellington, N.Z.
40. Staff Ceilings 1971/72. (SS(71)14). 2 March 1971. T3/4/71. Treasury records.
41. Staff Ceilings 1971/72. Letter from I.G. Lythgoe, Chairman of the State Services Commission to Hon. B.E. Talboys, Chairman, Cabinet Committee on the State Services. 2 April 1971. T3/4/71 Vol.I. Treasury records, Wellington, N.Z. See Appendix 3B.
42. Treasury annotations to SSC paper after CCSS meeting. 5/4/71 Vol. 1. Treasury records, Wellington, N.Z.
43. Memo from Lang to Parker and Shailes. 8 April 1971. T3/4/71. Vol.1. Treasury records, Wellington, N.Z.
44. SS(71) M.13. 8 April 1971. In T3/4/71. Treasury records, Wellington, N.Z.
45. Ibid.
46. Ibid.
47. Control of Expenditure 1971/72. Vote: Treasury. 6 April. Treasury staff circular T3/4/71. Treasury records, Wellington, N.Z. See Appendix 3B.
48. Budget Report No. 1, 7 April 1971. T3.4.71. Vol.1. Treasury records, Wellington, N.Z. See Appendix 3B.
49. Ibid., p.1.
50. Ibid.
51. Financial Allocations 1971/72, 16 April 1971. T3/3/71. Treasury records. On the same day permanent heads were sent the usual 'Estimates' circular instructing them to prepare their Estimates according to the given rate. Treasury circular 1971/16 Estimates of Expenditure 1971/72 T3/4/71. Treasury records. See Appendix 3B.

52. E.G.: 20/4/71: Financial Allocation for 1971/72: National Development Council. \$26,700 was to be added to the Estimates as the NDC budget. A further \$16,700 (required on 30 March) plus an additional \$10,000 for the Economic Research Unit at Victoria University. T3/4/71. Vol.2. Treasury records, Wellington, N.Z. A similar grant of \$31,900 was made for the budget on the Monetary and Economic Council.
53. B.R. No. 3, 29 April 1971. Financial Allocations 1971/72. T3/4/71. Treasury records.
54. Treasury circular 1971/19. T3/4/71. 6 May 1971. Treasury records.
55. CM 71/16/8 In T3/4/71. Treasury records.
56. B.R. No. 22. 20 May 1971, refers. In T3/4/71. Vol.2. Treasury records. The same report included comments on changes then being made to the Estimates format, in time for the coming year.
57. B.R. No. 53. 1 June 1971. T3/4/71. Treasury records.
58. Ty 7088, 4 June 1971. T3/4/71. Treasury records. See also Appendix 3B.
59. Financial Allocations 1971/72. Administration and Operating Expenditure 8 June 1971. T3/4/71. Vol.2. Treasury records. See also Appendix 3B.
60. Ty circular 1971/24, 2 June 1971. T3/4/71. Vol.2. Treasury records. See also Appendix 3B.
61. Ty 7247, 23 June 1971. T3/4/71. Treasury records. Wellington, N.Z.
62. Ty 7352, 2 July 1971. Treasury records, Wellington, N.Z.
63. For example Ty 7810. Over-Expenditure 1970/71. 26 August 1971. T3/4/71. Vol.2. Treasury records.
64. In January 1972, Treasury instructed Departments to prepare their estimates for financial allocations in 1972/73.(i)

(Education's Estimates that year were prepared "in the new Vote format which provides for both University and Technical Institute Buildings to be absorbed in the new Vote: Education".)(ii)

A State Services salary order had been made on 4 February 1972, showing allowable salary increases. The Education Vote still included the Child Welfare division provisions (in 1971/72 year, \$1,704,000 had been allocated to child welfare; it was stated that this had been underspent - \$1,536,000 had been expended in that year).)

The total requested for 1972/73 Estimates (which included seven items totalling nearly \$3 million over the COPE-approved base) was as follows:

1972-73 Total	1971/72 Voted	\$000 Expended
\$356,510,000	323,140	338,097(iii)

A paper from Treasury to the Minister of Finance (in the period before the tabling of 1972/73 Estimates) noted that:

"In fixing the target for expenditure growth in the current financial year, Cabinet (in CM 70/44/21/1 of 27 October 1970) agreed that COPE be instructed to base plans for expenditure in 1971/72 on an increase in real terms of 4 percent. There have been some disadvantages in the administration of the target set in real terms:

Firstly, departments tended to place different interpretations on the meaning of 'real terms', and

Secondly, they all tended to assume a minimum increase of 4 percent for their own Votes.

It is therefore proposed for 1972/73 to convert the target increase in Government expenditure into money terms, including an allowance for likely salary and wage increases.

On this basis... the increase in gross government voted expenditure (i.e. excluding permanent appropriations) in 1972/73 should be limited to 15 percent over actual expenditure in 1971/72. Assuming that actual expenditure in 1971/72 will equate the Voted expenditure, the position would be as follows:

	\$m
Estimated gross voted expenditure 1971/72	1,974
Plus 15 percent increase (to cover salary and cost increases and costs of increased services in 1972/73)	296
	<hr/>
Target for gross voted expenditure	2,270
	<hr/>

As estimates are being considered by the COPE committees for 1972/73 and the two subsequent years are in present prices for approved policies, the guidelines should be calculated as follows:

	\$m
Target for gross voted expenditure 1972/73	2,270
<u>less</u> allowance for general salary increase following April 1972 ½ year review (say 12 percent increase) say	120
<u>less</u> allowance for other cost increases, new services not yet approved, social security benefit increases etc, say	100
	<hr/>
<u>COPE</u> target for Gross voted expenditure 1972/73	2,050
	<hr/>

This target is \$76m (3.85 percent) above the expected outturn for 1971/72 and \$51 million less than the request's submitted by departments.

On the same basis, if we assumed a similar growth pattern (say 3.5 percent) in the years 1973/74 and 1974/75 the target figures for these two years expressed in present prices would be \$2,120m and \$2,200m respectively. These suggested targets can be compared with the actual requests of \$2,176m and \$2,245 million.

Recommended COPE total limit of

1972/73	1973/74	1974/75
2050m	2120m	2200m ^(iv)

During this period departments and Treasury debated whether Estimates should be shown in Gross or Net terms. One submission on Maori and Island Affairs noted that "Parliamentary procedure requires that gross departmental expenditure be shown in the Estimates. This means that it is not possible to offset receipts against expenditure, and merely vote the net amount. The reason for this is to enable the House to see the full expenditure effects of Government policies.

This procedure is constitutionally sound and follows the provisions of the Public Revenue Act. It can, however, impose a limitation upon departments with trading operations, particularly those which could be subject to short term fluctuations in market conditions."^(v)

On 31 January 1972 Cabinet had directed the SSC to review its staffing needs, to retain staff ceilings, to argue for increases only in special cases and in exceptional circumstances. Although no date has been set for the SS review, 'early 1972' was mentioned in Cabinet Minute.^(vi) An undated draft review report was sent to Chairman of the CCSS about early March. It noted that:

"The staff ceiling system of control was introduced in 1967 as a means of controlling total numbers of staff employed in Government departments. Apart from consideration of special cases arising from time to time, the ceiling allocation has been reviewed annually, based on submissions from permanent heads on staff requirements for the next financial year.

In January 1971, Government decided to tighten control of staff numbers as one measure needed to limit the growth of Government expenditure, and staff ceilings were reassessed on 31 January 1971 on the basis of actual staff employed plus an allowance of up to 1 percent to provide for commitments for recruitment etc. This resulted in a reduction of the total ceiling of the Public Service by 1,529. Since January 1971, specific approvals have been given by Cabinet to increase ceilings in departments by a total of [not given]."^(vii)

(On 6 September 1971^(viii) Cabinet had decided that the SSC should undertake a general review early in 1972 to ascertain and recommend requirements for the 1972/73 financial year; and on 31 January 1972^(ix) it was noted that the CCSS had directed the SSC, in conjunction with Treasury, to examine areas of possible savings by the reduction of administrative staff, and the simplification of internal departmental procedures, and the SSC was to report on staff requirements by 31 March 1972.)

The eventual recommended total, department by department was + (about) 800, i.e. from 58,200 as at 31/3/72 to 59,000 for year 1972/73.

The CEC discussed a Treasury report on new policies on the 28 March 1972.

"The Committee decided that before giving full consideration to the report it should be referred to Cabinet and laid on the table so that Ministers could be given an opportunity of commenting upon

the relative priority of the new policy items. In the event, on 4 April 1972, Cabinet merely noted the report."

Therefore Lough (Deputy Secretary of Treasury) required Treasury divisional directions to forward reports on new policy proposals along the following lines:

- (a) they must be referred to as a new policy, and with a note of the particular Treasury rating/classification;
- (b) Treasury must point out in each case that in considering the proposal the Cabinet Committee would need to bear in mind all other new proposals contained in the "new policy report";
- (c) if an item was given a "C", then it would be in order for Treasury's report to the Minister to contain a firm recommendation for/against it, "depending of the merits of the case" (undefined);
- (d) in all cases the Treasury report should recommend that the CEC take the appropriate action;
- (e) any proposal being reported on but not previously included in the new policy report should, unless there were special extenuating circumstances, be recommended for deferral:

i.e. "Treasury's attitude should be that the matter be deferred for consideration until the following financial year." (x)

Notice of financial allocations for 1972/73 were sent to individual Departments on 17 April 1972 (election year). As in the previous year, when the Budget had been on 10 June, departments were told to expect an even earlier Budget in 1972, and thus would they please "give priority to the preparation of the Estimates".

Education was allocated (1972/73) \$356,500,000
(included Works and Science Budgets) (xi)

On 22 May 1972 Cabinet received Treasury's various new policy reports.

"It was understood that these reports would be referred to when individual Ministers submitted the respective proposals for the Consideration of Cabinet." (xii)

Some new policies (e.g. Education secondary staffing bids) referred elsewhere by Cabinet

e.g. CC on Social Affairs, for comment. This Cabinet Committee met on 30 May. It was chaired by L. Adam Schneider, and attended by Pickering, and four officials.

By the 15 June, the Estimates had been type-set at the Government Printing Office. However, on 19 June additional Budget Decisions were noted by Treasury (Note to B. Galvin from Lang). (xiii) They had been 'phoned at 11.45 a.m. by P. Brooks and concerned:

- (1) Payroll tax (approved);
- (2) Dividend rebate (approved);
- (3) "Mr Gill's Kindergarten proposal" (approved);

- (4) \$10 million "special assistance to farmers approved, to be transferred to trust account to the extent that it is not spent during the current year";
- (5) Add. \$15,000 to be given to Small Business Centre (i.e. from \$20-30,000 with \$5000 of that in Main Estimate and \$10,000 in Supplementaries. (xiv)
- (i) Treasury circular 1972/3, 31 January 1972. T3/4/72.
- (ii) E1/3/8, 24 March 1972. In T3 4/72.
- (iii) 1980/81: over \$1000 million in these Estimates.
- (iv) Submitted to Cabinet for approval on 25 January 1972. T3/4/72, Treasury records, Wellington, N.Z. Assumed SS staff growth limited to 2 percent, i.e. drop off 3000 people.
- (v) Treasury 8768, 7/12/71, T3/4/71, Treasury records, Wellington, N.Z.
- (vi) CM 72/2/13 in T3/4/72, 31 January 1972. Treasury records, Wellington, N.Z.
- (vii) Treasury records, Wellington, N.Z.
- (viii) CM 71/35/6, Treasury records, Wellington, N.Z.
- (ix) CM 72/2/13, Treasury records, Wellington, N.Z.
- (x) T3/4/72, Treasury records, Wellington, N.Z.
- (xi) 19 April 1972, Memo from Lough to Treasury divisional directors. T3/4/72, Treasury records, Wellington, N.Z.
- (xii) i.e. individual Ministers, not the CCGEX; then Cabinet in full. CM 72/20/16, 22/5/72 in T3/4/72, Treasury records, Wellington, New Zealand.
- (xiii) Memo from Lang to Galvin 19 June 1972, T3/4/72, Treasury records, Wellington, New Zealand.
- (xic) Treasury 221, 15 June 1972, T3/4/72, Treasury records, Wellington, N.Z.

Chapter Four
Part II:

65. CM 72/52/27. Cabinet Office, Parliament, Wellington, N.Z. Those involved or interested in the history of the CCPP suggest several reasons for its establishment. The present Secretary of Cabinet, P. Millen, for example, places some importance on the provision of an alternative to the National Development Conference agencies, which were closely associated with the previous government. Initially only a small handful of senior ministers were to be involved, to provide a "filter" before information went to the full Cabinet. "I was brought in," Millen recalled, "as an honest broker, to assist the members of the CCPP and keep an eye on what developed". Other officials consider that a major reason for the establishment of the CCPP was Rowling's determination to keep the Prime Minister interested in economic policy. Kirk rarely attended Cabinet Economic Committee meetings, and as time went on his appearances there became more and more infrequent. Another official (now Secretary to the Treasury) commented that a senior Labour Minister, M. Connelly, had been appointed to the Cabinet Economic Committee but were considered likely to be "so disastrous" that his colleagues devised another form to which he was not, and need not be invited - the CCPP.
66. Cabinet Office files. Parliament, Wellington. See also Treasury paper 4, 8 December 1972, Public Expenditure 1969-70 - 1972-73 and COPE Estimate 1973/74, from Lang, Secretary to the Treasury to the Minister of Finance, T3/4/73. Lang summarised the current financial position, noting, as a general comment, that 'the outstanding feature of the public finances at the present time is the very large increase in expenditure which is rising even faster than revenue. The result is a very substantial increase in the deficit before borrowing for 1972/73 with a further expected rise next year. See Appendix 3B.
67. CP (73) 25 and CP (72) 1151, and CM 73/2/3 (Treasury Circular 1973/1 issued on 19 January.) Cabinet Office, Parliament, Wellington. See Appendix 3B.
68. Shailes to Lough, 18 January 1973. T3/20/72. (Two copies in Appendix 3B), Treasury records, Wellington, N.Z.
69. Treasury Circular 1973/1, T3/20/72. 19 January 1973. To all Permanent Heads: Government Expenditure Review of Existing Policies. Treasury records, Wellington, N.Z. See also Appendix 3B.
70. Ty 617, Government Expenditure: Review of Existing Policies, 12 March 1973, Treasury records, Wellington, N.Z. See also Appendix 3B.
71. King, Minister of Social Welfare to the Minister of Finance, Government Expenditure, Review of Existing Policies, 16 March 1973. T3/22/73. Treasury records. See also Appendix 3B.
72. For various examples of departmental returns, see Appendix 3B, item 72. Includes Education (2 copies), Ministry of Works, (2 copies), Post Office and Department of Trade and Industry. See also T3/20/72. Treasury records, Wellington, N.Z. (copy in Appendix 3B).
73. Ibid.

74. Draft paper from Secretary to the Treasury to the Minister of Finance, March 1973, T3/20/72. See Appendix 3B (2 copies).
75. Lang to Shailes, 8 March 1973. See Appendix 3B (2 copies).
76. Ty 617. Government Expenditure: Review of Existing Policies. 12 March 1973. T3/20/72, Treasury records, Wellington, N.Z. See also Appendix 3B.
77. Winchester, Creative Intelligence, op. cit.
78. T3/20/72, Treasury records, Wellington, N.Z.
79. Cabinet Office, Parliament, Wellington. CCPP 22/3/73, in Prime Minister's Office, Parliament.
80. E (73) and 36 and PP (73) M2 "Economic Policy: Achieving Faster Economic Growth: See also notes towards this paper, in Appendix 3B: 22 March 1982, 'Outline of Possible Paper: Economic Policy: Achieving Faster Economic Growth', T61/1/2; and Ty 526, Growth Strategy, 28 February 1973.

Major papers tabled and circulated during this period were:

28 February 1973: From Lang (Secretary to the Treasury): E(73)42, a paper addressed to the Cabinet Economic Committee (Ty 521) entitled Growth Strategy, and another report (Ty 528) entitled Inflation Risk and Economic Strategy. Both were discussed at the CEC on 8 March 1973. See CAB. 121/1/1.

21 March 1973 (tabled at CCPP on 22 March 1973): From Minister of Finance for the CEC (21/3/73): E(73)35 and E(73)36 (also classified as PP(73)M2): "Economic Policy: Achieving Faster Economic Growth". The CCPP decided that this paper should be re-drafted and submitted to Cabinet on 26 March 1973, in abbreviated form.

26 March 1973: Cabinet adopted the 16 point summary of PP(73)M2, and this decision was recorded as CM 73/14/29, in CAB. 121/1/1.

16 July 1973: Cabinet affirmed the economic strategy of 26/3/73 in CM 73/31/20, in CAB 121/1/1.

81. CCPP, 22/3/73. Cabinet Office, Parliament, Wellington.
82. Ibid.
83. See Appendix 3B: Ty 528 Inflation Risk and Economic Strategy, 28 February 1973.
84. Ty 521, T3/20/73. Treasury records, Wellington, N.Z.
85. Budget Report No.1, PP(73)6 and T3/22/73 in CAB 121/9/4 "Finance and General" 4 April 1973. Cabinet Office, Parliament, Wellington.

See also Budget Report No.16, PP(73)7, 10.5.73. In CAB 121/19/4. Cabinet Office, Parliament, Wellington.
86. CCPP. 11 May 1973. Cabinet Office, Parliament, Wellington.
87. B.R.16, loc. cit.

88. CCPP minutes, 16 May 1973. Cabinet Office, Parliament, Wellington.
89. Budget Report No.4, 8 June 1973. CAB 121/9/4. Cabinet Office, Parliament, Wellington.
90. CAB 121/9/4. Cabinet Office, Parliament, Wellington.
91. CCPP records, Cabinet Office, Parliament. See Appendix 3B.
92. 22 June, 1973. CAB 121/1/1 Part 10. Cabinet Office, Parliament.
93. Ibid.
94. CAB 121/1/1 Part 10. Cabinet Office, Parliament. See Appendix 3B.
95. CAB 121/1/1 Part 10. Cabinet Office, Parliament.
96. Ibid.
97. Ibid. See Appendix 3B.
98. Ty 2041. CAB 121/1/1. Cabinet Office, Parliament.
99. CAB 121/1/1. 20 August 1973. Cabinet Office, Parliament.
100. The evidence for this comment is taken from documents in the CCPP files and informal discussions with officials serving the government at the time. A former Secretary of the CCPP (also Secretary to the Cabinet) recalled intense distrust of the Treasury and in particular, Lang, by the Prime Minister, Kirk, during this period. This conflict undoubtedly exacerbated other significant differences among Labour ministers over the direction economic and fiscal policies should take. A paper entitled Economic Strategy: Growth Strategy (CCPP (73) 10) dated 16/10/73 was described as having been prepared jointly by Treasury and the Ministries of Foreign Affairs, Agriculture and Fisheries and Customs. There was no explanation as to why the Department of Trade and Industry did not participate, although the fact was recorded in the introduction to the paper. Two days later (PP(73)11) noted that DTI had taken part in the preparation of a further submission to the CCPP entitled Economic Strategy: Advisory Services. On 1 November the matters under dispute were again indicated in (PP(73)14), a paper entitled Economic Strategy: A Prescription for Development. Significantly, this paper was tabled by Freer, Minister of Trade and Industry and the introduction noted that the document should be read 'in association with' the earlier Treasury/Customs/Foreign Affairs/Agriculture and Fisheries submission (PP(73)10). See Appendix 3B.
101. Winchester, op. cit.
102. Ibid.
103. CCPP minutes and CAB 121/1/1 Part 10. Cabinet Office, Parliament.
104. T3/20/73. Accompany COPE report, 14 December 1973. CCPP Minutes, Cabinet Office, Parliament.
105. Treasury Report, 3570, 14 December 1973. Cabinet Office, Parliament.

106. CM 73/56/62. Cabinet Office, Parliament. See Appendix 3B.
107. Treasury Report 528, 28 February 1973, Inflation Risk and Economic Strategy, CAB 121/1/1 Part 10, Cabinet Office, Parliament.
108. Winchester, Creative Intelligence, p.242, CM 73/56, 62, p.2.
109. See note 100 above.
110. Ty 3994, 20 February, 1974. T3/20/73. The Treasury, Wellington. See Appendix 3B.
111. Ibid., p.2.
112. E.G. Devey, Secretary of Labour to the Ministry of Labour. H.O. 7/9/72, 28 January 1974. T3/20/73. Treasury Records, Wellington. See also Appendix 3B. Also in this Appendix are other examples of departmental responses to ministerial requests for areas where existing policies could be modified in Education (with accompanying Treasury comments) and Agriculture and Fisheries.
113. Winchester, "Creative Intelligence", p.244.
114. Budget Report No.1. (1973) PP(74)13 in CAB 121/9/4. Cabinet Office, Parliament.
115. Ty 3570, 14/3/73 had forecast that the forecasted level of expenditure for 1974/5 would move towards a 20 percent per annum increase for the third year running. Budget Report No.3, entitled Net Government Expenditure 1974/75 (PP(74)14) confirmed this prediction. Budget Report No.2. (PP(74)15). Cabinet Office, Parliament.
116. Budget Report No.4, 1974. 14/3/74. Government Expenditure: New Policies 1974-75, in CAB 121/9/4/ Cabinet Office, Parliament.
117. CCPP minutes, 17 March 1974. Cabinet Office, Parliament. The decision to meet in this unusual way was taken by the CCPP at its meeting on 6 March 1974. This was noted in the minutes as an agreement to meet secretly in Auckland on Sunday 17 March to carry out the New Policies Review. Initially, the meeting was to be "quietly arranged" in a room in the South Pacific Hotel, Auckland, but was later changed to Tizard's home. All but Watt (who would be late) and Walding would be available. Faulkner was nominated to replace Walding, who was overseas. It was suggested that the review would take 6-8 hours to complete.
118. Ibid.
119. Ibid.
120. Budget Reports Nos. 9,10 and 11. PP(74)22, 23 and 24.
121. General Medical Services Benefit. PP(74)17.
122. Review of Existing Policies, Ty 3994, Budget Report No.3 and Economic Trends all in CAB 121/9/4. Cabinet Office, Parliament.
123. CCPP minutes, 12/5/74. Cabinet Office, Parliament.
124. CAB 121/9/4/ Cabinet Office, Parliament.

125. Financial Statement, 30 May 1974. Hon. W.E. Rowling, Minister of Finance. AJHR, B.6.
126. CCPP Minutes, 2/8/74. Cabinet Office, Parliament.
127. Ibid.
128. Review of Government Expenditure, Ty 6042 tabled on 7 August 1974. CCPP Minutes, Cabinet Office, Parliament, and T3/4/74, Treasury records, The Treasury, Wellington.
129. Ty Circular. Noted in CCPP minutes, Cabinet Office records, Parliament. 1974/28, 9 August 1974, T3/4/74.
130. Winchester, "Creative Intelligence", pp.257-258.
131. Source cited by Winchester as "New Zealand Treasury Department: Review of Government Expenditure" (2 August 1974); "Creative Intelligence" p.245.
132. Ibid.
133. Ibid., p.247.
134. PP(74)80. Cabinet Office, Parliament.
135. CCPP minutes, 28 August 1974. Cabinet Office, Parliament.
136. CAB 121/1/1. P. Millen to W. Rowling, "Secret", 26 June 1974, Economic Situation. Cabinet Office, Parliament.
137. Ty 6557, Economic Prospects, CAB 121/1/1, Part 11, Cabinet Office, Parliament.
138. PP(74)81. Economic Situation.
139. Economic and Financial Affairs, CAB 121/1/1. 12 September 1974, Cabinet Office.
140. CAB 121/1/1. 18/9/74. Cabinet Office, Parliament.
141. Memo from P. Millen dated 3 October 1974. Economic and Financial Affairs, CAB 121/1/1. Cabinet Office, Parliament.
142. "Secret" and "personal" note from P. Millen to the Prime Minister and Mr Tizard, 14 October 1974. CAB 121/1/1. Cabinet Office, Parliament.
143. Draft MM/LC to the Minister of Finance, 11 September 1975, T3/20/75. Treasury records, Wellington. See Appendix 3B.
144. "COPE: A new perspective". 24 August 1974. G.P. Wheeler. See Appendix 3B.
145. Winchester, "Creative Intelligence", Chapter IV, pp.228-291. See Table 28, page 290.
146. Treasury Report 6042. T3/4/74. Treasury records, Wellington, N.Z.

147. Winchester, "Creative Intelligence", Chapter IV for further analysis of the value of this type of exhortation.
148. T3/4/74. 6 December 1974. Treasury records, Wellington, N.Z.
149. Ibid., p.277.
150. CAB 121/1/1, Part 13, Current Economic Situation Report as at February 1975. Cabinet Office, Parliament.
151. CCPP minutes, 5/3/75. Cabinet Office, Parliament. CCPP authorised by Cabinet to direct departments as necessary to reduce expenditure: CM/74/50/21.
152. Ibid.
153. Winchester, "Creative Intelligence", pp.271-272.
154. See, for example, Winchester, page 273.
155. Budget Report No.3, 20 March. CAB 121/9/4/ Cabinet Office, Parliament.
156. CCPP minutes, 21/3/75. Cabinet Office, Parliament.
157. CCPP minutes, 26/3/75. Cabinet Office, Parliament.
158. Ibid.
159. CCPP minutes, 2/4/75. Cabinet Office, Parliament.
160. CCPP minutes, 9/4/75. Cabinet Office, Parliament.
161. Ibid.
162. Ibid.
163. As in similar provision PP(75)M12.
164. Budget Report No. 12, 4/4/75. Personal Income Tax: Further Consideration. CAB 121/9/4.
165. CAB 121/9/4. Cabinet Office, Parliament.
166. CCPP minutes, 21/5/75. Cabinet Office, Parliament.
167. Budget Report No. 34, 1975. Cabinet Office, Parliament. CAB 121/9/4.
168. Hon. R.J. Tizard, Financial Statement to House of Representatives, 22 May 1975. AJHR, B.6. pp.13-14.
169. Budget Report No. 21, 1975. Budget Strategy. Cabinet Office, Parliament. Approved by Cabinet 11/5/75 in CAB 121/9/4.
170. Order in Council, 19 May 1975. CCPP minutes, 14 May 1975. Cabinet Office, Parliament.
171. AJHR, B.6, 22 May 1975. p.3.

172. Ibid., p.32.
173. PP(75)78. CAB 121/9/1 Part 8. Cabinet Office, Parliament. Directives to Minister issued as CO(75)17. 3 June 1975. See Appendix 3B.
174. CAB 121/9/1, Cabinet Office, Parliament.
175. CCPP minutes, 2 July 1975. Cabinet Office, Parliament.
176. Ty report to the CCPP. Government Expenditure. 8 July, 1975. CAB 2/9/1. Cabinet Office, Parliament.
177. CAB 121/9/1. Cabinet Office, Parliament.
178. CCPP minutes, Cabinet Office, Parliament and CAB 121/9/1, Cabinet Office, Parliament.
179. Winchester, "Creative Intelligence", p.279.
180. Treasury Report 321. T3/4/75. Treasury records and CAB 121/9/1. Cabinet Office, Parliament.
181. CAB 121/9/1. Cabinet Office, Parliament.
182. Ibid.
183. CCPP minutes, 3 September, 1975, Cabinet Office, Parliament.
184. Ibid.
185. CCPP minutes, 10 September 1975. Cabinet Office, Parliament.
186. Ibid.
187. CCPP minutes, 1 October 1975. Cabinet Office, Parliament.
188. Education Paper PP(75)157. CCPP minutes, 28 October 1975. Cabinet Office, Parliament.
189. Cabinet had delegated power of decision on this matter to the CCPP after the question of primary teachers salaries had been discussed (CP(75)784). CCPP minutes, 28 October 1975. Cabinet Office, Parliament.
190. Ty 1975/23 to Permanent Heads, 4 July 1975. Treasury records, Wellington. See Appendix 3B.
191. Ibid. See Appendix 3B.
192. T3/20/75. COPE 1975: Guidelines. Treasury records, Wellington. See also Appendix 3B.
193. See T3/22/75. 17 July, 1975. Circular to Divisional Directors and Investigating Officers in the Treasury. Appendix 3B.
194. Ibid. See also in Appendix 3B brief minute of working party meeting for COPE, held after COPE's announcement. T3/20/75.

195. Memo from R.J. Hurnard to Mr M.J. Moriarty. Growth in staff ceilings, 23 July 1975. T3/20/75. See also Appendix 3.
196. Ibid. See handwritten notes confirming various preferences on the memo in Appendix 3B, and associated papers from SSC and CCPP.
197. PP(75)93. CCPP minutes, Cabinet Office, Parliament. See also Appendix 3B.
198. See Appendix 3B for relevant papers from T3/20/75. See also Treasury 989, T3/20/75. Committee of Officials on Public Expenditure: Targets for Departmental Expenditure 1976-77. Treasury records, Wellington.
199. CM 75/39/25. Cabinet Office, Parliament.
200. T3/20/75. Treasury records, Wellington.
201. Ibid.
202. Memo from Moriarty to Lang and Battersby, 8 October 1975. T3/20/75. See also Appendix 3B.
203. Ibid.
204. Ty 1363. Lang to the Minister of Finance, 17 October 1975. T3/20/75. See also Appendix 3B.
205. Professor J. Roberts to annual conference of Political Studies Association, Christchurch, May 1980.
206. Winchester, "Creative Intelligence", loc. cit.
207. Ibid.
208. For an account of the establishment and initial work of this section of the Prime Minister's department, see Jonathan Boston, "High Level Advisory Groups in Central Government", M.A. thesis (unpublished), University of Canterbury, 1980.

Chapter Four
Part III:

209. CAB 121/9/11 Part 8. Cabinet Office, Parliament.
210. OECD Economic Surveys: New Zealand, August 1976. (OECD, 1976).
 In this section, major economic events, as noted by the OECD Review Committee in their annual Economic Survey reports, are interposed with the text to indicate the chronology of other matters concerning the Government during the first few years of the CCEX's activities.
211. (See Appendix 3B: COPE Report, 1975). Committee of Officials on Public Expenditure: Report on Forecasts of Expenditure 1976-77 to 1978-79. December 1975. T3/20/75. Treasury records, Wellington.
212. Ibid.
213. T3/20/75. 9 December 1975. COPE 1975 Committee meeting. Report of the Working Party and Draft Main Committee report. See also Appendix 3B.
214. Ibid.
215. T3/20/75. Notes of a meeting of the Committee of Officials on Public Expenditure, 11 December 1975. See also Appendix 3B.
216. CO : CM 75/50/23. Cabinet Office, Parliament.
217. CM 75/52/12. Cabinet Office, Parliament.
218. Winchester, op. cit.
219. Treasury Circular 1976/1. T3/2/76/3. Treasury records, Wellington. See also Appendix 3B.
220. Ibid.
221. T3/22/76. The Treasury, Wellington.
222. Treasury Circular 1976/2/ T3/22/76, 8 January 1976. See also Appendix 3B.
223. CAB 121/9/1. CCEX Part 1. File opened 4/5/76. Cabinet Office, Parliament.
224. Ibid.
225. EX (76) 79, and Ty 1745: 1976/77 Review of New Policies: Vote Education: Supplementary Report and Primary School Staffing (EX (76) 78). Cabinet Office, Parliament.
226. CAB 121/9/1. 3 June 1976, Cabinet Office, Parliament.
227. CAB 121/9/1. 15 June 1976. Cabinet Office, Parliament.
228. CAB 121/9/1. Cabinet Office, Parliament.
229. T3/20/75. COPE Report, December 1976. See also Appendix 3B.

230. Budget 1976. Rt Hon. R.D. Muldoon. AJHR B.6.
231. Ibid., p.22.
232. See Boston, "High Level Advisory Groups".
233. CAB 121/9/1. 13 August 1976. Cabinet Office, Parliament.
234. CCEX visits Police College, Trentham, 3 September 1976.
CAB 121/9/1, Cabinet Office, Parliament.
235. CAB/121/9/1. Cabinet Office, Parliament.
236. Ibid.
237. Ibid.
238. Neil Danskie to author, conversation held in Cabinet Office in March 1979.
239. Treasury advice in Ty 3219. Review of Education Grants, EX (76)125. Supplementary Estimates EX (76)127. CAB 121/9/1. Cabinet Office, Parliament.
240. CCEX, 9 November 1976. CAB 121/9/1. Cabinet Office, Parliament.
241. See, for example, CCEX 14 December 1976. EX (76)153:
Government Expenditure 1977/78 to 1979/80. CAB 121/9/1. Cabinet Office, Parliament.
242. See, for example, EX (76)157: Public Service Staff Ceilings and other items in CCEX 17 December 1976. CAB 121/9/1. Cabinet Office, Parliament.
243. G. Gair, Chairman CCEX to all ministers. 18 March 1977.
CAB 121/9/1/1. Part 1.
244. CO (76)36. CAB 121/9/1/1. Cabinet Office, Parliament.
245. CAB 121/9/1/1 Part 1. 8 February 1977. Cabinet Office, Parliament.
246. Government Expenditure 1977/78. EX (77)3. CAB 121/9/1/1. Part 1.
Cabinet Office, Parliament.
247. Ibid.
248. Education paper EX (77)18. CCEX minutes, 18 February 1977.
CAB 121/9/1/1. Part 1. Cabinet Office, Parliament.
249. Review of Financial Management and Control, 9 March 1977. EX (77)23. CAB 121/9/1/1. Cabinet Office, Parliament.
250. CCEX minutes, 9 March 1977. CAB 121/9/1/1. Part 1. Cabinet Office, Parliament.
251. Ibid.
252. Ty 4572. CAB 121/9/1/1. Part 1. Cabinet Office, Parliament.
253. CCEX Review of Existing Policy. 15 March 1977. CAB 121/9/1/1, Part 1. Cabinet Office, Parliament.

254. Ibid.
255. Ibid., 16 March.
256. CCEX minutes. 27 March 1977. CAB 121/9/1/1. Part II (opened 18 March, 1977), Cabinet Office, Parliament.
257. CAB 121/9/1/1. Part II, Cabinet Office, Parliament.
258. Ibid.
259. Ibid.
260. CCEX minutes, 30 March 1977. CAB 121/9/1/1 Part II, Cabinet Office, Parliament.
261. CCEX minutes. 13 April 1977. CAB 121/9/1/1. Part II. Cabinet Office, Parliament.
262. CCEX minutes, 19 April 1977. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
263. New Policy Review: Budget Report No. 5. CCEX minutes 3-5 May 1977. CAB 121/9/1/1 Part II, Cabinet Office, Parliament.
264. Ibid.
265. Ibid.
266. CCEX minutes, 17 May 1977. CAB 121/9/1/1. Part II. Cabinet Office, Parliament.
267. Ibid.
268. Cabinet Committee on Policy and Priorities minutes. Cabinet Office, Parliament.
269. CCEX minutes. CAB 121/9/1/1. Part II. Cabinet Office, Parliament.
270. CCEX minutes. 24 May 1977. Ibid.
271. CCEX minutes, 8 June 1977. Ibid.
272. CCEX minutes, 14 June 1977. Ibid.
273. CCEX minutes, 28 June 1977. Ibid.
274. CCEX minutes, 5 July 1977. Ibid. The paper detailing the growth trends in teachers colleges was EX (77) 161.
275. Education paper EX (77) 170: Two year Courses Primary Teachers Training. CCEX minutes 12 July 1977. CAB 121/9/1/1. Part I. Cabinet Office, Parliament.
276. Paper describing options for dealing with surplus teachers college staff was EX (77) 172. See CCEX minutes, 12 July 1977. CAB 121/9/1/1. Part II. Cabinet Office, Parliament.
277. CAB 121/9/1/1. Part III (opened 15/7/77). CCEX minutes, 2 August 1977. Cabinet Office, Parliament.

278. Ibid.
279. CCEX minutes, 4 October 1977. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
280. CCEX minutes, 11 October 1977. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
281. Referred to in CCEX minutes 18 October 1977. EX (77)227. "It was explained to the (CCEX) that the paper (on 1978/79 Expenditure Strategy and Control) arose from the last meeting of the Cabinet Committee on Planning when it directed officials to investigate the possibility of linking examination of Existing Policies in the COPE exercise with the examination of New Policies (P(77)M4). Another proposal arising at that meeting was 'the recommendation to Cabinet relating to the amended terms of reference for COPE and membership of the Committee'. This was deferred by Cabinet pending further reports on the additional staff required by the Treasury and the Planning Council to service the revised COPE and on how the Planning Council will communicate with the Government and Departments in the context of its possible involvement in the COPE exercise."
282. RCWH:MC Draft paper, 14 September 1977. Review of Existing Policies. T3/20/77. Treasury records, Wellington, N.Z. See also Appendix 3B.
283. Ibid.
284. Ibid.
285. Ibid.
286. Ibid. (Appendix A). See also Appendix 3B.
287. RCWH:MC Draft. 4 October 1977. T3/20/77. Treasury records, Wellington, N.Z. See also Appendix 3B.
288. EX (77) 227.
289. CCEX minutes, 18 October 1977. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
290. Ibid.
291. CCEX minutes, 27 October 1977. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
292. Ibid.
293. Ibid.
294. Ibid.
295. CCEX minutes, 1 November 1977. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
296. Such requirements for forward planning are not necessarily justified, e.g. in a Cabinet Committee setting.

297. Economic Use of Teachers College facilities. CCEX minutes 15 November 1977, CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
298. EX (77)240. CCEX minutes, 15 November 1977. CAB 121/9/1/1. Part III, Cabinet Office, Parliament.
299. Review of Education Grants EX (77)250. CCEX minutes 24 November 1977. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
300. CCEX minutes, 29 November 1977. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
301. Vocational Guidance Counsellors. Joint Treasury/Education paper. EX (77)253. CCEX minutes, New Policies Review. 29 November 1977. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
302. CCEX minutes, 13 December 1977. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
303. CCEX minutes, 29 November 1977. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
304. CCEX minutes, 21 November 1977. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
305. CCEX minutes, 29 November 1977. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
306. CCEX minutes, 13 December 1977. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
307. Ibid.
308. CCEX minutes, 20 December 1977. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
309. CCEX minutes, 22 November 1977. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
310. Ibid.
311. Ibid.
312. EX (77)254, Ty7820: Government Expenditure Targets.
313. Ty 7820. In CCEX minutes 6 and 7 December 1977. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
314. Ibid.
315. EX (77)254.
316. EX (77)258. Tabled at CCEX meetings 6-7 December, 1977. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
318. CCEX minutes, 6-7 December 1977. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
319. CM 77/47/13. Cabinet Office, Parliament.

320. CCEX minutes, 20 December 1977. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
321. RCWH:MC. Draft. 4 October 1977. T3/20/77 (Appendix 3).
322. CCEX minutes, 31 January 1978. University Block Grants. EX (78)3 and Ty 8288. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
323. CCEX minutes 14 February 1978; 21 February; 28 February; 7 March 1978; CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
324. CCEX minutes, 14 February. Ibid.
325. CCEX minutes, 21 February 1978. Ibid.
326. Ibid.
327. CCEX minutes, 28 February 1978. Standard Tertiary Bursary. EX (78)44. Ty 8614. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
328. CCEX minutes, 7 March 1978. Fees payable by Overseas Students. EX (78)49. Ty 8634. CAB 121/9/1/1. Part III. Cabinet Office, Parliament.
329. Vote: Education: new policy reviews were held by the CCEX on 7 March, 21 March, 30 March. Existing (Education) policies examined during same meetings. The Department of Education was the only one given this relatively intensive attention. CAB 121/9/1/1. Part IV. Cabinet Office, Parliament.
330. CAB 121/9/1/1. Part IV. CCEX minutes, 5 April 1978. Cabinet Office, Parliament.
331. CCEX minutes, 6 April 1978. CAB 121/9/1/1. Part IV. Cabinet Office, Parliament.
332. CCEX minutes, 11 April 1978. CAB 121/9/1/1. Part IV. Cabinet Office, Parliament.
333. Ibid. See also Appendix 3, n.333 for a brief account of how the CCEX dealt with a similar policy item.
334. CCEX records, 9 May 1978. CAB 121/9/1/1. Part IV. Cabinet Office, Parliament.
335. Budget, 1978. Rt Hon. R.D. Muldoon. AJHR, B.6. pp.42-43. In each phase of this brief account of developments in financial management at Cabinet-Treasury level we have seen how ministers and officials related to each other in producing the basic data from which the annual Estimates were drawn. Each financial year, after the appropriate ministerial committee (CCPP or CCEX) had more or less concluded its main examinations of COPE, existing and new policy reviews, the Treasury took over the business of drawing up the Estimates in time for publication with the annual Budget speech. Appendix 3E contains a brief summary of this phase - the Estimates review. It is based on the preparation for the 1979/80 fiscal year, and is accompanied by a number of Treasury and other documents of interest in this stage of budget management and control.
336. Review of existing policy (1979) for 1979/80 financial year.

CHAPTER FIVE

The Life and Death of COPE

The annual budgetary process

Until 1970, there were only two regular phases of the annual budgetary cycle when public expenditure was reviewed: during the preparation of the annual Estimates of Expenditure, presented in the form of Votes to government departments, and in the preparation of the Supplementary Estimates. Irregular reviews occurred "in the light of changes ... becoming evident in New Zealand's economic position." (Senior Treasury official.) ¹ In 1967, for example, a review of "likely expenditure" for 1967/68 was conducted by the Government. As a consequence, instructions were issued to departments that the total increase in expenditure for 1967/68, compared to 1966/67, was not to exceed 4 percent, including provision for additional wages and salaries arising from a recent ruling-rates survey.

In 1970, a new committee of government officials was appointed - the Committee of Officials on Public Expenditure (COPE) - as part of a wider series of changes in the central government's machinery for expenditure projection, allocation and review.² The establishment of COPE followed the introduction of PPB as a system for improving the quality and usefulness of departmental expenditure forecasts and strengthening the informational base for allocative decisions by the Government. The central Government accounting system had been revised under a (1968) SIGMA format. SIGMA - the System of Integrated Government Management Accounting - provided "the basic unified structure of the Public Accounts, the methods by which receipts and payments transactions are classified, recorded, and summarised, and the information reported back to departments and the Government. The SIGMA codes are numerical 'identifiers' used to classify each individual transaction ... analysed by the Computer Centre for Treasury".³ The Estimates of expenditure, presented to and approved by Parliament each year, are the most familiar SIGMA-based accounting report, although as it had developed by the end of the 1970s the centralised, standardised computer-based accounting

system of the Government could provide for a variety of informational needs.⁴

Over the next decade, until 1980, the procedures, rules and forecasting - allocative systems for the Government's fiscal policy implementation were continually modified until, as we discuss later, another comprehensive reform, similar to that which produced COPE, was instituted with "the Quigley system".⁵ Between 1970-1980, the number of reviews of public sector spending was extended to five more or less regular phases of the annual budgetary cycle beginning around October/December with:

(i) an examination of departmental forecasts of expenditure on existing government policies over a three year forward period. This review was conducted by COPE, which, serviced by Treasury, investigated and recommended approval for all government department bids for money for the next three years (a longer period in the case of some items such as capital works). The details of this review were forwarded to Cabinet before Christmas for examination and approval, with an accompanying memo from the Treasury on the COPE-based proposals;

(ii) the review of existing policies: a small, three-man sub-committee of the Cabinet, the Cabinet Committee on Expenditure (CCEX) examined in some detail selected aspects of existing policy costs, and recommended changes in these to Cabinet. Prior to 1976 this review was carried out principally by the Treasury; after that time the CCEX was advised by Treasury. Any changes recommended and accepted by the Cabinet were then used to adjust the basic COPE figures for the costs of government policy for the next financial year, and the two following years, although in general these were given less stringent attention;

(iii) review of new policies: the CCEX examined every new policy proposal put forward by ministers and departments for introduction in the next financial year, in addition to the agreed COPE-based allocation. Recommendations on new policies, which were presented to the CCEX and Treasury by departments according to specific criteria of priority, each graded in certain categories of desirability or necessity, were made to Cabinet. Certain policy costs, such as those made for General Expenses grants to Education Boards, were generally not reviewed by the CCEX or by COPE, but considered during other phases, such as the preparation of the draft Estimates. Where the estimated costs of approved new policies were accepted by the Cabinet for the coming year, they were added on to the COPE-adjusted totals. Reviews of existing and new policy occurred between February and late April.

(iv) review of the draft Estimates: a small group of Treasury officials prepared the COPE+new policy-adjusted totals, and added in, or subtracted any costs ministers decided should be included in the forthcoming Budget, usually announced in June/July each year. After the Treasury draft Estimates review, and final adjustments by the Minister of Finance and/or the Cabinet, the Budget and Estimates were published as public documents showing estimated allocations to government departments for the current financial year, and changes in allocations, classified according to existing functions such as administration personnel travel, to the vote for the previous year;

(v) review of Supplementary Estimates: at this stage (generally some five months into the current fiscal year, and around August-October of the calendar year) unforeseen, overlooked, inflated or other costs were added on to the basic Estimates, after a review of their necessity by the Treasury. Where departmental submissions for additional funds were approved for acceptance by Treasury, and adopted by the Cabinet, they were considered by Parliament and published as Supplementary Estimates. ⁶

The COPE review usually began some weeks before the conduct of the Supplementary Estimates review by Treasury, and with COPE's annual reappointment, the new budget cycle began. All budget proceedings are conducted in strict secrecy, although during most phases constant negotiations are conducted between the Treasury finance divisions, the financial advisers in the government departments, and representatives of various interest groups, statutory bodies, advisory groups and so forth.

By the end of the 1970's then, the published Budget and Estimates of Expenditure thus represented the results of advice and decisions made by a variety of agencies:

(i) a variety of specially appointed agencies, such as the New Zealand Planning Council or agencies associated with the central government, such as statutory bodies with responsibility for the provision of hospital services or education, which either monitor aspects of government expenditure, or review trends in their own receipts of public funds, and advise the government, through departments or the Treasury directly, accordingly;

(ii) the government departments which provided forward estimates of their financial needs; ⁷

(iii) the Treasury Investigating officers and their senior colleagues in the Finance divisions of the Treasury; ⁸

(iv) the Committee of Officials on Public Expenditure - that is, a main committee of selected permanent heads from government departments, plus a cluster of working parties of officials, mainly the financial managers of government departments and officials from the Treasury, the Ministry of Works and Development and the State Services Commission;

(v) the Cabinet Committee on Expenditure (CCEX), a three-person committee chaired by a senior Cabinet minister with the two financial ministers (Associate and Deputy) appointed by the Minister of Finance, advised and serviced by the Treasury (Finance division);

(vi) the Cabinet, which examines the overall budgetary strategy, then approves or rejects/defers financial proposals in the light of this and other recommendations or decisions made by other Cabinet sub-committees such as the Cabinet Economic Committee, the Cabinet Committee on the State Services or the Cabinet Works Committee;

(vii) the Minister of Finance, whose final responsibility it is to present the Budget to the House of Representatives and move that supply of funds be made to government departments as detailed in the Estimates of expenditure.⁹

At various stages during the budget cycle, specific decisions by the Minister of Finance and the Cabinet may affect the preparation of Estimates, or the actual allocation of funds. For example, as was the case for several years in the late 1970's, it may be decided that price level changes occurring between, say January and July will be accepted by the government, but any such changes occurring between July and January must be absorbed by government spending agencies. Or, again, specific or across-the-board changes may be made at Estimates time - for example, in 1978/80 it was decided that \$Xmillions must be found, for financial reasons, from the COPE-adjusted draft estimates, while \$Y millions were subsequently added on, immediately before the Budget announcement, for economic reasons. Specific constraints, such as the mandatory lowering of annual staff numbers in the State Services, or a requirement that no new policies would be approved by the Cabinet unless it could be shown that their costs could be substituted for the costs of some existing activity or programme, also have an impact on the final Estimates, in their published form.

It should be noted briefly at this stage that unlike, say, the United States, members of Parliament other than Cabinet ministers have very little direct responsibility for, or detailed knowledge about, the preparation of the annual Estimates and the Budget. Although Parliament has constitutional responsibility for the allocation, management and control of government funds, and although Government backbenchers may be privy to some aspects of pre-budgetary decision-making through caucus discussions, this is largely a formal matter. The day-to-day decision-making, much of it highly confidential, is carried out by senior public servants and Cabinet ministers, who eventually submit their decisions through the Minister of Finance to Parliament and the public for consideration and debate, but are not necessarily bound to change their decisions in the light of parliamentary comment.

Peter Groenewegen identifies four major budget functions of Australian governments, which in general coincide with those functions performed by the annual Budget in New Zealand:

- "1. an evaluation of total government and public authority receipts and expenditures within the budget sector;
2. ~~Ordering~~ of priorities in expenditure and revenue items to determine the scale of public services and also to implement the government's objectives on income and wealth distribution and on the allocation of resources within the public and private sectors;
3. to act as Parliament's instrument of accountability and control over the government in its handling of financial matters;
4. to provide a means of control over the level of economic activity of the nation as a whole in order to secure an acceptable degree of price stability and unemployment as well as an adequate rate of economic growth subject to a constraint imposed by the balance of payments and the level of international reserves.

Functions 2 and 4 describe what are generally regarded as the economic functions of the budget: the allocation function, the distribution function and the stabilisation function."¹⁰

The allocative function, with which we are here concerned, is performed by the cluster of decision-makers listed above, influenced by a wide variety of factors such as the history and current circumstances of New Zealand's economic system and the preferences, past and probable, of the electorate, as well as decisions made as to the fulfilment of the other functions of the Budget, such as stabilisation or the maintenance of high levels of employment. The tension between the various functions of the Budget is itself a source of conflict among decision-makers, and between decision-makers and the innumerable proponents of various policies. While decisions about the aggregate level of public expenditure, the relative amounts of public money to be allocated to various purposes and the impact of these decisions are capable of economic analysis, and evaluation in terms of economic theories, as well as theories of fiscal behaviour, they are essentially political in nature, insofar as they demonstrate particular distributions of political power. While some problems in the allocative function of the Budget derive from limitations in knowledge (for example, forecasting problems) or deficiencies in management or technical skills (such as immature cost-benefit analysis or mis-matching between manual and computerised accounting systems), so that planning how, where, when and to whom resources should be allocated via the public sector is extremely difficult, many more problems arise from the political nature of the Budget itself. It is the politics of resource allocation via the annual government budgetary process which primarily concern us in this chapter.

Until 1980, few detailed accounts of the New Zealand central government's financial system of resource allocation had been published. Relatively few people, including members of Parliament and many senior public servants, outside the immediate Cabinet-Treasury networks, were fully apprised of the structure or procedures of the annual budgetary cycle. Even fewer members of the public, including those pressure groups and advisory/statutory agencies in fairly constant contact with central government, had any means of learning about the system other than through comments made by the Minister of Finance in his annual Budget speech, or by a study of the published Estimates. The annual COPE report, and the projections of the cost of running the government's various programmes, were not published, although it had been tentatively suggested initially that this might occur.¹¹ The question of publication was frequently raised both inside Treasury and, for example, by members of Parliament serving on various select committees such as the Public Expenditure Committee. In 1973 the Treasury published a brief, although

fairly detailed account of PPBS as it had then been implemented in New Zealand;¹² and occasional articles by informed officials and politicians appeared throughout the 1970's in different professional or small-circulation journals.¹³

In 1980, this major gap in public knowledge was partially plugged by David Preston, a senior Treasury official, in a succinct account of the formal outlines and procedures of the central government's budgetary system: Government Accounting in New Zealand: an explanation of the accounting and financial system of the Central Government of New Zealand. This useful book describes "the changes which have been made in the past decade as the Government system adapted to computer-based accounts and at the same time was reshaped to provide the greater depth of information required for policy review and expenditure control."¹⁴ To some extent, the contents of the following chapter are intended to flesh out some of the features of that government system, with a concentration on the political behaviour of the various "actors" involved in expenditure planning, resource allocation and financial and policy review. It is not intended to duplicate material now available publicly through Preston's explanation. Since the review by COPE of the financial base of government's allocative behaviour was for a decade the critical element in the budgetary cycle, we begin our discussion at that point. The more detailed observations of officials' and politicians' behaviour are drawn from a study made by the author during 1978, when COPE was reviewing policy costs in preparation of the Estimates for the 1979/80 financial year.¹⁵

The Committee of Officials on Public Expenditure:

When COPE was set up in 1970, it was modelled on the mechanism developed in Britain as the Public Expenditure Survey Committee (PESC) in 1961.¹⁶ By 1970, New Zealanders had adopted from Canada and the United States the concepts and approaches of PPBS (Planning, Programming and Budgeting Systems).¹⁷ The exotic origins of these procedural developments remain visible in the New Zealand budgetary system, and their manner of introduction and institution, in central government, has already been briefly discussed. The theoretical basis of the management information systems developed in support of COPE during the 1970's is similarly derivative. The influence of systems theory, and of decision, information and control theories is evident in the particular systems devised and used by the Treasury and other control departments, and in the occasional analyses which are available in New Zealand.¹⁸

The essential purpose of the officials' review (COPE) was cybernetic: to improve the communication of specific categories of information through the central government networks, and to improve the capacity of the government for fiscal control and management. The Government needed some systematic means to improve its forecasting capacity in relation to its own projected expenditure intentions and commitments. Projections of probable future levels of Government activity must include sufficient information to indicate the extent of future deficit funding. Three year forward forecasts of fiscal policy considerations, channelled through a filter such as COPE, in conjunction with decisions made by the Minister of Finance and the Treasury and approved by Cabinet, should provide a more reliable and rigorous contribution to macro-economic planning.

In addition, the information generated by Treasury and COPE in the period six months prior to the final publication of annual Estimates for expenditure, and the appropriation of resources for departmental use, could provide a better basis for annual allocative decisions. Thus, a COPE-based budgetary system would perform two functions: a significant contribution to macro-economic planning, through its three year forward forecasts of the costs of existing government policies, and a similar contribution to allocative decision-making in that the report of COPE would provide the basis for the annual draft Estimates.

In the event, after nearly ten years of operation, it was apparent to some most closely involved in the COPE system that while COPE's final forecasts may be used as the basis of macro-economic decision-making, the compositors of those forecasts, (that is the departments themselves), did not, for a variety of reasons, necessarily include macro-economic considerations in their forecasts. They concentrated instead on the composition of the first year of their three-year forecasts, since COPE's approval for this was accepted as a pre-draft Estimates estimate, guaranteeing them a given level of activity for the coming fiscal year, regardless of future years. The tension between these two aspects of COPE not only generated modifications to the system over the 10 years of its operation, but emphasised the need for changes at the end of the 1970's described later as the development of "the Quigley concept".

Membership and the initial terms of reference

When COPE was first set up as a small group of Permanent Heads¹⁹ convened, chaired and serviced by the Treasury, approved by Cabinet and required to report annually to the Minister of Finance, its terms of reference included the following instructions:

- (i) to undertake a critical survey of departments' requests for increases in expenditure on existing policy, particularly in current and capital expenditure, over a three-year forward period;
- (ii) to analyse the effect on existing policies of keeping within target levels for the government expenditure over a three-year period
- (iii) to indicate areas where expenditure could be reduced or eliminated
- (iv) to indicate areas where expenditure forecasts were not in accordance with existing government policy.²⁰

In the first year of COPE (1970) it was requested in the terms of reference that new policies (i.e. those policies which ministers intended to initiate during the coming year) be included in departmental submissions. In subsequent years new policies have been formally dealt with at a separate review. Historically, when departments prepared their estimates of expenditure for the coming year, they loaded in bids for policies which did not yet have formal ministerial or Cabinet approval. They extended existing policies in scope so far that expenditure on a particular item, activity or programme increased significantly. Before 1971/72 there was no adequate mechanism for ministers, or Treasury, to distinguish between existing policies, approved new policies, proposed new policies, significant extensions of existing policies, or departmental wish-lists. Treasury was thus unable to oblige ministers to defend their department's bids with acceptably-based, agreed justifications. Ministers were likely to find themselves more subject to the vagaries of economic chance and political preferment than the professional administrators in their departments could tolerate. The capacity of governments to plan ahead depended upon advice which in many instances could not be substantiated through any existing procedure. By 1978, COPE's terms of reference had been significantly modified to read as follows:

- (i) to survey government expenditure over a three-year period, and
- (ii) to establish that departmental forecasts represent a realistic assessment of the costs of existing government policy.

It will be observed that there are significant differences between these instructions, and the terms of reference with which COPE first began in 1970.

The formal task of COPE was to survey existing government expenditure items, and provide a realistic assessment of the cost of existing government policies if these remained unchanged over three forecast years.

Costs were assessed by departments in money terms, according to instructions issued by COPE via Treasury. At the completion of the Committee's examination, which took place over several weeks the COPE secretariat prepared two reports:

(i) a "maxi" report, which described in narrative and computerised form the specific forward levels of money recommended by COPE for allocation to individual departments. The departments themselves, however, received only their own detailed adjustments and aggregate total; (ii) a "mini" report, which was forwarded to ministers, with an accompanying Treasury note, at the completion of the COPE cycle. This mini report, and the Treasury comment, formed the basis for the government's expenditure strategy for the coming year.

In the strict terms of Treasury-COPE instructions, departments should not inform their spending agents of the recommended levels until final Estimates were approved by Cabinet. In fact, large spending departments are obliged to operate according to the demands of their internal organisation and the anticipated future demands of Treasury for updated draft Estimates. "If we don't shoot the stuff out to the field as soon as the maxi has gone through Cabinet we wouldn't survive later - meeting the [various formal budgetary] deadlines is almost impossible as it is." [Departmental finance manager].

The ministers thus began the calendar year with information on what constituted the base level of resources, expressed in money terms, as at August the previous year, required to maintain existing policies. The subsequent survey of existing policy by the CCEX was an attempt to remove certain global items from this base. The review of New Policy which then followed was an examination of those policies (expressed in money terms) which ministers hoped to implement over the forecast period. The addition of approved new policy costs to the COPE-adjusted base indicated the levels of future government spending. This enabled the ministers to identify the margin between available revenue and probable expenditure -

expressed as the deficit before borrowing. As COPE had developed, however, it had come to provide more than the base level of money requirements - i.e. a forecasting function. It also provided the basis for the following year's Estimates of expenditure, which require the formal annual approval of Parliament, via the Public Expenditure Committee (see Chapter 5) i.e. an allocative function. Year 1 of the COPE forecasts were regularly rolled forward, with price adjustment for inflation and other approved amendments, as the departmental Vote for which ministers sought appropriation each year. It was frequently suggested by Treasury and other officials that Years 2 and 3 should roll forward similarly, but by 1980 this had not occurred.

The initial COPE requirement that targets be observed and that expenditure predictions be related to them had been abandoned within a few years. It was not only problematic because of governments' short-term wish-lists. It proved to have inherent defects because targets could not in themselves suggest a satisfactory way to relate essential and irresistible growth in some areas to static or minimal growth in others. Nor could targets, in themselves, demonstrate how the complex range of departmental and ministerial interpretations of objectives contained in uniformly - labelled programmes could be equated. This definitional problem meant that the force of adjustments down (i.e. less money for some) could not easily be evenly spread.

Further, it was patently impossible for officials, even those as supposedly wedded to the public interest as Permanent Heads, to nominate sacrifices for their own departments, or to recommend the imposition of involuntary sacrifices on others "of our own kind" (Senior official, 1978). Not only did officials clearly recognize that this was essentially the responsibility of elected ministers, but they also saw that it was fundamentally destructive of the mutual trust which describes their essential relationship with each other, and with their own ministers.

Finally, targets also allowed for the possibility of departmental bidding upward, if predicted costs in some areas could be padded sufficiently to disguise a lack of actual need. The expansionist tendencies of the system could not readily be contained by this particular instruction.²¹

A Sample year (1978): COPE prepares for the 1979/80 Estimates:

The 1978 Committee consisted of the Permanent Heads of Treasury, the State Services Commission, the Ministry of Works and Development (permanent members) and four other departments. COPE was supported by a Working Party of officials appointed by the Permanent Heads of each of the current member departments. These officials were generally the senior financial officers in their own departments. They were again sub-divided into four Sub-Committees, each of which had a parcel of departmental submissions to examine.

COPE was convened and serviced by Treasury officials from the Finance 1 division which has responsibility for the preparation of the annual Estimates and other reviews in the financial cycle. The COPE secretariat attended each sub-committee, Working Party and main COPE group meeting, recorded decisions and recommendations made by each group, and wrote the draft and final copies of the approved reports to ministers and departments. Responsibility for the operation of the SIGMA system, and supervision of the Financial Forecasting System (FFS) was carried out by the Financial Management division of Treasury. Preliminary examinations of departmental submissions to COPE were carried out by officers from the Investigating division of Treasury (TIOs). COPE meetings thus involved the following officials, only some of whom had voting rights i.e. authority to make a final decision.

(1) Main COPE: The Permanent Heads, who had voting rights.

They were accompanied by those senior officers who had been members of the Working Party, the deputy Secretary of Treasury, the COPE secretariat and an official from RMS. COPE met at least twice during the year of its appointment (at the beginning and at the end of the exercise) and was chaired by the Permanent Head of the Treasury.

(2) Working Party: All officials appointed as the Working Party (who had voting rights), plus the COPE secretariat, and an official from RMS. Chaired by a senior Treasury official, the Working Party met twice.

(3) Sub-committees: Working Party members (three men, one acting as Chairman, and including a senior Treasury man who attended all sub-committee meetings, but did not act as Chairman). This group had voting rights. It was assisted by a member of the COPE secretariat; a member of the RMS division; the TIO responsible for the Vote of the department being examined; an official from the State Services Commission (SSC), who in 1978 cooperated with the TIO in making a joint report to COPE; members of the department under investigation (usually the senior accountants). The sub-committees met as often as required to complete examination of all departments.

The network of communication represented by COPE included at least two constant elements:

- (a) the Treasury officials, who are described later in terms of their informal codes of style and motivation; the sub-committees, Working Party, main COPE group and senior Treasury officials were critically dependent on the reports and recommendations of the single official who is constantly in touch with and responsible for departmental Estimates - the TIO; and
- (b) the information considered relevant to the process, which was defined in terms of the rules governing eligibility for inclusion on the COPE agenda: existing policy expressed in money terms.

It will be suggested later that these two elements are among the critical components of the entire Budgetary cycle.

COPE at Work:

The COPE exercise began, for most large departments at least, some time prior to the circulation by Treasury of formal instructions from the Cabinet Economic Committee for the commencement of COPE.²² However, the formal circular (July) was headed: Committee of Officials on Public Expenditure (COPE): Forecasts of net expenditure for 1979/80, 1980/81 and 1981/82.

Each year the circular (which had a parallel version for TIOs) reminded departments to be aware of "the need for continuing restraint in Government expenditure throughout the forecast period." Departments were warned that precise justifications would be required, and that voluntary identification of any non-recurring or "one-time" items - i.e. areas where extended funding could no longer be justified, or expected. Instructions were included as to;

- (i) the form of presentation (e.g. narrative statements justifying individual programme components; a statement of objectives for the aims and objectives of existing policy, expressed wherever possible in quantitative terms; presentation of information by Seg and PLCs (price level changes) in computerised form for FFS departments, and on standardised worksheets for the few non-FFS departments still coming onto that system.)
- (ii) the assumptions accepted by COPE as relevant to the forecasting/costing exercise; e.g. X percent selected price level changes; Y number of pay periods to be included in forecasting personnel costs.

- (iii) the agreed period for calculation of price level changes (PLCs): 1 January to 1 July;
- (iv) the extent to which departments may bid for money to cover price and volume growth over and above the base provided in the current year's [June] Estimates (annual allocations, or Votes);
- (v) items which would be examined on a global basis by a special procedure, or a committee established for that purpose, such as an Officials or Cabinet sub-committee, e.g. estimated Overseas Travel costs; purchases of motor vehicles; Capital works programmes; grants to subsidiary agencies or dependent statutory bodies such as hospital boards; EDP equipment; local authority expenditure; personnel forecasts.²³

As a guide to the battle lines for forthcoming wrangles, "existing policy" was clearly defined as "those policies approved before 31 August 1978. No new policies are to be included." To reinforce this instruction, a definition of what constituted new policy was appended to the circular:

"A new policy is an expenditure proposal which introduces a new activity, or significantly alters the size, scope or quality of an existing activity. New policy proposals include those which:

- (a) introduce new activities e.g. new grants
- (b) alter the size or basis of a subsidy or grant unless such change is in accordance with a Government-approved automatic formula...
- (c) extend existing services where such extension has not been approved by Government...
- (d) cause a radical alteration in the performance or nature of an existing service e.g. computerisation of a service previously performed manually; create an EDP Master File.
- (e) change replacement policies of capital or equipment
- (f) re-programme funds, i.e. shifting funds between programmes or activities."²⁴

This definition represents the distillation of Treasury experience over past COPE years. During examinations, practices were occasionally identified by Working Party members as qualifying for addition to the definition.

- In 1978 the Working Party and Sub-Committees looked for
- a statement of predicted need, expressed in net money terms, to cover future delivery of existing government policies
 - an indication by departments of non-recurring items (which the COPE rules said may not be built in to bids)
 - an indication that departments had followed earlier Cabinet instructions to introduce new policies only where these had been substituted for existing ones
 - an indication of areas in which existing policies might be terminated during the forecast period
 - items and activities, presented as programme components, whose costs may be reduced by COPE
 - the effective realism with which price and cost levels had been established
 - the methodology employed by departments to calculate costs
 - compliance with the instructions and requirements of the COPE circular.

The relevant information:

COPE had a number of items on its hidden agenda. Whatever riding instructions were introduced in any current year, there were a number of pressures which COPE attempted to deploy in order to mould the sort of information departments submitted.

Departments were urged to -

- (i) act as though Cabinet gave its approvals for policy changes (amendments or new policy) on a three-year basis. (In fact, unless such information is specifically required by Cabinet, most approvals are given on a one-year basis only.)
- (ii) act as though the ministers had actually set an agreed target level (in average annual percentage terms) for the real consumption of resources in the public sector over a three-year period. (In fact, such levels, when they were established by the ministers, were stated in terms of the post-COPE annual expenditure strategy.)

- (iii) act as though the ministers were fully competent to select among options identified by COPE as areas or items of discretionary growth. (Treasury men on COPE constantly looked for growth items to pull out and flag separately as discretionary expenditure proposed by departments, but not necessarily justifiable in terms of the ministers' own purposes)
- (iv) act as though the ministers, when making such selections, would naturally choose on the basis of the current orthodoxy: e.g. programmes which would provide the greatest contribution to export-led or productivity-promoting developments.

Alternatively, COPE implied that given all the available information, ministers would naturally prefer to select among it on the basis of some unspecified but nonetheless extant list of priorities for social and economic development.

The cost and benefits of acquiescing to these pressures were frequently reiterated by COPE. During Sub-Committee examinations, appeals of all sorts were made with considerable subtlety, with the instinctive skill of men who had worked together for so long that, like a practised music-hall team, they knew precisely when to pick up their cues. Departments were left in little doubt that there were costs. Absolute integrity with regard to the COPE rules, total commitment to economy, competent resource management and vigilance in the face of field inefficiencies would be required. Departments must learn to accept cuts graciously, or, if COPE had screwed them down too tightly, use only the recommended alternative channels (i.e. those which Treasury controls and approves - the New Policy review, the ministers appeal hearings, the review of Existing Policy, or the system of Joint-ministerial delegations).²⁵ The review of existing policies always constituted a minus - as one senior departmental man commented "it can never be used to restore cuts".

But the benefits are proposed with equal generosity. Departments were encouraged to believe that with greater ministerial commitment (based on better information) to their particular fields of endeavour, they would flourish. A richer and better guaranteed flow of resources into their departments would result, giving them an enhanced ability to resist unwelcome pressure from the public and interest groups for erratic spending. The message was that compliance would produce more information

for the ministers. Policy changes would thus be more successfully justified, accepted as such by Treasury monitors, and consequently the departments would be more comfortably rewarded.

In more immediate terms, COPE really had only one question to ask of departments: What do you count as "existing policy"? The answers were then compared with the various definitions approved by COPE, and adjustments made accordingly. The implications of the question were twofold: what is a "commitment", and to whom has the commitment been made.

In 1978 a raft of variations on the COPE definitions was apparent. The basis for a bid could come under any one of six broad groupings:

(i) inclusion in the last annual Estimates; (ii) prior approval given by the ministers; (iii) prior support stated in the election manifesto of the current government party; (iv) the irresistible force of pressure from outside influences such as acknowledged pressure groups; (v) the irresistible force of undeniable factors such as changing demographic trends; (vi) the flow-on effects of policy changes elsewhere within the administrative system.

Thus, in quoting the last Estimates, departments and COPE would haggle over whether an appropriation was actually made. This was critical because although a minister might have the necessary delegated power to authorize departmental expenditure, he could only do this if the money has previously been permitted in the annual Vote allocation made at Estimates time.

Prior Cabinet approval was the most favoured justification. This might be an approved planning level, an approved programme level, or specific Cabinet approval for a particular expenditure item. The Cabinet Works Committee had the same permissive power as Cabinet itself, and its stamp of approval was accepted. However, a Cabinet decision did need to have gone through all the relevant channels of consequent approval before it was readily accepted by COPE. In effect, this meant that the Treasury Investigating Officer must have actually sighted the relevant "Cabinet green".

Existing policy was also covered by Cabinet/Treasury agreements to flatten out the expenditure trends for the coming three years - for example, should Year 2 programmes be flattened by the deferral or delay of some existing policy funding, even though the programmes may in themselves have permissible growth expectancy?

An indexing system approved in advance (i.e. before 31 August) by Cabinet was warmly received: increased costs tagged in this way rarely caused problems, except where there was a debate over the timing of the index. Alternatively, earlier Cabinet decisions to defer expenditure, or spread it over a number of years, or reclassify an item as non-recurring expenditure, caused enormous difficulties. Departments stung by past rejections, and unwilling to tread the thorny path of the new policies review, constantly attempted to reintroduce such items, and have them safely reinstated as existing policy, part of the inviolate "base".

The third broad category was covered by party election manifestos. Promises made here are very nearly irresistible, and have enormous persuasive power. But they depended very much upon the year in which they were quoted. 1978 was the year of a general election, and most departments had sufficient sense to realise that a promise made three years ago to the electorate would not, if quoted, move COPE nearly as effectively as the same promise in the first year of a party's term.²⁶ One contentious aspect of this did, however, remain. If a department could verify that the government's policy was literally stated as "expanding", then the particular activity to be expanded became less important than the verbal instruction on which it was predicated.

The "irresistible force of public pressure" was a fourth category of definition. It varied: from (a) the justification that existing policy merely represents the ongoing practice of some historical (and popular) commitment (e.g. planting programmes for trees which may never be absorbed by present domestic or export market plans, but which were first declared desirable at a public planning conference held over a decade ago) to (b) the popular expectations raised by the publication of some government-sponsored report; (e.g. government's intention to develop national energy resources such as oil and gas reserves).

Similarly proposed, and similarly debated, though with more difficulty, were pressures for more money to cover changes in the size of the client population served by a department. For example, more school-aged children require more trained teachers, who require more classrooms, materials, transport, light, equipment, salaries etc. (The reverse of

this argument, specifically suggested by COPE in the light of a declining total population, was extremely unpopular with the spending departments). Even where increases in money terms were shown to be demanded by demographic data (which are notoriously unreliable) then departments were often made aware that questions would be asked in some other forum about the quality, and objectives of such open-ended policies.

The flow-on effects of decisions, including legislation, made elsewhere was the sixth mode of justification. For example, departments may quote the international reputation of New Zealand, unwelcome public pressure on ministers, the minister's own preferences, the Cabinet's own preferences, the indirect and unanticipated effects of other legislation, i.e. there was no money for it in the Estimates; public welfare i.e. the administrators' code of support for the public good; the costs of reorganising a department without altering the level or the quality of the public goods and services administered by the department; the price levels demanded elsewhere in the government system e.g. the cost of paper supplied by the Government Printer, the cost of interest rates set by the government for departmental credit in order to pay out government-approved grants; alterations or additions of past legal or regulatory codes.

Finally, however, COPE had some simple rules of thumb:

- Is it existing policy, approved before 31 August and expressed in cash terms on the basis of prices as at 1 July; and
- Is the department attempting to bid for any significant extension to an existing policy, or is it inserting a new policy, which cannot be justified on the basis of demographic trends, specific Cabinet approval, inflation, or changes in price levels. Any item of expenditure which could be identified as existing policy adjusted for inflation and approved volume changes was rejected - when COPE could find it.

Noise in the system:

The COPE group was fully aware of three significant realities:

- the essential and critical influence of Treasury
- the awkward irrevocability of tabled data
- the power of ministers to thwart, ignore, promote, deflect or command advice from their professional servants.

The first of these was a major producer of noise in the system; the second and third factors had differing impact during the whole

Budget cycle. Department officials suspected (and indeed were even prepared to demonstrate) that Treasury had a hidden agenda which would in fact determine their fate. An example of this and other deviant forms of behaviour affecting COPE is described below.

An agenda problem: the Supplementary Estimates:

(a) In any COPE year, the two reports described earlier (p.27) were forwarded to departments and ministers. The mini report, which was the authoritative basis for Cabinet consideration, was always accompanied by a Treasury report. It was alleged by Permanent Heads at the final COPE meeting that the previous year the report of the Working Party had been substantially re-written by Treasury before it reached the main COPE group. This suggested to non-Treasury officials that the COPE Sub-Committee examinations were either farcical or, worse, so inconsistent with government expectations (as these are interpreted by Treasury) that trouble was likely to follow. In 1978 the draft mini report included the following statement: "The review provides Ministers and officials with an agreed assessment of the cost of current policies. The base level expenditure figures also assist Ministers to set expenditure objectives in conjunction with the reviews of existing and new policies. The COPE projections provide the basis for the preparation of the draft Estimates."²⁷

At the final COPE meeting, non-Treasury Permanent Heads argued successfully that the difference between a COPE report and a Treasury report was not sufficiently clearly spelled out in this statement. The COPE circular (1978) had included the following directive; "COPE projections are prepared in 1 July 1978 prices and with certain exceptions, no allowance is made for future increases in wages or other Government expenditure. Furthermore, the 1978/79 Supplementary Estimates are excluded from the projections... The use of the 1 July date means that the projections indicate growth in Government expenditure in real terms."²⁸

In the annual timetable of the budget, COPE submissions included all existing policy approved up to a given cut-off date, which in 1978 was August 31. That is, all policies approved by government up to 31 August would be accepted as "existing policy", and as such must have been costed for the forecasts in July 1 current year prices. Since the draft Estimates approved by the government in its annual allocation in the current year (June, in 1978) were costed in prices current at January 1, COPE allowed for a six-monthly updating of all price levels. However, between

June and the cutoff date for COPE, Supplementary Estimates were prepared by departments, and approved by Parliament around August or September - i.e. after the cutoff date for COPE.

It was clearly Treasury's intention, as a member of COPE, to take as much as possible off the COPE agenda (i.e. out of what the departments claimed as their base level of resource need, expressed in money terms). Therefore, Supplementaries like approved new policy costs were loaded into the draft Estimates the following year by Treasury, but in 1978 were specifically excluded from COPE's definition of existing policy expressed in cash terms. At the final Permanent Heads' meeting, Treasury's argument for doing this was consistent with that given to inquiring departmental officials at earlier Sub-Committee meetings:

"Supps. [supplementary estimates] are not included because they are approved after the cutoff date, 31 August. You [the departments] will pick them up again when you prepare your draft Estimates next year, and they will go in automatically then. It was inflation which hit you between July 1 and August 31 this year. Last year COPE did include the Supps., and it wasn't acting strictly within the COPE rules in doing so. The idea is to look at existing policy in a time-slot. So we wanted to see the base, plus PLA's (price level allowances), which is the inflation factor." Another senior Treasury man reiterated this: "We wanted to be able to say specifically that [X] equals the base, [Y] equals growth and [A] equals inflation. When the ministers get to read the COPE report, we [i.e. Treasury] will send a covering report which will have the Supps. added in, as the basis for the expenditure strategy paper. Your minister wouldn't know from COPE the impact of the details of the Supps., but then, would he need to?"

But the Permanent Heads were disinclined to accept this. They pressed the Treasury men to specify the meaning of the totals described as "the base". The Treasury men replied that what was agreed to by COPE equalled the base, onto which Treasury would subsequently load the Supplementary allowances, the increases for wages and salaries approved since 31 August, any other adjustments to prices approved by the government, and agreed new policy costs approved by Cabinet. All these items were expressed in money terms, as nearly as possible in constant prices.

Treasury also argued that there would not have been time for departments to add in the supplementary annual allocations, and that in any case, unlike the experience of PESC (UK), where projections were not converted into cash terms, Treasury was concerned only to provide a base for decisions, not to use COPE itself as the basis for decisions three years ahead.

Finally, Treasury suggested that the refinements then possible under FFS allowed for the postulation of alternative price bases: (a) the total demand expressed in money terms at constant (1 July) prices, and (b) the total demand expressed in money terms after supplementaries and other price and volume changes have been added in. "It keeps COPE pure - it was a conscious decision. cope is a snapshot in time - the Treasury report brings in what amounts to a cash flow statement."

The permanent heads objected on the grounds that the "purity" of COPE may produce such a rarified report that it had no value: that the report which went to the ministers was not the one they were approving, but a Treasury report they had not yet sighted: and, finally, that "you seem to be saying Don't worry you blokes, we (Treasury) will fix up any little adjustments. But we need to see both reports, if they are going up over our names."

It was eventually agreed that the draft mini report to the ministers should be amended to take account of the Permanent Heads' objections.²⁹ However, Treasury did fire a parting shot by commenting that the need for an accompanying Treasury report, including Treasury's adjustments to COPE, was a function of the fact that in the past departments were not willing to take responsibility for making adjustments which would fit with targets, so Treasury had been obliged to appropriate this task.

The significance of this incident should be emphasised. It demonstrates not only something of the relationship between Treasury and the Permanent Heads, in the forum of COPE, but the relationship between the formal members of COPE and the officials who comprised the COPE Working Party and Sub-Committees. It also suggests that there was less than unanimity on what constituted relevant information, as this was processed through the networks of COPE.

There were other examples of noise in the system, created mainly by deviation from the COPE/Treasury codes of behaviour - both formal and informal.

The State Services Commission (SSC):

(b) The SSC operated in a manner clearly not approved by Treasury people and their COPE colleagues. Not only were SSC officials quoted disparagingly during COPE examinations, but the reliability of their information was constantly questioned. For instance, the SSC is one partner in what a Treasury man described as "an unfortunate marriage" with the Computer Services Division. The CSD is the division of government responsible for the purchase and management of all government EDP hardware. Its ability to cost accurately, and produce prompt, reliable information for COPE was openly doubted. However, the COPE exercise did not, and probably could not, provide the appropriate forum for discussion and analysis of Treasury dissatisfaction with aberrant agents like the CSD. The intensity and complexity of the interdepartmental relationship is such that only specific audiences will produce certain kinds of information disclosure. In the COPE network, some deviations were permitted, albeit with patent dissatisfaction, either because it was believed that they could be re-examined at a later date, or because by chance, in an unexpectedly sympathetic audience setting, criticism could be made explicit and behaviour-modification attempted.

The SSC is responsible for the provision and employment of staff for the state services. Throughout the 1978 COPE exercise and indeed the entire Budget cycle, Treasury and other officials (e.g. Audit Office) worried about the reliability of personnel forecasts, the lack of guidance from the SSC on employing temporary staff, the lack of evaluation and the lack of financial control over the increasing numbers of state wage workers.

As with the CSD example above, COPE was unable to handle certain sorts of information exchange and disclosure. Either Treasury people suspected that more detailed analysis during the crowded timetable of COPE would overload the system, and cause a breakdown, or because (as subsequently proved to be the case) it was anticipated that noise of this type was best dealt with through another network, in a different part of the communication system and during another phase of the Budget cycle, the deviant SSC was allowed to perform unsatisfactorily during the COPE exercise.

While occasionally admitting the difficulties of managing such a complex and politically-sensitive field as personnel, COPE men did not, however, concede a great deal. The SSC apparently neither conformed to Treasury's informal codes, nor adhered to COPE's definition of what constituted relevant information (existing policy expressed in money terms).

Capital works allocations:

(c) An entirely different situation existed with the small COPE sub-committee responsible for examining departmental bids for money for capital works. Two senior men, one from Treasury and one from the Ministry of Works, controlled this sector. For a period of years, preliminary approval for forward estimates of capital expenditure passed through this narrow channel. In this phase of the budgetary cycle, both men appeared to march to a different drum from that which dictated the rest of COPE.

Works programmes are planned on a five-year forward basis, although approval was given in COPE for only the next financial year, with an indication of levels for the following two-year COPE period.³⁰ In recent years, the planning capacity of the Ministry of Works has been greatly expanded by the development of a computer simulation model as an aid to selection among various investment options in the building and construction industry. The raw data is collected from the Ministry's national and regional surveys of the three relevant sectors: government, local authorities, and private industry. The model now relates this total-industry data to the overall economic structure. Use of the model should enable ministers to select a preferred means of future capital formation (i.e. new work) on the basis of existing, approved commitments.³¹ Whoever controls this source of information could have strong influence on the allocations of public resources.

Historically and culturally, public works development in New Zealand has occupied a central place in all government planning. Initial and dramatic progress under a very strong minister in the first Labour government established a tradition of irresistible demands for resources for capital works.³² This was reinforced by the rapid post-war population growth, which was only levelling down to a zero growth trend by the 1970's. By 1978, when the position of the Minister of Works and Development had declined on the Cabinet pecking-order, the last of the old guard of Works men still held key positions. Without admitting the niceties of their computerised information services, this small, highly professionalised clique of ex-architects and engineers dominated public capital investment planning and all significant expenditure-control mechanisms.³³

Given the time-lag involved in all major works developments, the two men required by COPE to vet the bids of client departments were inevitably dealing with tasks begun or committed sometimes many years in the past. Thus, old debts must be paid and earlier bargains honoured. There was less scope here for the flexible financial management preferred elsewhere in COPE. Along with the Ministry's inbuilt suspicion that governments would cut capital works funds because the economic effects of such cuts are more easily diffused, and with the extended time-scale involved, the sub-committee was also affected in its rulings by the relatively private nature of its deliberations. There were virtually no witnesses. Not even the MWD's other top men made up members of the audience. Unlike other COPE Working Party meetings, where anything that was done must be done before an audience of peers, only two or three men, closely identified with the Ministry of Works and Development, guarded this particular channel. Information passed in, decisions were made, and, once approved by the Cabinet Works Committee and later the Cabinet Committee on Expenditure, resources were parcelled out. But there was little if any explicit exchange or debate over the precise nature, or the economic consequences, of the decisions. Here, particularly, pragmatism rather than educated techniques based on academic qualification or technological mastery was the key to decision-making.

Examinations which unfailingly began with the dry words "Well, are you blokes going to spend your dough this year?" were distinctively different from the more intricate exchanges conducted elsewhere by COPE. The rules, and the rituals, were well-known:

- (i) Establish what the suppliant officials believe to be the criteria for making bids, then disabuse the luckless departments;
- (ii) Assume that there will be little truth, if any, in the ubiquitous claim that all the work forecast, and in need of money, is firmly based on Cabinet approval as existing policy;
- (iii) Press the officials to describe precisely whether or not they can satisfy the one criterion that counts here: has the first spade been put in the ground. In other words, all preliminary Cabinet and Treasury approvals must have been obtained, and work must be in progress on site.

Discussions were brief - occasionally all the relevant decisions had been taken before the officials arrived - what followed was a mere formality. Departments were fully aware that this is only the first round, and that all that was required at that stage was a sufficiently reputable figure to add in to the total forecast levels recommended by COPE. The real bargaining came later, outside the sphere of COPE, between the departments and the Cabinet Works Committee, which is advised by both the Ministry of Works and Development and Treasury.

Treasury investigating officers were permitted only a very limited input, and occasionally it was made clear that they were present only on sufferance. One dogged TIO attempted to dispute the justification for a very large sum of money described as "the minister's slush fund". His complaints were good-humouredly over-ruled on the grounds that this particular item was a traditional appropriation to be used at the minister's discretion. It had been made "without difficulty" in the past because "past Secretaries of Treasury" had "understood the need to turn a blind eye." The bewildered TIO had yet to learn the finer points of established political power. Such an attempt, and such a reply, was scarcely conceivable in the examinations conducted by the main COPE group.

Mavericks Inc.:

(d) Another deviation was demonstrated by departments which acted above all, like pressure groups. In adhering to their own professional (or cultural) norms, they were outside the mainstream, yet they were confident of their rights because they passionately believed that the mission of their particular department was based on a good idea whose time had come.

This group is typified by three large spending departments³⁴ which had discovered special skills enabling them to absorb, interpret and transmit enormous quantities of information in a style of their own. It was not without coincidence that two of these departments had ex-Treasury men as their financial managers, while the third (DSIR) had its own device: a "sophistication factor".³⁵ The translation of Treasury training to an alien setting provoked the same irritable reaction in COPE as the qualitative device put forward by the scientists.

All departments defend their own corner - usually vociferously. But none was so unwilling to accept a rebuff at the hands of COPE as men who had themselves once evaluated the raw departmental data upon which COPE was nourished. Pressure-group standover tactics ranged from

categorical refusals to accept the dictates of COPE, to open accusations of duplicity: "You've obviously changed the rules since I was in Treasury..." Inferences of shady dealings by COPE or Treasury were invariably rejected by the committee and the intractable department duly punished. A cut might then be made for no more logical reason than that "it deserves to be". Treasury men stayed out of direct conflict with such officials, but only after making it perfectly clear that COPE should not tolerate any departmental attempt to mystify or patronise the officials' committee.

What counts as success?

"The measure of any budgetary system is the way it changes people's behaviour...while this may have happened (through COPE) at the centre, it doesn't really apply outward...but we aim to do it through a minimum use of technique..." (Senior Treasury Official).

"Part of this exercise (COPE) is an education process"

Both formal and informal norms or codes of behaviour and style affected the success enjoyed by participants in the COPE network. Success was not evaluated in terms of "winning" - although winning was clearly important. Capturing at least your fair share of resources was the nub of the COPE exercise. In their analysis of the UK Treasury, Heclo and Wildavsky³⁶ describe this sort of success essentially in terms of reputation-building - enforcement of the myths of influence - a powerful consideration in New Zealand COPE - circles.

We may also evaluate the norms of COPE in terms of their effect on the wider government networks of communication. Did the adoption of COPE's codes of behaviour forecasting requirements and allocative rules facilitate the flow of information through the system? What effect did they have on the complexity of information passing in to and out of the budgetary system? Could they influence future informational inputs by the way they modified the outputs? If information is the essential life-blood of any communication network, and feedback the dynamic element which regulates and determines the level of nourishment available from that energy-source, then "success" may be described in cybernetic terms.

It was the function of COPE (which necessarily included Treasury officials) to describe the rules which controlled the rate and complexity of the information-flow at that stage in the budgetary cycle.

It was the function of Treasury (as a member of COPE, as the agency which investigated and evaluated the raw data, as the agency which trained the departments in the Treasury-developed techniques employed in COPE forecasting, and as the operator which controlled the various gates through which information passed around the system) to translate these rules into persuasive, interrogative, directive or imperative terms.

It was the function of the departments (as suppliants or petitioners to COPE) to re-interpret these rules in any way they considered would allow them to protect their sources of information, control the subsequent distribution of information throughout their own networks, and retain their primacy as necessary and legitimate interpreters for the ministers.

At that early stage in the budget cycle, feedback largely depended upon what officials could glean from the ministers' subsequent decisions. Although "knowing COPE's mind" (which was almost the same as knowing Treasury's mind) was an educated skill, there were few ways to acquire it except through intuition and experience. Both were deficient. Much energy was wasted, much information fell through the gaps. Without ministerial commitment, and in the face of necessarily parochial departments with insatiable appetites, Treasury must concentrate, during that phase at least, on maintaining its own system, rather than pursuing its allegedly preferred goal: to improve the planning and allocative capacity of the government.

The existence of several critical structural elements in the budget process were demonstrated during the COPE phase. For example: The central position of Treasury, which has a critical determining role in the information flow;

- the extensive power of Treasury, which, in conjunction with key officials from departments like the Ministry of Works and Development and the State Services Commission (and, as will be seen later, the Audit Office) dictates whether or not certain types of information are appropriate for circulation in any one sub-system, e.g. COPE;
- the resistance offered to Treasury (and thereby to other significant educators and manipulators such as ministers) by agents such as the

State Services Commission, ambitious departments like Education or Transport, or newcomers like Energy whose future depends on the rapid accumulation of an empire with its own distinctive style;

- the residual nature of the alien system of administration and planning, developed for unique historical reasons, of the Ministry of Works and Development, which has declining influence due largely to changing economic circumstances. The MWD needs to retain very close guard over its parochial networks if it is not to lose audience support in every theatre of action, or allow its billing to slip below the front-of-house lights.

The mills of Treasury, via COPE, can grind very small indeed. Yet the offending departments may never know the precise nature of their transgressions. The maxi report forwarded at the completion of COPE contains few hints of the unqualified rule that all departments are educated to accept: you must persuade Treasury before (and after) you have persuaded the minister.

In recent years, departments using the FFS met with officers from Treasury at the conclusion of the COPE exercise to exchange views on the value of the process. There is no evidence in official files of these evaluation sessions that the tension between the formal and informal codes governing information flow was ever overtly identified or collectively analysed. Even a device developed by Treasury to grade departments according to their compliance with the COPE instructions in the late 1970's was retained exclusively within Treasury. TIOs were apparently unaware of this device, and, in any case, as one commented: "It probably wouldn't have any effect if departments did get it. That's not the sort of thing that gives us headaches - its trying to find out what they've got built into their base that matters." Departments themselves were unaware of the comparisons made in the grading, and internal comments on the device languish embryonically in the Treasury files.

From 1971 on, internal Treasury evaluations of COPE proliferated. From 1977 on, Treasury files include Planning Council comments on COPE: exchanges conducted just below the most senior Treasury levels. But very few opportunities were provided to permit time or staff resources for Working Party officials (from COPE's member departments) and Treasury officials to consult fully on the forthcoming COPE exercise. They only occasionally shared detailed accounts of the examinations (and in any case there was no verbatim record of any COPE meeting). Formal collective

evaluations of the exercise by the officials who did all the examining work were almost non-existent. The reliance placed on the TIOs by those who chaired the COPE working party meetings was thus reinforced, since only the TIO could comment with any accuracy on the actual situation of a department's finances.

In 1978, after a review of the management procedures of administrative departments by the Controller and Auditor-General,³⁷ a task force was set up to examine the question of budgetary management in government. This development is discussed ^{briefly} later (Chapter 7), but even in 1978 it appeared unlikely that the Task Force activities would reduce or modify the significance of two constant elements in the budgetary system: first Treasury (whose officials, and their capacity to obtain, analyse, store and retrieve information, was critical in the allocative and forecasting functions); and second, the information counted as relevant, i.e. policy expressed in money terms.

Informal codes of behaviour: The COPE mode:

Everything counted during a COPE Sub-Committee examination. Officials may be described according to a number of informal characteristics, each of which had some bearing on their value to COPE, or their effectiveness in justifying the presentation and the reception of a departmental bid.

Officials in the presence of each other, without ministers or any other audience, behaved as in a peer group where only those of their own species are significant, and needed to be influenced or persuaded. Their behaviour varied with other audiences and, predictably, one does not find precisely the same departmental and individual styles demonstrated when officials are working, for example, with ministers present. It was characteristic of the COPE exercise that here any poor or wrong choices or lapses of judgement and discretion were open to inspection by their peers. As has been shown elsewhere,³⁸ the civil service system, as this centres around the Whitehall model of Treasury, represents a particular and identifiable subculture. While not all the features of the village of mandarins described by Heclo and Wildavsky exist in ex-colonial Wellington, there is a distinct kinship among officials which reflects the pervasive effects of an anonymous, confidential, hierarchical professional public service administration.

Having to perform before their own peers had several effects on the officials. It strengthened the natural alliance of the permanent public servants vis-à-vis the ministers, and vis-à-vis their clients - the amorphous and ubiquitous public. It produced a herd instinct for the protection of the weak - although this did have some clearly defined limits. Even the weak must make some efforts to behave according to the tribal norms, and must not endanger the security (i.e. professionalism) of the group. It also induced a sense of camaraderie under seige: the officials at one vital COPE meeting joined in declaiming "All or nothing - for everyone or for no one" when threatened with a procedure which was not guaranteed to benefit all departments. The experience of performing before your peers also produced a shared and openly-observed responsibility for punitive actions. If a cut had to be made, no one person present could act vindictively, or snap back in retaliation to the provocative remark from the Treasury man, or the Chairperson, or be seen to be repaying old debts. Anyone doing that did it in the sight of all, and would be 'successful' only so long as the others explicitly went along with him. Reasons for criticising one's peers, or cutting their bids, or requiring additional and time-consuming information-gathering were expected to be stated explicitly. One's motives may be implicitly understood by the others, but in this forum they must be made specific.

Only certain demonstrations of individualism were acceptable. On the whole, the Working Party and Sub-Committee officials expected each other to act in a team context. However, there were certain well-known departmental "characters" (familiar or stubborn eccentrics) who were accepted without apparent reserve by the examining officials. Certain high-status reputations or styles of behaviour which would normally be considered deviant were permitted on occasion because their credentials had been established as sound at some time in the past. On the other hand, certain forms of individualism among suppliant officials were not readily accepted by COPE. For example, men who appeared to fail in this forum (e.g. their bids were severely cut back, or they were required to produce nice justifications for vaguely-based costs) may have done so because they were excessively "trendy" in their dress, or speech or personal style of presenting their case. They may be adjudged sharp, overly-ambitious ("he fancies himself as some sort of television oil tycoon"), or disloyal (for example, the ex-Treasury official who included in his oral presentation of the case for his new department a costing

out of the work done in preparing the COPE submission). A departmental official may lack discretion or judgement: "He [the official] is implying that we [COPE Working Party] do this simply as an academic exercise - showing off to the ministers by cutting things down. I consider that that impugns the integrity of [senior Treasury officer] - so bugger him, he deserves to be cut back". Others were clearly naive - for example, the officials who, in presenting their case, indulged in chatty anecdotes about how they plotted to beat the COPE rules. Unwisely, they misinterpreted their courteous reception as connivance...a cut was mildly made after they had left the room. Still others were patently worthy of kindness: too old, too tired, too embattled, too new on the job, too slow to keep up. With few successes on their departmental records, their history of failure preceded them, and their depressed apathy when they lost, marked them as ineffectual.

There were some clear COPE norms, demonstrated during the examinations: Dress may be almost non-conformist (leather jacket, no tie, beard), tasteless (loud suit, acrylic tie), or conservative (neutral, anonymous and plain). But it may not be too flashy (high-heeled shoes on men, chromium cuff links in a pink shirt) or plainly sloppy and careless. Voices and language may be firm, enthusiastic, nervous, over-refined, 'foreign', boring, vulgar, stubborn or idiosyncratic. But they must not be querulous, shrill, arrogant, disdainful, sulky, crude, or waffling.

Sex was not a problem. Despite the fact that most participants were male, female officials were neither patronised nor pandered to. They were taken as seriously and as courteously as all comers. Machismo was not the apparent norm, intelligent, conscientious professionalism was.

A very diverse range of personal styles was permitted, within the accepted norms. But certain excesses were not permitted. The ostentatiously casual, the indiscreet, the unmistakably seedy: any symptoms of a visible decline in self-respect caused not by self-criticism but by continual failure, loss of face or professional optimism offended the codes. On the other hand, persistently calvinistic parsimony in examiners was not favoured. Frugality must be leavened by wit, acidity, or, at the very least, good humour. Zeal was not allowed in performing the task of cutting: genuinely confident acceptance of the worth of the exercise was assumed.

Standards were thus established: a good COPE man, and a valuable TIO, and an effective departmental advocate must, with only two exceptions encountered in this study, demonstrate the following:

- integrity: this was both professional and personal, in the forum of COPE
- reliability: your word must be good,
- neutrality: if you have an interest, you must declare it,
- application: tiredness, even exhaustion, was no excuse for lack of diligence and conscientious persistence over time,
- appropriate knowledge: you must know the current rules, and the ruling rates,
- insight: you must be demonstrably sympathetic to relevant nuances - or at least be sensitive to the insights of others,
- relative modesty: age, seniority, experience or a recent run of luck was no substitute for the justifiable confidence engendered by arguing a good case, or defending your corner when you know you are right.

Some unnecessary extras, which may at times even prove to be disadvantageous, were:

- absolute honesty (which may be mistaken for a bleeding heart);
- knowledge outside the corner you are defending (just do your own job well),
- knowing the minister's mind (and reporting it to COPE);
- knowing the preferences of Cabinet (the others may either know more about why Cabinet gave you that previous support, or have engineered it themselves for reasons of which you remain ignorant).

Absolute sins did exist, although the inherent position of COPE in the overall budgetary system meant that forgiveness was typical:

- failure to defend your own corner (whether you are a TIO, a departmental advocate, or a member of COPE),
- failure to justify your case;
- failure to know the alternative routes to success (or to dismiss the advice on these which COPE from time to time dispenses),
- failure to admit that you were wrong, or misguided, or failed to do your homework.

COPE's place in the communication network could not afford these errors.

The examining group was not anti-intellectual - it assumed intelligence until presented with overwhelming evidence to the contrary. The group was not anti-individualistic - it simply could not afford the luxury. The group was not cynical - it accepted the significance of political

accountability, but it did not preclude the possibility of irrational political preference paraded by its ministerial masters as rational choice.

The Treasury Mode:

While COPE frequently asserted its autonomy within the budgetary cycle of approvals, this was more symbolic than real. For example, all COPE circulars, instructions, invitations to participants, reports, schedules and manuals were issued by Treasury. The reports which summarised COPE (the mini and maxi reports described earlier) were both prepared and written by Treasury, and, in the case of the mini report, accompanied on its way to the Minister of Finance by a Treasury interpretation. All meetings, except those specified above³⁹ were held inside the Treasury, at times arranged by Treasury officials who comprised the COPE secretariat. The main COPE meetings were permanently chaired by the Secretary to Treasury, regardless of other membership changes. Treasury provided all the servicing for COPE, and was responsible for the overall management of the computerised information and accounting systems used by departments. All investigations of departmental submissions were done by Treasury officials (the TIOs) who were also responsible throughout the year for investigating all the department's expenditure and other financial proposals, and reporting on these to the Minister of Finance.

Treasury men on COPE would from time to time say such things as "Speaking as a member of COPE, I would vote for XYZ, but wearing my Treasury Hat I must recommend ABC...(or) I must inform you that Treasury this year will not be recommending XYZ...(or) my riding instructions do not allow me to support XYZ...(or) you perhaps should know that in the past Treasury has not allowed XYZ, and will not be recommending that it be allowed this year either."

One impression gained from observing Treasury officials associated with COPE was their profound attachment to the notion of integrity. They work, in many cases, stupifyingly long hours, with intense diligence. Certainly, the professionalism which they claim as motivation may be explained in terms of their assured political influence: "Well, yes I guess I do it because I do have an over-riding concern for the wellbeing of the government. And of course I have always been interested in the logical presentation of facts and ideas. But really, I would most like to be thought of as a fully professional member of Treasury." (Senior

Treasury man). In the Wellington-based sub-culture of the public service, reputations are formed on the basis of known skill, applied intelligence and studied opportunism. Over and above that, the relative anonymity and extensive responsibility which mark Treasury people off from other state departments offer powerful blandishments.

But this does not quite explain the curious and misleading cosiness of Treasury people. Inside Treasury there is a preference for logic, but if logic cannot prevail, then they fall back collectively on a wry and embattled common sense. There is an acquired protective mask of simplicity before the complex posturing of other departments who know from experience that they must deceive, in order to win. With an air of complacent righteousness, Treasury disdains to pick up the available perks. Treasury men drop homely, domestic references into official conversations (e.g. in an edgy discussion about daylight saving, Treasury men exchanged notes on the difficulties of getting their offspring to bed during the long summer evenings; at the commencement of a notoriously contentious examination, a senior Treasury man disarmingly encouraged a chat about how irritating flies had been at a family barbecue, immediately after letting it be known that he had devoted most of the same weekend to an exhaustive perusal of the tabled submission). There are the unsophisticated, and even slightly passé, social and cultural preferences of Treasury men (e.g. the senior official who was affectionately permitted to deal briskly with a piece of COPE business so that he could attend a departmental "knees-up"; the Treasury man who was taking his family to the state-subsidised ballet even though "I don't know anything about ballet, but we saw on television that they couldn't get audiences because a newspaper strike cut their advertising"). Or again, the earnest opinion solemnly proffered that "Treasury people are much less permissive in their marital relationships than other public servants and academics" - which reflects the undoubtedly equally fallacious view held outside that most Treasury men are members of fundamentalist religious sects, such as Baptist or Brethren churches. Considerable attention is paid to the business of seeing themselves as sober, ordinary people, quite unlike the "bright, young ideas-men" purveyed in the daily papers.

Socialisation into the Treasury norms appears to be specific to that organisation, powerful, and lasting. Even though the narrowing hierarchy is wasteful of talent at the top, the determined application of cultural norms, which derive more from stolid secularity than any intensely-

educated jesuitical elitism, is a definitive element in the professionalism of New Zealand Treasury officials. These norms appear to be so well-established and influential that this survey could identify only a small minority of COPE men who were not apparently governed - almost cross-fertilized - by them. It is significant that most officials serving on the COPE Working Party adopt (if only temporarily) the Treasury morality. But a number of deviants did exist, and as we have already indicated could cause considerable noise in the system.

Deficiencies of COPE

COPE was established to provide better information for those making allocative decisions at government level. On the one hand, in conjunction with PPB, and the SIGMA and FFS systems, it was (and still is) seen as providing a more systematic approach to forecasting fiscal behaviour and to data-collection. On the other hand, it was seen as a cybernetic tool for the ministers and their principal advisers, Treasury officials, providing the clearest focus possible on the financial implications of government policy. If policy now in place could be accurately costed, and those costs later placed alongside the probable costs of desired new policy, the sum of both should describe the amount of money which would have to be raised through the various sources of government revenue.

Over a ten year period a great deal was accomplished in both directions. Departments became so familiar with the established rules distinguishing existing from new policy that their senior men often argued that this was now mere housekeeping; that the costing out of existing policy could now be done in Treasury itself. They claimed that there was no longer any need for the time-consuming, protracted and costly inter-departmental examinations and evaluations conducted by COPE.

It is true that by 1979/80 there was considerably more precision, more attention to the financial implications of continued spending on existing policy than ten years before. It is probably equally true that more of the "housekeeping" could be done inside Treasury, without the ritual of COPE - were the staff and other resources of Treasury substantially enlarged.

If they had chosen to use the COPE-based system as it had been designed, ministers could have identified much more clearly the implications of approving new policies which load additional costs (with implied or specified future monetary commitments) on to the existing base.

Since any decision made today about tomorrow is synonymous with planning, it is true that during the past decade, the technical refinements developed as the handmaidens to COPE significantly increased both the reliability and the volume of data available for collation and evaluation in making such plans. The Financial Forecasting System, in conjunction with SIGMA, provides an increasingly more accessible supply of the various sorts of information required in government decision-making. Treasury and other officials themselves suggested that, at least for the present, the rate of refinement should be slowed down, so that the full potential of computerised management information services could be "internalised" by the various operators in the network.

Much of what was radically innovative in the 1960s had become part of the jargon of the capital city by the end of the '70s. In Wellington at least, public servants at the highest levels had been persuaded by each other that "efficiency and economy"⁴⁰ in the delivery of goods and services selected by the political system for public use did have at least a limited quantitative meaning.

Within the networks of communication generated by COPE, the language of persuasion, intimidation and demand had become more sophisticated. Further, it was obvious that with every skill offered to the departments by Treasury, and developed by the departments for their own advancement, another stick was laid on the camel's back. As one Treasury man agreed "With every modification to FFS, we are creating another cross which we have to carry ourselves - the departments get stronger, and their bargaining power improves."

However, COPE had several inherent deficiencies, some of which could have been anticipated in the experience of other systems, such as PESC, some of which were identified but not avoided at the time. Firstly, moving the consideration of departmental estimates of expenditure back from the draft Estimates period to the COPE period (thus giving a six month lead-time) had improved the preparation of the Estimates, but diminished the force of future scanning. COPE required departments to state their minimal financial needs as precisely as possible. The

departments knew that this figure (expressed in cash terms) was the least they could expect to get from government the following year. Inevitably, less attention was paid to the following two years of the COPE forecast period. Getting costs built into the base was all-important. Once there, the stamp of COPE's approval (which implicated Treasury) had the political effect of writing the sums in tablets of stone. Despite Treasury's attempts to make them interesting, years two and three were necessarily of less significance.

Secondly, COPE's terms of reference, which were circulated for all to read, required only two things: a survey of future monetary needs, and a realistic costing of existing policy. COPE had no standing to direct - except that which came from Treasury's interpretation of the statutory bases of the executive's fiscal authority. The spending departments, and the ministers, knew that no matter how assiduously COPE may protest every example of untagged, open-ended spending, every policy proposal which had any financial implication at all, the committee itself had no authority to do more than advise.

COPE members, particularly the Treasury men, were acutely aware of this dilemma. Indeed, it was even protested as a constitutional virtue - on several occasions senior Treasury officials commented that "public servants do not have the right to abrogate the powers of the ministers", or "We (COPE) are no substitute for our political masters". On the other hand, the advice that was given is governed by the formal and informal codes and the commitment developed by Treasury itself. Certainly, political accountability lies with those elected to office. But the assumption, that the information passed on through Treasury was as accurate as possible meant that a great deal of COPE's advice had directive force simply because alternatives to it appeared neither politically nor financially feasible.

A third important deficiency of COPE appeared to be information-overload. Departmental financial managers complained that far too much data was required, in far too short a time, and for little apparent purpose. History had produced few skilled accountants and auditors for the public service, and a mixture of economic recession and popular myth had severely limited the numbers of skilled persons who could be employed in the public service. Thus the demands of every government for more, and better, advice had been translated into ubiquitous resentment of Treasury. The traditional dislike of the usurer,

exacting compliance on unpalatable terms on behalf of a government, was exacerbated. Treasury still held the purse-strings, but from the departments' point of view its legitimate powers as an allocative gate-keeper had been exceeded. Treasury is "full of economists"; Treasury "makes us work to produce submissions for COPE on a cost-accounting basis, yet no-one in there really understands the meaning of financial management. They spend too much time and energy on giving economic advice, when their proper role is budgetary management".

Fourthly, in the simplest terms, the first (and basic) phase of the budgetary cycle system depended on communication networks which were imperfectly connected. Much of the information generated on behalf of COPE depended for its value on three sets of gatekeepers:

- (a) those who initially filtered it into the network (i.e. the TIOs, governed by Treasury modes and trained in Treasury-initiated techniques);
- (b) those who evaluated it according to the question: how much is existing policy worth in money terms? (i.e. the officials who comprised COPE's Working Party); and
- (c) those who eventually filtered the information out again, to the ministers (i.e. the permanent heads who comprised the formal COPE group).

Each of these sectors included innovative intelligence which would permit a more effective feedback function.

Information is the source of energy: feedback is the nourishment. Yet only a portion of what the TIOs saw (and that was generally limited to what they asked for) was passed on to COPE itself. A great deal of the information they collected was unsystematically circulated within Treasury itself, but not captured, stored or transmitted directly into COPE. Before it dissipated into files and fallible memories, that information could have been examined within Treasury, after COPE. But the pressures of the rolling budgetary cycle, and the perpetual fire-fighting which occurs in a highly permeable political system meant that the opportunities to do so were often lost.

A collective approach (even within the inbred structure of Treasury) and a more flexible arrangement for reporting-back between the "boundary men" (the TIOs) and the final monitors (the senior Treasury men) could have avoided obvious but less acceptable suggestions: more staff, more time, more resources.

Further, the extreme fragility of the one direct link (the TIO) between departments and COPE might have been strengthened if the time allocated to COPE had been deliberately abbreviated so that at least a week of the financial year was set aside for collective analysis and wound-licking by the departmental financial managers, their permanent heads, their TIO and the senior Treasury agent for COPE. Nothing should depend upon this entirely private conference except the exchange of views. The only term of reference would be to talk about their common problems in quantifying the nature of "efficiency and economy" in public expenditure. No output, in terms of a report or a set of minutes, would be required. Since in reality the budgetary system justifiably depends almost entirely on trust, this should be extended by the hierarchies to allow for an exchange of information upon which no tangible sustenance such as money sums depend and for which it is accepted that there will be no published winners. The timing of these meetings, across thirty odd departments, would doubtless cause problems. But these are not insuperable, and unless expectations were entirely unrealistic, this could be balanced by the gains in collective understanding - difficult to achieve in a typically competitive, confidential, hierarchical system.

A fifth problem arose from the difficulties of providing a realistic assessment of the cost of existing policy. Within the limitations of various conflicting codes of loyalty to each other, to their ministers, and to their own departments, the officials attempted the somewhat schizophrenic task of responsibly forecasting costs which they knew must simultaneously represent their own actual income in the next year's allocation of funds. Departments were explicitly conscious of the fact that in the fine print of the COPE instructions was the exhortation to translate objectives into quantitative terms. This immediately raised a number of difficulties. What is the objective for any component of a departmental programme? Who has approved it, and on what basis? Is it capable of quantitative definition? How should competing objectives be weighted, so that differing amounts of money are allocated to them? At what point could it be said that the objectives had been

achieved (i.e. the component no longer needed a supply of money for staff, materials, etc)?

A great deal of information was generated in order to approach an answer to these anticipated questions. Departmental finance managers were constantly beset by them, in dealing with their professional colleagues. But too much depended on the allocative outcome of COPE for any predictive revelations of honesty and self-doubt in that forum. If their colleagues in the field did not provide acceptable justifications for existing policy, the departmental accountants who fronted up to COPE on their behalf were left with three options: bluster, mystification or abandonment. They were miserably aware that any or all may fail.

If, for example, the question asked at the beginning of most COPE sub-committee meetings (but almost never referred to in any report emanating from COPE) had any meaning, then the answer must be heard: What restraints do you exercise over your field-workers? These field-colleagues may be as close by as the professional curriculum-developer in the next room, or the line-manager who decides to begin a planned programme of planting in the state-forest nurseries. The costs of educating a service-wide labour force in the niceties of financial management are considerable and the educative process of staff training now underway is the soft victim of any economy drive. But since the reliability of all the consequent decisions depends upon the expectations generated at the base, there are dangers in neglecting the familiar question asked by COPE officials.

It is part of the collective wisdom of the officials who operate COPE that money grants made to any subsidiary organisation such as a hospital board, are difficult to hold down. It is part of the collective experience of the departmental seniors that the political difficulties produced by tampering with locally-dispensed grants are acute. In their separate cells, each man repeats the same message: we know what should be done, and we think we know how it could be done. Like bits of gold, these remarks were dropped onto the floor of COPE. They were never swept up in a verbatim record, they were never transmuted explicitly or comprehensively into the final ministerial report. Officials themselves suggested several reasons for this, some of which were susceptible to reform:

1. Recording COPE meetings, verbatim, and circulating these, would certainly add to the indigestible quantity of paper now passing across officials' desks.
2. Collectively evaluating detailed accounts of the questions raised during COPE, without regard to the financial aspects, looking only for the systemic implications, would take time and logistic supervision.
3. Technological mastery of the tools of financial control is still tenuous. Any attempt at evaluation of the underlying information on which the immediately-relevant data is based would be premature, and confusing.
4. The minister to whom COPE must report is unlikely to be persuaded of the benefits of a systematic analysis of the process of resource allocation, past what he and his Cabinet colleagues now understand. The pressures of the present political system, with its Cabinet-dominated, three year cycle do not permit the necessary ministerial

The first (and most subtle) is that most of the questions raised during COPE were a reflection of the underlying and increasing need to establish tolerance levels within the system of government. Innumerable variables must be loaded in, weighted for the effects of parameters peculiar to any government decisions taken in New Zealand, and passed on in the form of advice to the ministers. COPE's report established the base: X amount of money would be required, over the next three years, to maintain the status quo. Beyond that, tolerance levels would be surpassed. Less than that threshold, and the system may collapse.

The second is that most officials, no matter how solemn, suffer from insatiable curiosity. They want to know what other people think. They infrequently admit it, but they also need to know what other people think - of them. It is significant, for example, that experienced, senior COPE officials asked an observer: "Do you think we're too soft on departments? I often worry, since often they look so pleased, and sometimes I know there is more I should have done." If there is only limited, relevant feedback, the network is denied nourishment. Information flows at an increasing rate, and with growing complexity, through the system. The people required to evaluate it, and filter it through, are denied some essential means of support.

Although publication has been mooted since 1970, when it was announced in the Budget that forward predictions of expenditure would become a matter of public record,⁶¹ the findings of COPE were not published in any form, and were circulated only as described earlier.

Planning agencies, including those quasi-government bodies which advise the government on fiscal and economic matters, such as the New Zealand Planning Council were not present at COPE meetings, nor did they receive detailed accounts of the department's submissions (bids) or the COPE-adjusted levels recommended to the ministers. Other interest groups which have a near-formal historical role in advising government, such as the Federation of Labour, the Manufacturers' Federation or Federated Farmers, were informed of the government's future intentions in other ways, such as during the announcement of the national Budget.

Schemes for emulating the British White Paper were constantly touted about inside Treasury. Speculation was spasmodic, as with any proposal which has been on the agenda for years, but never actioned. The possibility of published forecasts was used by Treasury officials on COPE as both a carrot and a stick. Some departments, apparently introduced to the idea for the first time, reacted with startled dismay. Other departments, contemptuous of what they saw as both ministerial and Treasury procrastination, disregarded the gently-applied stick. The non-Treasury men who chaired the COPE Working Party, and who heard Treasury drop the promise (or the threat) of publication into the examination, were not themselves party to this particular "riding instruction".

The implications of publication are considerable - even legendary. There are two options: (a) full publication of aggregate figures, which would be a public declaration of political intent; or (b) limited distribution of aggregate and detailed figures throughout the government system, in order to provide planning information.

Either way (and both present real difficulties in a typically closed, confidential government system), some of the pressures would be removed from the officials and shifted onto their political masters. It is not necessarily the case that relocating the cause of stress would improve the quality of advice given to the ministers. Indeed the consequences of widening the scope of any communication network cannot be anticipated as automatically beneficial. But it would provide one discernible solution to the problem of information overload: a tangible public consequence to the work involved in compiling, and examining, a COPE submission.

As a result of non-publication, the pervasive problems of reliability, accuracy and consistency in predictions of future expenditure were not tested in a public forum, and only the first year of the forecasts had real political impact. The implications of publishing future demands for money (which include a public assessment of probable future taxation levels) were thus defused. This threw massive additional responsibility onto the chief advisers and assessors inside the government system - particularly Treasury officials, and increased the potential significance of later phases in the Budget cycle, such as the review of existing and new policies.

Thirdly, there was the enormous problem of any conventional, rigid, hierarchy: the officials who comprised the COPE Working Party communicated with each other across the usual barriers of rank and function. However, the COPE's final discussion inside Treasury, attended by the COPE secretariat, was held without the TIOs. No reasonable allowance was made for an exchange of views between permanent heads and the TIOs - probably the most critical operators in the entire network. Again, this sort of exchange could only be conducted when there was no money at risk. No immediate fiscal decision should hang on the discussion. It should not interfere too much with the small breathing-spaces which are available to officials between one budgetary phase and the next. Nevertheless, the procedural difficulties of nursing a large meeting into worthwhile exchanges were demonstrably not beyond the ability of some imaginative officials. A direct opportunity to cross the vertical divisions of staff levels may have enriched the value of information which could be absorbed immediately within the COPE reports.

The permanent heads who sat on COPE demonstrated more dramatically than their subordinates the division between Treasury and other departments. For example, on the one hand the final COPE meeting was typical of earlier working party and sub-committee "washup" meetings observed by the author, in that these post-mortem sessions shared various characteristics:

- (i) experts in various fields, or novitiates to the process, were given an opportunity to establish a reputation, e.g. for attention to detail, or for an ability to ignore the trees and concentrate only on the wood.
- (ii) officials checked their own consistency, e.g. in adjusting an item or a programme in one department, have we remembered to make a parallel adjustment elsewhere?
- (iii) the meeting acted as a reminder to each other that the COPE secretariat (Treasury) had kept a summary account of the transactions, that it did check these out, and that COPE did expect compliance with the bargains struck.
- (iv) the meeting established for departments that COPE had expectations - in other words, that COPE had a normative, as well as a descriptive function, if only because it was so closely associated with Treasury. The discussions implied that excellence was expected, regardless of how disappointing things may be.

(v) the meetings offered hints of the innovative possibilities of COPE. For example, in the business of financial management and control, is there any way at all in which restraint can be enforced, or are we merely engaged in a cosmetic exercise? COPE constantly needed to reassure itself (albeit in private) that it had creative possibilities - perhaps because without these, the degree of anonymity and neutrality demanded would be intolerable.

(vi) a washup also served as a quasi-public check on the internal consistency of Treasury itself. For example, whose advice should be taken by COPE? That of the TIO, that of his/her seniors from Finance I division, or that of Internal Economics section of Treasury? The Treasury man on COPE must demonstrate his ability to select among the internal sources of Treasury advice.

But at the final COPE washup, the main (permanent heads) COPE group was sharply divided. The permanent heads resisted the moulding effects of Treasury's influence. They pressed the Treasury men to demonstrate whose side they were really on - theirs or the Ministers. It is both a strength and handicap of the system of executive administration that each sector relies upon the others to defend their own territory. Even where this assumption could not be made, COPE had demonstrated, for instance, in its sub-committees that it would move to protect the ailing and may even conceal information from the ministers in order to present a united front.

Treasury is peculiarly immune to the pressures which stimulate other departments. There are very few interest groups within the wider community which focus on Treasury as their primary benefactor. The role of Treasury as Mr Bumble is widely accepted. Expectations of all sorts would be over-turned if Treasury were recognised as Lady Bountiful. And yet, throughout the entire COPE exercise, Treasury men invited departments to just such a re-appraisal.

The permanent heads and their subordinates were disparaging of the turnover in TIOs. "We just get to know him, and after a year or so he's whipped off to some other section of Treasury". They pretended great dismay over what they perceived as the near-total ignorance of TIOs, and most Treasury officials, about their particular field: "Imagine arguing that XUZ should be cut down! That's the sort of comment that makes you realise they don't know anything about [what we do], and all their experience comes from what they pick up inside Treasury". Permanent heads echoed each other in remarking that Treasury people were preoccupied with giving economic advice, instead of doing their

"principal job" - financial management and control.

Like successfully conditioned wives, the departments acted out their traditional, suppliant role. Like an echo, Treasury officials flexed their muscles, and responded with droll paternalism. Neither really wished to excite the attention of the ministers. Their symbiotic relationship would have suffered if they admitted that the improvements they separately envisaged were either dependent on, or dictated by, their political masters.

Although the senior officials who worked alongside Treasury to examine the departmental bids were adept at picking up each other's moods, and clues, the permanent heads themselves were less sensitive. On the floor of the main COPE meeting, they reverted apparently without recognising what their subordinates had achieved, to the battle-lines drawn up between them and their own ministers, and Treasury.

It would be unrealistic to expect that an in-house exchange of views could remedy this, since negotiated bargains are an essential feature of the allocative system. But for both allocative and forecasting purposes, by the end of 1978 a collective assessment of the state of the art appeared overdue. Attention must be given to evaluating the political relevance of the type of information sought by COPE: policy as expressed in money terms. The men at the head of over thirty state departments represented an enormous reservoir of experience and knowledge. At the end of the 1970's COPE provided the only forum in which they officially drew on that source in a collective manner.

Ten years after the development of COPE, it was obvious that the government system could do a great deal to quantify, in cash terms, some of what it used: plant, equipment, supplies, materials, transport and freight costs, fuel, lighting, heating - these could be itemised and costed with reasonable accuracy. But the allocative and productive value of these costs depended on two other critical factors: the numbers and the qualifications of people paid to achieve the desired objectives (which involves training, statutory authority and other management-related functions) and an appreciation, and lucid definition, of what the desired objectives were.

Just as the permanent heads, once before, could not bring themselves to self-injury, so ministers are incapable of denying public claims, at least without adamant support. External planning bodies are unlikely to modify the behaviour, or the relationships, of officials because they have always lacked the authority to commit others to their plans. Public servants, particularly those in the most senior positions, are unlikely to promote any scheme which implicates them in the abandonment of what they define as the goals of their own organisations.

But given acceptable protection and a sufficiently sheltered workshop, they could agree on what is politically essential. Officials who have been persuaded to produce a schedule of their own minimum needs could also be educated to produce a schedule of what they collectively believe to be the minimum needs of the public sector. Some items, some activities, some programmes could be eliminated on a global basis. Only those who work permanently inside the networks can identify these initially. Ministers may approve or reject their choices, but they are not in a position to make the initial selection themselves, apart from picking out the occasional ~~secret~~ cow, such as Accident Compensation or National Superannuation.

COPE was established because Treasury and other officials recognised that incrementalism in government decision-making was approaching a dangerous level. The history of COPE demonstrated that attempting to water down policy through diluting the supply of money available to administrators was no substitute for incrementalism. Setting targets into which the full range of arbitrarily trimmed policies should be fitted was not successful. A further option was to reduce the range of policies, not merely the monetary base on which they were built. This was clearly more difficult than diversifying COPE's networks of communication. Eventually, the ministers, working collectively, would have to consider and accept the revised, collectively-determined objectives presented to them by the joint-permanent heads, if they were to be effective. By late in the 1970s, moves to reform the COPE-based system (described in 'Chapter Six') took a number of these problems and deficiencies into account.

NOTES

Chapter Five:

1. In the Treasury Study Group Report, p.46, it is noted that the collection of forward estimates of all government expenditure was instituted by Cabinet directive in 1962 (the same year as the Public Expenditure (Parliamentary) Committee was established). This suggests that it was intended then to use the projections in the Finance Division of Treasury in Estimates preparation and budgeting control.
2. See Chapter Two for brief summary of developments.
3. David Preston, Government Accounting in New Zealand: An Explanation of the Accounting and Financial System of the Central Government of New Zealand, (Wellington: Government Printer, 1980). See bibliography appended to Preston, p.103, particularly three Treasury publications. See also E. Winchester, 'Increasing Creative Intelligence'. This thesis was not accepted as a sufficiently satisfactory submission for Winchester to be granted a Ph.D. degree for reasons which remain somewhat unclear. It is obvious, however, that during his time in New Zealand Winchester was somewhat insensitive to the particular political nuances of administrative and political relationships in the capital city of Wellington and severe in his criticisms of the Treasury. There are numerous errors of fact - and some sweeping generalisations in Winchester's substantial thesis on N.Z. PPB. However it is also possible that Winchester's disconcerting interest in the use of transcendental meditation as an administrative tool was unacceptable to some of his former New Zealand colleagues. Stories about Winchester, ranging from unsubstantiated claims that he was a CIA 'plant' to equally unsubstantiated assertions of his analytical brilliance and impact, per TM, on the Defence Department (USA), contribute to a curious mythology of almost apocryphal proportions about this US consultant. Although many of his criticisms were apparently rejected while he was in New Zealand, a number of Winchester's recommendations were subsequently adopted in full or adapted in the prevailing circumstances.
4. See E.E. Winchester, 'Creative Intelligence', Pt. II. Vol. 1.
5. See AJHR, annual.
6. See COPE cycle on following page:

7. See the Public Finance Act 1977 and Treasury Regulations and Instructions (N.Z. Treasury) for definitions of government departments responsibilities and powers. See also Preston, Government Accounting.
8. See Preston, Government Accounting for explanation of structures and responsibilities of the New Zealand Treasury, esp. Chapter 2.
9. See Public Finance Act 1977; Preston, Government Accounting, especially Pt. II, Chapter 4.
10. Peter Groenewegen, Public Finance in Australia: Theory and Practice, (Sydney: Prentice-Hall of Australia Ltd., 1979) p. 28. See also his Chapters 2 and 3, and useful bibliography.
11. Budget, Financial Statement, presented to the House of Representatives by Hon. R.D. Muldoon, 25 June 1970. B. 6 AJHR, p. 24.
12. The Treasury, The Planning and Control of Government Expenditure: Planning, Programming and Budgeting System, (Wellington, NZ: Government Printer, 1973). See also W.M. Francis, 'Program, Planning, Budgetary Systems: A Critical Bibliography', presented as part of requirement for Political Science Honours (unpublished), Victoria University of Wellington, October, 1974.
13. See, for example, Battersby; Shand; Laking; Shailes; Hon. R.D. Muldoon, 'The Control of Public Expenditure in New Zealand' The Parliamentarian, Journal of the Parliaments of the Commonwealth, Vol. 55, No. 2, April, 1974, p. 79-85. See also Judith Aitken, 'Problems confronting the Early Childhood Education Sector', Early Childhood Quarterly (Wellington, N.Z. : New Zealand Association of Child Care Centres Inc., Vol. 2, No. 4, Summer/Autumn 1979/80), pp. 10-14; W.I. Jones 'The Application of Control Theory to the Regulation of Departmental Expenditure'. An Essay in Partial Fulfilment of Diploma of Public Administration Requirements, 1970, (unpublished, Victoria University of Wellington).
14. Preston, Government Accounting, Foreward written by Noel Lough, Secretary to the Treasury.
15. See Appendix 3 C.
16. See Clarke, PESC.
17. See E.E. Winchester 'Creative Intelligence' for detailed analysis.
18. See, for example, Winchester, 'Creative Intelligence'; R.A. Patston 'Zero-Base Budgeting as a Tool of Resource Management: a case study in the New Zealand Ministry of Defence, (Wellington, N.Z.: Ministry of Defence: September, 1976); and 'The Impact of Management Information Systems on the Future of Public Administration' (Wellington, N.Z.: January, 1978); M.G. Wing, 'COPE, PPBS, SIGMA, ETC: A Critique', 1973 (In T3/2/72. Treasury records, The Treasury, Wellington, N.Z.).
19. CM 70/22/20, 8 June 1970. The 11 "permanent members" of COPE were :
Treasury
Agriculture and Fisheries
Defence
Education
Forest Service
Health
Post Office

Railways

State Services Commission

Trade and Industry

Works and Development

The departments of Police and Scientific and Industrial Research were appointed to two rotating positions on COPE in 1974 and 1975. See also Treasury report 6072, attached in Appendix C.A to COPE Review, written by J.C. Anderson, 12/6/75, The Treasury. T3/20/75. Treasury records, Wellington, New Zealand. (See App. 3A.)

20. See J.L. Anderson, COPE Review, Appendix A, and for example, Treasury Report 6868 T3/20/75. The Treasury. Treasury records, Wellington N.Z.: Memo to Divisional Directors et. al., Future of COPE, from R. de Jardine, 18 June 1976. T3/20/75, Treasury records, Wellington, N.Z. (esp. Appendix A). See also Appendix 3A.
21. For discussion of targets and other aspects of COPE see numerous analyses in T3/20/- files in the Treasury for example: R. de Jardine, Future of COPE, T3/20/76; G.P. Wheeler, COPE: A New Perspective, 26 August 1974, T3/20/74; Wing, COPE: PPBS, SIGMA ETC. 1973; Draft Memo from MM/LC (Treasury officers) to Minister of Finance, Committee of Officials on Public Expenditure: Targets for Departmental Expenditure 1976/77, 11 September, 1975, T3/20/75. See Appendix 3A.
22. Treasury circular 1978/31, 14 July 1978. T3/20/78. Treasury records, The Treasury, Wellington, New Zealand. See Appendix 3A.
23. Ibid.
24. Ibid. Appendix II.
25. Preston, Government Accounting, Pt. IV p. 74 ff.
26. At least one experienced departmental finance manager suggested that in fact the reverse of this was true: election year is when more is "given away" than at other times during the three-year Parliamentary cycle.
27. Draft "mini-report" on COPE to the Minister of Finance, 15 November, 1978. T3/20/78. (2 copies) Appendix 3A.
28. Ibid., p.1. See Appendices 3D(i) - (iii) for Notes of COPE 1978 examinations and departmental forecasts.
29. Draft "mini-report to the Minister of Finance from the "Committee of Officials on Public Expenditure (COPE): Projections of Expenditure (COPE): Projections of Expenditure 1979/80, 1980/81, 1981/82". 23 November, 1978. T3/20/78. Treasury records, The Treasury, Wellington N.Z. Copy 2 shows amendments recorded by J. Aitken, present during this final COPE meeting in the Treasury Appendix 3A.
30. See Winchester, 'Creative Intelligence', Part II, Volume II, Chapter III: 'Evaluation of the PPB systems: The Capital Works Programme'; also Preston, Government Accounting, Chapter 5: 'The Works Programme,' pp.30-34. For earlier account of capital works expenditure management, see J. Yuill, "The Works Programme: A report on some aspects of its operation and its future development", February, 1968, T3/19 Treasury records, The Treasury, Wellington, New Zealand (in Appendix 3A); W.I. Jones, "Control Theory", esp. Chapter 6; I.M. Carrie, "Ministry, Organisation,

- Works: A Preliminary Note Concerning the Desirability of Restructuring the Formal Organisation of the Head Office of the Ministry of Works". A Research Essay for the D.P.A. Course, December, 1969, (unpublished, Victoria University of Wellington). See also Appendix 4D, "The Public Sector Construction Procedures and Resources Review".
31. See, for example, Ministry of Works and Development, Development and Programming Branch: "Public Sector Capital Formation: A Preliminary Study", April, 1978; "A Model of Regional Economic Activity and Forestry in New Zealand", September, 1978; "The Ministry of Works and Development National Investment Impact Model: A User Guide", January, 1980; "A Review of the MWD National Investment Impact Model", March, 1980.
 32. Robert (Bob) Semple, Minister of Public Works, (Labour) 1935-1949.
 33. Jack Wight, Director of the Development and Programming Branch, MWD and J.R. Battersby, Assistant Secretary to the Treasury were key figures in the COPE-related aspects of capital works programming. The former worked in continuous close relationship with the Cabinet Works Committee as an advisory official. He was by profession, a qualified architect.
 34. The Department of Education, the Ministry of Transport and the Department of Scientific and Industrial Research. See Appendix 3D for transcripts of COPE investigations of these three departments.
 35. See T62/42: Report by P. Gorringer, TIO to COPE secretariat on "COPE 1978: DSIR: Supplementary Note", 10 October, 1978; "Annex" to COPE Secretariat: "COPE 1978: Allowance for 'Productivity Factor' in Forecasts of DSIR Expenditure", 16 October, 1978; X(78) M32 Pt. I, CCEX Minutes, including discussion of "COPE Forecast: Use of Productivity Factor by the Department of Scientific and Industrial Research", 26 September 1978; X(78) 152, CCEX memo re. COPE Forecasts, and Memo from E.I. Robertson, Director-General, DSIR, to the Minister of Science and Technology on "COPE 1978: Allowance for 'Productivity Factor' in Forecasts of DSIR Expenditure", 15 September, 1978; Treasury memo to Chairman, CCEX, "COPE 1978: Allowance for 'Productivity Factor' in Forecasts of DSIR Expenditure," 11 August, 1978. Treasury records, The Treasury, Wellington, N.Z. Note: The "productivity factor" was also known as the "sophistication factor". See Chapter 3, Pt. II, Appendix 3A.
 36. Hugh Heclo and Aaron Wildavsky, The Private Government of Public Money: Community and Policy Inside British Politics, (London: MacMillan, 1974).
 37. B.1, [Pt. IV], 1978, (AJHR, Government Printer, 1978).
 38. Heclo and Wildavsky, Private Government.
 39. i.e. Education, and Capital works forecasts, held respectively in the Department of Education (Head Office) and the Ministry of Works and Development (Head Office).
 40. See Public Finance Act, 1977 and Controller and Auditor-General's (1978) Report to Parliament on Financial Management and Control in Administrative Government Departments, B.1. [Pt. IV]. For earlier discussions of "efficiency and economy", see Report of the Royal Commission of Inquiry, (Chairman: Hon. Mr Justice McCarthy) into The State Services in New Zealand, (Wellington: Government Printer: June, 1962), esp. Chapter 3.
 41. Budget, 25 June, 1970. B.6. AJHR (Wellington: Government Printer, 1970).

CHAPTER SIX

RECENT DEVELOPMENTS IN PUBLIC EXPENDITURE PLANNING

Interest in reform :

By the late 1970's, in a variety of official quarters including the Treasury, considerable dissatisfaction was being expressed over the COPE-based system of public expenditure planning and financial control. From one viewpoint in Treasury, the problem centred on

the dualism of COPE as both an allocation and a forecasting exercise. For both macro-economic (level of Government activity) and macro-financial (deficit funding) reasons, the forecasting is necessary. However, because COPE is also used as the basis for the draft Estimates, it has a micro-financial function as well. This dualism creates many tensions.

As [COPE's] exercise is not a purely forecasting one, it is not a straightforward and rational affair; it involves the qualitative assessments which are a necessary part of allocations exercises. Much of the tension relating to the allocation aspect of COPE arises from the vagueness in the interpretation of 'existing policy'. Because it is loosely defined, allowing historical practice rather than being strictly dependent on Government approvals, many extensions of existing policy get into COPE. This leads to conflict. Treasury adhere to strict rules, departments seek to get round them.

Hence, in the context of COPE, Treasury is consistently seeking to enforce the discipline of formal codes and departments are seeking always to bend them. Because of the judgmental nature of the allocation aspect of COPE informal codes are important; mutual trust is needed to ensure that the unwritten rules are observed. In this, COPE and Treasury are united. A schizophrenia occurs in COPE when deviations occur (e.g., B [departmental finance manager] and his over-exploitation of the informal codes, the 'historical practice of existing policy', corresponding to his deviation from norms of acceptable behaviour). COPE signals to Treasury to correct such over-exploitation in another context; to correct them itself would destroy the entire practice of the informal definition of existing policy.

From another Treasury viewpoint the main problem was the inadequacy of existing systems for (a) review of departmental forecasts and allocations, and (b) restraint of actual expenditure in the public sector:

... Government expenditure has increased in real terms from 1974 to 1980 by approximately 30 per cent. In the same period expenditure has gone from being 29.2 per cent of GDE to 37 per cent of GDE. Progression has not been steady. Major variations ... disguise the fact that within existing policies there is a tendency for incremental 'creep' to take place each year ...

In recent years our efforts to control expenditure have taken four forms, [the first of which is that] the 'base load' represented by existing policies has been assessed by an annual interdepartmental COPE exercise modified as necessary by (generally) across the board reductions where the need for these is indicated - by macro-economic or financing considerations ...

While each of the ... elements in the control process has been reasonably consistently applied, each has demonstrated certain fundamental weaknesses. In the aggregate these have led to our relative inability (and/or unwillingness when it came to the making of

individual decisions) to obtain the control over government expenditure that we could well have achieved. To be more specific: ... The COPE exercise, which has certainly resulted in a lower level of expenditure than we would have seen without it, is nevertheless essentially a cost-plus exercise which inevitably results in a degree of expenditure creep from year to year. There is a constant, and very understandable, temptation for departments to adopt an expansive viewpoint when determining their needs in terms of personnel, goods and services. Once this claim has been accepted and the figure added to the base then there it remains to be escalated at the 'standard' rate from one year to the next - except in the event that arbitrary cuts off the COPE figures are made at Estimates time in response to a feeling that the final COPE figures contained some 'fat'.

Add to this the fact that many of our policies are open-ended in the sense that we do not impose an expenditure ceiling on a policy when introduced - and that the expenditure incurred on some depends upon the vigour with which they are pursued or the simple compliance with certain rules (e.g. unemployment benefits, national superannuation). In the latter case the Government automatically spends more (or less) depending on factors largely outside its control unless it changes the rules. It is not difficult, therefore, to see why, despite the COPE exercise, we have had difficulty in holding the overall level of Government expenditure.²

The senior official who wrote that comment on COPE in 1979 (on behalf of the Associate Minister of Finance, D.F. Quigley) added that the greatest value of COPE in the past had been its use in maintaining the status quo - that is, he claimed, the expenditure process had been relatively stable. In addition, the annual COPE exercise provided a disciplinary system whereby departments were obliged to discriminate between what they were already doing and what they proposed to do, in financial terms. Departmental financial controllers were forced to focus on the total expenditure process, to cost policies carefully and adequately in terms of probable need, to identify areas of growth, to be both more methodical and more systematic in making their claims on the public purse. However, he concluded, at best COPE had remained a costing, not a priority-setting exercise. "Although it is tempting to radically alter the existing system for annual and future policy costing and approval, it is [now] proposed to build on what COPE has achieved - discipline, establishment of planning requirements and improved internal departmental 'house-keeping' - and evolve a more effective emphasis on expenditure planning".³

A more senior Treasury official with long experience in the COPE system commented that in fact only one of the original objectives of that exercise had been attained. In 1971, he said, COPE's responsibility had been threefold. The Committee's task was to identify:

First, the longer term costs of Government policies at present, or, to put it another way, what share of national resources does Government need to carry out its policies? The Committee (COPE) has been given the job of establishing these costs and resources and this is the survey aspect of its work.

Secondly, what share of national resources is likely to be available to Government over the forecast period? This information is given to Government and, in future, will be given to the Committee (COPE) through the normal economic forecasting function of Treasury. In effect it sets a limit upon total expenditure if Government economic and financial objectives are to be obtained.

Thirdly, what would be the effect on policies if the forecast level of activity is to fit within the limits of the total resources and expenditure likely to be available? This is the ANALYSIS aspect of the Committee's [COPE's] work and implies that ultimately the Committee will have to evaluate existing as well as new policies.

The Committee would link with Government decision-making by reporting at the time (December) that Government is considering its expenditure guidelines. It is expected that, eventually, [COPE's] work could result in Government setting guidelines for several years in advance. This contrasts with the present procedure of Government setting guidelines each year merely for the following year.

The predominance of COPE's first task, in the minds of the officials involved, reduced their perception of the importance of the other objectives designed for the Committee by its pioneering Treasury planners. Problems and deficiencies in expenditure planning and control, during the 1970's were exacerbated by the fact that

we still don't have an adequate system for PAR (Policy Analysis and Review). No one wants to do it - we did have a couple of people recently, for example, but in general Treasury people want to get on the divisions because that is perceived as⁵ being where the action is - and where promotion starts from.

In August 1979 the same official described his concerns over COPE in a slightly different way:

To date COPE has not carried out its initial terms of reference in full.⁶ This is because the members [i.e. the permanent heads and other officials comprising the various sub-committees of COPE] have felt that it is not possible for a group of permanent heads to comment on the effect on another permanent head's department of keeping within some overall financial limit. Over the years COPE has merely performed the survey part of its functions ... COPE thus presents the Government with a forecast of the cost of existing policies. This is a most useful job although the COPE procedures came in for some criticism by the Auditor-General in its report on Financial Management and Control in Administrative Government Departments (BI [Pt.IV] 1978). The Auditor-General did suggest that COPE could be replaced by a system requiring departments to prepare projections for review by Treasury ...

In some cases the innovations [such as PPBS, introduced and implemented in New Zealand since the late 1960's] have not developed as originally intended. This applies especially to the COPE procedures. It was thought that COPE would develop along the lines of PESC in the U.K. This was not to be. PESC is a public forecasting exercise that places Government expenditure firmly within the context of economic growth. As developed, it involves departments, Ministers and Parliament and in effect commits all parties to a future expenditure pattern. COPE on the other hand has developed so far into an annual budgeting exercise that starts about nine months before the financial year begins. COPE establishes the cost of existing policies, commits no one and is 'in house'. Its usefulness is largely as an agreed base for policy reviews and estimates bids ... there is a definite need for greater emphasis on the analysis of existing activities to gauge how effectively they meet policy objectives.

Other senior departmental officials outside Treasury shared these concerns over COPE. In early 1979, for example, one financial manager with many years experience in government and on COPE sub-committees wrote as follows :

Recently I read 'Zero Budgeting Comes of Age'. My impression was that given the present staffing standards in the public sector, Zero Budgeting would be difficult to introduce. There is no guarantee that it would be more meaningful than COPE is at the present time, for the reason that since the review of the COPE forecast is superficial, is there any reason to expect that we could do better at reviewing zero based budgets.

Things about COPE which disillusion me are :

- It is now only a facet of the annual forecasting exercise since it is subject to restraints and arbitrary reductions imposed by Treasury and Government. There is a substantial overkill in the COPE review. For instance departments put a lot of effort into equipment forecasts, and the TIO's and working party sub-committee debate their labours with much earnestness. On numerous occasions we then get Government saying something like: '75 per cent of last year's allocation'. Perhaps these situations would be avoided if we had better crystal balls, but I think they should be looked at, all the same, and better guidelines given at the outset ...

Does Treasury 'follow through' every proposal? Two about which the outcome is unknown to myself were the across-the-board reviews of Publicity and In-service training which Government requested in 1977 ... It could be that the result of studies on this scale should be made available to the COPE working party. We [i.e. COPE officials] would then know what attitudes to adopt in the future.

I agree ... that what emerges as the Vote allocation seldom bears any resemblance to what went in as the forecast. It is also a fact that departments re-shuffle expenditure but this is to ameliorate the harsher realities of our financial environment. It has to be remembered that:

- (a) estimates are always subject to refinement as new facts emerge, staff numbers firm up, and plans are completed; and
- (b) some of Government's cost-cutting economies are imposed without much thought of the consequences; e.g. no PLC's as at 1 January.⁸

I think we must be allowed to move our foot a little when the boot is pinching our toes too much.

[In summary] COPE is too big an exercise and needs experimentation in examination under other headings to break it up. Since DMVC and the Works Programme have been cut out already, why cannot some other groups of either items or activities be similarly treated where they are sufficiently common. Overseas travel, staff training, publicity, building maintenance, rates, grants to organisations in New Zealand and overseas, office furniture, office equipment, computer services, all suggest themselves. The review of other activities may be able to be scaled down or, as in the case of trading activities and votes, dealt with on an entirely different basis.

Finally, can the emphasis be positively shifted away from masses of paper to a concise presentation of the forecast.⁹

At the end of the previous year (November 1978) the same official had signalled his growing disquiet over the COPE system; with which he had been involved for over a decade. He was then concerned about the lack of standardisation and coordination of departmental forecasts, as submitted to COPE; over the lack of "quantifiers" - quantitative measures defining the assumptions behind forecasts and enabling efficient evaluation to occur; over the loose, vague, uncritical presentation by departments of what constituted "existing policy":

quite apart from the fact that some votes appear to classify [some types of] expenditure as an item while others treat it as an activity, there [is] no valid way of determining how much should be spent other than by reference to the base year [1978/79 i.e. the immediate past fiscal year]. Therefore spending patterns get aggregated.¹⁰

The official did not recommend targets for expenditure forecasts. As he knew from personal experience, such fiscal devices had been little more than a licence to reach the higher permissible scale. He favoured a Treasury-set "formula" which would define the upper limit of expenditure. He had concluded:

If I may be critical of Treasury, it seems to me that having developed the concept of COPE forecasts some ten years ago, there has been little on-going improvement. I know there has been F.F.S. [Financial Forecasting System] but in essence this deals mainly with the presentation of the forecasts. There is still no alternative to the value judgement as to 'how much is enough'. I am not advocating the scrapping of COPE and the substitution of an entirely new system - the process of retraining a large number of technical officers does not appeal. However, it does seem desirable that some review be made of COPE

so that more evolutionary changes may occur.¹¹

In 1980 a relatively junior Treasury investigating officer, fresh from his first COPE examination, and still somewhat outraged by the arrogance with which a large, confident spending department asserted its claims on public funds, epitomised COPE in this way: "The way COPE functions now means that the barbarians (spending departments) themselves are manning the frontiers while the Treasury legions are locked up in their camps". He continued with a sense of righteous indignation, asserting that certain accommodations made by COPE were a priori wrong:

In particular, I find it extremely disturbing that:

- (a) volume increases above the previous year's appropriation are a priori regarded as being reasonable, i.e. the existing appropriation is not regarded as an expression of existing Government policy;
- (b) unjustified volume growth according to Government-approved formulae (e.g. bursaries, formulae grants etc.) is agreed with, despite Treasury reservations;
- (c) volume growth according to Departmental [sic] formulae is agreed with, even though no documentation is provided to show that the formulae are approved by Cabinet or Cabinet Committees;
- (d) volume growth is agreed with even when this effectively reverses decisions made by Cabinet and Cabinet Committee at the Existing Policy Review;
- (e) volume growth is agreed with even though it exceeds the volume growth specified in a Cabinet Committee approval...

In my view, COPE should either be abolished or purified... if purification were achieved, then three objectives would be attained:

- (a) Cabinet and Cabinet Committee decisions would not be pre-empted and negated by officials acting in accordance with what they see as individual [sic] Minister's wishes;
- (b) expenditure growth would be controlled with less difficulty;
- (c) COPE would become a forecasting rather than an allocation exercise (at the moment departments treat COPE basically as an allocation exercise, as a way of obtaining resources, and consequently their forecasting is pitiful); this would enable COPE to become the forum for developing sound and sophisticated data bases for assessing the resource implications of existing policies (which is probably what COPE should be in theory).¹²

The cumulative impact of these and other carefully considered criticisms on those responsible for the maintenance of the annual COPE exercise was inevitably powerful. The effect was to refine and emphasise various informal and quasi-formal complaints about COPE elsewhere in the department networks. Some officials, particularly departmental accountants, undoubtedly partisan, grumbled that the COPE rules were both

implicit (therefore not open to their attack) and inconsistently applied (therefore open to abuse by COPE sub-committees). Others felt that the massive paper-work, and relatively routinized nature of the annual COPE exercise implied that "this sort of housekeeping should now go back to Treasury. We've got the point, we've learned how to be more disciplined, but we simply don't have the time or the trained staff to tie up in such an exercise any longer".¹³

While most officially agreed that COPE was "essentially a good idea, in that it [gave] an approved base for the Estimates", this was precisely the area of greatest concern to Treasury officials - what one person called the "tablets of stone syndrome". One departmental manager who had "battled with COPE for the past ten years" considered that COPE's "constitutional basis" was "only insecurely related to Treasury instructions", but worse, "it's an awful lot of effort for the benefit of a very small number of people. Who reads COPE reports? Who actions decisions made by COPE? The real problem is that Treasury is not looking hard enough at the consequences of not giving us the money we claim."¹⁴

It may have been true that only a very small number of persons actually read the COPE reports. These were not, however, insignificant persons, since they included influential politicians such as the Minister of Finance, Muldoon, and his Associate, Quigley.

While Ministers like Muldoon and Quigley were receptive to complaints reaching them about COPE, their principal concern was not so much with which particular rules did or did not work, with the constitutional proprieties, or the behavioural inconsistencies of either bruised departmental officials or affronted COPE and Treasury adjudicators. They were motivated by two other pressing preoccupations: the unacceptably high aggregate level of expenditure forecast each year by COPE (eventually necessitating increasingly embarrassing budget deficits) and the political costs of this. Their own party (National) was explicitly committed to two ends: a redirection of public funds into fields such as energy development, and a limitation on public consumption in the interests of the private sector.

There were, of course, apologists for COPE. From late 1978 to mid-1980, as proposals for budgetary reform were developed in an atmosphere of rumour and speculation, departmental officials who had earlier expressed their disenchantment began to worry whether or not some new, time-consuming, technically sophisticated substitute might be foisted on them by Treasury. One form of this reaction was to belittle the importance of

COPE in the annual budgetary procedures, to imply that its deficiencies were as exaggerated as its perceived instrumental role.

The immediate past-Secretary of the Treasury, Lang, for example, asserted that:

COPE is not a major area of power negotiation. Most permanent heads are simply not interested in COPE.... In any case, the main problem is that specific management information is missing, just not getting through the present channels. It's not so much what's wrong with COPE that's the problem - it's that financial management information is not properly tied in to a system for macro-economic resource use. It's fine inside Treasury itself - I would have designed another system if I had not thought that this one [i.e. COPE-based Estimates] would work. The departments are more or less in touch with the New Zealand version of PPBS, but there are some problems. For example, after the COPE report is completed, the Education people suddenly discover they've got 200 more teachers than they thought they had. Or, again, budgetary information is not tied into a system of macro-economic resource use. The Department of Statistics now has better information to offer but we still haven't tied in public sector resources. So there is a major expenditure planning problem here.... However, one shouldn't exaggerate the importance of permanent heads, and one certainly shouldn't exaggerate the importance of COPE.¹⁵

The basis for redesign: A Cybernetic Perspective.

At this point we turn to examine what came to be known as 'the Quigley concept' - a set of specific proposals for reforming the COPE-based system of expenditure forecasting and the allocation of resources for the maintenance and implementation of existing and new government policies. The brief history which follows is described from two inevitably partisan viewpoints - that of ministers and their officials. Neither fully rehearses the range of views held by various agents in central government; neither attempts to assess the range of reactions to reform outside the immediate expenditure planning systems.

In an account of the application of systems theory to budget planning and fiscal control, Lloyd Amey notes that:

[A] good plan... 'does not necessarily yield a good control... good planning data and good control data are not necessarily the same'. This introduces the question of motivation and incentives.... It seems quite clear... that behavioural considerations, in the form of the motivation and personal aspiration level of employees, and how far they are influenced by the level of the control target set and by the form the penalty-reward system takes are [significant factors] when we are considering control.¹⁶

Although, as we shall see, both ministers and officials placed considerable emphasis on their own education and cooperation and on participation by all concerned in "hard decisions", this was largely a

matter of in-house rhetoric. For a number of reasons (including the organisational experience, ideals and preferred management style of the principal participants, the hierarchical confidential nature of the inner executive systems, and the constitutional and political necessity to maintain viable budgetary procedures) coercion, rather than education, dominated the reformed design. Changes made to the COPE-based system would in fact require, if not compel, specific behavioural changes on the part of spending agents regardless of diverse levels of departmental and ministerial consciousness and consensus.

Theorists such as Anthony Wilder and Russell Ackoff, contributing to a recent conference of social scientists and engineers interested in cybernetics, emphasised the necessity for participative system design.¹⁷ Their arguments, in conjunction with Lloyd Amey's, enable us to assess how far the "Quigley reformers" developed an effective system for budgetary preparation and management. Wilder is preoccupied with what he calls the "deep structure" of cybernetics - that is "the web of underlying, primarily epistemological assumptions that are taken for granted when applying cybernetics [i.e. theories of communication and control] to solve practical problems".¹⁸ He sees one fundamental obstacle to changing frames of order and acquiring a proper understanding of systematic behaviour (both of which the Quigley school was attempting to do). That obstacle is the extent to which those affected by change perceive it to be imposed, designed and controlled from the outside: "Instead of examining the question of restructuring the system, [reformers] ... tend to concern themselves only with the surface-structure question of the redistribution of the present inputs and outputs of the system, leaving its fundamental organisation, and of course its ideological and economic values, essentially untouched - as if they were beyond question."¹⁹ One insight to be gained from the following history is the extent to which the system designers tried to avoid this obstacle.

Ackoff takes Wilder's point further in discussing what he calls the aesthetics of management. Ackoff states that in problem solving (as the Quigley reformers attempted to do) "we have preferences for means as well as ends ... (that) set of preferences (we) have that are independent of considerations of efficiency constitute our style... Desired outcomes are performance objectives that impart extrinsic value [i.e. the efficiency of a means relative to an end] to the means we employ to pursue them. Uses of preferred means are stylistic objectives that have intrinsic value, value that is independent of the outcomes they bring about. If and when our theories of decision-making, problem solving, management and control do not take style, intrinsic values, into account, they are seriously deficient".²⁰

Ackoff goes on to argue that style is at least as important as efficiency and effectiveness, particularly in any situation in which the objective is to increase one's control over a situation. Since, as we shall see, this was precisely the objective of the Quigley reformers, Ackoff's thesis is relevant :

It has often been observed ... that individuals enjoy power - which is the ability to control - for its own sake. This means that control can bring its own satisfactions. A control system, even a self-control system, that does not match the style of the controller will either not be accepted, or, if accepted, will lead to dissatisfaction and ultimate replacement.

Thus, the designer or planner of control systems must understand the style and ideals of not only those who are to be in control, but also those who are to be controlled if he is to design or plan a system that will work effectively. ²¹

Ackoff further observes that "Style is multidimensional".

However, in developing an effective control system for a structure as complex, diverse and historically and politically determined as the public sector, the designer's capacity to determine different traits of behaviour is severely limited. Hence Ackoff suggests that the best solution would be to coopt and encourage the involvement of those^{who} will control, be controlled, or otherwise affected by the system being designed, in the design of that system. "A system designer who is aware of the relevance of style can learn about the stylistic preferences of stakeholders in the system by making its redesign as participative as possible. Participants in the design process cannot help but put their stylistic preference into their design. Nor can they refrain from incorporating their ideals into these designs." ²² [Emphasis in original].

The number of stakeholders in the system of public expenditure planning and government financial control may for some purposes be regarded as including the whole population of New Zealand. However here we will categorise as "stakeholders" those in central government with explicit delegated authority to plan for, expend and control public funds. The account which follows, for example, indicates who was actually involved in re-designing the COPE-based system. Their identity, and their preferred stylistic means to a desired end may be assessed in the light of Ackoff's thesis. We may also observe that although the system designers attempted far more than a mere "redistribution of inputs and outputs", and speculated on changing some structural aspects of the central allocative organisation (for example, by instituting sector committees on an "envelope" basis), they showed relatively little interest in examining the ideological and other socio-economic values of those whose willing cooperation would be essential to the scheme's success.

The use of a cybernetic model, which focuses on feedback communication processes, is justified on the grounds that the "sectors" involved [i.e. the various executive agents of governments] are interdependent - "decisions in one sector are communicated and may alter the conditions for decision-making in another".²³ Since this was precisely the intention of the Quigley School, the model is highly relevant. It should, however, be noted that "what serves one sector well may be detrimental to another."²⁴ At the end of the 1970's the COPE-based system was reformed because it appeared to be serving too few powerful interests effectively. The success of any reform of that system, however, was likely to depend on how far account was taken of the varied significance of information feedback to controlling agents, and their understanding of, and adaptation to, the formal and informal codes of political and organisational behaviour of those they sought to control.

The Ministers' Tale:

During 1979, discussions on the COPE-based system of public expenditure planning continued inside the central government networks. For example, on 28 June the Planning Council submitted to the Prime Minister a paper entitled Options for the Future. The paper said that;

June, 1979

At a previous meeting, you (the Prime Minister) expressed the hope that the Planning Council would give more attention in its reports to 'the extension of options into the future'. The Council is anxious to do this in its work programme which, you will recall, aims to produce an overall study of options for the future in 1980-81, after a series of more detailed studies this year.

The Council has been established as a focal point for consultative planning. It is itself small, and its success must depend largely on provoking others to look ahead, and helping to pull the results together. To this end, it is working closely with a number of private groups e.g. with the Manufacturers' Federation and Manufacturing Development Council on the possibilities of increasing the proportion of manufactured output which is exported. However, if the Government's undertakings on planning for national development in its last Manifesto are to be fulfilled, it is essential that more work be done within Government itself on options for the future.

The Manifesto emphasized a more systematic appraisal of future levels and patterns of public expenditure and the use of manpower, leading ultimately to publication of the results. It also envisaged that each department should explore options for the development of the sector or sectors for which it is responsible, usually in association with an advisory council or other mechanism for consultation with people from the private sector and local or regional government. Much work is, of course, already being done towards planning of this kind, but it is patchy and spasmodic. It also needs more positive and systematic guidance and coordination.

Your recent Budget has set the stage for a new initiative in planning. It is recommended that you authorise the Treasury, in consultation with the Chairman of the Planning Council, to set the necessary work in train expeditiously. The first step will be recommendations by officials to Cabinet on guidelines to be used in assessing options for the future. This will provide the necessary background for further improvements in the education of future public expenditure and manpower policies and in national and sectoral planning, along the lines indicated. (25)

From June, discussions between Treasury and Planning Council officials continued - members of the CCEX (notably Quigley, Associate Minister of Finance) were closely involved and lines of inquiry began to firm up.

August

At the end of August, the New Zealand Institute of Public Administration had held a conference in Wellington. The Secretary for Justice, Robertson, had addressed the conference with his views on the present system for public expenditure management and control.²⁶ Robertson's comments, reported in the news-media, had caught the eye of Quigley (Associate Minister of Finance) and on 17 September 1979 the Minister forwarded a note on this to B. Tyler,

Assistant Secretary of Treasury (with whom the Minister had already had discussions) for comment. The note from the Minister's executive assistant (ex-Treasury official, R. Tanner) said: "The Minister has commented to me (Tanner) that his initial thinking is that a Cabinet paper should be prepared on the topic, but he would be interested in any 'informal' Treasury comment first."²⁷ Robertson's chief complaint had been that there were no clear, explicit Government policy guidelines (for either policies or expenditure targets) to control departmental budgeting. Nor, Robertson was reported as saying, "do COPE officials have a base against which to analyse Departmental forecasts."²⁸

Although there is no evidence that Robertson was personally consulted again until several months later, when he was invited to join an Officials Committee on Expenditure Planning, his public comments added to, and had apparent influence on, the climate of opinion now developing among the principal financial advisers of the Government.

October

On 8 October 1979, for example, a Treasury draft paper (internal circulation only) was written, entitled Public Expenditure Planning: Economic Considerations.

Throughout this section the term 'Government Expenditure' is defined as the Government's claim on real resources i.e. payments to personnel employed by the Government and for goods and services purchased by it (both current and capital). This excludes subsidies, transfers and financing transactions where the Government merely acts as an intermediary for the transfer of claims on real resources from one group in the private sector to another.

In December 1977 Cabinet agreed, on the recommendation of the Cabinet Committee on Expenditure, that 'Government expenditure targets should be consistent with the Government's medium term economic objectives of achieving a sustained improvement in the balance of payments and providing a sound basis for economic growth' (CM 77/47/13 refers). Treasury considers that the basic approach endorsed by Cabinet in 1977, which concentrates on the allocation of the additional resources created by growth rather than shares of total resources, is still appropriate.

It is clear that, if adequate employment opportunities are to be created for a relatively rapidly growing labour force, let alone increases in real standards of living, New Zealand will have to achieve a significantly higher rate of economic growth over the next 5 - 10 years than it has, on a sustained basis, for many years past. It is equally clear that the major constraint on growth has been for many years the balance of payments - this constraint has become even tighter since 1974.

Thus the first charge on growth must be exports. Achievement of faster growth also implies a minimum commitment of resources to investment, both private and public, but with the emphasis on private sector investment in the production of tradeable goods and services. This leaves as the residual private and public consumption.

The allocation of resources as between private and public consumption is more a political than an economic question. The economic aspect essentially relates to efficiency. It has become a commonplace that the private sector uses resources more efficiently than the public sector. Given the size of the protected private sector in New Zealand, and the form and level of that protection, this is at least arguable. However, there is little concrete evidence either way.

In Planning Perspectives 1978-83 (sic), the Planning Council suggested that a rate of growth in real G.N.P. over that period of 3 percent per annum was feasible, but only if exports grew by 5 percent per annum in real terms. Failure to meet at least 3 percent growth would inevitably result in a combination of high unemployment and net emigration. The Planning Council estimated that this rate of G.N.P. growth would require a 1.9 percent per annum increase in real investment and would allow private and public consumption, taken together, to rise by 2.6 percent per annum in real terms. Given that the capital: current balance in Government expenditure is normally around 25:75 (currently 20:80), and assuming that it is desired that the Government's share should not grow at the expense of the private sector's, then the upper limit of growth in real Government expenditure should be 2.4 percent per annum. As the risks would seem to be downside i.e. that we are more likely to under-shoot than over-shoot the overall and export growth objectives, a target rate of growth in real Government expenditure of 2 percent per annum would be more appropriate for planning purposes.

The second major economic consideration is that growth in Government expenditure should not fluctuate unduly around the target rate. The reasons for this are two fold:

- (a) Government expenditure is not a particularly effective countercyclical instrument. This is because the time lag between decisions on and implementation of new expenditure programmes can be so long that, rather than damping a downturn in economic activity, the additional expenditure merely reinforces the following up-turn.
- (b) Another reason lies in the ratchet effect - it's much easier to increase expenditure than to reduce it. All in all, Government expenditure controls are likely to be more effective if applied in a consistent fashion from one year to the next, rather than on a stop-go basis.

The approach suggested above implies that for demand management purposes the appropriate fiscal instruments are taxation and transfer payments, subsidies etc. This, in fact, is reflected in recent practice when instruments such as income tax cuts and family benefit increases have been employed for demand management purposes.²⁹

November

On 20 November 1979 a paper written by Treasury officials (notably Tyler, Assistant Secretary) was produced in the name of the Associate Minister of Finance.³⁰ The paper, which represented a summary of joint ministerial-Treasury-Planning Council discussions to that point, was entitled "Memo for the Prime Minister: Public Expenditure Planning and Control".

The paper referred to a Cabinet discussion of 23 October 1979 when Ministers had been asked "to review all functions within their portfolios". In the light of this discussion and request, the Associate Minister of Finance had "attempted to bring into sharper focus a number of ideas concerning the control of Government expenditure which could well be considered for introduction for the 1981-82 expenditure year, i.e. the budgetary cycle which will begin immediately after the 1980 Budget". After illustrating the major problems identified to date (e.g. historical increase in real terms in government expenditure during the previous six years; incremental tendencies (both in policies and expenditures)), the Minister briefly summarised the main procedures introduced in recent years to control the situation. He suggested that although developments such as the COPE exercise had "certainly resulted in a lower level of expenditure than we would have seen without it", both systemic and behavioural problems remained unsolved. "What is (now) required", the Minister continued, "is an incentive that will induce departments to examine their expenditures not in terms of their desirability but rather their necessity and priority in the light of our policy objectives and the resources available. At the same time, the possible benefits of the trade-off between giving up old policies for new needs to be more clearly understood at both the official and political levels." The Minister added, significantly, that "unless the decisions of Government, day by day, recognize that its self-imposed spending constraints are in fact binding, (i.e. on Ministers with non-finance portfolios) then all the statements of best intent will be for nothing." The paper proposed a number of approaches:

- e.g.;
- (a) determination of aggregate expenditure levels
 - (b) determination of expenditure priorities
 - (c) setting of annual cash limits
 - (d) allocation of volume increases from a collectively-generated spending 'pool'
 - (e) specific financial ceilings for all new policies
 - (f) "tit for tat" i.e. substitution of new for old policy costs
 - (g) sinking cash levels/'lids'

It also suggested some structural changes, e.g.

- (h) development of improved policy review capacity inside departments
- (i) establishment of a special Cabinet Committee, "supported by a small team, probably based in Treasury", to evaluate particular policy areas identified ("by Cabinet?") for review and analysis. This was described as an approach "based upon that recently adopted by Mrs Thatcher" (P.M., U.K.). The purpose of such a "team" (i.e. CC plus officials) would be to "increase

the influence of the political arm of Government over the administrative arm, and... provide the avenue for the examination of major policies (and 'sacred cows') that would tend to be excluded from the tit for tat procedure".

- (j) examination of "tax expenditure" - i.e. revenue foregone, which probably runs into the thousands of millions, though no figures were included by the Minister.
- (k) grouping of Votes - i.e. "the so-called 'envelope' approach recently adopted by the Canadian Government".

The paper concluded that:

While there is no magic wand that will of itself provide us with the control over Government expenditure that we are seeking, it is my view that the mechanisms discussed in this paper would represent a co-ordinated and mutually re-inforcing approach to Government expenditure control. The key concept is the more explicit fixing of the limits within which expenditure decisions are made and shifting more of the responsibility for expenditure control and policy review to where it most effectively belongs - with individual Ministers and the departments for which they are responsible.

The Minister then stated that he would "appreciate the opportunity" to discuss the "concepts" raised with the Prime Minister "and subsequently with Cabinet". He added that further discussions with Treasury "and other interested departments" would be necessary in order to "fully evaluate their (i.e. the concepts) feasibility and their implications as to the operation of the overall Budget cycle."³¹

The Prime Minister apparently gave his approval pro forma to the idea of bringing the rest of Cabinet on board (though not, as yet, any more explicit approval to the content of the paper itself).

December

On 6 December 1979 Tyler (Treasury) drafted a letter, approved by Quigley on 11 December for circulation to Cabinet, with "the Quigley paper".

The attached paper has been developed with a view to exploring ways in which the planning and course of Government expenditure may be improved.

The first draft then read: "The Prime Minister has already indicated that the paper proceeds along lines he favours". Quigley amended this, however, as follows: "As the Prime Minister has already indicated that the topic is one which is worth pursuing, I will shortly be requesting Treasury officers to develop the concept further". Clearly, Treasury's wording implied stronger commitment from the Prime Minister than the Minister was prepared to risk.

There was - and some six months later there remained - a tangible sensation that those involved most closely in the experiment felt they were walking on eggs.

The Minister invited his colleagues' reactions, since "this would help to ensure that any changes to present practice will fully take into account your own views and experiences".³² By mid-summer 1979-80 ministerial and other comments began to trickle into the Minister's office, and hence to Treasury. The first response came from Hon. W.F. Birch, Minister of National Development (20 December 1979, received in Treasury on 3 January 1980).

Birch, who also held the Energy portfolio, was a member of neither the Cabinet Economic Committee nor the Cabinet Committee on Expenditure, and he apparently had felt for some time that he was both disadvantaged and excluded by this fact.³³ His National Development portfolio did not have an administrative department beneath it, and, possibly seeking to widen his own networks of influence, Birch had turned to Sir Frank Holmes, Chairman of the Planning Council for advice. He wrote, briefly, to Quigley, that he

would support a new approach to the constraint on Government spending based on absolute ceilings but with ability for Ministers to introduce new policies on a 'tit for tat' approach. The objectives in the paper should be pursued vigorously.³⁴

He then attached Holmes' comments, which were in the form of a letter to Birch written on 6 December 1979, and classified 'confidential'.

Holmes, who had apparently not been kept totally in touch with events since mid-1979, wrote rather dispiritedly as follows:

Dear Minister,

David Harper [a Treasury officer seconded to Birch's office] has told me that you would like a note on public expenditure planning and control.

Since our meeting with the Prime Minister on Options for the Future,³⁵ I have kept in touch with Treasury from time to time on the means of giving effect to the ideas in the memorandum (attached) which the Prime Minister initialled in June. Subsequent correspondence with the Prime Minister indicated that the Government does not wish to change its policy on the publication of the COPE estimates. However, this does not rule out improvements in the system of planning the level and pattern of public expenditure. I have had several discussions with senior officers of the Treasury on possible improvements. They in turn have pursued the issues with Mr Quigley and the Prime Minister. The outcome so far is represented in a paper [the Quigley paper] which I gather Mr Quigley is circulating.

I am assuming that this paper will take a form similar to a draft upon which I was consulted by Treasury a little while ago. I agree with Treasury that the present system of planning and control of expenditure needs substantial modification if Ministers are to be

able to determine priorities in the light of their policy objectives and the resources likely to be available. It is important that the decisions should be made with a forward perspective of at least three years, as they suggest.

I agree with most of the changes suggested in the paper, and see the Planning Council being able to assist at certain points especially in advising on what the growth of GDP is likely to be over the next few years, what the level of Government expenditure might be relative to GDP given Government's other objectives, and what changes in the pattern of public expenditure might be consistent with a desirable strategy for New Zealand's economic, social and cultural development in the medium term. It would be a great advance if the steps suggested in Sections A and B of the proposed new approach were adopted as a basis for decisions on expenditure. I believe that it would make it easier for Cabinet to see that the level and pattern of expenditure reflect their party's priorities and strengthen their feeling of collective responsibility to ensure that the targets agreed upon were adhered to.

The setting of cash limits to prevent 'expenditure creep' and 'policy creep' is, I believe, of great importance. The danger of rigidities arising from these limits would be reduced if the 'envelope' approach suggested in Section H were adopted. Thus, it would be in tune with the approach suggested in 'The Welfare State?' if the votes of several departments in the welfare field were grouped and considered together for this purpose, as well as for any allocations from the proposed 'additional spending pool'. We believe strongly in the collective scrutiny of related departmental expenditures in this way, with a medium-term focus and with a major aim being to prevent problems from arising rather than curing them after they have arisen.

In thinking about specific policy reviews, I would emphasize the need to provide adequate time for both Cabinet and officials to examine the desirability and practicability of changing some major policies (and even taking a shot at some sacred cows from time to time). Continuation of existing policies under the constraint of sinking lids and other similar devices will not, I believe, be adequate to give Ministers the degree of control they need over total expenditure and the ability to change the pattern to conform with the changing requirements of new circumstances and desirable new policies. All in all, I hope that the proposals are supported by Ministers. 36

On 19 December the Minister of Defence, Hon.F.Gill, sent a brief letter addressed more effusively than was the style of his colleagues, to "My dear Minister" (i.e. Quigley). His approach was characteristically different from that of Holmes - and, indeed, he appeared to feel, if only tacitly at this stage, that there could be some undesirable leakage of power from the whole Cabinet in what Quigley's paper suggested.

Gill wrote as follows:

I have read with interest your paper... and I believe that a number of the machinery proposals you make could make a contribution to our general aim to reduce Government expenditure, but I consider (and I have advocated this in the past) that the

key to our problems lies in a serious consideration of your paragraph 8. and your paragraph 21.(37)

In my view, we will never solve this problem unless we meet as a Cabinet and give it serious consideration and decide, after full discussion, that we are going to make economies and then decide as a Cabinet in which areas the economies will be made. For example, are we to reduce Social Welfare and by how much on Health or Defence...

I would have liked Cabinet to have met for three, four or five days late in January, not necessarily in Wellington, to thrash out this problem on whether reductions should be made. I do not believe it can be done by individual Ministers of individual departments. If we had delayed our first Cabinet meeting for a week next year we could have tackled this problem. In my view this is the sort of approach we need. 38

Not only does this letter demonstrate the desire which others in central government have experienced - to get out of the Wellington village atmosphere and hold collective discussions in a less hothouse atmosphere; it also implies an experience of political wishes and personal ambitions thwarted or set aside by others with more power in the system. A Treasury note in the margin commented, re. the joint Cabinet suggestion, "the UK Government does (or at least used to) just this - also away from London. It has merit."

February 1980

The Minister of Works and Development, W. Young, sent his responses to Quigley in early February, as Cabinet began its annual post-vacation activities.

Young's overall reaction was favourable. He wrote:

the existing system is no more than the product of thoughtful evolution over the years, and no doubt can be further improved. I do think that success depends as much on political judgement as on any system of measurement

He pointed out, mildly enough, that the section in Quigley's paper on new policies made no reference to the introduction of manifesto items. He argued that:

Their place in the queue will not necessarily be determined solely on their economic merit and the 'tit for tat' approach may not be sufficient to accommodate them. They may need to have a separate mechanism designed to incorporate them into the departmental budget."

While Ministers and officials can be expected to adapt to a new budgetary management system, it will be necessary to regularly inform the public of our objectives so that the demands of pressure groups do not get unreasonable priorities. 39

A Treasury officer closely involved with developments at the time commented, in reply to the author's query, that although aspects of this letter from

Young did indicate a limited grasp of the meaning of planning, it also demonstrated that the Minister (whose own departmental expenditure was formally justified more by client-demands than its own 'mission') recognized the necessity to provide ministers with safe armour against lobby groups outside Government. Nevertheless, for Quigley's and Treasury's immediate purposes, the word "favourable" early in Young's letter was the only message they needed at that stage.⁴⁰ An internal Treasury note by Tyler attached to the Gill and Young letters commented that "We should put these [comments by Ministers] together and discuss their overall reaction leading to a discussion as to how we next advance the cause (e.g. individual discussion, concentration at P/H [permanent head] level meanwhile, etc.)"⁴¹ The evangelists' sustenance was feedback.

On 8 February the Hon. L. Adams-Schneider, (Minister of Trade and Industry), replied with a brief personal note and a full paper of comments written, at his request, by his permanent head J.W.H. Clark. In this four page paper Clark concluded that:

Like Mr Quigley I feel that the real problem in control of public expenditure is an adequate review mechanism for existing policies. Unlike him I think it can be achieved only by a continuing centralised review of such policies with all the trauma that goes with such an activity. 42

While Adams-Schneider did not explicitly agree with his permanent head, nor did he express any other critical comments, but simply sent the report. There was no attempt to mask the political reality of whose views on public expenditure control were critical, and must be identified and accommodated. By the same token, the Minister declared no explicit responsibility for his chief adviser's views, either.

D. McIntyre, Minister of Agriculture and Fisheries, replied on 10 February, and his letter, which appeared to be written personally, was quite direct. Employing a rather sparse, ironic and critical style, McIntyre wrote as follows:

You have sought my reactions to your paper on public expenditure planning and control.

I accept that there is a need for more effective measures to control Government expenditure growth. The record shows clearly the desirability of a more rigorous approach. I see merit in the concept of expenditure ceilings determined having regard to the considerations listed in your paras 10 and 16. Such ceilings could well involve the operation of sinking lids. You indicate the desirability of retaining present staff ceiling controls. If we were to adopt the concept of firm expenditure ceilings (sinking, in real terms, if necessary), then I think that the staff ceiling controls should go. One of our problems in controlling Government

expenditure is that there are far too many controls at the micro levels (staff numbers, plant and equipment, motor vehicles etc.) and not enough emphasis at the macro level (total expenditure). The result is the sort of unintended effects to which you refer. If we were to place the major control on the aspect with which we are most concerned - total expenditure - then Ministers and permanent heads would have greater flexibility in obtaining maximum benefit in terms of achieving policy objectives from a finite expenditure resource. If the fixing of expenditure ceilings is done properly, the pressure will still be maintained on such things as staff numbers.

While I see the logic of the 'additional spending pool', I have reservations about how it would work in practice. There is nothing wrong with the concept underlying the present new policies exercise but the practice leaves a lot to be desired. It is cluttered up with a miscellany of relatively minor items. The result is that we have pressure on Ministers in a tight time span in a process where the wood can easily be lost among the trees. I suspect that the operation of an 'additional spending pool' would produce the same result. 43.

I am not attracted by the 'tit for tat' approach. The scope for savings is not uniform across departments nor are there necessarily savings to be made in departments which may have very worthwhile new policy proposals to be put forward. The better approach is the specific policy review to tackle those sacred cows which graze peacefully on the comfortable pastures provided by the present expenditure levels. 44.

A Treasury [internal] note attached to this letter read as follows:

He i.e. [McIntyre] makes 3 main points:

- (i) Fix expenditure limits and drop staff ceilings
- (ii) The additional spending pool will flounder under its own weight
- (iii) Tit for tat should be replaced by PAR type operations.

While having some trouble with the above, we should take seriously coming as they do from a senior minister whom we would rather have in our team than out. 45

It is interesting that:

- (a) although the full Cabinet had been invited to comment, only five ministers put their responses on paper;
- (b) of these five, all but one [Birch, Energy] had held ministerial posts since at least 1975, and in most cases longer than that;
- (c) McIntyre, Young, Gill and Adams-Schneider were all senior ministers - either high-ranking in Cabinet or secure in Prime Ministerial and National party preferment;
- (d) no recently-appointed, or younger ministers, other than Birch (whose ambitions with regard to gaining membership of the prestigious CEC were casually touted at officials' level), wrote to Quigley - and certainly none of the Ministers most likely to be in line for

special attention (e.g. Health, Education, Social Welfare) returned a written comment.

- (e) The diversity of views, their general agreement on the need for reform, and the benefit of sharing the collective political nous gained from the replies from senior ministers, particularly those closest to the Prime Minister (whose views on reform proposals remained an unknown quantity) gave modest confidence to the "Quigley school" of system designers - including the Associate Minister of Finance himself.

Elsewhere, experienced Treasury officials in Finance I division were generating reactions of their own. On 12 February 1980 for example, Hamilton, annually responsible for shepherding everyone else through the Budget cycle (an exceptionally demanding task which continued literally up to a few days before Budget and Estimates when tabled in the House) had set down his interim suggestion for timetabling and expenditure criteria - the rules of the game.⁴⁶

March

Senior accountants in various selected departments - Statistics, Justice, Energy and Works - had been surveyed for their views on a proposed new COPE format and definitions for expenditure evaluation and control.⁴⁷ The results were circulated to a limited audience in Treasury on 6 March 1980. The report included the following comments:

(A) Clarity and Distinction of Definitions

Few problems exist over items (a), (b) and (c) [data aggregated to programme level: i.e. cost of inflation, forecast year cost of new policies, non-recurring expenditure.]...

- (c) demographic growth. It would seem that a wider definition is required. [Definition proposed was "(c) demographic (i.e. unavoidable) growth"]. It would have to take into account "externally-generated" growth - prevalent in the case of Justice; courts, probation, prisons - and a variety of "unavoidable" and "formula-related" growths;
- (d) Demand growth [i.e. definition proposed was "(d) demand growth i.e. growth which is in response to demographic growth but which is able to be stopped - "e.g. night school 'craft' classes"].
- (e) Discretionary growth [i.e. definition proposed was "(e) discretionary growth i.e. the department and not necessarily the public wants to do more, e.g. publicity"].

The distinction between (d) and (e) is in the minds of the accountants a grey area. Department's honesty in differentiating was thought to be a factor that would affect the value or meaning of definitions. Accountants expressed grave doubts about the ability of component managers et. al to make sense of those definitions.

My only suggestion [i.e. Kevin Hyslop, Treasury report writer] is that (c) (d) and (e) be reduced to two categories only, of a more single description such as I have hinted at in the section on definition (c) i.e.

Definition One : Demographic, formula related, unavoidable, externally generated

Definition Two: Other volume growth.

(B) Aggregation to Programme Level

This was generally regarded as much inferior to aggregation to component level. The reason advanced was that in the case of larger departments component managers are persons who would have to provide this information and interpret definitions which seems reasonable. Aggregation to programme level would simply involve a lot more work as FFS is set up primarily to focus upon components.

(C) Capacity of Department to Provide

Departments had serious doubts about their ability to handle the additional workload even assuming the new instructions could be successfully interpreted.

(D) Other

- (a) Energy suggested an additional definitional category along the lines of 'revenue-related' growth, i.e. growth in a trading environment where a profit would result, i.e. net expenditure would not grow.
- (b) [Not included here]
- (c) Works advocated a thorough approach in developing a new system/information base as problems in the present COPE are often due to the poor information base.
- (d) Energy suggested this innovation be raised at F.O.A.G.⁴⁸

On March 10 Cabinet invited the CCEX to "submit to it a short general paper together with the memorandum circulated by Quigley on 12 December 1979 entitled Public Expenditure Planning and Control on a new approach for the conduct of expenditure reviews for 1981/82."

A member of the Cabinet office staff suggested that the Prime Minister's support for this proposal had been niggardly rather than neutral - a fact which continued to bother the Quigley School. However, when the CCEX met on 14 March it had before it a paper (formally in the name of the Committee Chairman, Thomson), prepared for Quigley by Treasury. This paper was to be considered for possible submission to Cabinet later in the month. This draft (still classified confidential) began with an affirmation of the CCEX's full support for the Quigley concepts and recommended that a paper stating this be forwarded to Cabinet for "discussion". [sic]

There were three CCEX recommendations, none of which need take Cabinet any faster or any further than it felt comfortable to go: Cabinet could

- (a) note the concepts contained in the [Quigley] paper
- (b) instruct Treasury to discuss with other interested parties the feasibility of [the Quigley] concepts and their implications as to the operation of the overall Budget cycle, in particular on the workload of Ministers, Treasury, and the expenditure departments themselves;
- (c) direct Treasury to report to the CCEX by mid-1980 on the results of those discussions with a view to the implementation of the proposals contained in [the CCEX submission, based on the Quigley paper] for the 1981-82 financial year.

The paper itself read as follows :

2. The Associate Minister is concerned, as is the Committee, that Government expenditure continues to grow in both monetary and real terms each year. He notes particularly that whereas Ministers and departments promote many new proposals each year, there is not the same willingness to review existing policies with a view to phasing the lower priority ones out. The continuing growth in the cost of existing policies of course inhibits the facility to finance new proposals.

3. In brief, the concept being developed by Mr. Quigley is the introduction of a co-ordinated self reinforcing public expenditure system that would contain the following elements :

- (a) The determination by the Government of the desired levels of Government expenditure in real terms. This would be derived from a consideration of the share of the Gross Domestic Product (GDP) which we wish to allocate to the public sector associated with an estimate as to the medium term growth in GDP.
- (b) The division of the total field of Government expenditure into a relatively small number of broad categories. We would then decide to which of these categories (if any) we would wish to give more (or less) emphasis over the forecast period.
- (c) The allocation of the total level of Government expenditure (as provided for in (a) above) as between sectors would then be possible.

4. The objective is to give individual members of Cabinet a clear idea of the limits within which they will be expected to operate, and, by ensuring that we all have a collective responsibility for the expenditure targets agreed on, both in the aggregate and by sector, will increase the probability that those targets are in fact achieved.

5. The mechanisms proposed by Mr. Quigley which would lead to better control of Government expenditure both in the aggregate and by sector include :

- (a) the specific identification of all increases in expenditure over the previous year, to bring all allocative decisions together and allowing the relative merits of 'unavoidable' extensions of existing policies to be weighed against those of new policies that could otherwise be introduced;
- (b) the placing of specific financial ceilings on all new policies, so avoiding the expenditure creep that arises from the introduction of open ended basically uncontrolled policies (in the sense that

once the 'rules' are set, the Government has relatively little control over the consequential level of expenditures);

- (c) a continuation of this year's 'tit for tat' policy whereby departments are expected to make room for new policies by specifying how compensatory savings could be achieved in respect of current expenditures;
- (d) the identification, on a very selective basis, of major policy areas for evaluation, and the responsibility for evaluation being vested in a Cabinet Committee supported by a small team, probably based in Treasury;
- (e) the prompting of a number of votes, making them subject to an overall expenditure limit and allocating to a Cabinet Committee (comprising the Ministers concerned plus the Minister for Finance) the primary responsibility for determining expenditure priorities within the sector (the so-called 'envelope' approach) . 49

The most significant advance in the paper that went before the CCEX on 20 March 1980 over the initial Quigley paper (written as a memo to the Prime Minister on 20 November 1979), was the specificity of the wording of 5 (e). Up till that time, the Cabinet-level machinery had been dealt with vaguely, but the opinion commonly held among some Treasury officers (particularly those with a very cautious approach, in contrast with some of their more enthusiastic colleagues) was that the Minister of Finance, Muldoon (also the Prime Minister), was unlikely to buy a scheme which leaked any more of his discretionary power over expenditure to a Cabinet Committee. The solution while not necessarily a decision - suggests that the Minister of Finance should become an active committee member rather than that he should merely be an ex officio one [as Prime Minister].

The CCEX discussed the paper at some length. All three Ministers (Thomson, Quigley and Templeton) were present, with Tyler and his subordinate colleague R. Wilderspin, from Treasury, and P. Bygate from the SSC. Although as is customary individual remarks are not usually attributed explicitly in the minutes of a Cabinet committee, it was clear from the record, and suggested by Treasury officers that Tyler took a very positive, even assertive role during this and other CCEX discussions.

Tyler's predecessor on the CCEX, Battersby, may not have had a "trendy, go-get-'em reputation"; he had, nonetheless, an instinctive and highly-developed sense of constitutional and political proprieties - an "institutional memory".⁵⁰ This essential bureaucratic virtue, coupled with a detailed knowledge of departmental policies and historical expenditures, may have given ministers more leeway than some officials considered desirable - but by the same token it also avoided the situation in which an overly enthusiastic Treasury got itself out on an insecure limb. During the 1979/80 CCEX meetings and the Committee's reviews of 1980/81 expenditure plans, however, Tyler and Quigley reportedly acted in tandem, as peers, with a strong shared interest in pursuing similar objectives.

The minutes of the CCEX meeting (20 March 1980), as recorded by the Committee's permanent Cabinet Office secretary, Marshall, included the following report :

It was explained to the Committee [probably by Tyler] that a concept had been developed under which a number of steps would be taken towards the introduction of a co-ordinated self reinforcing public expenditure system, which would contain several elements. Ministers would be asked to decide the desired level of Government expenditure in real terms and this would, in turn, be divided into a relatively small number (about six to eight) of broad categories. Control would then be delegated to "envelope" committees of Ministers who would be called upon to operate within the total cash ceiling decided by Cabinet for that particular sector. The Committee would have to agree on the amount available to meet Existing and New Policies and further sub-divide the total cash available for that sector amongst departmental functions, which would have to be funded from that sector. Departments would have as of right funds for the ensuing financial year as set for the preceding year, plus inflation adjusted annually. All other areas of growth would have to be separately identified and justified. There would be a continuation of the 'tit for tat' approach adopted during the present Expenditure reviews and the aim would be to identify major areas of review where the sector committees could concentrate their energies on redirecting resources. The sector committee would, of necessity, have to be small (about three Ministers on each) and each would cover those administrative functions which the Government had to provide for society where the user-pays principle could not be applied. The three major spending departments in the social policy field could be amalgamated in one sector and similarly the trading functions of departments which could be funded by the private sector would fall into another area. It was not essential that the existing functions of a particular department had to end up in the same sector. The British experience was quoted where small committees covering about half a dozen sectors had been set up and Ministers had taken the time to sequester from their portfolio work to carry out a major expenditure exercise.

The Committee considered that it would be useful for the matters covered by the paper ... to be discussed with the Minister of Finance before the paper was placed before Cabinet. The Committee further considered that it would be useful for Treasury and the State Services Commission and selected Permanent Heads to analyse the proposals

contained in the paper.

The Committee deferred further consideration of the proposals... until members of the Committee had discussed the proposals with the Minister of Finance.⁵¹

From the point of view of the promoters of the scheme, this dangerous corner was passed five days later when with the same ministers and officials present the CCEX, somewhat unexpectedly, decided to:

agree to recommend that Cabinet

- (a) note the proposals contained in the paper entitled 'Public Expenditure Planning and Control' attached to X(80)51;
- (b) agree to the formation of an Officials Committee with the following members to study the proposals contained in the paper in (a) above:

Mr N.V. Lough	Secretary to the Treasury (Chairman)
Dr R.M. Williams	Chairman, SSC
Mr W.L. Renwick	Director General of Education
Dr H.J.H. Hiddlestone	Director General of Health
Mr J.F. Robertson	Secretary for Justice
Mr S.J. Callahan	Director General for Social Welfare
Mr J.W.H. Clark	Secretary of Trade and Industry ⁵²

The CCEX determined that this Officials Committee should report back to its parent body - i.e. the CCEX.

At this point in the history of the reform developments, (i.e. March 1980 on) there remained an explicit awareness that either Tyler or Quigley, (or both) and those most closely associated with the Quigley concepts could be walking a tightrope.⁵³ Firstly, from March until July, there was the unseen but ever-present hand of the Prime Minister. Although his formal imprimatur on continuing discussions of the Quigley concept had been obtained, no-one really regarded this as anything more than a licence to trade in ideas and ambitions. Although the CCEX was the formal (and necessary) patron of the Quigley concepts, it was itself continually aware of the Godfather powers of the Prime Minister.

Secondly there was the residual, habitual bedrock of ministerial resistance. This was a mixture of ignorance, laziness, incompetence, shrewdness, political instinct and straightforward collegial envy of anyone (e.g. Quigley) who put his head up too far or showed too much style and flair. And behind both were the departments, full of skilled strategists, likely to support the ministers for varied reasons, but, above all, repositories of organisational pride and insularity which could subvert the most shining reform plans.

Thirdly, although the CCEX was prepared to take time out to promote the reform plan, the Ministers were simultaneously engaged in an extremely demanding schedule of existing and new policy reviews on this Committee, as well as other Committees, Parliamentary Caucus and electoral activities. Thus they were necessarily reliant on two factors.

- (a) their own political instincts for "what would go" (in lieu of any lengthy or explicit analysis of the implications of what they were contemplating) and
- (b) the sustained, energetic, constitutionally-responsible and politically-sensitive attention which their principal Treasury advisers could give to the scheme. Discussion on membership of the Officials Committee (apparently "dreamed up" by the Ministers above) reportedly took about 5-10 minutes of their time on 25 March 1980. This may account for who was included in the recommendation, who was not included - and who was later added.

According to some Treasury men working on the scheme, and the Director General of Education and his chief policy adviser,⁵⁴ a number of criteria (mostly tacit) were applied by CCEX Ministers in recommending members for the new Officials Committee.

- (a) permanent heads of the "big-spenders" i.e. Education, Health and Social Welfare;
- (b) permanent heads who had shown a particular interest in the general field of public expenditure control and planning and had spoken out on this, either in other settings (such as the PEC) or in public, e.g. J. Robertson (Justice) or H. Clark (Department of Trade and Industry);
- (c) permanent heads of those departments believed by Treasury to have the most efficient and effective chief financial officers, e.g. Murray Burns, Department of Education. In some cases, these finance officers were ex-Treasury men;
- (d) permanent heads who had to be there, by virtue of their minister's seniority, Cabinet work or particular portfolio, e.g. Treasury, S.S.C., Trade and Industry.

Apparently such criteria were neither all-embracing nor consistently applied. As significant omissions from the recommended list indicate, they did not include all control departments - the Ministry of Works and Development for instance, is conspicuous by its absence. This conflicts with criterion (b) above - J. Green, Chief Accountant for the Ministry of Works and Development, was both experienced and highly regarded as a thoughtful, shrewd and reliable official by some senior Treasury men, but not invited to join the new committee.

Again size or the significance of any departmental Vote did not necessarily apply to all possible candidates - the permanent head of the Energy Department, for example, was not included - no major trading departmental head was considered. Some departments with historically-determined access to other prestigious Cabinet Committees such as the CEC were absent - The Customs Department, for instance, was not among the candidates for Cabinet consideration.

In the event, on 31 March 1980 Cabinet approved, without amendment, the recommendations of the CCEX.⁵⁵ This Cabinet Minute, written by Cabinet Office secretary, Millen, includes one slight ambiguity, noted in a later annotated marginal query by a Treasury official. CM 80/11/8 states that Cabinet "referred X (80) 51 [the CCEX submission paper] back to the Cabinet Committee on Expenditure so that the Officials Committee can be instructed on the report to be made by it to Cabinet".⁵⁶ [Emphasis added]. Such is the significance of the actual wording of any Cabinet minute that the identity of that "it" (Cabinet? Officials Committee? CCEX?) could later become critical. There is no evidence to suggest that this ambiguity was intended by the Cabinet secretary; nor is there any evidence to the contrary. The CCEX's own minutes had clearly identified that the proposed Officials Committee should initially report back to that Cabinet Committee.⁵⁷

May

Events now acquired a different pace, and style. Between 31 March 1980 and 20 May 1980 (nearly two months) Treasury officials (in consultation with Quigley) and other departmental officials, busied themselves with the various machinery and policy questions raised by the reform proposals. The terms of reference for the Officials Committee were not approved by the CCEX until a meeting of that Committee on 20 May (discussed in detail later), and even then the CCEX decided that:

the Officials Committee should informally discuss with the CCEX the results of its findings at an appropriate stage before it reports to Cabinet.⁵⁸

(Again the "it" is ambiguous: would CCEX or the Officials Committee report to Cabinet?)

On 27 May, one week later, an amendment to the Officials Committee membership was made, by decision of the CCEX to recommend to Cabinet that:

Mr B.V. Galvin, Permanent Head, Prime Minister's Department, should be added to the Officials Committee appointed by Cabinet to consider proposals to changes to the present mechanisms for planning Government expenditure (CM 80/11/8 refers).⁵⁹

We return now to traverse some of the same ground again, and to continue the history of the Quigley reforms, this time from the perspective of the officials most closely involved.

Working Out How it Could be Done or All I Want is a System that Won't
Fall Apart in my Hands: The Officials' Tale

September 1979

On 11 September 1979, R. Alexander (Director, Finance 1) received a note from Tyler (Assistant Secretary to the Treasury). The note read:

At CCEX this morning the question of departmental expenditure restraint was considered and the relative absence of control mechanisms was noted.

Would it be possible in those cases where particular votes were over-expended for a sanction to be applied to the department concerned by way of a commensurate reduction [sic] in the vote that would otherwise be provided in the following year? If this was practicable, we could, when circulating departments as we propose following the publication of the Supplementary Estimates, indicate that this would be the result of any over-expenditure in the current year.⁶⁰

Tyler's colleagues consulted their collective experience - one wrote, for example, to another:

I'm not sure (X [senior Treasury finance officer] would know) but I think the P/H's (i.e. permanent head) designation as 'accounting officer' implies he is personally accountable for the use of funds. Would this be a better sanction? That is, is CCEX empowered - or could it be - to summon a P/H and require him to comment on over-expenditure and what measures he took to avoid it? If nothing else it might make the dillitantish [sic] take more interest in financial management. Brian's [i.e. Mr Tyler] suggestion seems fraught with loopholes.⁶¹

On 14 September, Tyler circulated another internal memo, addressed to McLeod, Deputy-Secretary of the Treasury, but also distributed to seven other colleagues. Tyler referred to an earlier discussion of issues associated with public expenditure "which warrant early study". "I recommended", he said, "an early meeting of the Government Finance Coordinating Committee (GFCC) [an inhouse Treasury sub-committee]... to discuss the possible development in public expenditure planning and control with [other senior Treasury personnel]."⁶²

The paper attached to this memo (which formed the basis of the proposed GFCC discussion) was headed Forward Planning Public Expenditure. The gratuitous "Forward" was presumably intended to emphasise the direction of the Assistant Secretary's thoughts. "The steps I would see" Tyler wrote, "are as follows:

1. Determination of share of total resources which should be allocated to the public sector.
2. Determination of GDP growth.
3. What 1. and 2. above mean in terms of public expenditure.

4. Analysis of COPE forecasts to see how forecast years relate to Government expenditure as determined in 3. above.
5. Analyse COPE forecasts to see how weightings change during forecast period.
6. Obtain direction from Government as to any change in expenditure weightings during forecast period.
7. Determine rate of change required in order to meet Government direction.
8. Develop mechanism to produce change in weightings to accord with Government directions. These could include :
 - (a) development of PAR unit;
 - (b) requirements that departments, whenever they propose new initiatives, should drop off activities in such a way as to move them towards the Governments objective. For example, a department whose relative share of the expenditure cake is expected to fall could be required to drop off activities equal to \$2 for each \$1 of new initiative requested. Another department in any activity which Government favoured may on the other hand be expected to drop off only say 50 cents of "old" expenditure for each \$1 of "new" expenditure.
9. Review of the 'Sinking Lid' Concept (i.e. Its continuation, modification, or replacement).

It is possible that underlying some of these issues is the need to develop new concepts of planning and course of Government expenditure. For instance the present reviews tend to consider incremental change and usually ignore programmes already in place; accordingly departments have expectations of growth rather than substitution.

We must consider too Treasury's ability to pursue some of the [issues] noted above. Some are clearly the responsibility of Internal Economics while others fall within the scope of Finance I. The latter Division is fully committed in processing its 'routine' responsibilities and has no capacity for undertaking R and D responsibilities of the scope envisaged. I see merit, however, in the Division being the prime area of development with Mr. Alexander (director, Finance I) and myself being closely involved. Two solutions offer themselves to mind:

- (a) The 'Task Force' approach whereby an experienced officer is detached from both Finance I and Internal Economics;
- (b) The PAR section be formed immediately (including any transfers as appropriate for 'Internal') but its first assignment being R and D of the type referred to above instead of 'issues' studies.

Neither approach would abrogate Internal's responsibilities which already exist, regarding Items 1 and 2 in my list above. ⁶³

Hamilton replied, characteristically, immediately :

The whole question of existing policies reviews needs reconsideration - a feature which should form part of our review of public expenditure planning in any event.

Past reviews have varied, from Treasury promoting lists of issues in the expectation [of] departments providing nil returns and leaving the question of issues solely to the departments.

The 1979 review was a combination of both.

It should be noted that the Government has not been recommended to conduct a review this year (for effect from next year). As it stands now, no review is on the stocks. Nevertheless, tired concept though it is, the requirement for another review ensures the need for constraining is [sic] kept on departments.

As a forerunner to any other changes we could recommend the Government issue something like this:

Following a preamble on the level of growth in net expenditure -

'Cabinet is strongly of the view that the evaluation of existing policies, both as to their continued need and as to their level requirements, should be an on-going function within all departments. Although no specific across-the-board survey of existing policies is contemplated this year, Cabinet has directed that except where proposed new initiatives fall within the Government's economic priorities (which Treasury has to establish, the present ones being "dated") departments preparing new policies will have to demonstrate the [gap in original] ... by which they can be funded if they were to be approved.

Furthermore, departments are to note that all major new policies approved for implementation in 1980/81 will be subject to evaluation and review as regards their continuation no later than three years after implementation. Departments will therefore need to develop information systems by which costs and benefits may be monitored.'

I feel that this is still not meeting the main concern: as long as departments have expectations of incremental increases for discretionary growth and for new policies there will be little incentive for their reviewing their bases.

At the same time, an approach is required which facilitates the funding of new initiatives in department A by effective savings in department B (which may have a different minister). In my Land Use days we had some success (bitterly opposed by MAF (Ministry of Agriculture and Fisheries) at increasing expenditure on, say, rural water supplies from fertilizer subsidy savings.⁶⁴

In the papers by Hamilton and Tyler, as elsewhere in Treasury, the outsider (in effect eavesdropping) is struck by the explicit manner in which constitutional and political questions are discussed inside that central organisation. In one sense, Hamilton's paper is a manual for the perfect civil servant: the administrative arm of the democratically constituted Cabinet. Attuned to both political and

organisational realities, he defines the public interest, quite simply, as whatever the government (i.e. the Cabinet) wants, chooses, or aims to do, according to whatever objectives that Government chooses to promote. On the other hand in this Treasury sub-system of central Government, officials like Hamilton and Tyler have the clearest possible understanding of what political power means: it is the authoritative power to allocate resources.

It is the enormity of this power which moved one member of the Quigley school to a bitter, even savage, denunciation of ministers whose habitual assumption of political authority led them to "treat (i.e. to distribute) public funds as though they were a form of personal patronage - a sort of huge, private, slush fund". It is equally the enormity of this power which brings Treasury officers hard up against the seeming impossibility of ensuring either efficiency or economy in the planning and control of public expenditure in a democratic system. Where election to political office depends on public favour, and with the social and economic variables influencing public choice so varied and complex, the likelihood of the successful application of concepts and techniques like "PPBS" or "demand" (or, indeed any other kind) of economic and fiscal management, appear almost illusory. Yet it is characteristic of Treasury officers (like many other senior public servants observed in this study), that however secretive and elitist their style seems, (viewed from the outside) they consistently attempt to maintain both the form and fiction of consultation, participation and collective agreement - critical theoretical components of democracy.⁶⁵ The flaw in their attempts is that they in fact occur within an hermetically-sealed central government system with only arbitrary use of approved in-and-out-flow channels.

Another note written by Hamilton showed that by September the internal Treasury debate was acquiring its own momentum. He wrote to his senior colleagues :

In my note of 19 September (i.e. earlier the same day) on the prospects for annual review of existing policies I referred to the need to reconsider the Government's economic priorities. You will recall that these relate to the promotion of export-producing industries, the reduction of the demands for imports, and the reduction of the level of unemployment.

Apart from the fact that these priorities have been 'in situ' since December 1977 some suggestions have been made that they are not consistent with each other.

As a forerunner to the development of expenditure strategy I consider it appropriate to urgently review the status of those priorities and recommend either their re-confirmation or their amendment to the Government.

Hamilton then went on to suggest the timing which should be established for the distribution to departments of Treasury circulars for new and existing policy reviews - mid October was, he emphasised, the latest date at which anything should be sent, if a modified system was to be feasible by 1980.⁶⁶

An anonymous (i.e. no author's name recorded) draft paper dated 20 September 1979 was prepared on the COPE exercise, as this would be affected by current Treasury thinking. It had been written in response to a specific request from the office of the Associate Minister of Finance, on the 17 September for submission to the CCEX. It read:

It is true that no policy guidelines are issued by Government prior to the COPE exercise being started in departments. It is not true however, to say that departments have no limitations against which they must budget or that COPE officials have no base against which to analyse departmental forecasts.

The object of the COPE exercise is to establish for each of the next three years, the cost of providing Government services without the addition of any new policies. This essentially costing exercise is therefore based on existing policies and on prices prevailing at 1 July preceding the COPE cycle, and these criteria provide the limitations against which departments must budget and the base against which COPE officials must analyse departmental forecasts.

While broad policy guidelines have to date not been issued before the COPE exercise, the Government's targets have been notified to Permanent Heads at the conclusion of the COPE exercise. The targets (or guidelines) issued in recent years (in December) have been in the form of both overall expenditure limits and broad economic objectives (e.g. the reduction of demands for imports).

Concurrent with the preparations for this year's COPE exercise, Treasury has been considering possible methods of altering the COPE procedures so as to improve their effectiveness and the overall planning of Government expenditure. Consideration is being given at present to increasing the economic input into COPE before [sic] the study of departmental forecasts commences. Initial thinking is that a more logical approach to COPE could be to first determine the total resources which should be allocated to the public sector; then to determine GDP growth and to establish what these two factors mean in terms of public expenditure. This would then provide the parameters for the analysis of the COPE forecasts. Treasury is giving further study to the development of this and alternative approaches to the planning of Government expenditure, and will seek to discuss possible variations to the COPE procedures with Ministers when the study is further advanced.

It is agreed that only reductions in Government activities will reduce the resources required by the Government sector. It is with this in mind that the annual review of existing policies (to determine their effectiveness and continued justification) has been carried out in recent years. The purpose of this review being that the elimination of current policies and activities no longer justified or of low priority would facilitate the introduction of new policies and activities without any increase (or at least without a correspondingly large increase) in Government expenditure. The achievements of those reviews in terms of savings has, with very few exceptions, been unspectacular.

The foregoing comments which refer to the 'Government process' of reviewing existing policies and activities (to make way for new proposals) indicate that the review is effected on the initiative of individual Government departments including Treasury and State Services Commission. Following the review by officials, they are then submitted to Ministers and the Cabinet Committee on Expenditure for consideration and some reviews are referred on to Cabinet... [The next three words, "and to Caucus" were queried in the initial notes but not, apparently, deleted] for final decision. However, as suggested, if some mechanism could be instituted by the political party for the time being providing the Government, to conduct an independent review of current policies (thus complementing the 'Government process') this would have a great deal of merit and would probably increase the possibility of providing cancellation of an existing policy for every new policy desired by the political party in power. As indicated above, Treasury is giving further thought to how the existing processes can be improved and will be reporting to Ministers⁶⁷ ['in due course' was subsequently deleted from the initial draft].

No status of confidentiality classification was stamped on this paper. Indeed, at one level, there is nothing in it which could conceivably jeopardize national or bureaucratic anonymity or security. Yet it represents possibly the most explicit analysis of a number of major problems of resource allocation located by the author in many departmental files. No attempt was made (and indeed as little effort as a walk to the next office would have done) to identify the individual author, since its anonymity is part of its inherent interest. It was distributed to a very select group of officials and, at most, three Ministers through their private (ministerial) secretaries. During the course of research of this sort it was rare to find:

- (a) any explicit mention of "the political party in power" - let alone "the political party for the time being providing the Government" in inter-departmental or internal departmental officials' correspondence;
- (b) any explicit written plea by officials for assistance by some credible "independent" review agent. This is of course, the quintessential anti-democratic dream : that a properly elected majority party in Government would voluntarily submit to the judgement of an uncommitted Solomon.

November

In late November 1979 (as described earlier) the Quigley paper was drafted for submission, on behalf of the CCEX and the Associate Minister of Finance, to the Prime Minister. In Treasury's Finance 1 division, the implications of the paper for those who actually had to manage the budgetary cycle (including finance officers in the various government departments) were discussed, and memos on this circulated internally. In most cases, the shape given to these memos was that of a calendar: what to do, at what time in the financial year.

December

On 20 December 1979, for example, in one analysis of the revised/probable financial year, Hamilton noted that if preliminary estimates were prepared under a new system, Cabinet sector committees (discussed in detail later in this chapter) would receive these at about the end of the calendar year - "together with Treasury's recommendations on possible ways of utilising Cabinet's sector allocations. The decisions remain the Sector Committee's prerogative - subject to Cabinet notification. The Committee will decide on the appropriate split...." Hamilton noted that the points to consider included the following:

1. The (proposed) cycle combines COPE and the February Estimates. The exercise becomes a Treasury responsibility....
5. Determination of Sectors. We think the Minister of Finance should be represented on each one.⁶⁸
6. Note, there will be no one major new policy review.
7. The onus is on a Sector Committee through permanent heads to undertake reviews of existing policies.
8. Pre-determined planning levels provides incentives for departments to seek savings.
9. Role of SSC (?) [sic]
10. Treasury's capability for recommending sector priorities. (September).
11. Do we still control:
 - Works programme)
 - P and E (plant and equipment) programmes) Planning and
 - Overseas travel programmes) cash levels?
 - DMVC 69)
12. The Sector Committee concept requires a major clarification of departmental programmes e.g. Foreign Relations:
 Vote MOD (Defence)
 Vote MFA (Foreign Affairs)
 Part Vote DTI (Trade and Industry)
 Part Vote MDT (Transport: part civil aviation).⁷⁰

1980 January

On 10 January 1980 Hamilton's "Discussion Paper on the Discussion Paper on the Quigley Paper" again referred to the Budget cycle, with some refinements, but with the December "points to consider" still outstanding.⁷¹ (A colleague (John Chetwin) replied to this on 30 January: "I refer", he wrote, "to grandson of Quigley...". The Quigley paper and its history was becoming part of the folk lore of Treasury. The Finance Co-ordinating Committee at which these officials met, for example, was itself known (on paper, and informally) as "the Karori School Committee". It is this sort of jargon which keeps at human-size the usually serious matters under discussion.)

February

One illuminating memo, written in mid-February 1980 and circulated amongst those in Treasury most closely involved in the budgetary reform gives a good idea of the climate of thinking by that stage. It included the following observations:

Budget Cycle Development

1. Although we are now embarking on the development of the 'Quigley' concept overlapping to a large extent the 1980 COPE review, we should recognise that the sector committee has support only in Treasury. The concept has still to be tested with its main clientele: the Minister and the permanent heads. In fact, judging by only a little feedback, there is considerable misunderstanding about what the concept implies e.g. 'the bucket of gold'?

It would be good PR to liaise with Ministers and their permanent heads to explain what it means. It may well be that these people on whom the main burden will fall, will be as sceptical as the officials with whom the subject has been tested.⁷²

The paper continued with a discussion of tasks to be performed in the light of the arguments above.

By the end of February it was obvious that if any tasks were to be effectively carried out, staffing and management requirements for promotion of the Quigley concept had to be met. It was suggested that an internal Treasury management committee, possibly called the Budget Cycle Review Committee, should be set up to "monitor new mechanisms until the end of the second cycle of the proposed budget timetable plans", (i.e. about May 1982). Among other things, this would require the appointment of an executive officer from inside Treasury.

The problem of information overload was raised - for example, one memo from Hamilton to his colleagues noted rather dispiritedly:

I feel, as Stan [McLeod, deputy Secretary of Treasury] does, that it would be a retrograde step to stop collecting year two and three data, but on the other hand if Treasury doesn't use it, why compile it? I would have thought that the data would be of value in shaping medium term policy - or even foreshadowing problems - but apparently it isn't.⁷³

Discussion on this issue was amplified in a paper dated 26 February 1980.

Economic Divisions's COPE requirements

Projections of the cost of existing policies two and three years ahead are a mixed blessing. On the negative side they are probably an under-estimate of what Government expenditure will actually be once new policies have been added and thus on their own are not a good indicator. We cannot assume that the value of new policies is the same each year, so that existing policies could be grossed up to give a forecast of expenditure. Furthermore, the production of these projections has the danger that it can encourage the belief that existing policies are sacrosanct, and make it more difficult to implement reviews or 'tit for tat' substitutions of new for existing policies.

On the positive side, the projections can provide an early warning of the creep in the real cost of existing policies and result in a closer examination of them in time to avoid the problem of accelerating expenditure.

Because of the difficulties of reducing Government expenditure at short notice it is most desirable that it should be kept on a gradual and fairly steady growth path with the major burden of any desirable changes in net fiscal injection being placed mainly on the revenue side. For this reason constant downward pressure must be kept on existing policies to be introduced each year. Perhaps an element of 'self-destruct' should be built in to existing policies thereby forcing departments to rethink their positions and resubmit portions of their programmes in a revamped form as new policies to be considered against new new policies.

Alternatively, we should expect a regular improvements in the 'productivity' of existing programmes by reducing slightly each year the real resources going to produce the same output.

The information on existing policies of most use to the economics division are the trends in the major components of Government expenditure - salaries/other current/capital/transfers and domestic/foreign. A split by programme is not really required but would presumably be useful to finance⁷⁴ and investigating divisions if early reviews are to be undertaken.

As the debate inside Treasury - and the search for a suitable, available Executive officer - continued, officials out in the other departments were becoming slightly restive. Financial managers who liked to get started on preparations for the annual COPE exercise as soon as possible after the Estimates review began to sound truculent about delayed information on both intended COPE membership and the current year's rules.

April

These anxieties were quickly communicated via the central information network. On 23 April Hamilton pointed out to his colleagues that many tasks - including the critical (or fatal, depending on one's perspective) decision on "whether something other than full price compensation" would be allowed in COPE - remained either undone or incomplete. "We are", he added warningly "about one to two months behind schedule given our

target date for the issue of the circular of early April [i.e. on COPE changes 1980]."

T. Berthold, a political science graduate, previously in Land Use division, Treasury, was appointed Executive Officer in April, and relieved much of the strain carried by the original Finance division officers.

The draft "Quigley paper" (dated 14.3.80 and authorised by an invitation from Cabinet in early March)⁷⁶ had by now been circulated to various interested parties, including the SSC, Holmes (Planning Council) and Henry Lang (former Secretary of the Treasury, and member of the Planning Council). These men (Holmes and Lang) were consulted by Treasury (particularly by Tyler) on an entirely informal basis - indeed, no trace of Lang's contribution to the debate appears to remain in the Treasury files. It was retained by its author, with, perhaps, one other copy held by the Assistant Secretary of Treasury, Tyler.

Confidential comments on the Holmes and Lang papers were however, in the personal file of one senior Finance division officer. This Treasury officer observed that reading Lang's paper, as he had done, from the viewpoint of "one of the participants in the system", many of the former Secretary's comments had been heard before. He decided, however, that this simply underlined what "little inclination... we in Treasury have shown... to effect improvements" - for reasons, he noted, he had discussed elsewhere. He acknowledged that the Planning Council did have informal and unofficial access to COPE data. He did not, however, believe that, given its present terms of reference, the Council could add much of value to the COPE exercise (if, for example, the Council's access to data were regularised or formalised in some way).

In a section entitled Planning Public Expenditure the Treasury officer commented (on Lang's paper) that:

A number of economists also have queried the apparent boundaries of the public sector as represented by our Budget Table II. For instance, they have argued that resources used by State Corporations are public sector resources.

If the problems were confined solely to the areas where tax expenditure are applied, this is largely Consolidated Account agencies except with regard to tax revenue foregone policies....

re. Publication - I agree, but why not also show 3 year estimates. The 'revenue foregone' items are of course subsidies; I've always thought these should be identified along the lines of the interest subsidies - these are specifically appropriated. However -- it would need to be recognised that published forecasts can prove inaccurate....

re. Grouping of expenditure - the sector approach should improve matters insofar as kindred programmes can be grouped.

I have some reservations over the present classification - Administration for example includes law and other (excluding traffic enforcement). It also includes Water and Soil ...

re. 'Other Agencies' Is Mr. Lang saying that the present control departments are ineffective - therefore set another one up? ...

re. Planning Council - is this promoting the Council being another department of state? I would have thought its role would be better as "watch dog" to one side of the system.

re. 'Cost - effectiveness' analysis etc. - Treasury has promoted these for years - the problem has been finding the people to use them.

re. Input - output analysis ... We are in fact moving away from evaluating on the basis of inputs.

re. Control Techniques

Attitudes - couldn't agree more. We need to recognise that good resource management attitudes - stem from the top - take John Robertson as an example - I can think of no others. Too many permanent heads think resource management is something for accountants when in fact it is for all management.

re. 'Objectives' - agree entirely but who is going to revive the issue ...

re. Existing and New Policies review - we must recognise that the reviews are delegated to departmental financial management and this area is already overwhelmed.

re. Zero-based budgeting - agree with the concept but prefer it to be a department management [exercise] with Treasury in the management team supervising it.

re. Cash Limits - part of 'Quigley' ...

Mr. Lang correctly points out problems of open-ended policies but departmental forecasts are already not too bad. On balance though we would follow the British example of excluding them from cash limits if the present system were to continue.

re. 'Tit for Tat' - Our second attempt ... [first one, rejected by CCEX, was in 1976] ... shows that it really doesn't work in the context of the present system. I think 'Quigley' will give it a better chance, however ...

General

Mr. Lang's input is appreciated. However I would be cautious about anyone other than Mr. Lang formally [sic] associated with our budget cycle review. In my experience (albeit limited) academic advice can fall down through a dated and/or inadequate understanding of the mechanics and the politics within [sic] the departmental structure. For instance, an idea may be sound in principle but fail in its implementation because there are too few people in the financial management area or simply because there is not enough will to do better. We only need to look at the implementation of PPBS in the U.S. and New Zealand for an example. The present apathy in many departments' senior management provides problems for the present system ... I therefore inject a note of caution

about too much non-service involvement⁷⁷ in what is as much a systems review as well as a concept review.

A handwritten postscript to this paper added :

You [i.e. Treasury officer/s] will appreciate that my comments apply more particularly to the systems side not the philosophical side (for the want of a better term). Sir Frank and H.G.L. [Lang] in a way are referring as much to attitudes as to systems. I don't disagree with their views but I know that the State Services are a culture in their own right and as such can be highly resistant to change - especially when it can adversely affect their status. Treasury cannot impose a successful system - the present one could be successful if participants wished it - senior management⁷⁸ has to be persuaded. Leadership is also involved.

Again, one notes the characteristic style and tone of this Treasury letter: a mixture of tired optimism, cautious openness to authoritative advice, sardonic acceptance of some seemingly immutable political and institutional realities - and considerable (albeit through clenched teeth) political self-constraint.

The material described so far indicates that however complex existing systems for public expenditure planning and control had become over the previous decade or more, the sophisticated printout and the truckloads of paper had not in any way affected or alleviated the central difficulties of executive government. Control over any part of an historically-developed financial/resource base (whether exercised by individual ministers, permanent heads and their satellite clients or "field" agents, the permanent public service collectively, the "control" departments, the Cabinet, the Cabinet committees, or the Minister of Finance-cum-Prime Minister) was, it seemed, extremely difficult to reconstitute and redirect in response to some general incentive such as "planned national economic development". Numerous comments in the Treasury files under review in this chapter illustrate this point - for example (in an internal memo on a draft Treasury circular):

(a) For cosmetic purposes, suggest deletion of 'trial basis' and 'new', Finance Officers are so disenchanted with Treasury now [that] any suggestion of a system that will inevitably change procedures and timetables will sour them enough without suggesting a trial.

(b) - Minister of Finance already has control over expenditure patterns. I think this [section in draft] - is intended to refer to the involvement of spending Ministers in the decision-making processes. I would still be surprised if the Minister of Finance concedes much of his power over the actual allocations no matter what system is in effect.

(c) The 'haggling' stage is the most interesting. Unless departments have done a COPE-type exercise how will their advocates (i.e. the Ministers and P/Heads) know how much or how little they will need? Without access to comparable information about their colleagues' votes, how will they know how much their 'oppositions' really need? In this situation I have little faith in the 'all reasonable men' concept. I recall Dick Battersby's comments on how we are suggesting that COPE sub-committees will be replaced by Cabinet committees - of course Ministers would delegate the evaluation function down to finance officers (sound familiar?).⁷⁹

May

During mid-May, the terms of reference for the now-urgently needed Officials' Committee on public expenditure were being drafted by Berthold. He commented in his draft that "My view is that there is sufficient time to implement the whole package, including 'envelope' committees, for 1981/82 if there is a will to do so. If the will is lacking, no amount of time will make up for it." One colleague noted in reply that he agreed with this - "we must test Ministers' resolve (as well as officials) as soon as possible." Another added "I agree. Would you [senior Treasury officer] be happy to raise this as an oral item at CCEX on ... and request that a formal minute be issued so that we could include the terms of reference in our memo to the Permanent Heads Committee?"⁸⁰ Not only are the small sources of energy for action located in such comments; one may also note the procedural delicacy with which the relationships between ministers and officials are gently nudged towards formal action.

A COPE circular dated 13 May was prepared, in full detail, but not distributed to permanent heads.⁸¹ Instead internal Treasury discussions quickened. Assistant Secretary Tyler (presumably invigorated afresh by the formal imprimatur guaranteed by the CCEX on 20 May to go ahead)⁸² wrote two detailed papers (20 and 21 May) drawing previous discussions together:

In brief we are trying to:

- (i) set a ceiling on total expenditure, a ceiling determined by ourselves, rather than one that flows from a separate consideration of a whole series of bids made by individual departments;
- (ii) determine a 'basic entitlement' based on - but not necessarily equivalent to - the current level of activity;
- (iii) impose a discipline on departments which requires them to identify all areas of growth, justify their growth, and fund it from within their present activities insofar as it is possible to do so.⁸³

The various steps by which these aims could be achieved were defined under various headings e.g.

1. determine the aggregate level of Government expenditure in 1981/82 ...

2. Determine the relevant expenditure weightings as between
Votes.⁸⁴

principal

Critical comments from his three/colleagues were returned within hours. Berthold, for example, listed further questions: e.g.

1. What is to happen if the economy actually shrinks, as is quite possible? In other words, is the target a given real level of expenditure or a given percentage of GDP or GDE?
2. Will there be targets for Government consumption (as against private consumption? This would imply a ratio between these two as well as a ratio between Government expenditure and GDP or GDE. John Chetwin [Treasury Internal Economics] thinks that it is essential to contain or drive down Government consumption, and that if Government consumption rises as a proportion of GDE, N.Z. will be worse off even if total Government expenditure falls. [sic]
3. What happens if a Department wants 100 percent of this year's allocation to do exactly the same things next year, but... is given say 98 percent? How does it make a case for the last 2 percent? Would its case be considered along with new money bids? If so, should it not be defined as new policy?
4. If a Department is prepared to live within its allocation of say 98 percent of this year's provision, and to 'tit for tat' any growth proposals, why should it have to justify the growth proposals? A huge amount of work could be involved. If the justification is held to be not good enough, what happens to the proposed equivalent savings? How would we prevent later respreading, perhaps unreported? Why should we?
5. [Re the argument that some growth would not be subject to the tit for tat] : Knowledge of this could not be kept from Ministers and enthusiasm for this "free" money will be keen. Why should a Minister agree to a tit for tat when he can hope to dip into the pot? Will a Department or Minister have to prove that no 'tat' is available, and if so, how and to whom? What happens if the proved and accepted claims bust the pot? Is the ceiling to be raised or is a further across-the-board reduction to be imposed on Departments? How would appeals against such a further cut be dealt with? What if some of those appeals were allowed? Whence the money?

What would be the base for forecast years 2 and 3?

I consider that the way out of all these difficulties is the envelope committee system, to

- (a) determine vote allocations;
- (b) approve expenditure plans within allocation provided they do not contain offensive policy changes;
- (c) recognize that policy changes are political.

No 'pot' would be needed (PLA's [Permanent Legislative Authorities e.g. for debt interest] would be claimed as the first charge against the ceiling before the rest was distributed amongst envelopes).⁸⁵

Yet another draft budget cycle in calendar form was prepared by Hamilton and Alexander. On 27 May (one week after the distribution of Tyler's 20 May paper) a full, 5-page critique of the state of the

art' was returned by Battersby, a very experienced senior Assistant Secretary to the Treasury. Battersby began with a clear statement of an essential political truth, as he saw it:

It is useful to consider the theory of resource allocation as a guide to the machinery we should adopt. First of all, however, there is one objective that must not be lost sight of. That is, whatever we do, the Treasury must retain control in the sense that we know where we have been, where we are, and where we are going. Even in the dark days preceding the 1975 election Henry Lang was able to tell the Government where they were heading. At least the system provided that information. It also provided the incoming Government with the ability to review expenditure priorities quickly and effectively. George Gair carried out a massive exercise in two months. This would not have been possible without the detailed forecast data we collect.

Basic System

Stated simply, resource allocation involves a trade-off between various levels of activity for different programmes in order to meet some overall objectives, e.g. a planned growth level; a planned borrowing requirement; optimum voter satisfaction. A display of information can be provided to decision-makers to show the costs and benefits of say three different positions for each programme element:

- A. present level of expenditure
- B. level of expenditure necessary to cater for client demand assuming present policies continue
- C. level of expenditure necessary to cater for client demand assuming a change in the quality of service provided.

A. and B. can be regarded as the cost of existing policy, C as new policy.

There are, however, many good reasons why this model is not used:

- (a) it is not possible to set out in objective terms the benefits of many programmes, especially those in the social services area;
- (b) the vast amount of data to be digested presents a practical problem that has not yet been overcome;
- (c) the distinction between 'new' and 'existing' policy is not always clear cut.

Systems therefore tend to deal with the decisions sequentially, e.g. PESC gathers A and B and puts C in as a contingency 'wedge' in adding up the total expenditure package. This practice of course leads to the comment that most systems tend to favour continuation of existing policies.

At some point in the system the forecasts gathered need to be evaluated against overall objectives. PESC achieves this by putting the forecasts into an economic context - converting gross departmental expenditure into economic terms. If the forecasts do not fit the criteria then analysis is necessary to show the effect of meeting the economic objective.

A summarized cycle for a typical resource allocation exercise along PESC lines is:

February/March : forecasts prepared

June/July : forecast investigated and validated
 August : economic evaluation; analysis of effect of meeting economic objectives
 September/November : Ministerial decisions enabling estimates base to be decided;
 December : publication of forecasts for debate.

The major fault of the system described is not that it leads to favouring existing policies but that it commits everybody to funding departments in real terms on the basis of the forecasts. Financing aspects need to be considered fully before real forecasts are translated into current cash estimates. Failure to do this can result in the imposition of another control mechanism - cash limits.

The characteristics of a system can be described as including:

- (a) forecasts of the cost of achieving established policy objectives;
- (b) evaluation of forecasts against economic, financial and other criteria;
- (c) analysis to show decision makers the effect of meeting overall criteria;
- (d) involvement of departmental officials to ensure 'legitimation' of forecasts;
- (e) procedures to allow appeal against decisions.

[The two following paragraphs were on price base/timing - Battersby argued that July 1980 prices were more appropriate.]

Economic Objective

As I understand it, the proposed system would also involve the setting of a departmental expenditure 'limit' on the basis of economic growth. The major problem here is conceptual. Gross Government expenditure (Table 1) and GNP are not directly related. Gross expenditure requires considerable adjustment to convert to economic terms. It is possible, for example, for gross expenditure to increase by 2 percent yet still be consistent with 1 percent increase in GNP. It depends on the growth in the several economic categories, i.e. goods and services, capital and transfers.

There are thus two practical difficulties that need to be overcome. First, conversion of central Government expenditure in economic terms into gross Government expenditure in Table 1 terms. Secondly, the apportionment of gross Government expenditure into departmental allocations. Unless these problems can be solved in an objective way our methodology will be suspect, and could not be defended properly in discussion with departments.

October 'circus'

... expenditure decisions to be taken from about October will involve consideration of the following elements:

- (a) 'expenditure limit' set by Treasury and based on economic criteria;
- (b) 'base' claimed by departments;
- (c) 'volume growth' claimed by departments;
- (d) new policies submitted by Ministers;
- (c) and (d) are to be ranked in priority order.

The major practical problem that now occurs to me... is the handling of this mass of data in a logical and objective way, and within the present staffing resources of the department and the Treasury.

[re proposed] Envelope Committees

This is a Canadian idea introduced by Clark last year and probably based on similar budget committees which operate within some US Government departments, e.g. Department of Justice. However, we do not know how the Committees fared in Canada (except that Clark was kicked out) and Mr de Jardine [Divisional Director, Treasury] will be making inquiries on this matter. I suspect that Clark introduced the idea to give his inexperienced Ministers a quick appreciation of the outgoing Government's policies to see what room could be made for his own Government's policies.

If we are to pursue the envelope idea, decisions are needed on their composition, terms of reference and secretariat. We also need to define the methodology whereby gross expenditure is to be divided into the various functional areas under each committee - is the apportionment merely an addition of the expenditure limit given to departments earlier or are new limits to be struck? Procedures for ensuring overall control; where committees have delegated authority and for dealing with trade-offs between committee areas if overruns occur also need to be decided upon.

These problems need to be tackled now before we go into departments. Designing a system during its implementation is a recipe for disaster. The overall impression I have is that the proposals will mean more work for departments and the Treasury. It is important therefore that we define the procedures closely now so that we can gear up for the work.

The areas that need urgent attention are:-

- Forecasts
- (a) inclusion of 'price update' in forecasts;
 - (b) conversion of economic objective into gross Government expenditure;
 - (c) apportionment of gross Government expenditure amongst departments.

Decision system

- (d) machinery for handling forecast data;
- (e) role of officials in legitimising forecasts;
- (f) composition of envelope committees, terms of reference, secretariat;
- (g) apportionment of gross expenditure to committees;
- (h) procedures for ensuring overall control is retained. 86

The impact on Battersby's colleagues of this slightly ex cathedra statement was not immediately apparent from a reading of the relevant Treasury files. It must have produced, however, a somewhat salutary lowering of the increasingly hothouse temperature through its judicious reaffirmation of a basic bureaucratic verity : Treasury must retain its pre-eminence as the principal adviser to successive Governments.

Drafts of circulars announcing the new system to Treasury divisional directors and departmental heads had been simultaneously being prepared. Gaining authority for distribution of the final draft circular took the conventional form: i.e.

- (a) Treasury drafts Cabinet office circular, and recommends that

- (b) the Cabinet Committee on Expenditure approve the draft for reference to
- (c) Cabinet for final approval and authority to circulate to relevant agencies.

The circular⁸⁷ named the Officials Committee on public expenditure (OCEP), their terms of reference, and noted some of the justifications for the changes ahead:

The background to the appointment of the Officials Committee is the concern of Ministers at the strong tendency of Government expenditure to grow in real terms year by year. Proposed new policies for which good cases can be made are necessarily denied funds because real expenditure on existing policies has not been effectively contained by existing review procedures.

These considerations point towards the replacement of the present system of expenditure planning, whereby new expenditures tend to be added on to old, by one in which expenditure aggregates are determined first, and all proposed spending whether existing or additional, must fit within those aggregates. It is on the feasibility and desirability of such a change that the Officials Committee has been instructed to report.

The Committee of Officials of Public Expenditure (COPE) has not been constituted for 1980, pending decisions on the future form of the expenditure planning system. Departments should nevertheless continue or commence the assembly of basic information relating to planned expenditure during 1981/82 to 1983/84.

A subsequent Treasury circular will set out the form and timing of submissions required from departments in respect of expenditure during 1981/82 to 1983/84.⁸⁸

The CCEX approved this draft on 27 May, at the same time agreeing to recommend to Cabinet that Galvin, Permanent Head of the Prime Minister's Department, be added to the Officials Committee. In March, Cabinet had adopted the CCEX recommendation on the proposed officials and their terms of reference without amendment and in June approved the addition of Galvin.⁸⁹ A meeting of the OCEP was planned for 30 May (later changed to 4 June 1980), when Quigley would address the Committee.

Another corner had been turned. However even with this degree of semi-public commitment there was, as yet, no firm indication from the Prime Minister as to how far past the stage of an experiment he would allow the scheme to go. In addition, Battersby's problems still awaited attention - there was a great deal to iron out in a very short time. It could not yet be asserted with any confidence that those who wanted a system which would "not fall apart in their hands" would be satisfied, nor indeed was it clear whether the thing could be done at all.

The Officials Committee on Expenditure Planning : Which costs more - the baby or the bath water?

On 22 May, while internal debates were being actively conducted inside Treasury, the convenor of the recently appointed Officials Committee (Lough) wrote to the other permanent heads who were to comprise the Committee. (Galvin's letter was presumably sent later, after Cabinet had approved his joining the Committee). The letters were all along much the same lines - for example, to Williams, Chairman, SSC:

Dear Dr Williams,

As you know Cabinet (CM 80/11/8) has appointed you to an Officials Committee to consider proposals for changes to the present mechanisms for planning and controlling public expenditure. You have been notified of the Committee's terms of reference (X(80) M.24 Part VII). The issues for consideration are set out in the enclosed paper, dated 14 March 1980, prepared by the Associate Minister of Finance in conjunction with Treasury. By way of background, Ministers are concerned that Government expenditure shows a strong tendency to grow in real terms each year. Despite this tendency, the scope for new initiatives is tightly constrained because present methods of reviewing existing policies have not brought about savings of the order required. Now that growth in the economy is no longer providing an annual increment from which the resources for new initiatives can be found, the need for adapting policies to fit resource limitations is apparent.

The concept now being explored is that Cabinet, having regard to the forecast performance of the economy in the medium term, will determine the aggregate level of Government expenditure for the following financial year. Cabinet may also set levels of expenditure for broad sections of activity resembling the present functional classes of Government expenditure. Ministers would be responsible for dividing new sector allocations among Votes. It is contemplated that for this purpose Cabinet will establish sector committees including Ministers who have portfolio responsibilities in the Sector.

It will be appreciated that allocations to Votes under such a system may not always be sufficient to fund the continuation, unchanged, of existing functions and services and the introduction of any necessary new initiatives. It will be seen too that the change proposed would have implications for departmental expenditure planning procedures and for the relationships among Ministers and departments. Changes in information systems may also be needed.

Ministers have expectations that the new concepts, if adopted, will be implemented in time for the 1981/82 financial year. This would place some pressure on the decision-making machinery at both political and departmental levels, and lends urgency to the task of the Officials Committee. The identification of any practical, as well as conceptual difficulties and/or possible solutions will be important.

The Associate Minister of Finance will address the Committee's first meeting, which will be held in the Conference Room (corridor 4.1) on the 4th floor of the Beehive on Friday, 30 May at 2.15 p.m. If you have any queries before then Mr Brian Tyler of this office will answer them.

Yours sincerely,

[signed Noel Lough] 90

As the first Officials Committee meeting approached, Finance divisional officers in Treasury continued to worry. In one memo, dated 29 May, for example, Hamilton commented: "I remain a little concerned as to how the new approach will be explained and how it will be operated. One of my problems is that as it is described in the note [to permanent heads] the system appears plausible when, as we know, it has several areas of uncertainty." Hamilton detailed a long list of as-yet unsolved difficulties as he saw them: e.g.

We will require a working definition of 'commitments' e.g. university quinquennia, uncompleted capital projects, Government Superannuation.... I prefer Mr Berthold's term 'contingency fund' [rather] than the 'sum for hard cases' ... This fund [the allocative 'pool'] will be regarded as 'fair game' by all Ministers... underestimation of the size of the fund will be as serious in effect as overestimation although the incidence of effects may vary.... An assumption will need to be made as to the extent 'tit for tat' will work i.e. provision will be required for slippage including new policies... (do we mean) 'allocation' of 'planning figures' - the former is the prerogative of the Minister of Finance just prior to the meeting of the Estimates - the term also implies (to me) a hard and fast figure... guidelines for TIO's [Treasury investigating officers] required.

Will CCEX be empowered to increase provision [annoted note replies 'yes' to this]...

... we should recognise that we now have to plan, budget and monitor the equivalent of three-year Estimates. Changes to plans must be in three-year terms, not one as at present. Will all subsequent variations require CCEX approval? ... how will this operate in an election year... Cabinet should of course 'rule' on changes to policies as a result of expenditure constraints...

What happens (given the time frame) if in economic terms about December - February the expenditure bill is too high/too low? Do departments completely review their three-year expenditure plans? Will new policies (now to be submitted by September, not October) still be classified as secret...

(and finally) ... I have two fundamental concerns:

- (a) have we in Treasury sufficient time and resources to develop and promulgate the detailed instructions to departments, other central bodies and TIO's to enable 30 September deadline [as then planned] to be met?
- (b) what happens if the Minister of Finance rejects the motion - we would have difficulty in meeting the December deadline, of the present (COPE) system.⁹¹

This last was, of course the twitchy "Godfather" question. Yet until other problems - constitutional, systematic, procedural and professional - could be sorted out, the Prime Minister's views must be assumed to be favourable.

June

On 3 June, Cabinet approved the augmented OCEP (eight members, chaired by the Secretary to the Treasury). The minute of this meeting, distributed to all Ministers and all permanent heads, confirmed that COPE had not been reconstituted for 1980 "pending decisions on the future

form of the expenditure planning system."⁹²

In preparation for the first meeting of the Officials Committee on Expenditure Planning (OCEP) on 4 June, Tyler drew up a brief paper (which at least one of his colleagues, Berthold, "didn't like, for a variety of reasons").

It said:

Officials Committee on Expenditure Planning

Meeting on Wed. 4 June 1980 at 3.15 p.m.

Agenda

1. Address by Hon. D.F. Quigley, Associate Minister of Finance.
2. Consideration of the following suggested cycle for the implementation of the concept set out in the paper of 14 March 1980 previously distributed to the Committee.
 - (a) During 1980 Cabinet, after being advised of the forecast performance of the economy in the medium term, would decide (in 1 July 1980 prices) a firm planning level of aggregate Government expenditure for 1981-82 and tentative planning levels 1982-83 and 1983-84. This decision might be made in July.
 - (b) A sum would be set aside from each year's planned aggregate for identified commitments such as debt servicing.
 - (c) An additional sum would be set aside from each year's aggregate for contingencies.
 - (d) The remainder would be apportioned among votes by the Minister of Finance.
 - (e) Departments would be advised of planning allocations to their votes and instructed to prepare, for the approval of the Minister in Charge of each vote, expenditure plans for 1981/82, 1982/83 and 1983/84.
 - (f) Each such expenditure plan, accompanied by a Treasury report, would be considered by the CCEX.
 - (g) Cabinet would finally determine any unsolved policy or expenditure issues and the Minister of Finance would confirm the 1981/82 Estimates provision for each Vote (subject to Vote updating for inflation if macro-economic considerations permit).
 - (h) In 1981, Cabinet Committees would be constituted for each broad category of Government activity and these would determine allocations to individual Votes and examine expenditure plans.

Expenditure plans would combine new policies and any growth in existing policies together with the reductions in other existing policies necessary for the planning allocations not to be exceeded. Limitations would apply as at present to items such as personnel, capital works and overseas travel. These limitations and details of the form of expenditure plans, would be set out in the necessary detail in a Treasury circular similar to the COPE circular of past years, and expenditure plans would resemble COPE submissions in their form and information content.

3. General discussion of the feasibility and desirability of implementing the proposals set out in the paper of 14 March 1980.
4. Arrangements for future meetings⁹³ of the Officials Committee and for the production of its report.⁹⁴

Notes for the Minister's inaugural speech were drafted by his Treasury (Finance I) advisers. It was a careful mixture of fact, optimistic assertion, flattery, realism and moral exhortation.

The total of Government Expenditure tends to grow each year in real terms. The problem of financing this expenditure, by taxing and borrowing, is becoming increasingly acute. The total of Government consumption - that is, expenditure net of transfers - is also growing in real terms. In a period of low or nil economic growth, such as we unfortunately have now, this means that private consumption is reduced. The consequences of squeezing private consumption include industrial unrest, diminishing incentives and high emigration, especially of people whose contribution to the economy is positive.

The Government attaches importance to the role of market signals in the allocation of national resources. Growth of the public sector at the expense of the private sector reduces the size of the market place from which these signals come, and makes an informed allocation of resources more difficult.

These considerations were of small importance when the relative size of the public sector was itself small. Now the public sector accounts for something like 40 percent of gross domestic expenditure - to me an appalling sum - and but for strenuous efforts in recent years it would be higher still.

However, the expenditure growth that has occurred has not followed from the wholesale adoption of new policies. On the contrary, it has happened in spite of a rigorous selection process. It is clear to my colleagues and to me that the steady tendency of existing policies demand more resources, has put us in the bind of high total expenditure and little money for new initiatives - the classic public expenditure bind.

The annual review of existing policies has not got us out of the bind. There has been a reluctance to offer up policies for review, and the savings achieved in the last three years have been small. Better results were achieved from last year's 'tit for tat' approach, and that approach should be taken as an earnest of the Government's determination to find a way out of the expenditure bind.

The 'top-down'⁹⁵ method of expenditure planning would be a natural progression from the 'tit for tat'. Its premise is that the expenditure

total is no longer the aggregate of the costs of fixed policies but is the central policy issue itself. If total expenditure is to be fixed, functions and services must become variable, and expenditure 'needs' be seen as relative instead of being thought of as absolute.

Gentlemen, you were appointed to the Officials Committee on Expenditure Planning because of the interest you have demonstrated in the issues and because your departments, among them, spend rather more than half of the taxpayers' money. My colleagues and I believe that you will tackle your task energetically and constructively.

No doubt the concept you are to examine would encounter difficulties of application in particular areas of expenditure. I want you to identify these and advise us how they should be handled. But try not to throw out the baby with the bath water. You may wish to comment on the special rules that now apply to certain items like capital works, overseas travel, staff numbers - important, though ancillary issues. Your suggestions will be valuable.

The main issue, for your attention is the possibility and desirability of introducing a fundamentally different system of planning expenditure, and my hope would be that we will have your report within a month from today. 96

Although (as is the case in almost all official meetings in central government) formal, full minutes were not kept, hand-written notes were taken by Berthold, Treasury's executive officer seconded to the budget management group. Berthold noted, in reporting the Minister's "additional comments", that:

Change [is] necessary. Government expenditure as a percentage of GDP is too high. Some have pointed to areas of potential savings, and to possible changes. [It is] not change for change's sake.

[re. the general economic situation]:

We can't afford some of the economic efficiencies [sic] of the past. Scarce resources [are] needed for growth. Easier to maintain existing policies than to get new ones. Hence the 'tit for tat' - which has been dramatically successful, therefore the criticism. It needs refining.

But there is no policy guideline issued by Government before COPE. Lack of economic growth leads to no such pressure on permanent and financial [officers] who have had to deal with very small sums indeed. We get very little support for the savings we propose. 'Confrontation' [occurs] between spending Ministers and the CCEX: some tend to support each other. Big spenders get least scrutiny sometimes.

What's suggested is a way for making collective decisions according to the priorities so you could get on with administering your departments ... 97

At this first meeting, (which in toto lasted an hour and three quarters), discussion apparently circled around a number of issues which were central from the permanent head's perspective, e.g.:

- (a) the "fixing of the magic percentage. This could be based on a medium term forecast of GDP and designed for a stable course."
- (b) Lough's occasional dry (if not disapproving) reminder of the rate of past expenditure growth in real terms, and the fact that "the outlook is for about 2% growth over the next five years - none in the short term."
- (c) basis for political approval - e.g. would demographic considerations get "first crack" - in which case there would be "nothing left" for other criteria?
- (d) impact of salary adjustments which are "already 72% of vote : Education", for example.
- (e) staff ceilings - would these be replaced by cash controls?
- (f) degree of tolerance that would be available "within which to play".

Tyler suggested that the establishment of an "envelope" system would allow for this.

- (g) impact on existing policy, now controlled by departments. Lough suggested that "macro considerations could be taken into account in deciding broad priorities - e.g. need for economic growth points to a need for technical education." Renwick's (Education) response to this, apparently, was that it then gets "impossibly unwieldy". It was no doubt an understatement of the Director General's personal view of such "macro considerations".
- (h) impact on Ministerial behaviour - only the involvement of Ministers early enough could confront them with the necessity to make difficult choices. But (as a Health department official pointed out) behind the ministers lie "the manifesto and the caucus."
- (i) during a discussion of whether ministers themselves should be asked to rank policies in terms of what they saw as their relative "sacredness",

Tyler pointed out that the Minister of Finance wanted to retain "flexibility" - which could mean leaving room to allow for price level changes before the Estimates were firmed up.

Renwick (Education) pointed out that the "slaughtering of sacred cows is a Caucus matter rather than an officials' matter". Responsibility for "sacred cows" remained contentious - one department (Education) claimed to have none suitable for slaughter. Tyler asked that the big spenders should provide Treasury with an indication of whether they would "prefer to have sacred cows' throats cut, or simply have them strangled slowly because price level changes (including inflationary impact) were not allowed." General agreement was reached on compiling an officials' list of sacred cows.

- (j) significantly enough in view of information received later from de Jardine, the senior Treasury divisional director (Financial Management Division), consensus was recorded on the "envelopes" approach, with its proposal for sector councils.
- (k) the committee decided that a draft report on agreement already reached should be prepared by the Treasury secretariat and a further meeting "to consider the draft" should be held in one week's time.⁹⁸

(Not included in Berthold's notes, but reported to the author later was Renwick's accurate observation that if debt servicing was to be the first charge on the available, limited funds allocated for GPE, the inevitable consequence would be that everyone else must get less.)⁹⁹

The following day, an officials' committee called the Finance Officers Advisory Group was circulated with a notice of meeting to be held in Treasury on 10 June (the day before OCEP met again). Papers attached "for your information and informal discussion" included the still 'confidential' Quigley report to the CCEX (14 March), the Cabinet office circular of 3 June, and an agenda made up on the basis of the OCEP discussions on 4 June (including "suggested revised financial cycle".)¹⁰⁰ This informal group of some 12 departmental financial officers was convened by Treasury on an ad hoc basis only - it is part of that semi-permanent, semi-unofficial network at the level of those who, while they do not have ultimate decision-making powers, must be able to make any system work, if it is ever going to work at all.

A brief summary of discussion at the FOAG meeting was prepared on 11 June. It was headed "Roundup Comments Made at Finance Officers Advisory Group on the Implementation of the 'Quigley' concept - 10 June 1980" and read as follows:

Mr J. Green (MOWD): He would prefer the present system to remain. Reference was made to the various sub-systems within departments of which Treasury was unaware. These should not be terminated overnight.

Mr R. Janes (Energy) was not persuaded that the present system was faulty. He was also concerned about departmental systems and the re-training required if the new system is implemented at short notice. It was suggested a pilot scheme (say, 2 departments) could be run in tandem for 1981/82.

He (and others) expect to be consulted in development of a new system and determining planning figures. Energy could not meet the 30 September target date for the new concept. Others were of the same view.

NB. Mr Janes circulated a separate paper querying features of the proposed system.¹⁰¹

Mr Brewerton (Transport) likes the concept but can't see it being implemented this year. He made similar comments regarding department's management abilities as Mr Janes.

Mr Pritchard (Maori Affairs) would be prepared to 'give it a go' but would be unable to comply with information requirements this year. He expressed some concern at the mechanics.

Mr Twohill (Defence) described himself as a fatalist in terms of the concept being implemented but questioned the timing of its introduction. He made the point that under COPE departments were responsible and suffered for their own mistakes. Under the proposed system departments would suffer for Treasury mistakes.

Mr Patterson (Audit) was impressed on the first reading of the concept which appeared to meet most of the Controller and Auditor General's criticisms of COPE in his 1978 report.¹⁰²

Mr Johns (SSC) favoured bringing politicians into the allocations exercise. At the administrative level he liked the move away from input controls but saw much more ahead.

Mr Burch (MAF) found the concept attractive but saw it emphasising incremental expenditure. He saw a need to be certain over reviews of 'sacred cows'. He also wanted more flexibility. Mr Burch thought the new concept needed to evolve over a year or two and noted that the present system had valuable features.

Mr Sceats (Customs) agreed with Mr Pritchard's views but wanted more information on the mechanics. He also wanted more information on the autonomy of permanent heads and the apparent contradiction regarding specific programme constraints (e.g. DMVC and Capital Works).

Mr Moles (Health) although liking the concept in principle saw the need for a massive input of resources to effect implementation. The sinking lid is constraining the type of staff (administrative) who would have to bear the brunt of the work. He also questioned terminating the present system as appeared to be envisaged as not being desirable. The system should be run in parallel if introduced.

Mr Burns (Education) did not believe that COPE was a disaster (this view was echoed by some other members) and saw it as providing benefits to both Treasury and departments. COPE currently lacked authority but this could be rectified. The real defect in the present system may be in reviews of new and existing policies. In his view more concentration on policy reviews is required (see paragraph 26 of Quigley's paper, 14 March). Also, improved information systems are a pre-requisite to any concept. Mr Burns was against the proposed implementation timetable.

Mr Dick Wood (Treasury) considered that the existing system had not been proved faulty and questioned the assumptions underlying the proposed approach.¹⁰³

It is of interest to note a number of points related to this FOAG meeting:

- (1) Three of those present (Janes, Brewerton and Burns) were youngish ex-Treasury men who had themselves, at different stages in their careers, been responsible for establishing and enforcing aspects of the existing financial systems.

- (2) Several members of the FOAG - notably Brewerton (Transport), and Burns (Education) - both of whom had been observed (during this study) in other contexts, e.g. during the 1978 COPE working party and other meetings - had been strongly, even vociferously, critical of Treasury and the COPE system. Notes in Appendix 3A for example, illustrate the style of discussion and negotiation favoured by Brewerton and Burns where their departmental estimates were being investigated.¹⁰⁴
- (3) Several members of FOAG had had long experience in the COPE system, and had served at least one term as chairman for one of the COPE working party/sub-committees. Green (MOWD) for example, was a very experienced, observant officer who had on a number of occasions over the previous years submitted memos to Treasury on how COPE and other phases of the budget cycle might be improved.¹⁰⁵ Twohill, Burch and Pritchard had all served on COPE sub-committees. Only Johns (SSC) appeared to have little direct personal experience in the budget management system - indeed, comments by Treasury officials on an informal paper Johns submitted, in confidence, on the Quigley paper was seen by them as both too academic and too out-of-touch with "reality" to have much authority. This view, however, was in general held in relation to most contributions by the SSC, whatever the forum.
- (4) In general it was obvious that whatever their seniors agreed to do, this more hard-headed group of men was unlikely to show any great enthusiasm for any reforms which could not be proved to be more workable than the system to which they had, in fact, become accustomed. The idea of turning-around, given the pressure on them of staff ceilings and generally low level of bureaucratic morale, was obviously not seen as the answer to an accountant's prayer.

OCEP met the day after these FOAG discussions (June 11). Doubtless each of the permanent heads attending had been briefed before this meeting by his own departmental financial officer on the general climate of opinion about the Quigley paper among those who lived, so to speak, below stairs. The evaluation that had taken place in the FOAG, would, as permanent heads knew, give them a good steer on any difficulties they might later confront if they went too far or too fast among their own peer group.

It was an interesting strategy on Treasury's part to have given this extra little poke to proceedings - since Treasury, alone, of course, could act as official (if not honest) broker. If, later, permanent heads were merely to ape their financial advisers' views - Treasury would know. If, on the other hand, permanent heads made commitments to each other, or to the Quigley evangelists, which were more lavish than their own departmental people could tolerate - Treasury would know. If the prejudices of permanent

heads and the FOAG were collectively opposed to Quigley-type changes, the Treasury would know what had to be reported to the Ministers, notably Quigley and Muldoon, and to the CCEX.

In a retrospective comment on the above analysis, Berthold (Treasury) added that after the first permanent heads' meeting (4 June), one of the departmental financial officers, presumably alarmed by the speed with which changes were rumoured to be taking place, telephoned Hamilton. He asked Hamilton whether the FOAG would be convened, and whether group members would be privy to the debate before decisions were reached by the permanent heads. Hamilton had assured him that FAO's would be consulted. The Treasury finance people, thus committed, then debated (more or less on the lines above) the pros and cons of scheduling an FOAG meeting, and decided "to take the risk".¹⁰⁶

Between 4-10 June, a paper had been prepared in Treasury (probably by Berthold) in readiness for officials' discussion of the new 'sectors' or 'envelopes'. It was entitled :

Planning of Government Expenditure

Number of Votes, Portfolios, and Ministers by
Functional Classification

(Figures have been corrected for double counting to obtain totals)

<u>Functional Classification</u>	<u>Votes</u>	<u>Portfolios</u>	<u>Ministers</u>
<u>Administration</u>			
General administration	14	13	6
Law and Order	4	3	3
Government Services	2	2	2
Miscellaneous services	4	4	1
Stabilisation	1		1
	<hr/>	<hr/>	<hr/>
Total administration	26	22	11
<u>Foreign Relations</u>			
Defence	1	1	1
Foreign Affairs	1	1	1
	<hr/>	<hr/>	<hr/>
Total Foreign Relations	2	2	2
<u>Education</u>			
Education	1	1	1
	<hr/>	<hr/>	<hr/>
Total Education	1	1	1

Development of Industry

Land Use	5	6	3
Fuel and Power	1	1	1
Other Industrial Services	4	4	4
	<hr/>	<hr/>	<hr/>
Total Development of Industry	10	10	7

Social Services

Social Welfare	1	1	1
Other social services	3	3	3
	<hr/>	<hr/>	<hr/>
Total Social Services	4	4	4

Health

Health	1	1	1
	<hr/>	<hr/>	<hr/>
Total Health	1	1	1

Transport and Communications

Transport	3	3	2
Communications	1	1	1
	<hr/>	<hr/>	<hr/>
Total Transport and Communications	4	4	3 ¹⁰⁷

It had been suggested on 4 June that permanent heads should send in comments on discussions so far. In the event, only four permanent heads did so and only the comments by Callahan (Social Welfare) were received on Berthold's desk in time to be incorporated in a paper he wrote for 11 June. Berthold described the function of his own paper as "a consensus of views expressed at the meeting, based on notes [described above] he took at the time." Replies were received from:

Callahan : dated 6 June
 Renwick : dated 9 June
 Hiddleston : dated 9 June
 Williams : dated 10 June.¹⁰⁸

These four papers were later tabled among the Officials' papers on 11 June, plus a paper of 'recommendations' (which Berthold described as "not really recommendations, more a summary of the paper itself").¹⁰⁹

The draft report on public expenditure planning was discussed on 11 June by the following OCEP group : N. Lough (Chair)

R. Williams (SSC)
 J. Hiddlestone (Health)
 B. Ashton (ex Treasury, Director of Finance,
 Justice)
 G. Hensley (P.M.'s Department)
 S. Callahan (Social Welfare)

N. Sutton (Ass. Secretary, Education)

with Tyler, Alexander, Hamilton, Anderson (all Treasury) and Williams (SSC) in attendance.

It should be noted that as on 4 June only some of the permanent heads appointed to OCEP were present in person - Lough, Williams, Hiddlestone (first time) and Callahan. Galvin, Clarke, Renwick and Robertson were absent, and only the first three sent a substitute delegate.

Berthold's draft paper suggested five sectors for public expenditure planning:

Administration (which comprised 14 existing departmental and other agents including the Treasury, SSC, and the PM's department; all law and order departments (justice, police, SIS and Crown Law); Government services (MOWD, Government Printing); miscellaneous (CLI, P. Trust Office etc.) and Stabilisation; a total of 26 current Votes, 22 current portfolios, and 11 Ministers.

Foreign Relations (Defence and Foreign Affairs - 2 Votes 2 portfolios, 2 Ministers).

Development of Industry (Land use, fuel and power and other industrial agents, including Labour and DTI - 10 Votes, 10 portfolios, 7 Ministers).

Education, Social Services and Health (including, in addition, Housing Corporation, Internal Affairs, Maori Affairs programmes - 6 Votes, 6 portfolios, 5 Ministers).

Transport and Communications (4 Votes, 4 portfolios and 3 Ministers).¹¹⁰

The paper stated that the Officials Committee accepted as feasible

- (a) the principle of an upper allocative limit, from which would come provision for debt servicing and contingencies, with "the balance" divided among the suggested sectors (or "envelopes"). All expenditure against each Vote would be found "within the planning level."¹¹¹
- (b) a financial cycle which would allow the scheme to "be implemented in time for the 1981/82 expenditure year."¹¹²

The case for the scheme (as drafted by Treasury) seemed to the outside observer rather more generous than either the first discussion report of the meeting on 4 June, or the FOAG discussion on 10 June, appeared to warrant. It did, however, make explicit that "a system of planning expenditure which begins with aggregates would, if adopted, imply that the size of those aggregates is the central policy issue.... This would amount to the reverse of the present system, under which the individual expenditure policies tend to be treated as fixed and the aggregates of expenditure as variable".

The draft paper added that, with the implications of the scheme in mind, Officials nonetheless felt that a "suitable mechanism" could be developed "below the level of the full Cabinet, which [it added reassuringly] would, however, retain overall authority and responsibility."¹¹³

Berthold's notes on the Committee's discussion of this draft suggest that among permanent heads present most interest lay in

- (a) the sectoral (or "envelope") system and its implications;
- (b) the point in the financial year at which ministers themselves would be obliged to "front up to the hard decisions" (a comment by Lough);
- (c) the level (i.e. CCEX or Cabinet) at which decisions would be taken;
- (d) any sanctions which could/might/would apply, either when departments/Ministers attempted to win extra funds from the collective "pool", or (using their "sharpened-up" talents for debate, learned through years of COPE confrontations) through "coming back" by other channels for extras;
- (e) FAO's willingness to 'live' with the scheme.

Overall, the sector/envelope scheme did not receive much support (e.g. at times Education, Prime Minister's Department, Social Welfare and Trade and Industry officials stated more or less serious reservations about its possible efficacy). Some men were concerned about whether they could still "get a day in Court with senior Treasury officials"; others wanted some kind of "super Cabinet" group to deal with one level of decisions, and a "working party" group possibly at Cabinet Committee level, to work out the "fine print"; some felt that splitting a Vote between sectors would be "a handicap if you're looking at structural reform" - others felt that this was the only way to separate out the areas "where the big money is" from "the mass of small issues." In general, there were some explicit objections to the 'tit for tat' policy, which was seen as neither logical, nor equitable, nor productive of any "real" money. At one point Hensley (PM's department) summed up what appeared to be the point of agreement among those present - and the gaps which still existed: "Agree to drop the 'sectors' ... but there's therefore a gap between the aggregate [which had somehow to be decided upon within the established aggregate limits]".¹¹⁴

The meeting concluded shortly after. Tyler (no doubt feeling somewhat bruised by the fairly solid working-over his 'baby' had received) agreed to experiment (through three of his Financial Officers) with the question: "How would you handle an allocation?".¹¹⁵ The Committee agreed to meet again on the 19 June to discuss this and related issues, to be circulated again in a new draft.

On 16 June a redrafted paper on 'timing' (i.e. the annual budgetary cycle) was circulated by Mr Tyler, inside Treasury.¹¹⁶ Hamilton, replying to Tyler the next day, indicated that not only did he retain some quite strong objections and reservations about the continued use of devices such as 'tit for tat' (e.g. departments would expect a tit for every tat), but he was becoming seriously concerned about how he and his division were going to work up to the 1981/82 Estimates while COPE's replacement was still so far in limbo.¹¹⁷ Tyler modified his draft somewhat, in line with these comments, and completed a 5-page "Discussion Paper", drawing the various lines of discussion together, for the OCEP meeting the following day.¹¹⁸

In a discussion with the author a few days earlier Tyler had indicated that among the major shifts in his own thinking over the preceding months, one was significant - and had been influenced very largely by feedback to Treasury after their release of 'the Quigley concept' to those who were primarily affected by it - the permanent heads. Where, say six of seven months before, almost radical change, in the direction of greater efficiency and economy had seemed possible, he (Tyler) was now persuaded that any change must be strictly evolutionary.¹¹⁹ Like other evangelists in Treasury before him, the Assistant Secretary had experienced at first hand the collective resistance which even carefully selected senior departmental officials could offer the reformer. It is an indication of the capacity for sustained campaigning which characterised the first PPB-COPE pioneers that far from becoming disheartened, Tyler became increasingly anxious to discuss and debate his cause with anyone (including an academic student of government such as the author) so long as he could be sure of their loyalty to the notion of "official secrecy". Various competing influences affect such officials - personal ambition, peer-group scrutiny, subordinates' reaction, departmental vagaries, ministerial pressure, unknown and unknowable 'godfathers' such as the Prime Minister, administrative and statutory necessity, constitutional propriety and political feasibility. Given the force of such variables, we are struck by the fact that to many such officials the anonymity offered by a "closed-system" must be seen as absolutely essential camouflage.

For both individuals and the executive arm of central government, the stakes, of course, are high. As one Treasury man close to Tyler remarked "There are absolutely no prizes in the system for coming second". Although this remark was directed mainly towards Ministers and departments in general, the politics of resource allocation in central government are such that the bleak rules of the game apply to all participants. Certainly,

through June and July, the sensation that the reform advocates (including the Associate Minister of Finance) were still walking on eggs was palpable - and if any one of the eggs broke, no one wanted it on his face. It is rather savage motivation. Whether it tends to encourage good government - let alone "good" expenditure planning - is (at this stage, at least) a moot point.

When the permanent heads assembled on 19 June for what turned out to be the final meeting in this phase of the Quigley paper history, they had been given (in addition to Tyler's discussion paper)¹²⁰ a very brief sheet of headings outlining a Suggested Financial Cycle Based on Discussion Papers.¹²¹ The meeting was attended by all the men formally charged by Cabinet to conduct the exercise except Clark (his representative from the DTI was present), and a number of other lesser officials. Notes were taken by Berthold and the author (also present) and the latter are appended to this study.¹²²

Discussion concentrated on four paragraphs (2,8, 15 and 16) in the draft paper, and on the revised financial cycle. General agreement appeared to exist, tacitly at least, for

- (a) the general reform approach i.e. the Quigley concept ;
- (b) the fixing of expenditure ceilings;
- (c) as early a fixing of expenditure allocations as was consistent with officials' needs, their ministers' needs and the "political will" of ministers to make any agreed rules stick - uniformly;
- (d) tolerance, or flexibility, sufficient to permit "unavoidable" adjustments e.g. those flowing-on from government's approval for wage and salary increases.

Overtly discussions focused on one particularly sensitive area - the pricing base for policy costing. It was asserted (and accepted) that prices would be adjusted twice in any one financial cycle, but would be based on "current" levels (supposing that these - and some appeared to doubt it - could be realistically gauged).

The underlying debate - the hidden agenda - was about the key question - what counts as political commitment: for example, when was it made, and who were the parties to it? What depends upon it (and cannot, therefore, be abandoned) and what flows from it - that is, what are its policy (and expenditure) consequences? If, as, for instance, Tyler considered in hindsight, the previous meeting had been about who really owns public resources - the Government (on behalf of the departments) or the departments (in trust, for the Government),¹²³ the emphasis (on 19 June) was basically on what counts as commitment - and, thus, what counts as need. As one

permanent head had put it "On definitions of commitment depend definitions of need; definitions of need, in turn colour interpretations of 'availability' - e.g. of money".

One argument which received little overt attention among most participants was put forward by Galvin (Head of the Prime Minister's Department) in his first attendance at OCEP. He argued that behind all or any of these definitions there must be some overall political and economic assumptions such as the desirability and attainment (or otherwise) of full employment. Such an assumption, Galvin suggested, was neither "need" nor "availability" but provided a vital criterion for the assessment of both.

As the meeting drew to a close, Renwick (Education) remarked - more or less sotto voce - that "the hard [decisions] are going to be the political injections at the point before they [Ministers and Treasury] fix the final allocations". The clearest opinion seemed to be that, despite the simple, efficient, good sense which men like Lough and Tyler could see in the Quigley concept, the Ministers would, quite simply, lack the necessary will to carry it through. And without that, the permanent heads would themselves lack the necessary motivation to impose "hard decisions" voluntarily on each other or themselves.

The Treasury officials agreed to circulate a summary paper and a flow-chart of the suggested budgetary cycle - and everyone appeared to accept that this had been the last meeting of OCEP at least for the time being.¹²⁴

July

On July 7, Tyler agreed that a Treasury circular instructing departments to prepare 3-year forward estimates of cost of existing policy, based on 1 July 1980 prices, should be prepared and circulated.

There had been (and there remained) a critical and central difference of view among Treasury officials on the function of the formal new and existing policy classifications. This divergence was the major reason for the protracted delays in issuing the new circular. Berthold and a number of his colleagues had argued that the difference between new and existing policy was that of an administratively convenient artifice or device to facilitate a division of labour between ministers and officials. If every identified volume change in existing policy must be explicitly recognised and approved by ministers, the allocative system would break down. Existing policies, Berthold argued, represented the outcome of

historical negotiations and agreements between interested parties. Annual re-examination of these by ministers was not only impractical but in most cases unnecessary. Where, for example, the extension of a policy, for, say, the payment of a grant or a welfare benefit could be justified on demographic terms, this volume growth came properly within formal definition of existing policy. Ministers could deal effectively with the small percentage of policies categorized annually as "new" (and indeed this was the area where their keenest political interests lay). Given the conflict and generally demanding role of the executive in central government, their capacity to review much more than that was necessarily limited.

Tyler, on the other hand, argued then (and again in 1981) that all volume growth, including that clearly based on demographic changes, must be identified and defined as new policy. While in 1980 this argument was resolved in favour of Berthold's point of view, it remained a major source of conflict in Treasury itself.

This circular,¹²⁵ which was drafted by Berthold and distributed on 9 July 1980, has a number of interesting features, some of which are typical of similar directives/requests for information. For example:

(i) Like COPE circulars issued in the past, it did not cite any Cabinet minute or Cabinet committee instruction to demonstrate its authority. Berthold considered that its distribution, over the signature of Alexander (Director Finance 1), for the Secretary to the Treasury, could be justified in terms of Treasury's legal powers as these are defined in the Public Finance Act, 1977. In a later discussion with the author about this, Berthold expressed some reservations as to whether any specific section of the Act could be interpreted to cover such a Treasury request for information (or for estimates) - indeed, no legal opinion on this matter had been sought. Nevertheless, it was at that time his view that either in

terms of the general authority available to Treasury under the Act, or under the powers delegated to the Secretary of the Treasury (and thence to every Treasury officer acting on the Secretary's behalf) by the Minister of Finance, the constitutional precedent, according to which Treasury did in fact require such information from time to time of departments, would have imperative force. In any case, it was his view that should Treasury's powers in this respect be challenged (e.g. by any departmental official through his/her permanent head) an explicit Ministerial or Cabinet directive would be promptly forthcoming. It was Berthold's tentative view that possibly Part IV, s.10 of the Act, and s.96 of the Act, as defined in s.2 of the preamble to the Act, would cover the case "in general terms".¹²⁶ In any case, it was not a question which arises frequently or causes much concern on a day to day basis. This is interesting in that departmental financial officers frequently made informal comments along the lines that Treasury is "getting above itself", "transgressing its proper authority", "expects other people to provide proper authority for their actions, but doesn't bother to do so itself".

(ii) The circular re-iterated the Cabinet statement that COPE would not be reconvened for 1980, "pending discussions on the future form of the expenditure planning system...." It noted, in the introduction, that "forecasts of the future costs of existing policies, and of new policies to be proposed for adoption, are basic to subsequent expenditure decisions. Such forecasts will be needed under any of the expenditure planning systems being considered, and whatever the economic climate in which expenditure decisions are taken." The implication of this statement was to persuade the departmental reader that he/she should not consider current developments a mere reflection of counsels of despair. On the contrary, officials should note that the system of expenditure planning was under constant review in the longer-term interests of improved financial management, and that changes implemented at this unhappy point in the Government's economic circumstances were not cosmetic, but part of a fully considered move towards greater efficiency and economy.

The bite was added in the following paragraph: "Departments will be advised as soon as possible of the decisions made as to the future expenditure planning systems and the continuation of the 'tit for tat' balancing of new expenditure against reductions elsewhere in a Vote." This much-disliked device was not, apparently, to be automatically discarded.

(iii) An appended timetable of "events and document flows" reiterated that time was, as usual, a scarce commodity. For its part, the Treasury undertook to inform the departments of all relevant pricing information by

mid-August, and by August 29 at the latest (some seven weeks away) departments were to return to Treasury their fully costed forward analysis of existing policies for the years 1981/82 to 1983/84.

A definition of what constitutes "new policies" was appended - with the firm reminder that no item coming within the terms of this definition was to be included in the forecast of future costs for existing policy. In the same way, all non-recurring costs were to be excluded, as were the costs for bids included in the 1980/81 Supplementary Estimates, or any extrapolation of these. All costs were to be expressed in 1 July 1980 prices, and only policies explicitly approved before 29 August were to be included.

At the same time, departments were directed that an initial statement, showing the three-year forward forecast for their costs, of all proposed new policies was to be forwarded to the Treasury by the end of September. Although details of such policies and the ranking of priorities was not required at that stage, an earlier than usual indication of policy costs was called for.¹²⁷

When this circular was being drafted it was anticipated in Treasury that, as had happened with COPE forecasts in the past, some departments would be late with their returns. No penalties for late returns were suggested in the circular (and indeed it is difficult to imagine what formal measures might be constitutionally available, even to the Treasury). But the question had been discussed, particularly by officials in Finance 1 division, on occasions in the past. In September, 1979, for example, one senior Treasury officer noted that over 50 per cent of the COPE forecasts for that year had been late. He suggested a number of solutions - for example, perhaps departments could submit only year 3 forecasts, with a price update for years 1 and 2, and a statement justifying any volume changes in the same period. Such a proposal implied that forecasts could be simply rolled forward by departments, rather than being part of an annual departmental exercise in which the COPE return was unique to the year in which it was constructed.¹²⁸ A colleague in the Financial Management division (Treasury) commented on this suggestion. He noted that in fact simple rolling forward of COPE forecasts from one financial year to another, updating as permitted, hardly ever happened: "This year only one department did so, and only Year 1 figures are rolled forward."¹²⁹

A further complication in this suggestion was that if it were adopted, every amendment, such as additions for new policies, supplementary estimates and "most importantly draft Estimates" would have to include three year adjustments. Despite the desirability of this, and the frequent complaint that ministers, for example, too readily approved new policies and other annual changes on a one-year costing basis only, it was seen to be

problematic, particularly because of the time it would demand of Treasury investigating officers and people in the Finance 1 division.

One suspects a lingering desire on the part of Finance 1 to abandon any attempt at polite consideration, and just muscle through. The idea of more punitive steps was toyed with: "It is tempting now [September 1979] to advise late respondents that COPE will update last year's [1978] forecasts by PLC's and treat them as final." But the probabilities of a future situation in which Treasury might have to concede additions because departments had failed to take all the politically necessary amendments into account in compiling their COPE returns gave this idea only a very limited chance of success.

"A more extreme suggestion" (which could also be regarded as more comprehensive, and more in line with discussions held in the past with such interested parties as the Public Expenditure Committee, the Audit Office and Treasury) was for a "rephrasing of the COPE, Estimates and new policies reviews" so that there was a telescoping of bidding. For example, would it be feasible for COPE and the draft estimates to be combined, or could COPE forecasts and new policies be submitted concurrently? This would at least give earlier indications of the sorts of trade-offs departments were prepared to make between existing and new policy developments.¹³⁰ In the event, the circular of 9 July represented only a relatively modest attempt to tighten up various phases of the annual bidding cycle without, for example, necessitating any change in the Parliamentary year.

(iv) With some difficulty, Berthold had been successful in ensuring that the new 9 July circular did not include any of the homilies or caveats incorporated in the introductory preamble to previous COPE circulars. There was, for example, no reiteration of the necessity for departments to "have regard for" the need for economy or expenditure restraint, and no attempt to emphasize the economic climate in which the government would be making its expenditure decisions. Not only had such warnings been disregarded in the past by the departments who felt (and who among them did not!) that theirs was a special case; they had also acquired a comfortable moralistic familiarity which was no more effective than a motherly reminder to take a clean handkerchief on a childhood visit. It is nonetheless significant that when the economic environment appeared genuinely difficult, the time for stern injunctions appeared to have passed. "All we want now", Berthold remarked, "is a clean, straightforward, 'pure' set of costings, based on 1 July prices for three forward years assuming no change in Government's policy".¹³¹

The question of purity was the subject of much interest among the

architects of the Quigley reform proposals. Part of the drive for improvement in the systems for financial management and expenditure control over the past decade had been an attempt to anaesthetize policies,¹³² in the sense that their costing was to be carried out as cleanly and as objectively as possible. This was inevitably a major cause of tension, since most departmental agents argued an approach that was too stringent and standardized not only reduced their operational capacity to deliver policies already well understood and historically embedded in the government system, but lowered their tolerance levels, with adverse impact on essential political flexibility. Financial managers protested that unknown and unknowable factors, which they allowed for in estimating both existing and new policy costs, should not necessarily be regarded as part of some irresponsible attempt to conserve fat to which they were not entitled. Officials bidding for reserves in fields where qualitative measures are difficult to apply, such as education, argued that the wide range of justifications offered to Treasury and COPE in their expenditure bids were as much a part of their attempt to protect a vulnerable political tolerance level as they were simple truculence in the face of demands for economy.

The problem posed by Hecló and Wildavsky: how are expenditure and policy linked? Does policy determine expenditure rather than the other way around, or is this a distinction without a difference?¹³³ remained tacit and unresolved among the "Quigley school" in the New Zealand Treasury in 1980. Here the debate centred on the implications of changing expenditure levels. For example, what was the flow-on effect of applying and maintaining cash ceilings? Would departmental spending capacity alter, or would policies themselves change? It was suggested that a change in the availability of money would imply a change in levels of activity; this would necessitate a change in policy, which would have implications for the costing of existing policies. If this was a possibility, it was argued, and in order to ensure as much consistency as possible, the initial costing must be as pure as possible, uncluttered by any consideration such as a one-off, unsustained effort to be economical in any one year. If those reviewing expenditure forecasts could not be confident at the bidding stage, then there could be no subsequent confidence in the consistency of any other applied measures such as "top-down aggregate ceilings within which departmental allocations were made". Nor could there be any hope for the equitable application of any other rules for departmental guidance and expenditure control.

After the distribution of the 9 July circular, the task of drafting the final OCEP paper for circulation to the committee and submission to the CCEX remained. There was still no firm indication of the Minister of

Finance's reaction, and indeed none was expected until September at the earliest, when the Minister would be "between trips overseas". However, in anticipation of questions from ministers and departments as to the pricing basis for government expenditure under the proposed system, Berthold initiated a Treasury submission on pricing indices.¹³⁴ The passage of the final modified scheme for public expenditure planning through the Cabinet was in fact to take place about one month later. Before drawing this chapter to a close at that point, however, it is appropriate now to return to another sub-plot, as it were, in the Officials' Tale: a review of the history of "Quigley" as told by Brian Tyler, chief architect of the system.¹³⁵

Tyler, Assistant Secretary of the Treasury, had worked directly on the Treasury system for expenditure management and control for only a relatively brief period before our story began. His style of participation in the 1979 reviews of existing and new policy and other phases of the (1980/81) budgetary cycle had already created ripples of interest among his colleagues, and slight concern among other departmental personnel. Those experiences had persuaded Tyler that the main problem, given general economic circumstances which appeared to call for spending restraints, was to separate out, and identify, growth, and provide procedures and incentives for the explicit justification of growth, where this could be shown to occur.

After the COPE report had been accepted by the government (as it inevitably was - Battersby, for example, could recall no occasion on which COPE figures had been queried by the ministers in Cabinet¹³⁶), there was, Tyler argued, little incentive in government, particularly in the departments, to look at existing policies, and their costs, again. Departments lacked this incentive partly because of the "tablets of stone" syndrome, but mainly because the review phase for existing policies (i.e. early in the calendar year) on an ad hoc basis occurred at almost the same time as they were fighting for new policies. Battersby also saw this as a problem - he had commented on another occasion that topics were arbitrarily selected for existing policy review: they may be generated by Hamilton who noted areas of interest through the COPE cycle, or nominated by the TIOs; they may be offered up by the departments themselves, under pressure; they were in any case unlikely to comprise a comprehensive list.

It was Tyler's view that "until the late 1970s, general economic growth, both in New Zealand and elsewhere, had lubricated the decision-making allocative system. Now, however, instead of determining how to allocate a surplus, the decision-makers must address themselves to the problem of how to reallocate the base." Economic changes and slow growth necessitated management and control procedures, and this necessity was accompanied by what

Tyler saw as strong, almost moral public revulsion against waste.

One device which countered intentional or unintentional financial waste was the tit for tat directive for new policies review. "Compensatory savings", as the device was more elegantly known, had proved relatively effective in the expenditure reviews for the 1980/81 financial year, and Mr Tyler was convinced that the tool had further potential value.

In assessing why, in November 1979, Cabinet agreed to the imposition of tit for tat again, Tyler suggested three reasons: firstly, the Prime Minister-cum-Minister of Finance wanted "a workable solution" to the expenditure problem (much like Hamilton, but from a different perspective) and real expenditure restraint. His determination in these matters was critical: a paper was submitted to Cabinet by Treasury recommending the endorsement of this self-denying ordinance, and although the Prime Minister's support for it did not make the decision a fait accompli, it was considered unlikely that the Cabinet would resist. Indeed, in the event, they did not. Secondly, inside Cabinet itself there was strong support for the use of tit for tat, led by the Deputy Minister of Finance, Quigley and other "free-enterprisers" who were persuaded, and supported on this in Caucus, that a real reduction in public spending would benefit the private sector. Finally, Tyler considered that some ministers may simply not have sensed the danger to themselves of the continued application of "compensatory savings" as an expenditure decision principle. Some may not have realised its full implications, nor believed that it would actually be put into effect; some may have seen it as desirable for others, but unlikely to hurt them because they felt that their own departmental case would always require special attention.

These attitudes were not peculiar to members of the Cabinet. Tyler observed that despite the fact that the CCEX had made its intention to act on the terms of the explicit Cabinet directive widely known, some permanent heads continued to doubt the applicability of the tit for tat principle. Although Tyler preferred not to identify particular sceptics, he had observed some permanent heads who considered their own ministers stronger than any existing system of across-the-board restraint. Indeed, Tyler added, in the past this may have been a valid belief, in that some big-spending departments had had effective ministers, or because the team work carried out by the minister in conjunction with his departmental strategists had successfully resisted encroachment of any significant kind. However, the particular strategy adopted by the CCEX early in 1980, (encouraged by the developing thesis of the Quigley concept, and reinforced by both Caucus and Treasury), was to make it consistently explicit to departmental officials

appearing before the committee that there was an absolute limit to the CCEX's discretionary powers. "We constantly pointed out that any departure by departments from the 'tit for tat' principle was beyond our (CCEX) authority and could only be argued before, and agreed to, by Cabinet itself."

The application of this principle generated system-wide reactions. It has already been noted earlier that interdepartmental gossip about the CCEX "bleeding departments white" exerted symbolic force. Further, Cabinet office staff noted with surprise (and some cynicism, in the later light of relatively modest gains by the CCEX in real financial terms) that hearings during the expenditure reviews prior to the 1980/81 Estimates sometimes extended well into the evening, and that the Treasury official working with the CCEX, Tyler, took not only an unusually active part in examinations but, with his Minister, Quigley, "operated on a unique first-name basis a two-man team of aggressive attack on every open-ended item, to the point of exhaustion."¹³⁷ In a brief public account of the same period, the same Minister confirmed that however painful it appeared at the time, suppliant officials were obliged as often as possible by the CCEX to apply the compensatory principle.¹³⁸

Tyler considered, further, that the application of the operating rule (i.e. that of Cabinet-limited CCEX authority) served another purpose. It demonstrated the clear recognition by CCEX ministers that individual ministers appearing before them, and the government as a whole, must have an "escape hatch - it must be acknowledged that some areas simply cannot be cut by an agent of the government such as CCEX unless the government is fully aware of, and prepared to take, the political costs". Nonetheless,

Tyler considered that the "success" of the 1980 CCEX reviews, which took place when the embryonic Quigley concept was being developed, depended mainly upon

(a) the willingness of the Cabinet committee ministers to "take the heat" of collegial opprobrium and apply a consistent policy of denial unless convinced that they should make a concession.¹³⁹

"We made every post a winning post, and every departure from the 'tit for tat' principle was an explicit exemption.... In total, exceptions might have amounted to about \$10 million - for example, maternity benefits, fees for Crown solicitors, or an adjustment for-----, who had got Cabinet approval for (a policy extension) before the Cabinet directive on 'tit for tat' went out".

About \$180 million worth of policies had actually been proposed by ministers at the beginning of the new policies reviews - and Treasury had already informed the CCEX that it would in fact have at the most about

\$8 million for this purpose. What interested Tyler intensely were the sorts of "philosophical and political principles" evoked by the difficulty of this problem. Departments claimed (and in some cases with truth) that they did not know what constituted a "compensatory saving" - indeed, the very pronunciation of the word had required a somewhat frivolous Treasury explanation.¹⁴⁰ Did a compensatory saving mean a reduction in the level of a particular activity? Did it mean deferral? Was it intended as part of an overall reduction in total expenditure in real terms, or was it intended mainly as a device which would release resources from one area in order to permit their reallocation, at the same level, or with additional supply, somewhere else?

The arguments, Tyler recalled, were strongly put. Permanent heads argued their need for resources because they saw themselves as carrying out activities on behalf of the government; the CCEX argued, in contrast, that the government acts on behalf of ministers and their departments; that the latter must therefore define their tasks, and tailor their requirements, to the government's explicit guidelines, both budgetary and as included in the election Manifesto. "The question really was Who owns public money - the government or the departments."

(b) The second factor in the "success" of the 1980 CCEX reviews was the departments' own eventual (albeit unwilling) recognition that "not only were the rules changing - the game itself was different". However, this attitudinal change produced few tangible benefits - Tyler conceded that "in general, 'success' this year must be read more as success in beginning behaviour/attitude modification - real expenditure or deficit reductions were certainly not achieved overall". One solution for this, he suggested, was probably only a fantasy. "Expenditure cuts can only be really effective (and impressive) on big items - if the Railways' \$70 million deficit for 1979/80 could be avoided, for example, there would be no great problems over new policies for some years ahead." Again, in departments like Health and Education there are "big items - and the main problem here is that the only way to change these is to alter the actual basis of their funding, for example, the formulae for grants to hospital boards." But here there are institutional difficulties.

Tyler considered that the 1980 experience, leading up to the implementation of a reformed financial system, was critical in changing the environment in which decision-makers operated. Although change in spending behaviour was not major, it was significant, and now "we need another leg to the stool - an examination of the big items. This falls into two categories: firstly, the 'relatively easy' group of policies, such as National Super-annuation. If funded on a different basis, many millions could be released."

Others in Treasury agreed that this "financial albatross" could be modified fairly painlessly by a change in party policy by the elected administration.¹⁴¹ The second category was more difficult, if not inviolable. Health funding, for example, could be comprehensively reviewed. Such an internal examination would be costly, and any attempt to ascertain where, how and why hospital boards spent their funds, and whether a proper basis for funding could be maintained was politically sensitive. Nonetheless, Tyler argued, a change in the general expenditure climate may be sufficient, without more draconian measures, to encourage Health authorities to examine and modify their own behaviour, while every opportunity the Treasury and the CCEX could discover to close off easy options for incremental growth was taken.

These comments by Tyler were recorded between June-July 1980, during the period when OCEP was preparing to report to the CCEX and the Minister on the Quigley concept. By this time it had become apparent to Tyler, as one of the architects of the proposed reform, that what had gone to ministers six months earlier may have over-stated the case for the abandonment of COPE. A variety of salutary experiences had persuaded Tyler that the impression gained by some - "that the baby could be thrown out with the bath water" - had caused excessive alarm, although, he added, it had had the beneficial effect of focussing departmental and ministerial attention on the seriousness of the current situation. Now, however, Tyler believed that "an evolutionary not a revolutionary approach is both desirable and necessary - that is, individual departments must determine, in advance of the next [1981/82] new policy review phase, what they are going to attempt in the coming year - if Treasury gives them the guidelines (e.g. on pricing policy, or permissible price level changes) early enough, they can declare their intentions earlier to Treasury." Although the final direction of decisions about "Quigley", made by Cabinet on the basis of OCEP and CCEX recommendations, were not yet completely obvious, Tyler did believe that if Treasury could provide the departments with a sufficiently early indication of what their planning levels should be (for example, through an upper aggregate limit or some similar device), they could all avoid much subsequent "frothing at the mouth". The benefits of this, he anticipated, could be three-fold: (a) lowered levels of departmental hostility and resistance; (b) longer lead times for departmental expenditure planning; and (c) better and more effective allocation of resources amongst votes later, when Estimates for 1981/82 were being drafted. The timing of Treasury information and direction in budgetary matters to the departments was all-important, in Tyler's opinion. OCEP discussions had indicated two lines of thought among the permanent heads. On the one hand, it was argued that early upper expenditure limits, grouped on an

aggregate basis, must be tentative because in fact Treasury itself is not in a position to know what departments are actually likely to need. On the other hand, some contended that any allocative limit, or information concerning a firm, reduced allocation, should be announced as early as possible, with provision for a department to prepare and argue a case for explicit departures from this later in the budgetary cycle. While Tyler himself did not see these two options as being too far apart, he was aware that different permanent heads would interpret the choice of either one as a "softer option" than the other. In any case, it was his view that the first option - tentative early limits - increased, rather than reduced uncertainty levels among departmental financial managers. The greater the scope left in announced upper allocative limits, the greater the adjustments which must be made earlier in the budget cycle. Deficiencies in setting the limits would increase the likelihood that supplicant departments would continue to return for special consideration later.

Tension in the system depended on the extent to which Treasury must leave the Minister of Finance "as much flexibility as possible - the whole thing can't be tied up too tightly far ahead of the Estimates, because in any case politicians inevitably want to leave some decisions as late as possible before announcing the Budget."

Associated with these problems, was the choice of which particular fiscal instrument would work best: if full PLC's were allowed only for explicitly approved levels of activity, departments could interpret their situation as being "more roomy than we (Treasury) have got in mind". On the other hand, whatever upper cash limits were imposed, difficult decisions about allowances for inflation still remained to be made.

Unlike at least some of his colleagues working on this problem Tyler remained close to his initial thesis: we must identify growth, and demand a justification of growth before it is funded. The competing viewpoint, held, for example by Berthold, was that growth must be discounted, and where possible eliminated from the vocabulary of the would-be spenders. Hence what must be justified were not additional resources, but existing resources.

In retrospect, Tyler considered that COPE, over a decade, had served a useful purpose in "maintaining the status quo" (that is, not letting things get completely out of hand) and in disciplining spending agents. But "it [had been] a costing, not a priority-setting exercise". What was now required was the incentive to force departments, and ministers, to focus on the total expenditure process, to cost both carefully and adequately in the first place, to identify areas of actual or probable growth, and to

accept the discipline of a changed financial experience. COPE was "an essential building block" in an historical process in which Treasury and the departments learned how to identify both current levels of activity according to given indicators, and desired areas of growth. "This is essential for both departments and central government's overall planning purposes." A combination of tit for tat, or the compensatory savings principle, imposed cash ceilings, and a rigorous, consistent approach by ministers to all requests for additional funding could be added on to the essential base provided historically by COPE.

Future conflict lay, as Tyler saw it, in the necessity to educate financial managers to manage with greater discretion, but continue to require them to be monitored, their resource supply adjusted from time to time according to government priorities. "As I see it", Tyler concluded, "the history of public finance is littered with brave new worlds - any system has a shelf life of about 3-5 years. It is the role of Treasury to keep on refurbishing the ideas for improved management and control systems."

In summary, the Officials' Tale, as told by Berthold, Hamilton and Tyler and others emphasises the education of other officials, and their ministers, rather than coercion. The year-long journey from the early discussions over the "Quigley concept" to the July consensus of OCEP over the acceptability of upper aggregate limits, the maintenance of a system in which existing policy was costed on a 1 July 1980 price base, with only one other annual opportunity for price updating, and the earlier timing for new policy submissions, bringing them closer to the current financial year and further away from the forthcoming Estimates, had begun this educational process. There was now explicit Treasury-Permanent Head-FOAG-CCEX approval for the following scenario (as summarised by Berthold) :

- (a) continuing policies = those existing policies which were not reduced or discounted
- (b) continuing + new policies = X
- (c) the cost of debt servicing = Y
- (d) X minus Y = sum available for aggregated Votes
- (e) Estimates review thus would = X - Y + January price adjustments
- (f) Estimates themselves would thus = X + A
(where A = level of deficit previously agreed to by Cabinet).

It was Berthold's view that all policies, evaluated in terms of their content, outcomes, objectives and achievement should compete, probably before a Cabinet Committee against all other policies. That is, he saw the justification of the financial base of government policy as determined in a continuously adversarial situation. Tyler was less concerned with the base, and more interested in getting explicit justifications for marginal growth and volume changes, with rigorous application of the principle that for

every new policy 'tit' an existing policy 'tat' must be exchanged. However both men, and their colleagues (realistically) recognised that if special cases, or crises (such as "an unforeseen outbreak of foot and mouth disease, which would cost hundreds of millions, both in direct subsidies and revenue forgone") were to be financed from within a previously determined allocative limit, then sufficient provision must be made initially for, say, debt servicing, if the full sum required to cover the "disaster" were to be borrowed.¹⁴²

The primary motivation of this Treasury group was to ensure not only that "hard decisions were taken", but that they were taken sufficiently early in any budgetary cycle (a) to allow time for tolerance of justifiable departures from the rules; (b) to allow the collective Cabinet to become (as the CCEX had attempted to do in recent years) "the avenue of last resort". Were the proposal for sector committees (discussed later), each with its own special Cabinet committee, developed, the group considered that probably battles now conducted before the CCEX and Cabinet would be shifted to these forums.

Control over how frequently Cabinet itself was approached would depend upon (a) how far the collective Cabinet wished or was willing to adopt the role of final arbiter and overseer which Treasury men considered it best fitted to perform; (b) the rigorous nature of the rules defining what constituted permissible justification for departures from the annual budgetary rules and (c) the ministerial and official determination with which such rules were applied. Tyler, for example, suggested that in Canada and elsewhere it had been found that only economic crisis could create the necessity for ministers to take hard decisions, because otherwise no-one would impose the pain of "hard decisions" on themselves, individually or as a group. Further, the Assistant Secretary considered that in at least 12 months time (that is, by mid-1981) that necessity would have become apparent to even the least observant, and a "compensatory increase in political will must then develop".

Tyler identified three critical factors of importance in any attempt at expenditure planning and control: the first was the personalities involved. By this Tyler meant not only the constitutional roles adopted by different men and women, but the "style, objectives and personal determination of individual participants". In 1980, for example, Tyler considered that he and Quigley, operating with the benefit of Thomson's style of chairmanship on the CCEX, combined to make an effective review team.¹⁴³

The second factor was the economic environment within which the cost-policy evaluation occurred, and the third was the

particular phase of the parliamentary cycle - in 1980, for example, the CCEX could be more effective than it might have been either in the first or third years of the electoral round.¹⁴⁴ Of these three factors or constraints, only the second was peculiar to the end of the 1970s/early 1980s. When COPE was established, growth was still an idea in good currency; and so long as that was true, the bite of necessity could be avoided. Perhaps only economic stringency could produce the Quigley school. What remained to be seen was how educable were their peers in Cabinet and the spending agencies.

Redesigning the structure: Sectors of Envelopes: a parallel debate.

In early July 1980 (nearly a year after "the Quigley concept" began to assume its characteristic shape) several fundamental issues remained unresolved. Some - like the pricing indicators - were matters which would have immediate significance; others, like the nature of the relationship between aggregated expenditure levels, levels of departmental activity, and existing departmental policies had long term significance; all were open to political interpretation. However resolved, they would define the emphasis placed by departments and Treasury on various phases of the reformed budgetary system.

Another outstanding problem related to the question of sectors - the "envelope system" of budgetary control. It was noted earlier¹⁴⁵ that

Battersby (Assistant Secretary to the Treasury) had suggested that Treasury's knowledge about this structural concept could be enhanced with the return to New Zealand of de Jardine, divisional Director of the recently-created Finance Management section.¹⁴⁶ Early in 1980 de Jardine had attended an international seminar on budgetary management. At the same time he had requested that a New Zealand Treasury official seconded to the Embassy office in Washington U.S.A., go to Canada, where the 'sector/envelope' system had already been established. The officer, P.T. Maloney, had been closely involved in various budgetary inquiries conducted in the New Zealand Treasury during the mid-1970s. A copy of his report on discussions with the Canadian Department of Finance and Treasury Board on their envelope system of budgetary control is appended to this study.¹⁴⁷

Maloney's overall comments were not particularly encouraging. He reported that the Canadian system was "a combination of the top-down envelope allocation with the forecast of existing policies". Although there were apparently some advantages - such as the fact that Ministers were closely and almost exhaustively involved in considering allocations, the system had been so recently put in place that in his opinion no firm conclusions could yet be drawn from the Canadian experience.

It appeared, however, that the first year of the forecast period still retained the greatest government interest. In addition, Maloney observed, "the Canadians have not yet reached the stage where various trade-offs are necessary within a committee or within the total. They are unsure of how disciplined the system will remain when this question arises".¹⁴⁸

The Canadian system divided the allocation process into five sectors, each with an associated Cabinet Committee and a range of functions included in its scope/terms of reference. The decision to act in this way had been taken by the Conservative Government in 1979, and was the basis on which the Canadian Budget was presented in October 1979. The government was defeated, however, on the question of tax increases and the Budget was not actually passed.

The sectoral/envelope system established at the time was retained by the incoming Government. The Cabinet Committee responsible for the "Fiscal Arrangements Envelope" was called "the Inner Cabinet". It was chaired by the Prime Minister and comprised "the Minister of Finance,

the President of the Treasury Board,

the Chairmen of all the Envelope

Committees,

plus one or two others".

This committee set the total amount of Government expenditure and the allocation to the envelopes: "It is the job of the committee to decide how each envelope is divided by department and programme".¹⁴⁹

The largest committee - the Cabinet Committee on Economic Development - included 17 Ministers representing various departments. It was supported by a Secretariat of 105 people drawn both from the Treasury Board and the departments themselves.

Whenever a department was included in an envelope, the relevant Minister automatically became a member of that envelope committee. Thus, for instance, the Cabinet Committee on Social and Native affairs, chaired by the Secretary of State and Minister of Communications, included Ministers responsible for a wide range of activities from electronic news media and broadcasting systems to environmental parks, social security payments and the status of women. This Committee also had responsibility for the Justice and Legal Envelope, which included not only the law courts but agents such as the Canadian Tax Review Board.

The Cabinet Committee on Foreign Policy and Defence, chaired by the Secretary of State for Foreign Affairs, and the Cabinet Committee on Economy in Government, chaired by the President of the Treasury Board, both

had comprehensive sectoral responsibilities.^{150.}

It was de Jardine's view that Maloney's relatively pessimistic report of the Canadian system, in conjunction with such criticism of this means of allocative decision-making as he had encountered at the 1980 seminar, suggested that it may not be feasible for "transplantation" to New Zealand. In addition, de Jardine believed that international warnings he had received about the time needed to prepare for the successful adoption of an overall budgetary scheme such as that being designed by the Quigley school should be taken very seriously by the New Zealand Treasury. In mid-July, at least, de Jardine appeared to feel that there was insufficient time to put the proposed reforms in place in full, and insufficient evidence to support such a move, in time for the current financial year.¹⁵¹

Berthold, on the other hand, was not unduly disturbed by these reports. It was his view, in July 1980, that the "inherent rationality of the proposed envelope/sectoral system (if coupled with technically reliable pricing, and accurate cost forecasting systems") was persuasive. He planned to develop a more sophisticated and refined model for sectoral distribution of the existing functions of government, as these were defined in terms of Votes, portfolios and programmes. He considered that the impact on Ministers and Officials of examining related areas of activity, in expenditure terms, would necessitate a more consistent and comprehensive analysis of the causal relationship between varied social and economic activities. If the only effect was to ensure that, in the name of economy and efficiency, departments and ministers reviewed and justified the cost-effectiveness of Votes, activities and individual programme components in terms of their policy objectives, this would be worthwhile.¹⁵²

Berthold's views were shared, to a greater or lesser degree, by Tyler, whose overall responsibility it was, on Quigley's behalf, to investigate and promote the restructuring proposals.

By October 1980 no firm decision had been made on how to proceed on this matter. However, the nature of the discussion indicates that in the central planning networks a fairly comprehensive reorganisation of the existing structure and processes for resource allocation was being contemplated.

SUMMARY By mid-1980, selected permanent heads and the Cabinet had agreed in principle to certain proposals for the reform of the COPE-based budgetary system:

- (i) the examination and approval of departmental spending plans and cost estimates not in terms of their desirability, but in terms of their

necessity and priority in the light of the Government's policy objectives and the resources available:

- (ii) the earliest possible annual estimate of the costs of existing and new policies consistent with the conventional phases of the budgetary cycle - that is, as defined by the Parliamentary timetable;
- (iii) the determination by the Government, in the light of these costings, of an aggregated level for public sector spending - that is a prescribed upper limit for the share of GDP to be absorbed in any one year by the public sector, with an expenditure growth rate which was the same as, or somewhat lower than, the anticipated rate of growth for GDP;
- (iv) the first charge on the aggregated expenditure total would be the servicing of the public debt, then from the remainder allocations (or cash envelopes) would be made to the various departmental Votes;
- (v) replacement of the COPE-based system (cost-plus forecasting in which Year I became the basis for the next year's Main Estimates appropriation) with a system in which all fiscal allocations must be contained within annual departmental cash limits, separate from the forecasts of policy costs for subsequent years. Cash limits would not be the same as expenditure targets. They would comprise the current year's allocation (i.e. as approved by Parliament in the 1980/81 Estimates), adjusted in the light of 1 July prices and amended in terms of any new policies approved by Cabinet and its control agents. Since all departmental spending would have to be contained within the allocated annual cash limit, a decision to put a new policy in place, or significantly extend any existing policy, would have to be taken in the light of its impact on existing resources available that year.
- (vi) the establishment of an "additional spending pool" which would be created by any increase in government revenue, savings made possible by stringent existing policy reviews, and the "expected increase in GDP". The first charge on this fund would be expenditure required by changes in the population affected by an approved existing policy, or by "changes in the economic climate". Any bid by a department for resources trapped in the pool would have to compete for consideration with all such others, and allocations would be consistent with the government's overall policy objectives;
- (vii) the now-familiar constraints of lowering staff "ceilings" and compensatory savings (tit for tat) would be maintained. That is, personnel employed by the State must be reduced by a given proportion in each department each year, and new policies would be approved only if it could be shown that their cost could be substituted for that of some existing activity.

Although both Cabinet members and OCEP had the opportunity to consider two other reform proposals - the establishment of special Cabinet level machinery to perform a PAR [Policy Analysis and Review] function ("à la Thatcher", as the original Quigley paper put it), and the grouping of Votes along functional lines for control purposes (à la recent initiatives in Canada) - neither proposal had been adopted, even in principle, by August 1980. By that time, preparations for the production of the 1982/83 Estimates were well under way, and a machinery change of this magnitude obviously could not be in place in time for the coming expenditure reviews.

The New Structure: Acceptance in principle of what the Quigley reformers proposed was sufficient to enable Treasury to implement the new system in time for the 1981/82 fiscal year. This was announced to departments by the distribution of "restricted" circulars from 9 July.¹⁵³ The timing of some announcements demonstrated how far the system was still under construction as the budgetary cycle actually progressed. In early July it was confirmed that COPE had not been set up for 1980. However, while exploratory discussions as to its replacement went on, departments should go ahead as for the current year to prepare their three year forward forecasts of existing policy costs. At the end of September, Berthold drafted, and distributed (with Tyler's approval), a circular which defined the new structure for "Public Expenditure Planning and Budgeting":

... [COPE] has been dissolved. Departments will however continue to prepare forecasts of the cost, in constant dollars, of continuing existing policies over the next three financial years. The three-year forecasts remain an essential part of the expenditure planning process. Each forecast will be reported on by Treasury (and the State Services Commission as appropriate) and examined by a panel of the Forecasts Review Authority (which replaces COPE). The Review Authority, which will operate in a similar manner to the former COPE Working Party, will verify the forecasts and report to the Minister of Finance.

Unlike COPE, the Forecasts Review Authority (FRA, later FRC) which had first met during August, excluded permanent heads, and comprised:

- (i) Tyler (Assistant Secretary, Treasury) as Chairman, and two other senior Treasury officers;
- (ii) Three senior officers of the SSC;
- (iii) Three senior departmental finance officers: In the first year, these would come from Education, MOWD and Health.

This group then subdivided into working parties called Panels 1-4, the first three of which were responsible for examining individual forecasts for each of the "larger Votes", in conjunction with Treasury officials. The fourth Panel would examine all other Votes, and would be chaired by one of the senior Treasury officials.

After recommendations from the Panels, the FRC would "determine the three year costs of existing policy" and report on this to the Minister of Finance - some two months earlier than COPE's previous December deadline. New policy bids and items of existing policy which could/should be reduced or discontinued would be examined by the CCEX during October and November, in contrast with similar inquiries conducted by the CCEX later in the current fiscal year.

Although there were no other structural changes, it was stated that the CCEX would in future have somewhat different terms of reference. After Ministers had presented to the CCEX their new policy proposals and proposals for savings in existing policies, in order to accommodate all departmental activities within the prescribed cash limit, the CCEX would make recommendations on these to Cabinet. If however, "a Minister's proposals [were] insufficient or considered inappropriate, the Committee [would] submit its own proposals to Cabinet".¹⁵⁴

The style of these circulars, and of the others concerning 1980/81 Supplementary Estimates, was quite consistent with the intentions of the Quigley reformers, i.e. to impress upon departmental spending agents the seriousness of the fiscal situation, the determination of the controlling authorities, and the rigour with which all stated rules would be applied. Any lingering hope that selective financial relief would be available was quashed. Departments were informed, for example, that Supplementary Estimates for the current year would be allowed only under the most stringent conditions :

The only increases for which provision will definitely be made ... are the 4 percent General Wage Increase and certain Social Welfare benefits announced in the Budget. Departments will be expected to absorb all other price increases which have occurred, or will occur, after the setting of the Main Estimates allocations. This includes the 1 October 1980 increase of postage rates (announced in the 1980 Budget), increases in freight costs, and increases resulting from exchange rate changes. Only in exceptional circumstances should departments submit a claim for any of these increases and then only when the department can demonstrate that it has reviewed its existing policy priorities and that costs cannot be ABSORBED THROUGH RESPREADING allocations from lower priority programmes. As indicated above, the Supplementary Estimates do not serve as an opportunity for a general re-opening of items for which the original allocation may, in the department's view, have been insufficient. ¹⁵⁵

In the same circular, permanent heads were informed that "unless there are exceptional circumstances, provision will not be made in the Supplementary Estimates for New Policies approved since the Main Estimates allocations, i.e. the 1980/81 costs of such policies will have to be found from within existing allocations."

In the past, Supplementary Estimates had been excluded from COPE forecasts (although as we saw earlier, not without dispute from members of COPE itself, who had queried Treasury's explanation of why this was both necessary and desirable). Under the Quigley system, Supplementary Estimates were apparently to be regarded by Treasury and the CCEX with suspicion. Anything built into the current allocation would comprise part of the department's forecast for Year I of the next cycle, and could thus become part of its cash allocation. The further inference was that in the light of this stern directive, departments would be slow to seek financial support for new policies already formally approved. The same circular directed that in any case all new policy proposals would be subject to "the same 'compensatory savings' requirements as were applied to this year's Review". Tit for tat was being settled more firmly into the administrative framework, along with the equally mandatory lowering of staff levels - "the sinking lid".

The Reformed Allocative System. The allocative system itself was given its first formal "public hearing" in the bureaucracy on 26 September in the circular which announced the formation of the FRC.¹⁵⁶ In the light of the costs forecast for existing and proposed new policies, the Government would determine an "appropriate" aggregate level of total expenditure for 1981/82 fiscal year, with an aggregate planning level of resource commitment for the two following forecast years, all in 1 July 1980 constant dollars. This would represent the Government's decision on the specific proportion of GDP it intended to absorb over the forecast period.

After receiving departmental returns on debt servicing and other similar obligations (such as "credit arrangements with overseas suppliers or contractors"), Treasury would calculate the overall amount required for debt servicing in each of the three forward years, as a first charge on predetermined level of resources to be consumed by the Government. A further sum would be creamed off the total to cover "unforeseen contingencies", including any new policies "which have no other purpose than to retain an existing policy in place by providing for price (including salary) changes", and "an amount" to cover discretionary adjustments to benefits or grants which were not automatically indexed, e.g. on a population basis, but affected by inflation. This amount for unforeseen contingencies would constitute the "additional spending pool", (or as Treasury preferred to call it, the "contingencies fund").

The amount remaining after the deduction of these provisions (debt servicing, and the "additional spending pool") would be divided between departmental Votes, giving a "provisional allocation" (or cash limit) which, after adjustment for inflation and approved new policies (incorporated

in any case only on a tit for tat basis) and conversion to 1 January prices, would comprise the Estimates provision for 1981/82. The planning levels approved, with adjustment, would then become the "rolled-over" provisional allocation (or cash limit) for the two subsequent financial forecast years.¹⁵⁶

In July, departments had been instructed to present their new policy proposals for 1981/82, with a brief description and three-year forward cost estimate of each, by 30 September. Four days before this date a new deadline for new policies was allowed by Treasury, which suggests that the accelerated timetable had been somewhat beyond the tolerance of departmental finance managers, and certainly more urgent than their colleagues, geared in the past to December dates, could meet. Departments were given an additional month for this preliminary task, although firm details of proposed compensatory savings to accommodate new policies, and a schedule which ranked the departments' preference for new policies, were to be submitted to the CCEX no later than 28 November, 1980. At this stage, the CCEX would begin its reviews of new and existing policies. The Committee would approve them only when compensatory savings could be specified in order to accommodate any new departure, and it was authorised to reject or modify department offerings in favour of its own view of what should be done. Presumably this additional power would enable the CCF to discriminate between appropriate and inappropriate departmental "offerings".

The overall structure of the Budgetary cycle would remain the same, insofar as it was tied to the Parliamentary cycle, and existing requirements for certain budgetary matters, including examination of the Estimates by the PEC and their debate in the House. Specific guidelines were outlined both for departments now operating the FFS, and non-FFS areas. Forecasting assumptions were specified: (a) only "observed price level" changes between 1 January and 1 July 1980 were to be included; (b) it was to be assumed that there would be zero population growth over the three forecast years; (c) it was to be assumed that the labour force would increase at a growth rate of 1.2 percent.¹⁵⁹

Concluding remarks

The application of the "Quigley concept" of fiscal management to the New Zealand budgetary system marks something of a watershed in the history with which this chapter has been concerned. The reformed procedures had two predominant features: cash spending limits as opposed to volume budgeting;¹⁵⁸ a prescribed upper aggregate limit for overall government spending as a proportion of GDP.

In a number of respects, the Quigley reforms and their manner of introduction demonstrate some important considerations raised by planning theorists. The system designers, notably the handful of men inside the Treasury, where the expenditure plans were hatched, were not only acutely conscious of "the political nature of the planning act"¹⁵⁹, but continually asserted that their own behaviour derived its legitimacy from its relevance to political objectives currently pursued by the Government: reduced public dependence upon the welfare state, expansion of the private sector at the expense of the public sector, greater economic flexibility, more discriminating and selective forms of public assistance to approved economic and social activities.

In obtaining the direct, personal participation of such significant executive agents as the Associate Minister of Finance, a small group of the most powerful permanent heads, and influential departmental financial managers, the Treasury officials who wanted to reform the COPE-based system attempted to avoid any subsequent charge of "autonomous professionalism".¹⁶⁰ Much of their past experience had shown that planning, unlike politics, is fragile, vulnerable - and ultimately dispensable unless "connected with powerful allies".¹⁶¹ By consulting the views of those perceived as having power in the budgetary process (while acutely aware that some, like the Prime Minister/Minister of Finance, could not be directly co-opted to the reform process), the Quigley school attempted to take along with them as many potential "dogs in the manger" as possible.

The ethos of the Quigley school derived from its members' perception of the political culture of central government. Their overt objective was to provide the structure for a systematic educational experience in which spending agents would abandon the view that politics (and politicians) constrained their intended behaviour, and adopt the view that politics (and politicians) were part of a creative process of collective planning and integrated expenditure policies. Alongside this aim, however, was the necessarily harsher intention to encourage, if not force, self-restraint upon those principally responsible for generating and authorising public expenditure proposals.

Andreas Faludi emphasises a number of distinctions between various aspects of planning. On the one hand, he likens planning to certain forms of budgeting, which aim to "constrain action or... express the firm intention of taking action of a specific kind rather than guiding it".¹⁶² The imperative nature of the Quigley system derives from the extent to which it under-emphasises the processes through which planning occurs and plans

are implemented, and stresses behavioural rules. This is partly explained by reference to New Zealand's current economic position, so straitened that necessity became the mother of virtue. If the government was unwilling to massively accelerate its revenue-gathering capacities, and when there was compelling evidence that past attempts at control over volume growth were relatively ineffectual in overall terms, a more assertive style of expenditure management appeared inevitable.

During the 1970s, considerable effort had been put into anaesthetising¹⁶³ the political content of resource bids:

- standardisation of expenditure submissions;
- the system-wide adoption of computerised forms of information exchange;
- the global treatment of common items which for the departments involved may have widely-differing purposes, such as international and domestic travel, the use of motor vehicles, and investment in physical plant such as buildings, machinery and other equipment;
- uniform training experiences for financial and other advisers from differing departments/backgrounds;
- the requirement that all departments, regardless of their social or economic function, submit themselves and their resource claims to a common form of examination by one small ministerial committee (the CCEX). It was hoped that through such a filter uniformly effective rules would be consistently applied, and generally consistent indicators of performance consulted in policy assessment -

these were among the "across-the-board" devices which, along with "staff ceilings", were aimed at neutralising the individualistic and idiosyncratic qualities of diverse claims for public money.

Such attempts at behaviour modification may be seen as part of an uncomfortable transition by spending agents and expenditure controllers from one historical phase to another. In his recent work on public spending behaviour in Britain, John Stewart has pointed to the impact of two models of public expenditure on the structure and processes of governmental organisations. The first model is that of growth; the second that of "standstill".¹⁶⁴ In New Zealand the growth model provided the behavioural paradigm for allocative behaviour until the mid-1970s. Confidence in the expectation of economic growth supported assumptions about how, when and to whom public resources would be made available. Spending "was predicated upon an assumption of the continuance of growth, the expectation that annual increments of resources [would] continue to be available." The behaviour of politicians and officials was characterised by "bidding strategies based upon norms, standards and national guidelines. They [represented] the aspiration to growth. Uniformity of provision [became]

the organising principle, and consensus rather than conflict [prevailed]. The building of consensus [was] helped by the increased scope for bargaining which the expectation of additional annual increments [provided]. With time, it [was] assumed that resources [would] be available; the principal task of allocation [was] one of ordering developments over time. Choice [was] less concerned with the alternative use of resources than with timing."¹⁶⁵

However, the validity of the growth model became increasingly difficult to sustain as the decade passed. With serious and sustained doubts about the model came equally profound anxiety about the extent to which established, characteristic forms of allocative behaviour were any longer tenable. John Stewart's "standstill" model was vigorously rejected by politicians, and by many of their official advisers, during the Labour administration of 1972-75. Although the National party that took office in 1975 immediately declared its sensitivity to the changing nature of the allocative paradigm by establishing the CCEX, neither the ministers nor the administrative departments responsible for planning, spending and controlling public resource use were prepared to face, or accept, the threatening implications of "economic standstill". Their power, electoral, professional and administrative depended, as they saw it, very largely on their ability to satisfy rising, and indeed, expanding, social and economic expectations, themselves fuelled by the continuing recession.

In the stressful situation in which Treasury officials and ministers, individually and collectively, found themselves by 1978-79, political and economic pressure to define radically different tolerance levels for public sector spending increased. Deficiencies in expenditure forecasting and the existing procedures for fiscal control were highlighted where there was insufficient overall economic growth to mop up, mask, or modify them. Yet as politicians and officials were aware, in a country like New Zealand, where intervention and allocative support by the welfare state is a pervasive, if not dominant, influence in almost every area of social and economic life, the range of activities directly and indirectly affected by changed levels of spending would be extensive. The political costs of adapting public spending behaviour to a "standstill" model could be severe. Hence, Treasury officials most immediately concerned with resource politics inside central government began a "search for ways of creating room for manoeuvre in conditions where annual increments have been squeezed or removed".¹⁶⁶ Under the Quigley system control strategies with disciplinary impact, such as staff ceilings, were to be reinforced by others such as cash limits and a prescribed upper aggregate limit for overall government resource consumption.

Without attempting much more than a token inquiry into current political and administrative understanding and acceptance of the implications of these control strategies, members of "the Quigley school" explicitly endorsed the view that the key question was no longer that of allocating the increment, but of re-apportioning the base.¹⁶⁷ A reformed system for fiscal management would replace the existing procedures for uniform treatment based on consensus (what Wildavsky has described as tacit agreement that "you provide the scratch for my program and I'll provide the scratch for yours").¹⁶⁸ Principles of selective discrimination would now be applied, and fiscal preferment given only to those policies and activities which could, if funded, demonstrate their positive contribution to the Government's announced economic and political objectives. Anything else would have to be found by the spenders themselves from within a limited allocation, itself subjected to critical review and supplemented only when specific indicators (approved price changes, changes in the demographic basis for an existing policy, or certain economic eventualities) signalled the need to do so.

On the other hand, the expenditure planners in the Quigley school, the system they designed, and their style of behaviour may also be regarded as demonstrating another view of planning. Faludi suggests that "any planning system [should] occasionally review the type of planning which it undertakes for its appropriateness to the problems at hand. These reviews [would] in turn lead to the establishment of higher-level planning bodies within guidance systems which give a permanent institutional base to the continuous review of specific planning activities. Only such systems... i.e. such that engage in some form of planning of their own planning, will be able to act in a rational way. Rational planning systems are, therefore, rather complex, i.e. consisting of at least two levels, which will be called 'operational' and 'general'. On the operational level, one finds a number of action programmes addressing themselves to different sets of variables in the environment, with the sum total of these action programmes spanning the whole space of a guidance system. On the general level, these action programmes are reviewed for their effectiveness, resulting in their occasional modification".¹⁶⁹

If, as Faludi proposes, the essence of such a "planning method" is that specific types of planning (guidance or constraint) "be themselves subject to purposive thought and action", it could be argued that the development of the Quigley plan demonstrates the adoption of this method. While the Treasury investigating divisions and Finance 1 officials, the CCEX and other sub-committees of the Cabinet were concerned with specific operational activities, it was within the capacity of Treasury's skills

and interests to initiate a review of the COPE-based budgetary system, after that system had been operating with modifications for nearly a decade.

The seminal Quigley paper, circulated between November 1979 and March 1980 proposed an institutional means to ensure the continuing overview of specific plans of action - a sort of PAR-like function, established at Cabinet level.¹⁷⁰ Machinery at this high level, with responsibility for applying "purposive thought and action" to expenditure problems and trends in spending would, it was inferred, improve overall decision-making and ensure greater consistency and a more comprehensive oversight for administrative and political action. Cabinet itself, freed from direct responsibility for all but appeals of final resort, could assess information and analyses about expenditure in the light of the Government's agreed economic and social objectives: a reduction in PE as a proportion of GDP, reduction and control of inflationary pressures, and economic restructuring in the direction of productive, export-led growth.

Apart from regarding the Quigley scheme, and its proponents, as illustrative of some aspects of planning theory, however, we may also consider the reformist move in the light of contemporary theories about the difficulties, and consequences, of restraining public expenditure. It has already been noted that the proposed behavioural changes derive from their authors' recognition of a new paradigm - economic standstill, in contrast to the long-accepted model of growth. Many of the discussions, formal and informal, memos and papers exchanged by members of the Quigley school illustrated their authors' familiarity with the international debate on budgetary planning and fiscal control. All members of OCEP and the FOAG, for example, agreed that there was a lamentable dysfunction between stated political intention (*vis à vis* fiscal economy) and the actual experience of applied "political will" (which, outside Treasury, was invariably regarded as a chronic deficiency of (a) ministers rather than departmental managers, or (b) other departmental managers and over-conciliatory or insensitive Treasury investigators, rather than oneself). Further, most agreed that the influence of particular techniques and methods, such as PPBS, SIGMA, regular expenditure reviews, computerised information systems, or COPE itself, may have contributed to, rather than reduced, levels of activity and expenditure. The Quigley school found itself in reputable international company.

Many of the criticisms and comments made at a British symposium held in Bath in 1979, for example, were echoed during the development of "Quigley".¹⁷¹ Like Cedric Sandford and Rudolf Klein, the New Zealand

reformers considered that although "the continuing influence of the relative price effect"; the growth of public sector employment (particularly the growing number of temporary and wage workers who appeared only poorly accounted for by the SSC, but costly on the public purse); and the influence of external factors like the balance of payments problem and the strictures issued by international money-lenders, had been at work in New Zealand, as in other countries, it was also the case that upswings in expenditure could "be explained in large measure by reference to procedures and methods and their limitations, rather than to positive changes in public policy."¹⁷²

With Klein, many New Zealanders agreed that "the history of the debate about public expenditure control - in the sense of decisions about priorities, [had been] one of progressive disillusion."¹⁷³ The attractively "sensible" rejection by Klein¹⁷⁴ and, elsewhere, Wildavsky¹⁷⁵ of conspiracy theories about the duping of hapless taxpayers by "fiscally irresponsible" politicians and bureaucrats was placed alongside the New Zealanders' somewhat regretful awareness that as in Britain and the United States programme budgeting could "no longer be seen as the key to progress".¹⁷⁶

Some of those who had been most directly and personally involved over many years in detailed investigation and evaluation of departmental spending patterns undoubtedly shared Ida Hoos' cynicism about technologically-derived techniques for budgetary planning.¹⁷⁷ Hoos argued that despite the widespread approval for, and adoption of, methods like systems analysis and cost-benefit techniques, certain basic weaknesses in government had not been overcome: "On the cost side, costs [are] underestimated, with calculations limited to visible dollar amounts, opportunity costs [are] omitted, spill-overs overlooked, and the range of present and future social costs ignored. On the benefit side, computations have been found to be over-optimistic, not adequately supported and lacking in consistency". Hoos went on - and clearly members of the Quigley school agreed with her position - to suggest that "'technical adjustments of the model'" would not alone overcome these deficiencies, which were inherent in the very nature of the techniques themselves.¹⁷⁸

Reservations widely expressed in international circles concerned with the politics of national allocative systems were by 1978-79 shared by many New Zealand Treasury and other informed officials. Lindblom, Heclo and Wildavsky were part of the received wisdom of those with power over the expenditure processes.¹⁷⁹ Publications circulated, for example, via the Treasury library, reinforced the academic view that budgeting was essentially an incremental process, and that even with accompanying economic growth and careful, systematic 'rational' management, the room for manoeuvre at

any time was severely limited by historical and immediate, electorally-determined, factors. American, Canadian, British and Australian experiences were compared with those at home. The fortunes of scientifically-based systems were assessed alongside those where "flying by the seat of the pants" was the dominant mode of budget management. Neither worked on its own. At any time, unforeseen or wildcat factors (such as ad hoc ministerial largesse or abrupt changes in employment trends) could prove detrimental to attempts to restrain budgetary deficits within acceptable limits. It was increasingly difficult to cater for actual spending rates during any one fiscal year, to accommodate unexpected pressure on different sectors, or to account for inconsistencies in pricing policies, and forecasting these some years ahead.

Aaron Wildavsky had addressed an OECD seminar on Controlling Public Expenditure in May 1980 on "The Theory of Expenditure Limitation".¹⁸⁰ His analysis was circulated in Finance 1 Division within days of its delivery. He outlined the familiar situation in which there is a public will, but not a public way, to limit government expenditure, and suggested that continuing lack of success in effective expenditure control inevitably points to "a lack of correspondence between the causes of growth and the methods heretofore employed to contain them." His theory - that "we-the-people are doing it to ourselves" - was that the cost of mutual support for each other's preferences is continuous upward growth in government. Citizens, politicians and bureaucrats all share in maintaining this collective pressure. "Legislatures, or cabinets (singly or together)... enjoy spending more than saving. Like the rest of us, they enjoy eating except when they weigh it all together".

Wildavsky argued strongly that the transference of private costs and preferences to the public treasury is a characteristic of elected legislative systems. Moreover, the larger government grows, "the more policies become their own causes.... The larger government gets, the less it responds to events in society and the more it reacts to the consequences of its past policies.... Thus big government exacerbates the spending pressure it has difficulty overcoming."

The effects of these pressures are additionally difficult because governments cannot accurately predict the effects of their actions. The response to this, Wildavsky suggested, is "cybernetic. They tacitly agree to cope with the consequences caused by other agencies just as the others agree to cope with theirs." The operation of the various policy sectors are too complex and specialist, in any case, for others to grasp, hence the tacit agreement to avoid each others' patch in exchange for "deference

in adjusting the economy" by central government agents (e.g. Treasury and Cabinet) requires a uniformity of provision,¹⁸¹ fair shares for all, and the application of rules only where they have generally-felt impact.

The incremental pressure towards "expenditure creep" created by this systematic relationship of government actors is exacerbated when (as in New Zealand) budget deficits become an accepted component of fiscal management, and allocations are made on the basis of the approved volume of activity for each spending agent or set of agents. As Wildavsky pointed out "budgeters lose control of money because they have to supply whatever is needed.... What budgeting by volume says, in effect, is that the public sector will be protected against inflation by getting its agreed level of services before other needs are met.... It is a form of indexing against inflation."¹⁸²

In both Britain (with PESC) and New Zealand (with COPE) this type of public sector budgeting, international theorists suggested, reinforced conventional assumptions about incremental growth.¹⁸³ Continual acceptance of an annual budgetary deficit annually belied political rhetoric, in published Budget speeches, for example, about the Government's firm intention to control and restrain its own consumption of resources. In 1967, for example, immediately prior to the adoption of PPBS, the New Zealand Minister of Finance had stated that "the level of Government expenditure is one of the principal factors which determine the level of national expenditure."¹⁸⁴ That year, he announced, "because it is essential to restrain the rate of increase in national spending, the Government has taken action to augment public revenues and to limit the growth of Government expenditure.... The principal aim [of measures taken] is and must be to induce a slower rate of increase in total expenditure. While this necessarily implies a somewhat slower rate of economic growth, there is no alternative if we are to stabilise the economy and maintain a firm basis for expansion."¹⁸⁵ Ten years later, when government expenditure had risen to about 41 percent of GNP, the same Minister reported that the Government's long-term objective had been consistently (albeit relatively unsuccessfully) pursued: to reduce public spending as a proportion of GNP.¹⁸⁶ In the 1980 Budget, it was stated that "the Government's medium term aim is to reduce the size of the Budget deficit and the growth of public sector expenditure consistent with the need to sustain reasonable levels of economic activity". Nonetheless, net expenditure had risen by 18.2 percent over the previous financial year.¹⁸⁷ As Wildavsky observed, there appears to be a public will, but no effective public way to translate this particular Government objective into actual and continuing experience.

Some of the explanations for this were obvious to all those involved in developing the Quigley system. Permanent heads, Treasury analysts, and the Associate Minister of Finance were all aware of the vulnerability of good intentions. Few bothered to justify this on the grounds of economic theories or objectives. Most were explicit about the impact of electoral ambitions on politicians, and the readiness of departmental officials to further these ambitions so long as the organisational-professional objectives they had developed with their own policy "constituencies" were catered for.

Treasury officials were quite familiar with the Lindblom school of analysis. They were conscious that political bargaining at executive level was at least as real in its impact on spending patterns - and their "lumpiness" - as deficiencies in organisational management and management techniques or the general effects of sluggish economic growth. Their response to apparently inevitable incrementalism was to emphasise the necessity for collective agreements among ministers.¹⁸⁸ They acknowledged that not only had permanent heads engaged in COPE found it extremely difficult to punish each other in allocative reviews; ministers themselves had individual spending ambitions which were tailored or nourished by exchanges of favour.

With the enthusiasm of moral reformers, they proposed to convert ministers (and hence their senior advisers) to the advantages of cooperative decision-making, and a collectively-agreed self-denying ordinance. Not only did they employ the uncomfortable technique of making explicit the expenditure implications of the Government party's ideological preference for the private over the public sector. They also adopted the then-popular cry of "back to the basics" which many in the government already propagated or endorsed in their own departments or electorates. Further, they identified an "almost moral revulsion" against continued spending. They encouraged the view that the political party endorsed by business, professional and corporate commercial interests could not tolerate fiscal sloppiness. A party whose response to economic decline was to initiate a massively expensive programme of energy development and progressive "restructuring of the economy" literally could not afford such laxity.

In a public address in August 1980, the Hon. Derek Quigley stated the reformers' position:

Unless the day-by-day decisions of Government recognise that self-imposed spending constraints are in fact binding, then all the statements of best intent will be for nothing. It is also a fact of human behaviour that most spending ministers will be less inclined to accept policy priorities and expenditure limitations which are imposed on them than those which are developed collectively. Our purpose then should be to look for mechanisms that will control the limits

of government expenditure by involving all ministers in the development of those limits. This should inhibit individual ministers from seeking to increase total expenditures, and, equally, ministers as a group from approving them. ¹⁸⁹

The Officials Committee on Expenditure Planning (OCEP) had been relatively cynical about the likelihood that all ministers would adopt this high moral tone - particularly (as was, in fact, to happen within weeks ¹⁹⁰) should there be any reverse in the party's electoral fortunes. The senior public servants who in August heard the Associate Minister of Finance expound his hopes, were impassive. ¹⁹¹ Nonetheless, the clear reformist statement remained. The new system was not deliberately punitive, at least in the sense that the full load of responsibility for finding savings, holding the line and living within prescribed limits would not be carried by officials alone. Ministers were publicly implicated. Any reservations about their probable future behaviour could be interpreted then by officials as the failure of the Cabinet collectively. Under the new system the principle of selective discrimination would be applied and fiscal preference would be given only to those policies and activities which could demonstrate their contribution to government's economic objectives. Although it was intended to smooth out the "lumpiness" of expenditure patterns by respreading allocations and providing better coordination between the various generators of costs, it was also intended to provide spending agents with an assurance of security: approved activities could be regarded as having a stable resource supply so long as departments accepted the rules. ¹⁹² It was thus acknowledged that there would be some rewards for acceptable behaviour to compensate for the more severe disciplinary aspects of the new system. ¹⁹³ Significantly, however, neither those in the departments at about director level and below, with budgetary and cost control responsibilities, nor authorised agents in numerous bodies in receipt of public funds, such as Hospital Boards, were directly invited for comment or evaluation of what was to replace the COPE-based system for budget preparation and management.

The central "clique" was a "communication group", negentropic in character insofar as its function was to order events, reduce their randomness and increase the central network's capacity for information retrieval. ¹⁹⁴ It was also the central control agent for the Government. The activities of the Quigley school constituted an attempt to gain improved control over the behaviour of other persons - notably senior departmental staff and spending ministers. The effectiveness of the Quigley concept, in cybernetic terms, will in future be demonstrated by the extent to which the expenditure system, for which the CCEX-Treasury-FRA group is specifically responsible, keeps "within specifiabale limits [i.e. upper aggregate expenditure limits,

and cash and staff ceilings] despite the impact of noise from outside disturbances or from inside unreliability, breakdown and decay".

Thus, over the next few financial years, there must be quantifiable evidence that

- departmental spending is restrained to the point of containment within prescribed expenditure limits;
- ministers accept and act in accordance with collectively-determined expenditure restraints;
- special, or exceptional circumstances (such as might be claimed by pressure-group importuning, or via unfair or deviant bidding tactics by spending ministers) are denied financial response;
- maverick or wildcat outbreaks of ad hoc departmental or ministerial spending (such as a last-minute decision, in 1979, to alter the family benefit rate) are avoided;
- cyclical patterns of erratic behaviour in anticipation of events such as general elections, or in response to unforeseen disasters, such as a by-election defeat are given no special or extra financial consideration;
- volume growth is shown to have been funded only where there is a change in the demographic basis for a policy provision;
- prices are strictly as prescribed.

These sorts of experiences would demonstrate that the reformed expenditure forecasting and budgetary management system was effective. In other words, planning control and regulatory agents in the central networks would have shown that the system they had designed was capable of "stabilising against disturbance an internal representation of an external state of affairs"¹⁹⁶ and, as Krippendorff added, capable of stabilisation "against the effects of internal unreliabilities, breakdown, and conflicts as well".¹⁹⁷

Realisation of the explicit objective of the system planners - that is, the containment of levels of activity within predetermined parameters - might, in future, suggest to Treasury and others that whatever information was by then available was adequate to the budgetary system's regulatory and planning needs. Further, this would probably reinforce the generally latent view held by the planners of themselves and by others, particularly Cabinet members, that as a specialist elite, Treasury and the CCEX are critical components in a negentropic system: information retrieving, order imposing, uncertainty reducing, capable of inhibiting fragmentation and promoting systematic stability.

However, as it was initially established, the educational-communicative

aspect of the Quigley system remained somewhat embryonic, while the major emphasis was placed on rules and structures for fiscal control. Nowhere, for example, in the various Treasury circulars on "Public Expenditure Planning and Budgeting" or in public statements by members of the Cabinet, was the relationship between macro-economic considerations and the individual components of public sector resource allocation carefully delineated, authoritatively established, or publicly debated.¹⁹⁸ Several factors central to this thesis may explain why this was the case.

Firstly, the planners were continuously aware of their responsibility to ensure that some viable fiscal system was maintained. Battersby's reminder (27 May, 1980) that even in the "darkest hours" of the past, when Treasury had continued to fulfil the government's constitutional and fiscal responsibilities despite grave political and economic uncertainty,²⁰⁰ was a necessary restatement of the professional planner's credo: to serve his political masters' needs. Thus, from 9 July onward as Treasury circulars were issued, calmly instructing departments to proceed on specified lines, to collect and collate certain data, to evaluate those data according to specific criteria, to present their analysis in a given manner, to conform to a mandatory time-table, every financial manager and permanent head could, in a sense, relax. There was a system that worked. The ministers would not be embarrassed. Future time could be constructed around the prescribed rules and regulations for acceptable behaviour. There seemed to be no question that the Estimates, for example, would not appear in their familiar form, that appropriations would be markedly different from those allowed in the past, that allocations to satellite agencies, such as statutory and other boards, would not be made much as they always had. Treasury had redefined not only the symbols of order and security, but the anticipated directives were couched in familiar terms of economy and efficiency with a reassuring and optimistic nod towards the continued importance placed on the longer-term perspective.

Secondly, the government needed a political symbol of its awareness of the gravity of the nation's economic situation. Limitations of knowledge meant that economists could not categorically assure the government that inflation, for example, was predominantly the result of expansion of the public sector. However, in recent years sufficient discontent with the existing system for budgetary management and financial forecasting had been channelled through COPE, the CCEX and Cabinet to suggest that constraining public expenditure might be presented as a serious, rational attempt to modify the impact of inflation on society.

But finding some credible symbol of inflation control was only one of the Government's political imperatives. Ideologically, the party in office

was committed to reduction in the scope of the public sector and, in particular to limiting the proportion of GNP which was consumed by the public sector. Although macro-economic justifications for this belief were rarely publicly provided or debated, it was asserted by the Government that the economic system would be healthier if resources now channelled into government consumption were redirected towards the private sector.

Thirdly, the government was in a politically excruciating position caused by the loss of traditional export markets, rising unemployment and gross uncertainties about future supplies of energy, particularly oil products. A "solution" to these problems which had long been advocated was to expand New Zealand's export capacity through manufacturing and processing, basing industrialisation on massive capital investment in indigenous sources of energy such as hydro-electricity and, more recently, off-shore supplies of gas and oil. Two courses of action to carry out these purposes appeared most likely to succeed - and to be politically acceptable: to encourage overseas investment in New Zealand's industrial development plans, and to redirect public resources away from social consumption towards capital investment in known or potential sources of energy. Government consumption of GNP at around 40 percent was presented as almost beyond electoral tolerance; yet increased taxation or markedly accelerated borrowing programmes appeared equally unpalatable. The most acceptable symbolic device was to attempt to reduce the capacity of all areas of the public sector to grow, except where it could be claimed that government spending would contribute either to export-led productivity or to energy production and marketing.

How should this be done? The Quigley system planners had adopted an evangelistic style of mutual encouragement in tackling this problem, reinforced by their real responsibility to maintain a system that would actually work. There was substantial agreement among them that "planning must prescribe [and is] ...essentially normative". The system they designed emphasised cooperative collegial action by ministers, consultative setting of goals and relative priorities by ministers and their spending agents. The fiscal policy goals - reduction of the public sector, restraint over public spending, promotion of the private sector, innovative use of existing resources, even at the cost of existing social and other programmes - were acknowledged to be primarily political and ideological. However, it was believed that given the salutary financial experience of most spending ministers and officials since about 1976, and with continuing annual emphasis on value for money, tit for tat, efficiency and economy, compensatory savings and so forth, the actual economic experiences of the coming months would be sufficiently severe to persuade all those involved

that this was the only viable planning approach.

As Faludi has pointed out, "planning systems, whatever else they may do, form an 'image' of their environment, and their specific set of variables in the environment, naturally enough, forms a very prominent part of this image. That is not all that there is to planning though, because the planning process results in modifying actions aimed at the specific set of environmental variables. To take such actions requires decisions which in turn require a facility which [Faludi calls] societal will..."²⁰⁰ The "image" which the Quigley reformers had of their environment was dominated by their consciousness of some critical elements in the expenditure networks: the Minister of Finance, the more ambitious spending ministers, the less tractable departmental spending agents (sometimes perceived as a sort of monolithic renegade like "the Education people", sometimes in the shape of individuals such as particularly influential permanent heads or their financial managers). Further out in that environment was the Cabinet itself. In the shadow behind that lay the increasingly influential party caucus. On the horizon, almost out of sight and in many cases certainly out of reach, were the satellite spenders: the boards and the field managers, the people who generated policy costs and operated "cost control centres" in a manner which many in the Treasury, Cabinet and the Audit Office, for example, regarded as quite unsatisfactory, if not unacceptable.

Connected with this notion of an environmental image is the planners' style, which Russell Ackoff regards as critical to planning effectiveness.²⁰¹ If, for example, we substitute for Faludi's "societal will" that much-lamented capacity "political will" (i.e. ministers making an allocative decision and sticking to it, regardless of internal 'noise' or external disturbances), it might be argued that more effort should have been placed by the Quigley reformers into examining the political and ideological structures within which the would-be spenders operated. They might have made more rigorous attempts to identify deficiencies in those communication networks which, it was hoped, would transmit planning information from the small clique of the FOAG, Treasury and the CCEX, to other ministers and their departmental advisers; to ensure that sufficient numbers of persons already threatened by public expenditure restraint and allocative re-direction, and hence likely to be most antagonistic, were committed, in advance of implementation of the reformed system, to its success. They might have tried to ensure that the whole exercise was seen, from the horizon of the planning environment, as economically mandatory, rather than part of yet another fiscal experiment by professional Treasury planners and decision-makers, or an electoral bid by politicians.

Ackoff considers that both the style, and the ideals of planners in any system of management are crucial. They must "understand the style and ideals of not only those who are to be in control [in this case, ministers and Treasury] but also those who are to be controlled if [they are] to design or plan a system that will work effectively". Ackoff further suggests that since style is multidimensional, and no system planner can call upon sufficient knowledge from behavioural scientists to enable him to satisfy the stylistic-idealistic needs of all those in the proposed system, he must adopt another technique. That is, the "involvement of those who will control, be controlled, or otherwise be affected by the system being designed, in the design of that system". This means that "a system designer who is aware of the relevance of style can learn about the stylistic performance of stakeholders [in this case ministers, individually and collectively, and officials and their "publics"] in the system by making its redesign as participative as possible. Participants in the design cannot help but put their stylistic preferences into their designs. Nor can they refrain from incorporating their ideals into those designs". 202

The political and constitutional context in which the Quigley school operated precluded their adopting a broadly participative style. The immediacy of the Government's economic difficulties appeared to justify their preference for a virtually closed-shop, inward-looking style of system design. The system designers were asked, for example, what consideration they had given to the impact of the proposed system on the existing distribution of power and influence amongst Cabinet, Cabinet committees and officials committees, the Prime Minister/Minister of Finance and his colleagues, the State Services Commission, the Treasury, and any new PAR function. Almost invariably their short answer was: None. When asked what specific systematic steps would be taken to stiffen ministerial resolve against cyclical decision-making which focused on general elections, or to ensure that officials below the most senior departmental echelons fully understood the objectives and means intended by the planners, the answer was much the same.

The characteristic style of the Quigley school was that of moral evangelism. Some considered that excessive or poorly controlled public sector spending was not only financially undesirable but to be regarded with "something like revulsion". The Associate Minister of Finance had publicly commented that he was "appalled" by the rate at which the public sector now absorbed available resources. Another Treasury official, reviewing ministers' attitudes towards expenditure, considered that "they treat the public purse like some gigantic private slush fund". He was morally, as well as professionally, outraged. Despite the rhetoric however, attempts to transmit

this sense of aversion to spending, and inculcate a preference for avoiding policy and cost expansionism, were directed not so much at ministers (whose final responsibility it was to 'hold the line') as at officials. Among the ministers on CCEX itself, only the Associate Minister of Finance had a passionate interest in reform. For reasons of personal ambition and ideological and political preference, he sustained that interest despite his own and Treasury's reservations about how far other ministers, most notably the Minister of Finance/Prime Minister, would support and comply with it.

It may be that at least two potential problems for the "success" of the new system have been built into its creation. Ackoff's imperative - participation so far as possible by all who are affected by the system, and Battersby's caveat - that it is fatal to design a system on the run - may prove to be critical deficiencies. Those who are now required to operate under the strictures of a system which declares the importance of collegial action while employing an increasingly centralised, Treasury-based system of control devices and strategies, may prove intractably obstinate. Except insofar as the Government's intentions can be gleaned from the sparse prohibitive edicts of Treasury circulars and closely confidential ministerial statements, departmental policy generators may remain alienated or feel themselves distanced from the means to debate, across the public sector as a whole, the implications of comprehensive expenditure planning. Collective Cabinet consideration of the implications of the new system for ministers individually and as participants in Cabinet sub-systems has been virtually non-existent. The inevitable conflicts between needs and objectives pursued by those responsible for servicing and taking decisions on the Cabinet Economic Committee, the Cabinet Committee on the State Services, the Cabinet Works Committee, the Cabinet Committee on Expenditure and other less crucial bodies were barely touched upon by the Quigley school.

Nonetheless, apart from its considerable symbolic significance, and its partial reliance upon contemporary knowledge about the causes and influences on public sector spending patterns, the development of the Quigley system has another dimension. COPE no longer exists in its previous form. It has been replaced by a series of control devices which have implications for both ministers and their officials. Their choices may now be severely limited. Their ability to generate large scale future developments based on almost innocuous "new policy" beginnings may be reduced. Nonetheless, the Quigley scheme provides them with an essential means of elite survival. Permanent heads are not now required to present to the

Minister of Finance a joint report on their expenditure base. As public knowledge of the existence, and the significance of COPE increased, it became increasingly difficult for permanent heads, unaccustomed to the light of public scrutiny, to tolerate their uneven exposure. As one senior public official remarked, he was constantly called upon to explain, justify and defend the activities of his department, which is a major consumer of public funds. Unlike him, the Secretary of the Treasury was never called upon to defend the state of the economy, but remained relatively anonymous, protected not only by his Minister, but the entire Cabinet system of collective responsibility.

The establishment of the lower-level FRC and its associated Panels, providing the basis for highly confidential inquiries by the Treasury and the CCEX into existing and new policies will take some of the heat off the top management levels of public service. The pressure towards collective decision-making and collective restraint by ministers performs the same function. An elite which is in jeopardy, its decisions and choices threatened by pressures which may expose their fallibility, has little option, given the political culture in which it exists, but draw closer together, emphasising its internal cohesion and the collaborative nature of its future objectives.²⁰³

Krippendorff notes that "it is sometimes argued that the conspicuous absence of valid theories of social control stems from the tendency of power elites to suppress all knowledge that would diminish their power".²⁰⁴ Further, he comments that "the success of regulation, the ability to control, is [thereby] in fundamental ways related to overall information".²⁰⁵

If the particular structure, procedures and rules for allocative behaviour demonstrated by the development of the Quigley concept are evaluated from these standpoints, we may detect in that history a series of political truisms: the confidential, hierarchical administrative system of the New Zealand Public Service is inextricably dependent upon the elected political elite of the Cabinet-centred parliamentary system; together, at the highest status levels, the two systems - executive and administrative - constitute an information network shaped and activated by electoral and other pressing political forces. The costs of revealing information sources, the criteria for decisions, and the influences upon outputs (such as allocative decisions) are high, not only in terms of time and money, but even higher in terms of professional and electoral reputation. The kind of "political will" that is both required and (on many occasions) exerted to promote, block, thwart, decelerate or redirect other spending agents' intentions demands is acutely sensitive to individual

and group consciousness of the risks of loss or diminution of power - real or symbolic.

The Quigley approach illustrates that under pressure, the survival technique adopted was to turn, not outward, but more intensely inward. The information networks engendered by COPE over ten years were perceived as defective, with leakages, open to pressure at weak points, susceptible to unauthorized, unobserved or inadequately monitored entry from outside.

The reformed system is based on a political desire for greater economic and fiscal control, which "[coincides] with hopes of planning the economy better... The implications of public expenditure policies [should] be examined in the light of all other calls on the economy (the balance of payments, investment by industry, and consumer spending); it [is] also hoped that [improved] projections of different departments' plans will help in the choice between priorities."²⁰⁶ Keegan and Pennant-Rea used these words in relationship to the British situation of the early 1960s. They are directly applicable to New Zealand still. As in Britain, the elite whose power and influence is being greatly strengthened by the centralist direction of the Quigley system is that which centres on Treasury. Over recent years (as in Britain since 1976) Treasury has gained an increased number of Cabinet-based allies. There is now, in addition to the Minister of Finance, a deputy Minister and an Associate Minister of Finance. In addition to these three there is the three-person CCEX, staffed and serviced by Treasury, essentially serving Treasury's onerous and complex needs. The COPE group of permanent heads (an apparently ineffective elite in terms of Treasury's political functions) has been replaced by a committee-based network which is directly accountable to the chief financial officers and the Finance Ministers. The "operational discipline" of the "contingency fund... - a limited fund, not a bottomless pool" is to be more directly exercised on the joint discretion of Treasury and the three Finance Ministers.

The innovations introduced with the Quigley system have a publicly-announced purpose: to make explicit an actual or intended change of ministerial (i.e. political) heart about the meaning of "the active State". The responsibility for significantly dampening down or redirecting "historically rising" public expectations is so grave that virtually only the Treasury, still a closed shop to direct extra-governmental pressures, could be commandeered to carry it.

The modified system will probably continue, like the British PESC, to be "less a system of control than a method of gathering together the implications of existing and planned policies."²⁰⁷ It will, however, require of the political elite considerable foresight and flexibility, if Treasury's

survival at the apex of the public sector bureaucracy is to persist. Should the centralist forces continue to fail important electoral and macro-economic tasks, the political executive and its party-electoral support groups may turn to other elites, so far relatively excluded or emasculated, such as the New Zealand Planning Council. Already, the location of members of the Treasury-centred elite in the Council and other potential danger spots has occurred,²⁰⁸ in almost unconscious anticipation of the future. The competition between diverse networks for control of critical information will, in a context of struggle for elite survival, undoubtedly provide the greatest political interest and economic significance over the coming decade.

Keith Ovenden has observed that if we are to understand the function of political elites, we must not only admit that there are small unique groups of influential individuals whose power over policy processes marks the political outcomes of those processes as peculiar to that elite. We must also observe and record "the currency of political life itself - their problems and solutions". This means not only asking which individuals were involved, participant and influential, but inquiring into "the precise nature of [the] political decision... [and] whether that decision would have been different if it had been taken by some other individuals".²⁰⁹

The institutional setting, the cybernetic nature of the information networks, the impact of international opinion about public expenditure planning and management, the historical development of COPE-based procedures inside central government and exogenous economic influences suggest that a Treasury-centred elite would have made the same kinds of policy decisions as the Quigley school - even without Quigley. Nonetheless, with Quigley (as proxy for the particular ideological and political ambitions of the National party in office), the planning-controlling elite which dominates the central informational network co-opted, and was in turn actively employed by, a determined group of politicians. Their sources of information, their political experiences, their style of approach to "futures management" and "guided national development" - i.e. to planning - are crucial elements in this fiscal policy process.²¹⁰

NOTES

1. Letter to author from John Zohrab, then TIO in N.Z. Treasury, later Secretary of the Cabinet Economic Committee (Cabinet Office, Prime Minister's department). 10 January, 1980. Appendix 3B, 1.
2. "Public Expenditure Planning and Control". A memorandum for the Prime Minister. From Derek F. Quigley, Associate Minister of Finance, written by Brian Tyler, Assistant Secretary to the Treasury, 20 November 1979. This document is known hereafter as "The Quigley Paper", and outlines the "Quigley concept" of public expenditure planning and control, leading towards what by the end of September, 1980, had been instituted, as defined here as "The Quigley system". For copy of interview sheet used as basis for 14 March 1980 discussion between author and D.F. Quigley, see Appendix 3B, 2. For copy "Quigley paper" see App.3B. n.2. (2 copies).
3. Interview between author and Brian Tyler, Assistant Secretary to the Treasury, in the Treasury, on 27 June, 1980. For copy of interview questions on which meetings with Tyler during June-July were based see Appendix 3B.
4. J.R. Battersby and D.A. Shand, "Planning, Programming, Budgeting Systems : A New Approach", The Accountants' Journal (New Zealand, Volume 49, No. 7, March 1971), p. 270 ff.
5. Interview between author and J.R. Battersby, Assistant Secretary to the Treasury in the N.Z. Treasury on 12 June 1980. For copy of interview sheet used during the discussion see Appendix 3B. Raw copies of interview notes also in Appendix 3B.
6. J.R. Battersby, The Planning of Government Expenditure in New Zealand, The Accountants' Journal (N.Z. : August, 1979), p.265. See Also Appendix 3B.
7. Ibid.
8. That is, prices were set as at 1 July and no updating was allowed in January. By 1980 this constraint had been applied again, with significant consequences for departmental expenditure growth.
9. Memo from F.J. Green, Chief Accountant, Ministry of Works and Development, to L.J. Cole, The Treasury (A4/24 May, 1979, MOWD).
10. Letter from F.J. Green, Chief Accountant, Ministry of Works and Development, to R.G. de Jardine, the Treasury. A4/2,
11. Ibid.
12. Memo from John Zohrab, TIO, to L.J. Cole and others, including Brian Tyler and Ron Hamilton, in the Treasury. Undated. Copy received by author dated 5 November 1979. See Appendix 3B.

13. Comment to author by W. Burch, Chief Accountant, Ministry of Agriculture and Fisheries, during interview in Burch's office, Wellington. November 1979.
14. Comment to author by M. Miller, then Director of Finance, Department of Education, during interview in his office 24 November, 1979.
15. Comments to author by H.G. Lang ex-Secretary of the Treasury, interviewed in his office as ^{Visiting} Professor (Economics department) Victoria University, Wellington on 26 September 1979.
16. Lloyd R. Amey. Budget Planning and Control Systems, (London: Pitman Publishing Ltd., 1979) pp. 4-5.
17. See Klaus Krippendorf, (ed.) Communication and Control in Society, (New York: Gordon and Breach Science publishers, 1979). Based on a conference held at the University of Pennsylvania and sponsored by the American Society for Cybernetics and three schools at the University of Pennsylvania.
18. Krippendorf, Communication, p. 3.
19. Anthony Wilder, "(Changing Frames of Order: Cybernetics and the Machina Mundi?" in Krippendorf, Communication, p.23.
20. Russell L. Ackoff, 'The Aesthetics of Management', in Krippendorf Communication, pp. 242-43.
21. Ibid. p. 245.
22. Ibid., pp. 245-6
23. Krippendorf, Communication, p. 528.
24. Ibid.
25. Options for the Future NZPC. T 3/18/16 Vol. I. Treasury Records, Wgtn. N.Z.
26. NZIPA conference: Allocating Resources Across the State Services. Wellington. August 1979.
27. Letter from office of Deputy Minister of Finance to B. Tyler, Ass. Secretary, Treasury. 17 September 1979. T3/15/16. Vol. II. Treasury records. Wgtn. N.Z.
28. J.F. Robertson, Secretary for Justice in 'Commentary'. 21/9/79. Copy in T3/19/16 Vol. I. Treasury records. Wgtn. N.Z.
29. T 3/18/16. Vol. I Draft paper. Public Expenditure Planning - Economic Considerations. 8 October 1979, Treasury records Wgtn. N.Z. "J.C." (the author) was John Chetwin, a Treasury officer in the Economics Division.
30. Authorship of 20/11/79 paper confirmed by D.F. Quigley in interview with Author on 14 March 1980. Parliament Buildings, Wellington, N.Z.

31. Copy of this paper given to author by D.F. Quigley on 14/3/80 in Parliament Buildings; Wellington. See Appendix 3Bn.2. This quickly became known inside certain officials' circles as "the Quigley paper" and the expenditure-fixing and associated concepts as "the Quigley concepts".
 32. Ty 4126 Public Expenditure Planning and Control. 6 December 1979. T3/18/16. Vol. I. Treasury records. Wgtn., N.Z.
 33. Comment to author by Cabinet office staff member, Secretary to CEC (June 1980) on views and advice given to him by B. White, outgoing Secretary of the CEC. Private interviews between Author and J. Zohrab in Treasury May-June 1980.
 34. W. Birch, Minister of National Development, to Associate Minister of Finance, 20 December 1979. In T3/18/16. Vol. I Treasury records, Wgtn. N.Z.
 35. Options for the Future N.Z.P.C.
 36. Sir Frank Holmes, New Zealand Planning Council letter to Hon. W.F. Birch, Minister of National Development. 6 December 1979. In T3/10/16. Vol. I Treasury records Wgtn. N.Z.
 37. Note: Para 8 of "the Quigley paper" : "Our purpose then should be to look for mechanisms that will govern the limits of Government expenditure, and will involve all Ministers in the development of those limits, so inhibiting individual Ministers from seeking to increase total expenditure and, equally, Ministers as a group from opposing them."
- This was an interesting point to have been picked up by Gill, whose own reputation as Minister of Health 1975-78 had been that of a forceful individualist making very strong claims on the public purse. Possibly his fingers had been burnt, either by Treasury or the CCEX, in the process. (Para. 21 of "the Quigley paper" deals with the Thatcher-style Cabinet Committee system).
38. Frank Gill, Minister of Defence to Hon. D.F. Quigley, 14 December 1979. In T 3/18/16, Vol. I. Treasury records, Wellington, N.Z.
 39. Bill Young, Minister of Works and Development to Associate Minister of Finance, 5 February 1980, received in Treasury from Quigley's office on the same day. T 3/18/16, Vol. I. Treasury records, Wellington N.Z.
 40. Private conversation between author and Tom Berthold, Treasury officer, in Treasury, 2.7.80.
 41. Memo from B. Tyler to R. Alexander, T 3/18/16, Vol. I. Treasury records, Wellington, N.Z.
 42. Letter from Office of the Minister of Trade and Industry to Hon. D.F. Quigley, 18 February 1980. T 3/18/16, Vol. I., Treasury records.

43. This comment is interesting in the light of what the original PPBS pioneers had hoped to avoid a decade earlier. Refer, for example, Rob Laking's letter to A.C. Shailles, from the U.S.A., 12 June 1970 in 'The Origins of PPBS in New Zealand'. In T 3/19 (discussed in Chapter 3). Treasury records, Wgtn. N.Z.
44. Duncan MacIntyre to Ass. Minister of Finance, 8 February 1980, T 3/18/16, Vol. I. Treasury records.
45. B. Tyler to R. Alexander - T 3/18/16, Vol. I. Treasury records.
46. Memo. from R. Hamilton, Fin. 1 division to eight senior Treasury officers (including some at deputy and assistant Secretary level) 12 February 1980, T 3/18/16, Vol. I. Treasury records, Wellington, N.Z.
47. Treasury circular, 28 February, 1980.

"COPE 1980

1. Treasury is currently reviewing its annual forecasting exercise and has developed a possible format for departments to follow in providing information. It is envisaged that departments would be directed in the usual way with the following data aggregated to programme level:
 - (a) Cost of inflation from 1 January 1980 (i.e. Estimates) to 1 July 1980 (FFS departments provide this automatically);
 - (b) Forecast year's costs for approved 1980 policies (CCEX approved three year figures on 1 January prices by project);
 - (c) Demographic growth (i.e. unavoidable terms of existing policy);
 - (d) Demographic growth (i.e. growth which is in response to demographic growth but which is able to be stopped, e.g. night school 'craft' classes);
 - (e) Discretionary growth (i.e. the department and not necessarily the public wants to do more, e.g. publicity).
2. Non-recurring expenditure."
48. T 3/18/16, Vol. I. 6 March 1980, Treasury records. FOAG = Finance Officers Advisory Group, an informal committee which meets from time to time, convened by Treasury.
49. X(80) 51, 14 March 1980 refers. In T 3/18/16, Vol. I., Treasury records.
 Draft CCEX paper, entitled Public Expenditure Planning and Control. Tabled on 20 March 1980 as X(80) 41, T 3/18/16, Vol. I. Treasury records, Wellington, N.Z. See also Appendix 3B, n.49, paper submitted to the CCEX by the Associate Minister of Finance, Public Expenditure Planning and Control', 14 March 1980.
50. A phrase attributed by Brian Tyler, Ass. Secretary to the Treasury to John Martin, former Assistant Secretary, Treasury, in private interview with Aitken in the Treasury on 27/6/80.

51. X(80)M 10 Pt. V. Copy 8 in T2/18/16, Vol. I., Treasury records, Wellington, N.Z.
52. X(80)M 11, Part XI, 25 March 1980. Copy No. 8 in T 2/18/16, Treasury records, Wellington, N.Z.
53. During an interview with Aitken on 14 March 1980 in Parliament Buildings, D.F. Quigley had commented : 'Of course, I don't yet know how people will take all this. I have to be reasonably cautious. Look at what happened to George Gair - I could wake up one morning and find myself Minister of the Post Office or Transport or something.' B. Tyler confirmed that he also had heard the Minister make a similar observation. Private interview with Aitken in the Treasury on 27/6/80.
54. Interview with Aitken and W. Renwick and N. Sutton in Education Department, Wellington, on 1/7/80. In an interview on 16/3/81, Brian Tyler, Assistant Secretary to the Treasury commented that in his view only (a) and (b) had been real considerations in the minds of ministers appointing the Officials' Committee.
55. CM 80/11/8. In T 3/18/16, Vol. I., Treasury records, Wellington, N.Z.
56. Ibid.
57. X(80)M 11, Part XI, loc. cit. Brian Tyler, Assistant Secretary to the Treasury, later commented that what was meant was the Officials' Committee, thence CCEX.
58. X(80)M 24, Part VII. Copy no. 10 in T 3/18/16, Vol. I. Treasury records, Wellington, N.Z.
59. X(80)M 25, Part III. 27 May 1980. Copy No. 9 in T 3/18/16 Vol. I, Treasury records, Wellington, N.Z.
60. RCWH. Finance 1, Treasury. This source 'RCWH', used hereafter refers to Ron Hamilton's (Treasury) personal desk-current matters file. Permission to read given in June, 1980.
61. RCWH Finance 1, Treasury.
62. RCWH. Finance 1, Treasury.
63. RCWH. Finance 1, Treasury.
64. RCWH. Finance 1, Treasury.
65. Over the 1967/1980 period under study, Treasury officials, particularly those at the most senior rank, published articles in the (N.Z.) Accountants' Journal which has a relatively 'select' and probably conservative readership. e.g. J.R. Battersby, R. de Jardine, and H.G. Lang, all submitted articles on current developments in government's financial management systems. These constitute a real attempt at better 'public relations'.
66. RCWH. Finance 1, The Treasury.
67. Draft Notes on Cope Exercise, 20 September 1979. In T3/4/80. Treasury records.
68. A later note commented that 'the success of the sector approach hinges very much on the preparedness of the Minister of Finance

to say 'no!' to all requests for additional funds - there would be no discipline on the sector committees otherwise." RCWH Finance 1, The Treasury.

69. DMVC: Departmental Motor Vehicles Committee. For example of specific instructions on 'global items' such as motor vehicles see Appendix 3B, n.69.
70. RCWH 20 December 1979. Finance division, The Treasury.
71. RCWH 10 January 1980. Finance Division. The Treasury.
72. RCWH Finance division. The Treasury. See also earlier paper, not discussed here, written by Hamilton 12/2/80, outlining a revised Budget cycle. Ibid.
73. This note suggests how closely tied any "planning" has been to annual budgetary considerations, at least in terms of "planning" public expenditure. RCWH 26/2/80. Finance 1. The Treasury.
74. Draft paper. 26/2/80. RCWH Finance 1. The Treasury.
75. Letter from RCW Hamilton to Mr. Tyler et al. 23 April, 1980. T3/18/16 Vol. 1. Treasury records.
76. X(80) 51 14 March 1980 refers. In T3/18/16 Vol. 1. Treasury records.
77. RCWH Finance 1. The Treasury 10/3/80.
78. Ibid.
79. Comments on Mr. Berthold's draft circular, 5 May 1980. T3/10/16. Treasury records, Wgtn.
80. Memo. 13 May 1980. T3/18/16 Vol. 1. Treasury records. Wgtn. N.Z.
81. Treasury circular 1980/- ; 13 May 1980. T3/18/16 Vol. 1. Treasury records. Wgtn. N.Z.
82. X(80) M24 Part VII, T3/18/16 Vol. 1. Treasury records. Tyler commented later that "CCEX approval was regarded by us as a necessary step on the way".
83. Memo. from Brian Tyler to R. Alexander et al. 20 May 1980. T3/18/16. Vol. 1. Treasury records.
84. Ibid.
85. Memo. from T. Berthold to B. Tyler et. al. 21/9/80. T3/18/16 Vol. 1. Treasury records Wgtn. N.Z.
86. Memo. from J.R. Battersby to Messrs. McLeod, Tyler, Alexander and Hamilton. Government Expenditure Planning. 27 May 1980. T3/18/16 Vol. 1. Treasury records, Wgtn. N.Z.
87. Drafted as Ty 5450 T3/18/16 Vol. 1. 27 May 1980.
88. Draft Cabinet office circular 27 May 1980. T3/18/16. Vol. 1. Treasury records.

89. CM 80/11/8 31 March, 1980. Cabinet Office Parliament, Wgtn. N.Z. Mr. Galvin was, in May 1980, widely expected to be a successful candidate for the position of Secretary of Treasury - which more or less necessitated his direct participation in OCPE. His appointment as Mr. Lough's successor was announced in July, 1980, and taken up in December 1980.
90. T3/18/16 Vol. 1. Treasury records. Wgtn. N.Z. See Appendix 3D.
91. Internal memo. 29 May 1980. T3/18/16. Vol. 1. Treasury records, Wgtn. N.Z.
92. CO (80)7, 3 June 1980. In T3/18/16 Vol. 1., Treasury records, Wgtn. N.Z.
93. T5501 30 May 1980 T3/18/16. Vol. 1. Treasury records, Wgtn. N.Z.
94. On 10 June Brian Tyler (Treasury) sent a formal note to the Minister of Finance, reporting on the 4 June Officials's Committee meeting. Although all eight departments nominated were represented, only 5 of the permanent heads actually named as committee members were present :
 Noel Lough (Treasury)
 R.M. Williams (SSC)
 W.L. Renwick (Education)
 J.F. Robertson (Justice)
 J.W.N. Clark (Trade and Industry)
 Substituting for Messrs. Hiddlestone, Galvin and Callahan (respectively) were :
 D.N. Ryan (Assistant Director General, Health Department)
 D.J. Turkington (Advisory group, Prime Minister's Department)
 T.J. Sanger (Assistant Director-General, Social Welfare).

Each of these men was accompanied by at least one other official from his own department though none of these was actually listed in the 10 June memo. to the Prime Minister as having been present. For example, Mr. Renwick took Mr. Noel Sutton (Assistant Secretary, Policy and Resources), after both had come straight from an extremely large funeral service, conducted principally by Mr. Renwick, for a colleague who had died unexpectedly a few days earlier.

The memo. to the Minister noted briefly that :

"The meeting was addressed by the Associate Minister of Finance, who outlined the background to the task of the Official Committee and the factors which suggested a need to modify the present expenditure planning methods.

After discussing the issues and reaching a large measure of consensus the Officials' Committee agreed to meet again on Wednesday 11 June to consider a first draft of its report, to be prepared by Treasury.

This report is for your information only." Ty 5591 T3/18/16. Vol. 1 Treasury records, Wgtn. N.Z.

95. During 1980 this phrase had gradually become the accepted Treasury jargon for the system under discussion. It means an initial setting of an expenditure ceiling, as determined at the top, rather than a system in which accumulated bids and estimates were added together and approved, the sum being equivalent to the annual Estimates.
96. OCEP Notes: D.F. Quigley 4 June 1980, T3/18/16 Vol. 1. Treasury records, Wgtn. N.Z.
97. Handwritten notes by T. Berthold. T3/18/16 Vol. 1 Treasury records, Wgtn. N.Z.
98. Ibid.
99. Conversation between author and TIO's and other Treasury officials in Treasury, early-mid June 1980.
100. Treasury circular from J.L. Anderson, R.M.S. division, Treasury in June 1980, T3/18/16 Vol. 1. Treasury records, Wgtn. N.Z.
101. See R. Jones, Energy in Appendix 3B.
102. i.e. the Cand A.G. Report to the House of Representatives on Financial Management and Control in Administrative Government Department: B-1. Pt. IV 1978.
103. Roundup Comments Made at FOAG on Implementation of the 'Quigley' concept - 10 June 1980. 11 June 1980.
T3/18/1-. Vol. 1. Treasury records, Wgtn. N.Z.
104. See COPE (1978): Notes of Working Party and Sub Committee meetings. Appendix 3A Reports on Education and Transport.
105. For example a memo. from RCW Hamilton to B. Tyler and R. Alexander 14 September 1979 refers. See RCWH, Finance division, Treasury records Wgtn. N.Z. "A further comment on the Green memo.: commencing a general review in early 1980 is logistically the task for officers to be implemented in the Main Estimates. Hence our issuing directives before Christmas."
106. Conversation between Berthold and the author in the Treasury Wellington, N.Z. on 7/7/80.
107. See also Appendix 3B.
108. See Appendix 3B, 108(a), 108(b), 108(c), 108(d).
109. Public Expenditure Planning and Control. Draft paper, reporting to the Minister of Finance on the OCEP 10 June 1980. See Appendix 3b.
110. Ibid. 'Appendix 1' See also Appendix 3B.
111. Ibid. p. 2.
112. Ibid. p. 2.
113. Ibid. p. 6.
114. Handwritten notes by OCEP meeting, 11 June, 1980 in Treasury by T. Berthold T3/18/16 Vol. 1. Treasury records, Wgtn. N.Z.

115. Ibid.
116. T3/18/16, Vol. 1. 16 June 1980. Treasury records, Wgtn. N.Z.
117. 17 June 1980. R. Hamilton to B. Tyler et. al. Comments on Mr. Tyler's discussion paper of 16 June 1980. T3/18/16. Vol. 1 Treasury records. Wgtn. N.Z. See Appendix 3B.
118. 18 June 1980. B.C. Tyler to OCEP. Discussion Paper T3/18/16 Vol. 1. Treasury records, Wgtn. N.Z. See Appendix 3B.
119. Interview between author and B.C. Tyler, in Treasury on 13 June 1980.
120. See note 118. above.
121. Suggested Financial Cycle Based on Discussion Paper 19 June 1980. T3/18/16 Vol. 1. Treasury records, Wgtn. N.Z. See Appendix 3B.
122. Notes of the meeting of OCEP, 19/6/80, in Treasury, taken by J. Aitken, present during the meeting at invitation of Brian Tyler, Assistant Secretary to the Treasury with agreement of N.V. Lough, Secretary to the Treasury. See Appendix 3B.
123. Interview between author and Brian Tyler in Treasury on July 11, 1980.
124. See Appendix 3B Tom Berthold's Notes on OCEP meeting 19 June 1980. Vol. 1. Treasury records, Wgtn. N.Z.
125. Treasury circular 1980/32. T3/2/80 To Permanent Heads - "Three-Year Forecasts of Costs of Existing Policies and Proposed New Policies: 1981/82 to 1983/84". 9 July 1980, Treasury records, Wellington, N.Z. See Appendix 3B.
126. In a subsequent note to the author, Tom Berthold later added : "Remember my inability to find authority for Treasury's demands for information from Departments? That lacuna seems to have been filled by Section 8 of the Public Finance Amendment Act 1980, which see : It must have been going through the House even as we spoke." T. Berthold, October, 1980. Appendix 3B.
127. See note 125 above.
128. RCWH: Memo to Messrs. Tyler and Alexander, copy to R. Jardine. "Review of COPE Requirements". 19 September, 1979.
129. Ibid.
130. Ibid.
131. Reported by Tom Berthold in interview with author in Treasury on 9 July 1980.
132. An 'anaesthetic' style of management was discussed, for example, in Allan Lovett, 'The Anaesthetic Style of Power', Charisma (18, (N.Z.) SCM, Box 9792, Wellington).
133. Hugh Heclo and Aaron Wildavsky, The Private Government of Public Money: Community and Policy Inside British Politics (London: MacMillan, 1974) p. 343.

134. 'Pricing Indices applicable to Government Expenditure.'
19 June 1980 T3/18/16, Vol. 1. Treasury records,
Wellington.
135. The following comments by Brian Tyler are drawn from a series
of interviews between him and the author, each lasting between one and
two hours, conducted in Treasury on 12, 20 and 27 June and 11
July 1980.
136. Reported to author by J.R. Battersby, Assistant Secretary to the
Treasury on 12 June 1980.
137. Reported to author by K. Marshall, Secretary to the Cabinet
Committee on Expenditure (Cabinet Office, Prime Minister's
department) during a conversation held in Wellington on 10 July
1980.
138. Reported by Hon. D.F. Quigley at annual conference of New Zealand
Institute of Public Administration in Wellington on 15 August, 1980.
139. It was reported to the author by several Cabinet Office observers
and Treasury officials that some Ministers, for example Hon. M.
Wellington, Minister of Education, angrily continued to "lead with
the chin" despite reported CCEX rejections, and, encouraged by
their official advisers, were forced to attempt to state their
resource claims in a higher court - i.e. the Cabinet itself, where
access was determined by the Secretary to the Cabinet and the Prime
Minister. Cabinet office staff considered that their fate was
generally no happier there than before the CCEX. Nonetheless, in
a newspaper article based on an interview with Brian Tyler
(Treasury), Colin James, political correspondent for National
Business Review published the following comment:

"The cash limits approach reflects a new determination
in the Cabinet to reduce state spending as a proportion of
gross domestic product. It was devised by Associate
Minister of Finance Derek Quigley and Treasury assistant
secretary Brian Tyler. Quigley has been openly
disappointed at past failures to curb spending sufficiently.
An example that particularly irritated him was the
real increase in education spending which slipped through
the net this year." [Emphasis added].

National Business Review, October 20, 1980, p. 31.
140. See Appendix 30.
141. Noel Lough, Secretary to the Treasury, for example, commented on
this at the final meeting of OCEP on 19 June 1980.
142. From interview with Tom Berthold in the Treasury on 9 July 1980.
143. One senior official (Treasury) stated that "A committee of Templetons could
never do what a committee of Quigleys could and would".
144. Comments by Brian Tyler during interview with Aitken in the Treasury
on 11 July, 1980.
145. Interview between author and J.R. Battersby, in the Treasury on
12 June, 1980.

146. The establishment of this section had been announced by the Minister of Finance, Rt. Hon. R.D. Muldoon in his Budget speech on 21 June 1979 and referred to again by Mr. Muldoon the following year. See Financial Statement, 3 July 1980. B.G. AJHR.
147. P.J. Maloney to R. de Jardine. "The Canadian Envelope System of Budgetary Control." 20 June 1980. Treasury records. Wellington N.Z. See also Appendix 3B.
148. Ibid.
149. Ibid.
150. Ibid.
151. Comments made by R. de Jardine during interview with author in the Treasury on 2 July 1980.
152. Comments made by. T. Berthold during interview with author in the Treasury on 9 July, 1980.
153. Treasury circular 1980/32. T3/20/80, "Three-Year Forecasting of Costs of Existing Policies and Proposed New Policies: 1981/82 to 1983/84," 9 July 1980; Treasury circular 1980/47 T 3/18/16, "Public Expenditure Planning and Budgeting" 26 September 1980, Treasury records, Wellington N.Z. See also internal Treasury paper, T3/20/80, 3 September 1980. Appendix 3B.
154. Treasury circular 1980/47. Loc. cit. On J.R. Battersby's advice the title FRA was changed to forecasts Review Committee (FRC).
155. Treasury circular 1980/36. T3/5/80-81. "1980/81 Supplementary Estimates". 22 July 1980. See also Treasury circular 1980/45. T3/5/80. "Supplementary Estimates 1980/81". 17 September 1980. Treasury records, Wellington N.Z. See Appendix 3B.
156. Ty 1980/47. T3/18/16. Op. cit.
157. Ibid.
158. "In respect of individual items, components and programmes there would be volume budgeting; in respect of the aggregated vote/votes there would be an aggregated cash limit (i.e. all individual existing and new policies approved would be fully funded). The reconciliation between the cash limit and the corpus of policies would be in the change of policies themselves. In addition, the new system allows for a future situation in which, for example, if a lowered overall government deficit were required, then the first charge on compensatory savings identified during the review of existing policies would be an accommodation of the deficit". Tom Berthold, 21 February, 1981.
159. Glen McDougall. "The Systems Approach to Planning: A Critique, Socio-Economic Planning Science, (Vol. 7, 1973), p.89.
160. Basil Dimitiou, "The Interpretation of Politics and Planning", Socio-Economic Planning Science, (Vol. 7, 1973) p.64.
161. Ibid.
162. Andreas Faludi, "The Systems View and Planning Theory", Socio-Economic Science (Vol. 7, 1973), p. 76. See also Lloyd P. Amey, Budget Planning and Control Systems.

163. Levett, op. cit.

164. J.D. Stewart, "From Growth to Standstill". Public Spending Decisions: Growth and Restraint in the 1970's. (ed.) Maurice Wright, (London: George Allen and Unwin, 1980), pp. 9-24.

165. Maurice Wright, "Introduction", Wright, Public Spending Decisions, p. 3.
166. Wright, Public Spending Decisions, p. 4.
167. Hon. D.F. Quigley, "Curbing Inflation and the Need to Restrain Government Expenditure", a paper presented to the annual conference of the New Zealand Institute of Public Administration, Wellington N.Z. August 15, 1980, p. 37. See Appendix 3B, with copy of critique of Quigley's paper presented by the author to same NZIPA conference.
168. Aaron Wildavsky, "The Theory of Expenditure Limitation", a paper presented to a Seminar on Controlling Public Expenditure, Cooperative Action Programme, Joint Activity on Public Management Improvement, OECD, Paris, March, 1980, p. 9. See also Appendix 3B.
169. Faludi, "Systems View and Planning Theory", p. 76.
170. D.F. Quigley, Memorandum for the Prime Minister, "Public Expenditure Planning and Control", 20 November, 1979.
171. "Control of Public Expenditure", a Symposium held at the University of Bath, U.K., July 6-7, 1979, under the Joint Auspices of the Centre for Fiscal Studies, University of Bath and the Outer Circle Policy Unit, Regents Park, London, U.K. Chaired by James Cornford, director of the Outer Circle Policy Unit. Symposium papers edited by Cedric Sandford. See also Appendix 3B.
172. Cedric Sandford, 'Techniques - Master or Servant', in Chapter 1, Issues in the Control of Public Expenditure, by Rudolf Klein and Cedric Sandford, (ed.) Sandford, "Control of Public Expenditure", pp. 3-4.
173. Rudolf Klein, 'Techniques - Dead or Alive', in Sandford, "Control of Public Expenditure", p. 11.
174. Klein, 'Techniques', p. 15.
175. Wil sky, 'Theory of Expenditure Limitation', pp. 2-8.
176. Klein, 'Techniques', p. 15.
177. Ido R. Hoos, "Some Fallacies in Futures Research", Technological Forecasting and Social Change (10, 1977), pp. 335-344. See also Peter Self, Econocrats and the Policy Process: The Politics and Philosophy of Cost Benefit Analysis C; P.J. Hammond "Cost Benefit Analysis as a Planning Procedure" in (eds) David A. Currie and Will Peters, Contemporary Economic Analysis, Vol. 2 (London: Groom Helm, 1980) pp. 221-250).
178. Hoos, "Fallacies", p. 339.
179. See for example, David Braybrooke and Charles E. Lindblom, A Strategy of Decision (New York: Free Press, 1963); George G. Edwards III and Ira Sharkansky, The Policy Predicament: Making and Implementing Public Policy, (San Francisco: W.N. Freeman and Company, 1978), esp. Pt. IV, Chapter 9; Arnold J. Heidenheimer, Hugh Heclo and Carolyn Teich Adams, Comparative Public Policy: The Politics of Social Choice in Europe and America, (London: The MacMillan Press Ltd. , 1975), esp. Chapter 9.

180. Wildavsky "Theory of Expenditure Limitation".
181. Wright, Public Spending Decisions, p. 3.
182. Wildavsky 'Theory of Expenditure Limitation', p. 21.
183. See also, for example, Sir Richard Clarke, Public Expenditure Management and Control: The Development of the Public Expenditure Survey Committee (PESC), (ed.) Sir Alec Cairncross, (London: The MacMillan Press Ltd., 1979):
 "The major conclusion that I draw ... is that the years since 1960 have confirmed over and over again the Plowden Committee's central point ... that the forces of public opinion, political parties, Parliament and generally speaking Ministers were increasingly committed to a rapid growth in public expenditure, and that there was now no significant body of opinion opposing this." Clarke argued that PESC, as an instrument of expenditure control, had been an insufficiently powerful means to provide this opposition. Nonetheless, he also considered that, although no tinkering with the machinery-of-government could on its own change this situation, "the basic PESC innovations - classification of expenditure, collective ministerial decisions, bringing time in as a dimension in public expenditure policy, relationship of future resources to future expenditure - are likely to survive as the permanent foundation of public expenditure planning and policy." p. 149, and 163.
184. Hon. R.D. Muldoon, Minister of Finance, "Financial Statement" (Budget speech) to the New Zealand House of Representatives, 22 June, 1967, p.10.
185. Muldoon, Financial Statement, 1967, p. 7.
186. Rt. Hon. R.D. Muldoon, "Financial Statement", (Budget speech) to the NZHR, 21 July, 1977, p.43.
187. Rt. Hon. R.D. Muldoon, "Financial Statement" (Budget speech) to the NZHR, 3 July, 1980, pp 9 and 31.
188. See, for example, Quigley, 'Public Expenditure' memorandum, 20 November, 1979; Richard Clarke, PESC.
189. D.F. Quigley, "Curbing Inflation", pp. 39-40.
190. A by-election held in the 'blue ribbon' National party seat of East Coast Bays on 13 September 1980 produced an electoral shock when the seat was lost by the government to a third party Social Credit candidate. The surprising result had a major impact on the government, generating among other things, a leadership crisis for the Prime Minister, Rt. Hon. R.D. Muldoon, and his subsequent public announcement of a pre-Christmas mini-budget which would include tax concessions and changes in expenditure plans.

191. Annual conference of the New Zealand Institute of Public Administration, Wellington, August 15, 1980.
192. See, for example, comments on the Quigley system by Brian Tyler, Assistant Secretary to the Treasury reported in National Business Review (NBR), October 20, 1980, p.31).
193. Ibid.
194. William Richards and George Lindsay, "Social Network Analysis : A Review of Recent Developments", in Communication and Control in Society, (ed.) Klaus Krippendorf (New York: Gordon and Breach Publishers, 1979) p.62. Using system theory as an approach, Richards and Lindsay propose a cybernetic model for communication network analysis; they suggest that identification of the diverse communication groups, or "cliques," which comprise networks may help to "refine notions of knowledge structures in society, and may eventually lead to more efficient human resource information retrieval. More scientific and precise description of 'invisible colleges' and related invisible institutions may be described and discussed. Thus with the refinement of these techniques we may be on the verge of an important scientific advance, i.e. new insights into the way organisations work may be possible." p. 69. See also Starr Roxanne Hiltz and Murray Turoff, The Network Nation: Human Communication via Computer. (Reading Mass.: Addison Wesley Pub. Co. Inc. 1978) pp. 114-117.
195. Krippendorf, Communication, p.228.
196. William T. Powers, "Degrees of Freedom in Social Interactions", in Krippendorf, Communication, p.268.
197. Krippendorf, Communication, p.229.
198. For example, NBR, September 1, 1980 and October 20, 1980; an article by Tony Garnier, 'Quigley-speak-the-new economic language', The Evening Post, August 30, 1980. This article drew extensively on an analysis of the Quigley proposals presented by the author in a paper to the NZIPA Conference, Wellington, August 15, 1980. (See Appendix 3B. n.198).
199. See footnote 86 above.
200. Faludi, "Systems View and Planning Theory." p.69.
201. Russell L. Ackoff, "The Aesthetics of Management", in Krippendorf, Communication, pp. 239-47. See also Paul C. Nutt, "Influence of Decision Styles on Use of Decision Models", Technological Forecasting and Social Change, Vol. 14, No. 1, 1979.
202. Ibid. pp. 245-246. See also Starr Roxanne Hiltz and Murray Turoff, The Network Notion: Human Communication via Computer. (Reading Mass.: Addison Wesley Pub. Co. Inc. 1978)pp.145-147.
203. See Erving Goffman, The Presentation of Self in Everyday Life (Harmondsworth: Penguin Books, first published, 1959), esp. Chapter 6.
204. Krippendorf, Communication, p. 227.

205. Ibid., p. 229. See also Richard Harvey Brown, "Bureaucracy as Praxis: Towards of Political Phenomenology of Formal Organisations," Administrative Science Quarterly (Vol. 23 September 1978) pp265-382.
206. William Keegan and Rupert Rennalt-Rea, Who Runs the Economy? Control and Influence in British economic Policy (London: Maurice Temple Smith Ltd., 1979), p. 195.
207. Ibid., p. 208.
208. For example, on his retirement from the Treasury in January 1977, H.G. Lang, then Secretary to the Treasury, became consultant to New Zealand Planning Council and joined the Board of a company of Challenge Corporation, now the single largest commercial complex in New Zealand; in 1980 he was appointed to the Steering Committee of the State Services Commission management training programme; he was appointed to a chair in the Economics Department of Victoria University Wellington, where the government-funded PEP agency is based. Sir Frank Holmes, an economist with direct continuing personal ties with the Treasury, moved from the Economics department of Victoria University in 1976 to become Chairman of the NZPC; John Martin, Assistant Secretary to the Treasury was seconded to the NZPC in April 1980; Noel Lough, Secretary to the Treasury and Chairman of the Official Economic Committee, and, in the past, COPE, is a member of the NZPC. At another level, John Zohrab, a TIO, was after less than two years in the Treasury, seconded to the Cabinet Office as Secretary of the CEC; Bernard Galvin, then Assistant Secretary to the Treasury, in mid-December 1975, was seconded to the position of Permanent Head in the newly-reorganised Prime Minister's Department; in mid-1980 he was appointed Secretary to the Treasury, to succeed Noel Lough on his retirement later that year. (For a detailed history of the Prime Minister's department and its interlocking relationships with Treasury and others in the actual network, see Jonathan Boston, "High Level Advisory Groups in Central Government: A Comparative Study of the Origins, Structure and Activities of the Australian Frontier Review Staff and the New Zealand Prime Minister's Advisory Group", (unpublished thesis submitted for Master of Arts degree, University of Canterbury N.Z. 1980. Victoria University Library, Wellington N.Z.).
209. Keith Ovenden, The Politics of Steel, Studies in Policy Making, edited by Antony King, (London: Macmillan Press Ltd., 1978), p.2,ff.
210. See Appendix 3B for first report of the F.R.C. distributed after this, December 1980-February 1981.

CHAPTER SEVEN

CONCLUSIONS

Expenditure Planning as a Form of Governmental Learning

This study has focused on one aspect of government planning in New Zealand - the planning of public expenditure. There are a number of possible explanations for recurring difficulties in fiscal management. These include the vulnerability of the New Zealand economy to fluctuations in external demand for major exports and uncontrollable shifts in the international prices for essential imports such as oil and petroleum products. Significant changes in the balance of payments inevitably affect domestic policies on the provision of subsidies, tax concessions, and financial support for activities such as internal transport, export marketing and land use development. Internal economic conditions, particularly those affecting the availability of credit and private investment capital, as well as trends in wages and employment, have direct implications for the government's allocative policies as well as the regulatory measures it adopts.

Resources are allocated to a wide variety of domestic purposes. Remedial activities, often undertaken because of some earlier planning failure in, say, the relevance or availability of social services, are costly. Short term activities financed by the Government for a specific purpose may generate sufficient demand to have unintended long-term future cost implications. Programmes deliberately designed to achieve longer term objectives, or in recognition of major changes in, say, the demographic structure of the community, acquire near-permanent status in the Government's annual budgetary considerations.

It might be concluded that economic uncertainty would have a positive constraining effect on governmental confidence in the future availability of resources to maintain such activities. It appears, however, that this effect is inconsistent. Public expenditure planning, at least as that process has been documented in this study, is highly sensitive to historically-based demand and much less directly influenced by assessments of future resource supply.

Uncertainty about environmental influences on governmental decision-making and public policy choice is constantly alleviated by political confidence in the propriety of democratic obligation. It is assumed that electoral support justifies the allocation of resources to politically-determined purposes. Yet the factors affecting that support, including the level of public knowledge about the consequences of past policies or the implications of alternative policy choices are so influenced by the State itself that the competing interests implicit in electoral support are crudely assessed and often inadequately analysed. On its own, political control over the major services for public education and information exchange has a long-term effect on the way the community itself recognises and reacts to probable future developments, and adapts to these either by articulating a demand for alternative public policies or tolerating transitional adjustments in the interests of improved social or economic conditions.

Direct involvement by the State in the major sectors of the economy has been a characteristic historical feature of New Zealand's development. In the energy sector, transport and communications, forestry, the insurance industry and tourism and so forth, capital investment and operational funding by central government are major structural elements. Although some public enterprises are effectively self-financing, many commercial and industrial organisations owned and/or operated by the Government are run as conventional administrative or trading departments. They are funded by annual Parliamentary appropriation for their normal operating costs as well as their capital expansion. Therefore commitment to such activities is highly sensitive to political pressure and electoral considerations.

Inadequate evidence of the social and other effects of these activities is complicated by difficulties in predicting and preparing for the abandonment of such financial burdens. This increases political unwillingness

to recognise significant changes in the necessity for or efficacy of such structural elements in the public expenditure programme, and reinforces confidence in the importance of electoral considerations implicit in any proposal for a basic change in fiscal policies. The immediacy of communication between the Government and employer-employee organisations ensures that any proposal is quickly elevated to the public agenda, its costs identified as a political rather than a national economic or social problem. There is very little distance between government financial planners and powerful interest groups - thus very little room for dispassionate consideration of fiscal policy options. Political responsiveness is a typical surrogate for other forms of governmental learning - which themselves have cost implications, as well as threatening established elites.

Social services in the education and health fields and industrial or commercial subsidies involve massive expenditure in terms of capital development, the maintenance of plant and equipment, and for all operating costs including staff salaries and wages. The payment of money transfers direct to private consumers constitutes a major item in the Government's annual expenditure programme. Few business interests in New Zealand have the predictive or research capacity to support their adjustment to changing economic circumstances. Technical advisory services and commercial investment in technological development are heavily funded through government agencies.

Responsibility for financing environmental protection, housing, roading and community services - the infrastructure of new industrial and commercial developments - falls heavily on the State. In recent years, increasing unemployment has put considerable pressure on central Government to subsidize the surplus labour force. The historical commitment to compensate for failures in the labour market effectively cancels out the possible political advantage of more selective support for short or longer-

term market deficiencies. Expenditure planners accept an obligation (in the case of unemployment) to fund a demand whose future level is unknown and not necessarily justified in terms of a corresponding future increase in political support.

Electoral sensitivity means that most welfare payments are difficult to manipulate or reduce. In planning of expenditure they constitute both a 'given' factor, and an uncertain element, since the degree of support for them is typically politically determined.

Nearly forty government departments with satellite clusters of statutory boards and advisory bodies (some 600 in all) comprise a large public bureaucracy in the central government sphere. Their maintenance is a constantly rising cost factor in the financing of government policies. The voting power of government employees is a powerful consideration in expenditure planning and allocative decision-making. The maintenance of policy funding at levels that justify continued Public Service staffing (based on a hierarchical, career-service model of permanent employment) inevitably distort assessments of the administrative merits or economic and financial efficiency of forward policy plans. Growth in the size and cost of the public sector far exceeds the Government's ability to finance its own activities out of annual revenue. Deficit budgeting and debt servicing are now typical features of expenditure planning. The Government is constantly reacting to the consequences of its own earlier allocative choices, so that scope to accommodate demands not already incorporated in the financial base is severely limited.

The impact of such factors on public expenditure planning is particularly apparent during a period of economic recession, which has been the background to most of the period covered in this study. The New Zealand government has had continuing financial difficulty in a situation of little overall economic growth. The range and political intensity of demands on the State to alleviate the effects of recession have been

difficult to control. At the same time, the Government has undertaken capital investment in industrial development aimed at major changes in the structure of the economy. These investments imply massive long-term supplements from Government as a major shareholder or instigator of such programmes as energy farming.

With heavy political commitments and few apparent opportunities to shed any major part of its financial burden, the Government has little room to manoeuvre in allocating scarce resources through the annual budgetary process. Thus, whatever other function planning fulfils, a major attraction has been the possibility that improvements in prediction and management may indicate the availability of uncommitted resources. Financial control - that is, control by the Government of its own financial base and the growth factors within it - depends on having access to resources that are not irretrievably embedded in ongoing expenditure programmes. Failure to gain this sort of control is clearly influenced by external demands on the national economy and political responsiveness to explicit electoral preferences. However, this study indicates that deficiencies in the Government's internal communication and control systems may be equally important in effective planning, if this is defined as a form of adaptive learning.

1. Looking for limits to expenditure

The evolving budgetary process described in this study was based on the establishment of COPE. That committee system was intended to provide key decision-makers with accurate forecasts and a definitive account of the cost of existing policies. Information about the cost of the policy base would provide a stable element in the annual allocative process, adjusted in an orderly fashion for inflation and other price factors, modified where existing policy reviews indicated this could be done, adjusted to take account of the government's annually-approved new spending proposals, and restyled for presentation to Parliament as the annual

Estimates of Expenditure. Information generated by the three-year forward forecasts would provide a reasonably reliable guide to future commitments, in time for the necessary adjustments to be prepared and implemented in line with the Government's longer term economic and social objectives.

Over a ten year period, economic disorder related to balance of payments crises and inflation severely discredited the planning aspect of COPE. Its control function predominated. The compartmentalisation of financial allocations into separate departmental Votes and, within those, further fragmentation into standardised classes and items of expenditure, was a constraint on any comprehensive view of the typical growth-inducing elements of the annual forecasts. Success in retaining resources, or avoiding detection during any search for uncommitted funds, became dependent more on officials' behaviour than on the demonstrable economic efficiency or effectiveness of their departmental expenditure policies. COPE became less a neutral instrument for assessing the future financial realism and justifications of ongoing policies than a forum where the exercise of political muscle by contending officials was aimed at maintaining the status quo.

The fact that the results of the COPE exercise were never published - and neither the Budget strategy nor the annual rules for limiting forecasts within specific expenditure ceilings was ever fully disclosed to spending departments - meant that the system's control function was tenuous. Once departments were geared for the annual task of preparing forecasts for submission to COPE, they rapidly perceived that despite the risk that some established programmes could suffer financial losses for which new policy approvals might not compensate, there were other advantages. Expenditure approved by COPE was more or less inviolate. The bureaucratic rule of precedent applied. Desultory experiments in carrying out special post-COPE reviews of existing policies rarely succeeded in identifying a pool of resources that could be redeployed elsewhere. Since there was very

little interest in any other review outcome, rigorous analysis aimed at identifying policy effectiveness or management efficiency in the light of explicit objectives had little to recommend it. Neither departmental managers nor control agents were prepared to direct resources to analysis and review on a systematic and regular basis. Such reviews as were conducted, whether Existing Policy reviews or management reviews, were in any case highly confidential and lacked the potential to attract sustained public or ministerial attention.

Although the accounting system introduced in the late 1960s (SIGMA) provided the information necessary for Treasury to exercise regulatory control over annual cash expenditure, up till the end of the 1970s it was not exploited so as to generate the regular and reliable information departmental managers and ministers needed to identify inefficiencies in financial performance or policy failures. In any case, few departmental activities were fully costed, either in terms of the total life of any particular policy or project, or by the inclusion of all the indirect costs. In the absence of pricing signals such as the market provides for private business managers, and without reliable measures of departmental performance, financial efficiency was extremely difficult to assess - and thereby control.

Over the same period, the evolution of a new system for sub-Cabinet examination of expenditure policies took place. As we have seen, the most stable institutional development has been the Cabinet Committee on Expenditure. The necessity for departments to submit their financial forecasts not only to their peers, but also to specially empowered ministers, was a potentially powerful addition to the networks of communication and control inside central government. The CCEX not only added considerable weight to Treasury's influence over expenditure proposals; it also affected the flow of information formerly channelled through other cabinet committees and Cabinet itself.

It is, however, difficult to conclude that the new committee system, which provided for improved collaboration between control agents and finance ministers, has significantly improved the government's ability to control the direction and impact of its own spending policies, or to identify the uncommitted resources needed for adaptation to changing circumstances.

Spending proposals have been better coordinated through the administration of the CCEX system, but not necessarily better controlled. On the one hand, many financial commitments have unavoidable legal justification, or are explicitly indexed to demographic trends. On the other hand, information about actual policy effects has never been regularly and systematically reviewed and coordinated across departmental boundaries. Concern over the volume of activity and the cost of programmes submitted for examination, review and approval to spend has been expressed mainly in terms of their implications for the annual budget deficit. Even this concern has been more closely tied to threatening electoral reactions than to any sustained anxiety over economic failure.

Preoccupation with a budget deficit has provided a crude guide to the Government's tolerance for constant increases in annual expenditure. By the beginning of the 1980s, the obligation to service rising debts incurred as a result of earlier financial approvals had begun to bite into the budgetary process. This added urgency to a growing reliance on other similarly unsophisticated control mechanisms. Over the past ten years, as we have seen, failure to find any politically acceptable way to restrain spending and the lack of persuasive evidence as to how expenditure policies might individually be pruned, had led the Government to adopt such devices as across-the-board cuts in specific items of expenditure, the imposition of a sinking lid on employment numbers (a mandatory statistical readjustment downwards of annual staff ceilings) and, more recently, refusals to allow annual adjustments for inflation

in departmental Estimates. Such measures, imposed because of ministerial concern over the forecast Estimates or chronic but apparently unrestrainable growth factors, are characterised by their lack of selectivity and efficacy. Few sustained, systematic efforts have been made, however, to predict, monitor control or review the policy and operational effects of such generalised measures. Feedback appears to have been limited to executive interpretations of preferred interest group reaction to specific policy adjustments.

2. Planning for elite survival

Over the past 15 years, much Government energy has been directed towards refining and stabilising an allocative system that is (a) largely incapable of controlling the factors driving financial demand, (b) deficient in its techniques for evaluating new spending proposals and their relationship with ongoing activities, and (c) inefficient in monitoring the impact of allocative decisions.

Reliance on disciplinary measures imposed by control agents has proved to be inadequate as a tool for encouraging consultation and co-ordinated planning by the diverse proponents of spending policies. Recent developments such as the substitution of bulk financial allocations (bulk budgeting) for traditional annual appropriations enhance the relative autonomy of departmental policy planners and financial managers. This may encourage greater self-discipline, better expenditure planning and more efficient management at the operational level. But for these to occur with greater public accountability as well as effectiveness in policy terms, there must be an overall strategic planning framework within which public spending agencies operate.

To date, formal planning has mainly taken the form of demand predictions by spending agents. The financial capacity to satisfy forward demand has been inadequately forecast, so that gaps between political approval for demand-based policies and the provision of supplies of appropriate resources to implement these frequently occur.

The purpose of financial planning processes developed in recent years appears to be to impose some kind of predictive order on otherwise random information. However, the purpose of controlling the random flow of information into central government appears to be to maintain the status and decision-making power of key elites at critical points in the central allocative networks.

Under the COPE/FRC system, as that operated in 1980/81, departments prepared and submitted financial forecasts in which major factors such as staff and capital works were controlled by separate decision-making systems. A similar division occurred for items such as motor vehicle purchase/replacements, office equipment (including EDP systems) and office/project accommodation. Procedures for examining personnel forecasts, authorising staff level changes and reviewing and approving capital works and maintenance forecasts were not only conducted largely outside the detailed scan of COPE; the criteria against which they were assessed were different. The staffing of departmental policies was controlled in numerical terms; capital works forecasts were approved on a cash and planning basis, and covered a different time horizon from that applied to other financial commitments.

There appears to have been little economic logic in this. Since the varied bases for decision-making exaggerated rather than minimized other problems of obtaining an accurate real-cost analysis of the financial implications of existing and new policies and programmes, it appears that the anomalous system was retained largely in order to reinforce the status and power of the principal control agents involved - Treasury, the State Services Commission (SSC), the Ministry of Works and Development (MWD), and the major Cabinet committees: CCEX, CCSS, and CWC.

For many years it appeared that any serious move to control staff in expenditure/financial terms would have an apparently intolerable affect: it could undermine the control function of the SSC, which depends for its

power on the manipulation of personnel numbers, occupational grades and entry restrictions. Further it would remove a politically-convenient indicator of the size of the public service. It was considered that ministers, for example, preferred to control the numerical size of the Public Sector by statistical reductions such as the sinking lid, without explicit consideration of public justification for the wage and salary implications, the productivity levels, or the indirect costs associated with every employee. Any significant change in the role and functions of the SSC would imply a complementary change in the utility and status of the Cabinet Committee on State Services - and ministers regard membership on any of the major cabinet committees as sources of prestige and power.

A similar situation prevailed in relation to the MWD. Over the past few years, as political patronage for the Ministry deteriorated and demand for the construction of traditional public works requiring civil engineering and large-scale architectural design lessened, the role and function of the MWD has been questioned. Demographic changes reduced the earlier demand for schools, hospitals and other public welfare institutions. The completion of a national network of major highways meant that maintenance rather than construction would become an important role for the Ministry of Works. Increasing emphasis on economic efficiency in resource use brought into question the previously unchallenged costing and operating methods of MWD divisions responsible for planning and constructing irrigation and other long-term developments. Natural reductions in the workforce employed by MWD, as a result of running down some of its major activities, were accelerated by political preference for private rather than public sector enterprise.

The rise to prominence of the Ministry of Energy (a combination of the former Ministry of Energy Resources, the New Zealand Electricity Department and the Mines Department) seriously challenged the position of

the MWD. The admission of the Minister of Energy to the prestigious Cabinet Economic Committee (on which MWD is not represented) symbolised political preferment for this recent contender for the investment and operating capital formerly under the more or less exclusive command of MWD. Resistance to these changes has been strong, since any formal change in the status of the Cabinet Works Committee, and the patterns of consultation and decision-making by MWD and the Treasury over capital works financing, threaten the Ministry's position as a control agent.

On the other hand, the evolving system for financial planning and budget management has constantly reinforced the predominance of Treasury. The normal convention of Treasury reports on every departmental expenditure proposal or amendment submitted to Cabinet, Treasury's participation in every major officials' committee or inter-agency system where public finance or investment funds are involved, and Treasury's management of the Estimates have depended on its right of access to the financial records of every agency in government. Investigation and information provided the energy that sustained Treasury's continued power in the central system. A relatively small cadre of well-trained, highly-motivated professional investigators, their confidence based on the fact that money talks, have long understood that the theoretical dichotomy between policy and expenditure is largely symbolic. Without money, policy has no staying power.

Every significant development over the past 15 years has either been initiated by Treasury or, where successful, claimed by the Treasury as part of its unique but ubiquitous sphere of influence. The preparatory work on PPB in the late 1960s was carried out by Treasury officials - and atrophied as a formal technique largely because Treasury neither planned for, provided nor approved the resources necessary to ensure that predicted policy outcomes dictated expenditure inputs. The brief experiment with the Cabinet Committee on Government Expenditure in 1971

was initiated by Treasury. A ministerial challenge to Treasury's hegemony with the establishment of the Cabinet Committee on Policy and Priorities (1972) was quickly discredited with the discovery that unless Treasury was admitted to the closed inner circle as a major colleague, not merely a detached servicing agency, the innovation could not survive. A striking illustration of the successful diversification of Treasury's interests, and its ability to coopt ministerial involvement in its statutory and other functions, was the establishment of the Cabinet Committee on Expenditure in 1976. This sub-system rationalised Treasury's dual role as financial controller and economic adviser, augmenting the already considerable power it exercised through the Officials Economic Committee and thence the CEC.

Treasury has constantly supported the confidentiality of central government. The department itself, alone among its peers, makes no annual report to Parliament. The practice of publishing an annual Economic Review was discontinued shortly after the recession of the late 1960s, purportedly because the National Development Conference was better suited to provision of an overall scan and analysis of the state of the economy. Since 1977, the New Zealand Planning Council and other quasi-government bodies have had the unenviable task of economic commentary and public analysis of expenditure planning. During a period of economic recession, Treasury has had no direct obligation to analyse, evaluate or publicly record either its own activities or the general thrust of its policies.

Since most policy advice, and the economic and other criteria applied by Treasury in its function as filter for expenditure proposals, remain secret, Treasury's position in the networks of communication and control is rarely directly affected by public criticism or the severe, immediate external pressure experienced by other departments. Highly selective public announcements of certain Treasury rules, such as the rate of return required on all capital investments in public works or

developmental programmes, are in discreet accord with Treasury's interpretation of any influences that may threaten its own position. Cocooned by the confidentiality and privilege of predominance in a closed system, for most of the past decade Treasury has enjoyed the additional prestige of reporting to a Minister of Finance who has also occupied the office of Prime Minister, and been supported by two additional finance ministers. The division of labour among three Cabinet members and the patronage of the Prime Minister have greatly enhanced Treasury's access to Cabinet, and reinforced its pre-eminence as adviser to all the main Cabinet committees.

In its role as servicing agent for the COPE system, which allowed direct Treasury input during the examination of departmental forecasts as well as a later opportunity to report separately to the Minister of Finance on the COPE review, Treasury had a considerable advantage over other control agents - including ministers - in this critical phase of defining the expenditure/resource base. The nomination of areas for special post-COPE review was largely a Treasury function. As we have seen, that exercise appears to have been relatively futile as a method for locating unjustified or uncommitted resources. However, the power to recommend that such reviews should take place, and the right to vet the results, reinforced Treasury's disciplinary power.

The sensitive phase of the budget cycle in which new policy proposals were submitted, investigated, challenged and, where possible, diluted, has always been obsessively secret. This is not only a matter of political convention; it is necessary in order to retain the myth of fiscal discretion as a ministerial attribute. After the establishment of the CCEX in 1976, Treasury gradually introduced the now-established convention of compensatory savings: a new policy would be funded only if the required resources could be substituted for some existing expenditure. This makes sense, of course, if the objective is to restrain aggregate growth in

in overall spending; it also makes sense as a demonstration of Treasury's power to discipline its departmental colleagues and their ministers.

Yet the inevitable distortions caused by policy substitutions are only modestly identified and justified by departments and ministers anxious to secure approval for new spending proposals. Treasury's investigating staff have few means and little obligation to devote detailed attention to the flow-on consequences. It is a matter of tactical power without operational responsibility. So long as the departments themselves fail to ensure that they institute and operate rigorous evaluative systems of policy and performance review, they will remain unaccountable for the effects of 'tit for tat'. While Treasury fails to use its pre-eminence and power to require such systems, it too may escape responsibility for expenditure growth.

As we have seen, where the interests of ministers are institutionally separated (as between the Cabinet and the CCPP in 1972-75) or when there is a significant shift in the influence of caucus vis á vis the collective powers of ministers, the difficulties of managing a closed system increase. Recently the government caucus has begun to seek a more direct role in allocative policy decisions. Ordinary members of Parliament have begun to take up opportunities available through participation in the Public Expenditure Committee and other select committees to intervene in the expenditure planning process. Yet even relatively minor declarations of back-bench interest appear to have threatening implications for the executive alliance and its power over critical information.

3. Planning for information management and symbols of control

Although New Zealand politics have been characterised by fairly stable electoral preference for the National party since 1945, Labour did win a brief period of office in the period under review. The nature of the executive system for controlling information about allocative policies was sharply illustrated at that time. Constitutional conventions

meticulously observed by Cabinet officials dictate that information available to and used by the outgoing administration is not made available to an incoming party. Ministerial papers held in the Cabinet office records are differentiated not only on the basis of the type of data they contain, but according to the political affiliation of those who authorised or required them. A party that has enjoyed a dominant position in politics over time has a significant advantage over a party which is typically in Opposition. The information reported to an incoming Government on the performance and assumptions of its predecessor is, on the whole, selected by officials. They maintain permanent confidential records of all past decisions and the advice that supported them. Again, this gives officials power without operational responsibility.

The application of such constitutional conventions, alongside official secrecy and legal sanctions against public disclosure, is an important limitation on the range and detail of information available to different generations of ministers. However, a much more serious problem lies in the susceptibility of decision-makers to information overload. Retrospective policy and performance analysis is not only time consuming; it absorbs resources that politicians prefer to direct towards more immediately rewarding tasks, such as the promotion of electorally-popular new policies. Any limitation on information about another party's allocative choices reduces the clutter on the agenda of an incoming administration. This may, of course, encourage creative problem-solving and innovative planning simply because new ministers have different perceptions from their predecessors about the way resources might be allocated to achieve particular policy purposes.

On the other hand, feedback about actual, rather than planned or anticipated performance is crucial. Politicians not only need to know where they are at present and where they want to go; they also need to know where they have been, and the implications of that for current and

future choices. A more rigorous analysis of the allocative preferences of the preceding government might have tempered Labour ministers' behaviour, for example, in 1972-73. A more discerning appreciation of the problems of identifying and controlling uncommitted resources, which at that time only officials could prepare and provide, may have resulted in a more responsible ministerial attitude towards financial constraints and the need to apply strict allocative rules in a period of obvious economic crisis. In the event, the creation of the CCPP as an inner Cabinet attracted surges of complex information and was not a sufficiently discriminating filter for decision-making. The concentrated energy of officials seeking ministerial endorsement for existing policies and new proposals, in competition with the demands of organised unions and other major interest groups with whom the CCPP negotiated directly, proved unmanageable. Neither control nor effective communication was possible. The networks of essential policy and performance information became so clogged that there was no opportunity for adequate consideration of the future costs of fiscal commitments. Hence the inner Cabinet was shown to present little real threat to established officials. The incoming National party restored the conventional balance in favour of the Prime Minister and the Cabinet Economic Committee, and officials developed and encouraged ministerial collaboration with them through the CCEX.

Karl Deutsch has suggested that:

the ability of any political system to invent and carry out new policies to meet new conditions is... related to its ability to combine items of information into new patterns, so as to find new solutions that may be improbable in terms of their likelihood of being discovered, but relevant once they are discovered and applied.¹

This adaptive learning capacity is an essential characteristic of planning. Over the period under review, efforts by the executive were made to re-design the patterns of information, re-organising what was known in the hope that this would illuminate ~~was~~ was not known. However,

the energy and determination required to sustain innovative re-arrangements of information constantly conflicted with the interests of elites in the Government decision-making system. The expenditure planning process is essentially an allocative system. The organisation of knowledge so as to expose the causal relationships between financial allocations, other resource allocations, and actual policy outcomes threatens not only the power of individual spending agents (departments, ministers), but in some cases their formal existence.

The COPE system generated far more information than could be processed during that phase of the annual budgetary cycle. Hence, any "new solutions" for dealing with the forecast costs of activities approved under the prevailing rules were likely to appear only by chance. Any innovation in the cabinet committee system rapidly attracted so much information that decision-makers (Treasury, SSC, ministers) could deal with it only by using familiar and fairly conventional tools of analysis, reliant on codes of honour and confidentiality, avoiding evaluative techniques that required scarce resources but could not guarantee politically acceptable findings.

In a closed system, where elected politicians are extremely sensitive to any policy change with implications for their electoral power, "new solutions" are assessed on the narrow basis of political self-interest. Economic efficiency in the use of resources is palatable only where it has demonstrable political advantage. The extreme confidentiality of the expenditure process, with feedback narrowly interpreted at the centre, has made most formal planning procedures relatively impervious to creative intelligence.

The lag between sensing changes in demand and evaluating the long-term impact of allocative decisions, and consequent adjustments to the allocative rules, is considerable. Lack of organisational flexibility in the central structure of government, the dominance of permanent officials, the sensitivity of the two-party system, the increasing power of the

Prime Minister and Cabinet committees, the relative inertia of Parliament and the straitjacket of the three-yearly electoral cycle combine to suppress all but the most irresistible new solutions.

As we have seen, economic decline and harsh financial necessity (revealed, of course, by information transmitted to the central allocative system) generate more negative power than creative positive solutions. Information essential to timely adaptation and potential sources of innovative intelligence may be neglected, ignored or deferred for consideration under some later, more convenient, moment.

Even when improved techniques or the growing knowledge base of government encourage officials and ministers to adopt a more open approach, their tentative approaches towards the community, seeking more rational public debate, may be rebuffed. Political efforts to change the nature of public demand, as in the 1968-74 National Development system of indicative planning, for example, or the Labour government's community leaders' conferences, were ineffectual in terms of slowing down demands for public expenditure. Structured opportunities for public debate about the demands that fuel departmental bids for resources appear to have met with high levels of electoral ambivalence. At the beginning of the 1980s, three years after the Planning Council and Commission for the Future had been established expressly to foster public information and debate, this public confusion was emphasised in an electoral result that technically returned a minority party to the Government.

Self-motivated initiatives by Parliament to benefit from more comprehensive technical knowledge have been insignificant. Serious developments to involve Parliament in expenditure planning, or in the provision of informed guidance to the executive alliance on broad-based reactions to proposed developments, have been disappointing. Members of Parliament, where the final authority for financial approval lies, are severely handicapped by the rigid party structure and their own lack of sustained

initiative. Energy that could be channelled through existing systems for policy and performance review, such as the Public Expenditure Committee, is increasingly contained within the politically-secure party caucuses. As an institution, Parliament has no effective means to assess the economic efficiency of resource allocations it approves.

Improvements in the management of knowledge have been noted. Attempts have been made to reconcile the inflow of fragmented information with often conflicting theories about the economic causes and social effects of shifts in resource supply and demand, inflation and surplus labour. The language of planners and decision-makers, for example, illustrates their awareness of the need to synthesise resource availability, government consumption, productivity and a desire for overall economic growth. However, conflict over the relationship between such factors arises when information relevant to the pursuit of immediate political goals (such as winning an election) suggests choices that are at odds with other options which may have long term social or economic benefits for the country as a whole.

The internal struggle to define the most effective allocative means to ensure electoral preference is intense. However, there is a compelling political need to contain such conflict within a closed system in order to maintain a public image of discipline and policy consensus. Formal planning machinery, such as the Planning Council, provides symbolic evidence of political control over complex and apparently inherently contradictory knowledge.

In New Zealand little detailed financial data used by or available to government decision-makers are published. The specific objectives of annual expenditure strategies and the assumptions on which such strategies are based, are confidential to a small elite of officials and even fewer ministers. The secrecy of financial forecasting and other predictive information used in compiling the annual Estimates is an important

tactical instrument in the relationship between officials and ministers, and between control agencies and spending agents.

The risks entailed in a more open public examination of the components of aggregated Votes or disclosure of the accounting methods used, are on the whole strenuously avoided. Marginal adjustments to the financial base of public policies avoid abrupt or threatening changes for the major beneficiaries of those policies. The continual but varying impact of allocative decisions - that is, the unforeseen, unintended effects - are not systematically incorporated in the formal review functions of expenditure planning.

Both the institutional structure and formal information systems of central government are designed to ensure that conflict in allocative decisions is contained within and, as far as possible, controlled by the executive alliance of ministers and key officials. Power derives from being able to define the rules. Competition for dominance over the rules for allocative preference is intense and prolonged. Prestige and status inside the confines of central government depend on the successful maintenance of symbolic, as well as legal, authority.

Instability inside central government may be precipitated by technical failures in communication or random changes in the quality and rate of information received for processing; by changes in the capacity of key decision-makers to interpret, process and transmit information selectively; and by changes in the perceptions and overt demands of those significantly affected by the rules. Information about outcomes is fed-back into central government through a variety of networks, only some of which are directly susceptible to control by the executive alliance. This feedback process is managed through the adjustment of controls such as forecasting and pricing rules which are designed to avoid disruption to the established allocative patterns.

4. Failures of leadership: the need for a strategic policy framework

Although developments noted in this study clearly represent governmental attempts to improve the efficiency of resource planning, few 'new solutions' to difficult problems have emerged. In fact, over time the growth in spending and its relative significance in terms of GDP has been the subject of increasing controversy. The difficulties of applying all but fairly crude restraints have not diminished. Concerns about the effectiveness of planning, and the allocative behaviour of central government decision-makers have increased. Public policy funding appears only poorly related to the economic efficiency and social objectives of many of those policies.

There is scope for a deliberately innovative change in the relationship between Treasury, the SSC and other control agents, and the major spending agencies. This should aim to focus their attention on allocative planning as a collaborative function of joint officials. The economic efficiency and social effectiveness of all resources managed by public officials at all levels should be subject to jointly-defined rules that make systematic review and evaluation mandatory. At present this is largely a matter of discretion and individual management style.

Such systematic output-oriented reviews imply the availability of a reliable, agreed policy framework incorporating the major economic and social priorities of the government. Therefore ministers also need to re-think and rearrange their Cabinet committee system in order to provide and regularly update an overall strategic policy planning framework.

This in turn implies an active, innovative and sustained effort to overcome the more outdated and damaging features of the two-party system. Two areas call for urgent attention: the extremely detrimental pre-occupation with a three-yearly electoral cycle and the unsatisfactory system developed to manage the business of a modern Parliament. A recurring solution suggested for the first of these is to extend the

period between elections. On its own this may be inadequate, since behind the electoral system is a party system that is poorly developed in order to provide elected politicians with sound economic and social analysis. The combination of voluntary workers and administrative staff who manage the two major political parties is an outdated and amateurish approach to policy analysis and evaluations of political performance. The research units financed by the Legislative department to service the parliamentary party members are necessarily devoted to short term considerations. Constant breaking of party ranks, with sporadic rebellions by party members, reflects ad hoc concern over the appropriateness of present party management systems.

In consideration of ways and means to reduce the behavioural effects of a constant need to seek re-endorsement at the ballot box, and a similar effort to adopt more realistic and positive methods for parliamentary control over executive power, innovative leadership and political risk-taking are necessary. The economic and social costs of failing to deal with fiscal planning problems are increasingly intolerable to a significant proportion of the electorate. Ministerial failure to extricate key elements of the Cabinet system from the operational management of affairs, and apportion responsibility for the preparation and systematic review of a strategic policy framework for allocative decisions, is politically reprehensible.

Officials' failure to introduce active, systematic management planning, with rigorous self-criticism and sustained policy review as its distinctive characteristics, reflects poorly on those who occupy leadership positions in central government, particularly the Treasury and the State Services Commission. In most situations, ministers' choices and knowledge of the parameters of their own decisions are guided and influenced by officials' advice. The quality of the former depends critically on the latter. This responsibility, formally entrusted to

an autonomous, career public service, does not appear to have been developed to the best national advantage.

If planning is defined as the learning capacity to guide and control inevitable historical changes so as to minimize the damage of both predicted and as yet unforeseen events, the value placed on such learning appears to be fairly low in the New Zealand central government system. This may be a function of national character, the quality of public education and economic experiences, and the narrow range of political interests with power in central government. Expenditure by the State on public policies and politically-approved programmes is still very much oriented towards continuous consumption rather than self-controlled development. Over the next decade, which offers few prospects of economic relief, this characteristic attitude may have to change, or be changed involuntarily.

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Notes

1. Karl Deutsch, The Nerves of Government: Models of Political Communication and Control, (Ontario: The Free Press, 1966) p.163.

APPENDIX 1

Obtaining access to confidential data in central government

The formal framework

1. At the time research for this thesis was being carried out, confidential data, such as Cabinet records, departmental policy papers, government financial records and so forth, were controlled by:
 - (i) restrictive legislation, mainly the Official Secrets Act (1951) and the Archives Act (1957);
 - (ii) restrictive procedures, such as the Standing Orders of the House of Representatives;
 - (iii) restrictive practice, governed by the Public Service Regulations (1964), and applied in different ways by different departments;
 - (iv) constitutional and administrative convention, which may vary over time and from agency to agency depending on factors such as the political climate, the perceptions and prejudices of individual officials, the policy objectives of the political party in office, and so forth.
2. Even with the passage of the Official Information Act (1982) the student of government, seeking direct access to primary sources of data in official sources, must have regard to such constraints, and the varied emphasis placed upon them during the progress of research in the field of public administration and government.

Factors affecting ease of access

3. This study of public expenditure planning in New Zealand indicated that there are several ways in which these constraints may be regarded and, in some cases, overcome. The first of these is rather like advice that the wise child will choose its parents very carefully:

- (i) The initial selection of the research supervisor is crucial:

In the Acknowledgements, the contribution of Professor Ralph Brookes was recorded. It was apparent early on in the initial inquiries about access to official records that the identity of the research supervisor was a major factor. In many cases, Professor Brookes' reputation was critical in whether or not the inquiry got past the first danger point - an immediate refusal to permit access - and went on to a more extended discussion with officials as to the actual methodology and the uses to which the data might be put.

- (ii) The degree of willingness to comply with current restrictions

The personal decision to accept the force of the various restrictive practices noted in 1. above was difficult. A student in a similar situation would have to be aware at the outset that compliance, which in this case meant accepting the restrictions of the Official Secrets Act, carries with it both advantages and costs. The major benefit of such acceptance (which became increasingly obvious as other matters discussed below proceeded), is that access is likely to be approved. The main disadvantage is that there is both an immediate and a long-term restriction on the subsequent readership of a study based on current or recently-filed official data.

It is a Catch-22 situation. If the student does not agree to have full and continuing regard for the relevant restrictions, access will not be allowed. If access is permitted, authorities other than the author and her/his academic supervisors will gain substantial control over the work itself.

In this case it was a matter of assessing the relative costs in terms of the anticipated gains to scholarship, against the possibility of changes in restrictive practices. During the course of this research, a major review of official information was being carried out for the Government, leading towards the introduction of freedom of information legislation; at the same time, another student was permitted access to official data in a similar field, and officials' general satisfaction with his behaviour and the quality of his work suggested a favourable disposition towards other such requests.

(iii) The degree of care taken in the process of requesting official approval for access

The student must accept that the central government system operates not only on the basis of informal codes (so that who you know is important). It is also sensitive to the norms defined in formal protocol - the ability to behave appropriately in a highly formalised system with codes of etiquette is regarded as a matter of over-riding importance. The student must understand and comply with the correct forms of address, the normal codes of practice, and the formal channels of communication with those responsible for the maintenance and supervision of official data. However, despite the ritualised nature of such initial exchanges, once the student's credentials have been accepted, there is very considerable latitude within the system and the 'outsider' is permitted to develop as informal or casual a relationship as the ordinary organisational norms allow. The essential commodity is mutual trust. As in other situations, latent ethical imperatives are at least as effective in constraining the individual as any explicitly coercive limitations.

In the author's experience, however, it is unwise to depend on informal approval or endorsement. One must also be able to produce the formal documentation that establishes credentials. The fact that such 'passports' are almost never required is irrelevant. The informal lines of communication inside central government are most efficient, and it is quickly known among officials whether or not the 'outsider' has the required proof of identity.

(iv) The degree of interest shown in the task for which official data is necessary

This factor is two-dimensional. When officials themselves regard the proposed work as important (i.e. useful to them or their ministers) they are more likely to take a favourable attitude towards in the student seeking access. On the other hand, the student must demonstrate that her/his interest is not only serious but persistent. The data must not be regarded as subject matter for social discourse or the object of personal amusement or whim. Officials tend to become more open in their exchanges with the researcher, and more willing to suggest fruitful lines of inquiry, not only when they are familiar with the information but, more importantly, in the light of the persistence the student shows in regard to accuracy and breadth of information.

(v) Research style and personal characteristics

There are a number of other factors, some of which may seem trivial but nonetheless appear, on the basis of the author's experience, to be important. For example, the age and experience of the researcher. In this case, it was apparent that some officials were less cautious and more assured in dealing with a middle aged suburban housewife who appeared to them unlikely to risk betraying confidence or ignoring official restraints, if only because she had a family, a mortgage and a stake in the local community! One tentative indicator of success in gaining access to official sources, therefore, may be whether the researcher is an atypical student i.e. not particularly youthful, not a male, and not overtly threatening in the sense that officials perceive her as either a political or a professional threat.

Associated with this is another apparently important factor: the ability of the researcher to interview officials in a way and at a pace which exhibit neither impatience nor overt judgement. Most officials have very little spare time. When they are prepared to talk, they regard this as a privilege, both for themselves and the interviewer. Hence, the researcher must make it obvious that she has more than enough time to accommodate the official's workload and other demands, not the reverse.

In the author's experience, it would be difficult to work to a tightly scheduled programme of interviews. Officials who feel confident in the researcher's willingness to persist in seeking an interview usually ensure - eventually - that the time is found, and then almost invariably find other opportunities to follow up on matters raised in the initial meeting. With care, officials themselves may be encouraged to invite access to personal files or scrapbook records which sometimes contain items unavailable elsewhere, or extremely difficult to retrieve from large departmental files. In a very real sense, the researcher must 'cultivate' the official, recognising that even in a well-documented information system, the most valuable repository of data is inside people's heads. This process cannot be hurried, and officials should be treated with respect and sympathy if they are to provide the insights for which they are often the only source.

There are, of course, costs associated with 'getting alongside' officials. Proximity undoubtedly distorts objectivity to some extent; at the same time, the researcher may become associated with the purposes and functions of the organisation being studied.

It is worth making an effort to avoid an overtly partisan style. In particular, the fine line between sharing information gained from one source, with officials elsewhere (in order to test their reaction, the validity or truth of the information, etc) and becoming an unwitting messenger, used in turn by officials (who are very quick to take advantage of any situation to score off or educate their peers) must be maintained with considerable delicacy. The author cannot claim to have been entirely successful in this, but on the whole the most useful rule-of-thumb is strict adherence to the initial terms of access in each area. Quite apart from the obvious distortion caused by intervening in the situation under observation, the researcher runs the risk of losing the confidence, indeed the trust, of officials who generally conform meticulously to the prevailing 'rules of the game'.

The methodology used in this study

4. Six aspects of the methods used to obtain access are discussed briefly below: time, status, special conventions, personal standards, the value of a 'patron' and familiarity.

Time

The process of setting up this study, in terms of gaining access to official data, was protracted and, in the author's opinion, could not have been hurried. Indeed, on the one occasion in which enthusiasm and lack of care led the researcher to neglect the usual procedure of seeking written approval, interviewing the official concerned, and then taking unhurried steps to obtain permission to observe an official working party in action, a valuable opportunity to record a series of exchanges was lost.

Over the period of more than a year, the author made formal approaches to various officials, including Cabinet ministers, seeking to encourage their interest in the project and, then, over time, returning to request official approval for access. It appeared to be important to allow a 'decent interval' to elapse between contacts. Officials sometimes need time to consider their decision, without overt pressure; sometimes they appear to consult each other, on an informal basis, and any haste or anxiety would have been interpreted as unduly assertive or premature.

Status

It was necessary to demonstrate one's status. This was almost entirely related to the official or political status of the officials approached, and the level at which permission was given. For example, once approval had been granted by the Public Expenditure Committee for attendance at its meetings, other officials took this as a sort of benchmark, and were prepared to be favourably disposed to other requests, including a request to attend and observe Cabinet committee meetings. Neither ministers nor senior officials wished to appear more generous than anyone else, and once the first stage of approval had been gained, the rest of the process was relatively straightforward.

In one department - Treasury - the approval of the permanent head was sufficient. In another - Education - the permanent head suggested (in such a way that only the foolish would ignore the advice) that the Minister be approached as well. Although the Minister's advice was to return to the permanent head for approval and supervision, the formal ritual was necessary.

Special conventions

Access to Cabinet material carries special problems. Not the least of these is the fact that ministers in one administration do not have access to the records of their predecessors (when they belong to a different political party). This convention is strictly observed by Cabinet office staff, and means, for example, that on its own the serving Prime Minister's approval is insufficient. The Leader of the Opposition must also be asked for any material relating to his party's period of administration.

This part of the process was not carried out personally by the researcher. A sympathetic Secretary of Cabinet suggested that the

matter should be left to his discretion, and in the event he gained formal approval from both the Prime Minister and the Leader of the Opposition to allow the author quite extensive access to Cabinet committee documents. (It is ironic that under the current rules, neither of these persons would be able to read research relating to their counterpart's period in office, although other officials such as Cabinet office staff are free to do so).

Setting personal limits

It was decided early in the exercise that confidentiality would be strictly maintained. Apart from the somewhat overwhelming personal difficulty of selecting among the riches of varied official information, the student is constantly confronted by data of intense interest to academic colleagues and others. Once access was obtained, the researcher had to face up the problem of how widely information should be shared with others, mainly academic colleagues. In general, the rule applied was that unless the person concerned had been 'cleared' for access to the same class of official information, and could be relied on for absolute discretion, it would not be shared. At times this imposed burdens of responsibility on supervisors, typists and others directly involved in the completion of the study. In each case an explicit arrangement was made and there were no problems in this area.

Obtaining the support of a mentor or 'patron'

It was found necessary to obtain the support of at least one official in each agency who had fairly close knowledge of the nature of the research in hand, the researcher's credentials and the rules applying to access. Not only did this enable the researcher to refer other doubtful officials to an authoritative source; it also protected the student from the peculiar vulnerability of the outsider in alien territory.

Obviously, the choice of such a person will not always be left to the researcher herself. In some agencies, such as the Cabinet Office, only one official - the Secretary - is entitled to take such a role. In other cases it is probably better to avoid too frequent contacts with the most senior official (say the permanent head) and find an ally somewhere else in the system. Permanent heads are not only extremely busy; they are best 'saved' as a special resource, their goodwill not openly traded upon before other officials whose hospitality and patience are essential in a protracted search for records.

In most cases, the actual rank of the 'patron' is less important than his/her own reputation in the organisation. For example, some very experienced officials may not have risen past middle management level, but may have extensive knowledge of the organisational networks of communication, or precise memory of events observed from the sideline.

Becoming part of the wallpaper

Possibly the most effective method of obtaining access to official data (and being permitted to observe officials at work) is to become as familiar and habitual as a piece of furniture. Among the surprises which abound, the author found that on occasions when she did not take up her usual 'observation post', officials or members of Parliament would later inquire what had happened, and whether she was losing interest or stamina. It appeared particularly important to demonstrate some kind of loyalty to the task, if only to justify the approval often granted without precedent.

Future research using official information

5. The researcher seeking access to official sources of data in future will confront a rather different situation from that outlined above. The passage of the Official Information Act (1982) demonstrated not only the changing climate of approval for such requests, and governmental appreciation of the value of research using primary sources. More important, it may also allow for somewhat less arbitrary control over access to such sources.

Under the legislation, each request for access will come under the scope of the Official Information Act, and will therefore have to conform to the explicit provisions of the Act. These are not particularly onerous, but inquiries must be specific in their 'due particularity' - i.e. the particular provision under which information is withheld/approved. The official to whom such requests are made will have to consider his/her response in the light of the legislation, and will be able to refuse access only on the grounds specified in the Act. If the researcher is refused access on such grounds, there will still be another avenue to re-consideration. The legislation allows for an appeal to be made to the Ombudsman, although this situation has yet to be tested. On the one hand it suggests that in future access may be easier or less haphazard; on the other hand areas of interest to this study may now be explicitly prohibited.

In any case, the informal influences noted above, which had an important bearing on access gained for this study, are likely to remain important. Officials will have a formal opportunity to weigh up the respective merits of the interests to be served by releasing data. Recognition that the prospective user is willing to abide by the rules, to act with conventional discretion, to avoid over-stepping the bounds of permission and so forth are likely to remain important.

While it may be easier in future to obtain approval to carry out research based on official government information, it will be of interest to observe the lines along which current initiatives proceed, in relation to academic study.

APPENDIX 2

- A. The documents on which much of this study is based are located in three sources.

(i) Treasury records [see also Appendix 3A-J]

These are housed in the Treasury (1 The Terrace, Wellington 1.
Refer: The Secretary to the Treasury).

They include

- (a) Treasury series in Treasury files, prefixed T;
- (b) Treasury circulars in Treasury files, prefixed Ty.
E.g. Ty 1975/32 = Treasury circular, year of distribution 1975, number 32;
- (c) Treasury papers, prefixed T. e.g. T351 = a special document;
- (d) numbered Budget reports to the Minister of Finance, prefixed BR.

Note: Many of these documents are also located in Cabinet Office records and departmental records.

(ii) Parliament records [see also Appendix 4A-D]

These are housed in Parliament Buildings (Wellington 1.

Refer: The Clerk of Committees, legislative Department, Parliament, Wellington).

They include agenda papers or papers tabled by officials appearing before the Public Expenditure Committee.

Note: A number of these papers are probably also located in departmental records.

(iii) Cabinet records (housed in the Cabinet Office records, Parliament Buildings, Wellington. Refer: The Secretary to the Cabinet).

These include

- (a) Cabinet series, prefixed CAB;
- (b) Cabinet committee agenda papers, prefixed separately for each committee
e.g. EX = Cabinet Committee on Expenditure
PP = Cabinet Committee on Policy and Priorities
SS = Cabinet Committee on State Services;
- (c) Cabinet Minutes, prefixed CM.

Note: A number of these papers, and copies of Cabinet Minutes, are also located in the Treasury, The State Services Commission and other departmental records.

- B. (i) Copies of some documents referred to in this study are included in Appendices 3A-J and 4A-D. They are available only to readers who have previously obtained written permission from the author and the relevant official (see A(i) - (iii) above.

(ii) By arrangement with the Secretary to the Cabinet (Mr P. Millen) these copies have been boxed and stored in the Cabinet Office records. They are numbered as they appear in the Notes to each Chapter in this study.

e.g. "Chapter 2, note 149. See also Appendix 3B" = Appendix 3B, document number 149.

(ii) Any reader wishing to obtain access to the original papers e.g. a Cabinet Committee paper, a Treasury circular, or a paper tabled with the Public Expenditure Committee, may be able to do so, under the terms of the Official Information Act, by approaching the relevant official (see A(i) - (iii) above).

(iv) Subject to the discretion of the Secretary to the Cabinet, copies of papers included in Appendices 3A-J and 4A-D, may eventually be re-housed in, say, the National Archives or the Library of Victoria University. Until such time they are restricted in access.

APPENDIX 5PARLIAMENT AND THE EXPENDITURE PLANNING PROCESSSome aspects of the Public Expenditure Committee's
function in the expenditure planning processIntroduction

There are a number of functions which a popularly elected legislature like the New Zealand Parliament may perform: rule-making, the granting of approval for such executive actions as changing taxation levels or the appropriation of public funds for specific purposes, and the provision of a public forum for debate upon matters of national significance. What is less clear is whether Parliament is capable of effective participation in public expenditure planning developments.

Recent British commentators such as S A Walkland have expressed concern that "there is now very little recourse to Parliament as an arena for the accommodation of conflicts of economic interest, or for the sanctioning of economic policy".¹ This is a serious charge, not susceptible to easy resolution. It is complicated by the rigidities of the two-party system in both the British and New Zealand legislatures. The likelihood that Cabinet would refer significant planning decisions to the House for anything more than formal ratification along party lines, or that parties in office would be prepared to admit any merit in the bi-partisan development of policies for economic and social development, is still remote. The conventions and rigidities of the Westminster model appear to preclude the involvement of New Zealand's elected legislature in government planning in even the limited way that has occurred, for example, in indicative

planning developments in France.

Nonetheless, in the New Zealand Parliament, two developments are significant in relation to the question of planning: the first is the work of the Public Expenditure Committee since 1962; the second (and more recent) appears to be assuming greater importance - the activities of the caucuses, particularly the Government caucus. Both developments have offered the opportunity to apply a more or less effective brake on the tendency for all significant executive decisions about the planning and management of public sector resources to be absorbed into the protected sphere of technocrats, public servants and ministers.

The effectiveness of government planning of the type seen recently in New Zealand, such as energy development based on indigenous resources, almost certainly depends on the generation of public consent. A considerable degree of political approval must be extended to planners. As other writers have observed, where broad-based agreement as well as sectional co-operation is required, the parliamentary system must provide more than the mere opportunity for exploitation by ministers and planning technocrats.

Political consent will not necessarily ensure that plans will be realised. Nonetheless effective planning in a democratic state almost certainly requires more than formal political compliance, as expressed through the ballot box. There must not only be sufficient stability for the community to adapt to changes indicated by the planners, and adopted by the executive. There must also be confidence in particular plans and the planners themselves, if either is to be effective.

An executive planning system that is not responsive to a wide range of information and opinion, but refers as a matter of political convenience only to executive elites

or selected sources of approval outside central government, may find all forms of social and economic management, including expenditure planning, increasingly difficult. This appears to be the recent experience of the New Zealand Government.

It is probably true that certain phases of the planning process such as technical forecasting do not lend themselves to the continuous and active involvement of Parliament. However, it does not necessarily follow that Parliament's role in fiscal planning should be that of a cipher. Brief mention has been made in this study to the changing role of caucus in the management planning system, but detailed analysis lay outside the immediate focus of this research. Therefore this Appendix briefly reviews only those aspects of Parliament's role as this is performed on behalf of the legislature by the Public Expenditure Committee (PEC). The review suggests that there is considerable scope for a higher level of involvement by Parliament. Evolutionary developments in the history of the PEC over the past two decades demonstrate that as an element in the information network of the Government's expenditure planning system, this Committee could perform an invaluable feedback function, improving both the executive's future scanning capacity and its ability to control and re-direct the behaviour of spending agencies.

The background to Parliamentary involvement in fiscal planning

The most clearly defined opportunity for Parliamentary intervention in the public expenditure planning process occurs during the annual Budgetary cycle. The New Zealand legislature has a constitutional role in the Budgetary process, since its formal approval is necessary when the expenditure of public funds is undertaken by the Government, or existing rates of taxation are changed. It

has the power to review past government expenditure, and comment publicly on this, with recommendations on any action it believes should be drawn to the attention of the executive or the electorate at large.

This formal task is performed principally through the only real instrument available to Parliament for executive review - the select committee system. Attempts have been made by successive Parliaments to strengthen the means available to the House to influence budgetary procedures and the allocative decisions of the Government. In 1962, for example, Parliament replaced the Public Accounts Committee with the Public Expenditure Committee, directing it to examine the annual estimates of expenditure, review past government spending, and report on these matters to the House. The State Services Act, passed in the same year, required that the permanent head of a government department be accountable not only to the relevant ministers and to Treasury, but also to Parliament's own officer, the Controller and Auditor-General. The Public Finance Act passed in 1977 states that "no expenditure of public money shall be made except pursuant to an appropriation Act of Parliament" (s.53); the same legislation extended the powers of the Audit Office to include revision of the procedures of government financial accountability (s.25). Since 1981 all bills with financial implications have been referred to select committees for consideration prior to their second reading in the House.² Among these developments, the most significant have been those associated with the Public Expenditure Committee.

Aspects of the Development of the Public Expenditure
Committee

1962-1979

The Public Expenditure Committee (hereafter PEC) was appointed by the House of Representatives in 1962 and given permanent status as a select committee of the House under Standing Order 320:

At the commencement of every session a Select Committee shall be appointed consisting of 12 members, to examine the estimates presented to the House and to report what, if any, economies consistent with the policy implied in those estimates may be affected therein; to examine the public accounts of such corporations, undertakings and organisations as are in receipt of any money appropriated by Parliament, in such a manner and to such extent as the Committee thinks fit, and to have regard to matters in relations thereto raised in the annual reports of the Controller and Auditor-General or elsewhere and to report thereon to the House or the Government; and to examine any report to any other matters referred to it by the House; the Committee to have power to sit during the recess and to adjourn from time to time and from place to place and to have power to appoint sub-committees and to refer to such sub-committees any of the matters referred to this Committee.

Parliament clearly intended that these terms of reference would enhance its own capacity to monitor and influence trends in public spending. However, there are three significant exclusions from the Committee's powers under this Standing Order: "It may not question the policy choices behind expenditure, it may not admit the public to any of its proceedings under its own motion, and no specific reference is made to the expenditure of public money by local authorities." ³

In 1968 the Standing Orders were amended to rule that the Committee's report would be deemed to have been made when the relevant class of Estimates was called in the

House.⁴ However, once passed by formal resolution in the Committee, Estimates are passed to the House without written comment or accompanying report.

Three further amendments were made to Standing Orders in 1972: first, the Committee was to be appointed for the duration of every Parliament, rather than at the commencement of every session; second, its membership should be not more than 12; and third, the committee should not be required to examine any class of Estimates referred to another select committee for examination.⁵ One observer considers that these changes granted the Committee "continuity, and flexibility in its membership and Estimates procedures".⁶

Other procedures mooted or adopted since 1972 suggest that the Committee has been engaged in a more or less continuous effort to improve its ability to carry out the task entrusted to it by Parliament. In 1973, for example, the PEC chairman reported that in future the Committee would report to the House as and when investigations were completed, instead of deferring these until the publication of a single annual report.⁷ Although for several years reports continued to be tabled annually, interim reports were presented each year from 1976 on, and in 1979 three such reports had been tabled within six months of the new committee taking office. In 1973, the Government initiated a debate on the Public Expenditure Committee's annual report - regrettably this innovation has not been repeated.⁸

Since 1972, the size of the PEC has been reduced from 12 to 10, appointed triennially,⁹ although membership of the Committee at any one meeting has varied. Members are substituted for a variety of reasons, with inevitable effects on the value in their contribution to the ongoing work of the Committee. Estimates have been referred at an increasing rate to other select committees¹⁰, although

this practice was modified slightly in 1976, when the Committee decided to return to each class of Estimates at least once every three years, thus providing for a broad overview of all departmental votes at regular intervals.¹¹

Doubts have been expressed as to whether, even with a monitoring agent like the PEC, Parliament in fact exercises effective legal control over the government's annual budgetary decisions:

Combined ...trends (such as the fact that expenditure commitments are adopted for periods exceeding the life of a parliament and far exceeding the annual cycle of parliamentary scrutiny, the improbability that any member of Parliament could understand fully the sophisticated techniques now applied to policy analysis) ... have seemingly removed the effective control of public expenditure from the competence of the New Zealand legislature. The evidence cited for this having been the case is the substantial variation in amounts appropriated for actual expenditure in recent years. In the 1974/75 and 1975/76 financial years over-expenditure represented 5 percent and 5.7 percent respectively of the annual appropriations and in 1976/77 voted supply was under-expended by 1.7 percent.¹²

Although elsewhere in government since 1962 growing attention has been paid to the planning of public expenditure, Parliament's scrutiny of government spending has altered relatively little despite the modifications noted above. Parliament still has no machinery for examining long-term economic priorities and the resource implications of public expenditure. The House itself concentrates on the annual supply of money for resources, such as personnel, to the government. Unlike the practice in the United Kingdom, there is no annual white paper in which the Government publishes a statement of its financial intentions, and identifies the future implications of current resource use. There is no economic select committee, no special procedure by which the New Zealand legislature can examine the economic and

other advice given to the government by the Treasury, or its other principal advisers, such as the Reserve Bank.

Although both major parliamentary parties have caucus committees which study and advise MPs on economic matters, the House itself has no all-party procedure for making a comparable study. For many years, Cabinet has had special committees responsible for economic affairs and, more recently, public expenditure survey, but the House itself has only an immature system for economic and fiscal review. The one occasion on which the House, as an institution rather than an arena for party contest, undertakes a formal inquiry into the published budgetary proposals of the executive is in the annual examination of the Estimates of expenditure by the Public Expenditure Committee.¹³

The PEC as an information network

Every political system, however simple, has some normal framework by which messages flow ... Essentially, the flow of information of all kinds in a political system is called a 'network' because its lines or paths cross: there is, therefore, often more than one way in which a particular message or fact can travel from its source to a particular recipient. Its recipient (for example, the member of Parliament) may receive this message in several ways - and perhaps in several versions - because he is exposed to so many lines of the network.¹⁴

Peter Else, looking at the information network of the British government system, suggested that in terms of controlling both the rate and the complexity of the information which passes through government, certain nodal points can be identified as having a gatekeeper role in the reception, analysis and transmission of information.¹⁵ The Public Expenditure Committee may be viewed as one such nodal point in the information system of Parliament. It is activated in order to perform two

formal parliamentary tasks:

- a) to conduct an annual examination of proposed government spending for the current financial year (the annual Estimates) (see Appendices 4 A - C); and
- b) to initiate special ad hoc inquiries and post-expenditure reviews either on its own discretion, or on the recommendation of the Controller and Auditor-General or Parliament itself. (See Appendix 4D)

The pressure of the budgetary timetable allows little room for the first major task - the Estimates examination, which is a prospective survey of forward estimates made by departments of their spending over the next financial year. However it is during this phase that the Committee has the opportunity to intervene in the fiscal planning process. The following section describes some of the factors influencing the PEC's participation, on behalf of Parliament, in that process.

THE ESTIMATES EXAMINATION: An annual Parliamentary survey of the executive's fiscal intentions

The Estimates examination occurs about the middle of the calendar year. It invariably takes place after departmental spending on forecasted estimates has already begun. The PEC's involvement is provided for after the presentation of the annual Budget by the Minister of Finance, and the introduction of the Appropriation Bill. The Estimates of expenditure, described in the Appropriation Bill as Votes to specific departments for specific purposes, are introduced to the House with the Budget and detailed as schedules to the Appropriation

Act. Annual reports from spending agencies are tabled as they come to hand, and referred with the Estimates to the PEC (or other select committees, as decided by the PEC). After this examination and approval, they are then referred back to the House, as nearly as possible in reflection to ministers' order of seniority, for debate and adoption.

Each Vote is examined individually by the PEC. (See Appendix 4B). The department's annual report and any additional submission made by the department to the PEC at its request are discussed. Senior departmental officials attend the PEC (and other select committees to which Estimates have been referred), for questioning by MPs on any matter relating to the Estimates. In 1978, for example, this exercise lasted from June to September, by which time spending of the forecasted 1978/79 Estimates was already well under way and the Supplementary Estimates had been tabled. The prospective survey of forward Estimates is limited to the current financial year - the future cost implications of the policies and activities for which funds are required are not spelt out for the PEC.

Since departmental reports have tended to come later rather than earlier in the Parliamentary session and since they vary greatly in content, complexity and sensitivity (all of which have consequences for parliamentary consideration), time becomes a very scarce commodity.¹⁶ There is a considerable obligation on the Public Expenditure Committee to approve the Estimates and return them to the House for debate. There is often sharp pressure on officials to return written replies to oral and written questions put to them by members of the PEC and other select committees in time for these to be of some use during debate in the House.¹⁷ The opportunities for careful research and detailed examination are more limited during the PEC's formal participation in the Estimates phase of the budgetary

cycle than elsewhere in its work.

Over the past 20 years there have been changes in the information flowing into the PEC network, the "actors" (or processors) involved in the reception and transmission of information, and the form in which information is passed to the PEC and from it to Parliament, the executive and the public as the "audience" or receivers of financial information. For example, by the end of 1970's, what had earlier been only informal sources of information had become structural elements in the PEC network; in other cases there had been a shift in the relationship between various actors, and a variation in their relative power; further, there were changes in the type of information, such as the documentary evidence, available to the PEC from various sources.

The following section describes the PEC from several aspects in dramaturgical terms:

- (1) *dramatis personae*: participants in the Estimates examination, and influences on them;
- (2) the script: changes from 1962 - 1979; and
- (3) the audiences: those who receive the information, and provide feedback to the PEC.

(1) Dramatis Personae

At the end of the 1970's the principal actors in the PEC network were essentially the same as they had been in 1962:

- (a) a small group of politicians, appointed by Parliament from both sides of the House to serve on the committee, but always chaired by a government MP;

- (b) an official (or officials) from the Controller and Auditor-General's office, initially with minor status only, but by the end of the 1970's a formal participant in the network;
- (c) an Estimate clerk from Treasury (the department which is responsible for the production of the published Estimates);
- (d) the Clerk of the Committee, a member of the Legislative Department which provides the basic secretarial servicing of the PEC;
- (e) departmental officials and others required to report annually to the Committee in its examination of the Estimates, or at any other time when matters arise which the Committee believed should be investigated and drawn to the attention of the House.

Over time, however, there have been some additions to this list of formal participants:

In 1967, a Treasury study group on Financial Planning and Control recommended an extension to the specialist advisory services available to the PEC, preferably through the secondment of another Treasury officer, or by the referral to the Treasury of any matters which the committee considered required the attention of professional investigators.¹⁸ Although this recommendation was not taken up for several years, in 1973 the then-chairman of the PEC (Jonathan Hunt, MP) chaired an ad hoc interparty committee which endorsed Treasury's view that additional assistance be provided for the Committee. However, it was recommended that this assistance should come not from Treasury, but from the Legislative Department. The then-Clerk of Committees, Adrienne von Tunzelmann, considered that the subsequent

appointment of an additional professional adviser from the Office of the Clerk early in 1974 was an important development: "It represented a first step in the employment of [specialists] who could assist the Committee in dealing with an increasingly complex system of government and provide a balance against the information supplied and analysed by the departments being examined, on which formerly the Committee had to rely entirely." ¹⁹

The responsibilities of the new appointee were to assist the PEC in assimilating the information it received from government and other sources, and to prepare draft reports for its consideration. The provision of extra staff appears to have resulted in more comprehensive reporting of both full committee activities and sub-committee investigations than before, and more detailed explanation of the reasoning behind the PEC's recommendations to the House.

In 1976, Treasury and the Audit Office, working in conjunction with a newly-appointed chairman of the PEC (W Birch, MP) suggested the appointment of another officer, in this case to undertake investigative research for the Committee. In its 1977 report to the House, the PEC commented that:

The involvement of the Audit Office in assisting the Public Expenditure Committee has increased considerably over the last few years, in particular in 1976 and 1977. The committee has found this association fruitful and is keen that it should continue and develop further. Accordingly, it has been decided in consultation with the Controller and Auditor-General and the Clerk of the House that an officer of the Audit Office be seconded to assist the committee on a full-time basis. The officer will be responsible to the Clerk of the House but will return to the Audit Office for duties during any recess or other time when not employed in assisting the committee. While the officer will continue to have access to the resource of the Audit Office, the inquiries undertaken would be on the discretion of the Committee. ²⁰

An appointment was made, and in 1978 a junior officer of the Audit Office took up his duties. This officer's initial assessment of the value of his contribution to the PEC was relatively negative, but by 1979 it was apparent that there was potential value for the PEC in this more intimate link with the Audit Office. Not only was the seconded officer able to draw on the resources of the Audit Office in preparing his comments and reports for the PEC's deliberations; he also provided a convenient justification for the regular attendance of more senior Audit officers at the PEC. These officials were kept constantly in touch with the interests and concerns of the Committee, and were able to offer discreet, if leading, guidance to the MPs, not only when other officials were present, but when the PEC was deliberating upon its inquiries. ²¹

In 1979, the chairperson of the PEC, Marilyn Waring, MP (who had previously served on the Committee in 1976), embarked, with the support of the full Committee, on a further attempt to increase the number of people formally serving the PEC as consultants. After an unsuccessful approach to such sources as the Legislative Department (which was, in the event, constrained by staff ceilings), Waring, went to the Planning Council as an alternative source of expert advice. Again this was fruitless. However the exercise did indicate that at least some members of the Committee considered that their work could have real impact, and had tried hard to develop the capacity foreseen by Treasury in 1967, when it recommended the establishment of a larger secretariat. ²²

The formal co-operation of the Audit Office and the Legislative Department, in their provision of professional advisers, was a double-edged tool. First, the presence of such officers undoubtedly reinforced the confidence with which the Committee approached its task, and the precision with which it selected among the information passing

through the network. On the other hand, it also deepened the penetration (and, by implication, the possibilities for influence of the Legislature) by professional advisers, technocratic experts, and permanent public servants. By 1979, for example, use made by the PEC of the services of the seconded Audit officer was tending towards dependence upon his parent office. This dependency suggests not so much the symbiotic concerns of the Legislature and the Controller and Auditor-General, as the relative impotence of the House in taking any step which has not been previously recommended and approved for it by better-informed, non-elected officials.

Second, the preference of the PEC for engaging the services of the Audit Office, rather than Treasury (as had been recommended in 1967) points to the character of the political relationships of these departments: with each other, with the legislature, and with the executive. Treasury (despite its own partial disclaimer) is perceived by politicians as being first and foremost the servant of Ministers and, in particular, the Minister of Finance - who from 1975 on was also the Prime Minister. The legislature, as represented by the PEC, appears less convinced of Treasury's reliability as a servant of the House. Observation of the PEC in its relations with Treasury suggest that this lack of confidence is mutual. Treasury officials, at the senior levels at least, appear to tolerate the PEC because of its usefulness in legitimising formal rule changes in the budget system but have tended to view its operational difficulties with little concern, and even some cynicism.²³

In contrast, the Audit Office not only has the advantage that the Controller and Auditor-General is the constitutional servant of Parliament, but is perceived as its faithful political ally. However, although the PEC may believe that during the 1970's it stimulated and encouraged the Audit Office into greater effectiveness by

adopting as many of its recommendations for financial management and control as it could justify, the Committee itself may have become in effect a tool of the Audit Office.

In the bureaucratic community of central government, the Audit Office must be seen to be effective if it is to maintain its strategic advantage over the spending and control departments. The PEC offers an authoritative entree to a number of areas which, on its own, Audit Officers could have some difficulty penetrating. Under the banner of the PEC, old curiosities may be explored; new anxieties, such as the effectiveness or desirability of much public sector spending, may be voiced through the mouthpiece of an enthusiastic committee which, in the late 1970's, was dominated by MPs committed to a significant reduction in the growth of the public sector. What may appear to be unanimity of purpose between the executive, the legislature and the Audit Office - to eliminate waste and restrain total government spending - may in part have been manipulated by the Audit Office through its increasing influence over MPs in the PEC network.

A further recent development in expansion of the PEC network has been its willingness to use the poachers to catch the gamekeepers. This has been done by encouraging senior public servants to act not only as respondents to MPs, but as interrogators of other officials on behalf of the Committee.

For example, in June 1979, prior to their examination of the 1979/80 Estimates, the PEC invited several senior officials from the Treasury, the Audit Office and elsewhere in the public service to "indicate what sort of question (they) would like to have been asked" when appearing before the Committee during the Estimates examination.²⁴ The Treasury men approached this meeting with some scepticism. No discussion paper or set of

written recommendations had been requested by the PEC in preparation for this novel exercise, and Treasury offered none, relying in the event on oral responses to questions put to it by the Committee. Audit Office officials entered into the discussion with some zest - but, like Treasury, without specific written recommendations or a prepared discussion document. It was clear that for Treasury and the Audit Office, the objective of attendance at the meeting was to establish how thoroughly the PEC intended to pursue its inquiries, to find out what steps it had taken on its own account to improve its data base, and to identify the tactics the Committee intended to employ in pushing departments to make more information available to MPs.

However, three other officials, including J Robertson, then permanent head of the Justice Department, also attended. Robertson had only recently joined Justice from the Ministry of Defence, where he had been the civilian Secretary for Defence. On one earlier occasion in 1977 he had been called before the Committee after he had commented publicly on the deficiencies of the disclosure of information to the PEC. It had then been Robertson's view that most financial policy matters should be made available to the PEC unless they were unusually sensitive and required a minister's specific approval for wider discussion.

After discussing this matter with Robertson, the then-PEC had requested the Clerk of the House (C Littlejohn) to comment on the disclosure of information. While from the Committee's viewpoint Littlejohn's opinion was disappointingly negative, in that it endorsed the limitations imposed on the PEC by Standing Orders, the affair did suggest some innovative possibilities to the PEC.

At the June meeting in 1979, Robertson tabled and spoke to a paper that suggested various lines of questioning to the PEC.²⁵ He reiterated his earlier arguments urging the PEC towards the limits of its authority, firstly by describing why past lines of questioning of departmental officials by the PEC had yielded so little "pay dirt", and secondly by identifying the considerable range of possibilities that were available to determined MPs even within the current limitations of Standing Orders. Robertson inferred that what was required in this seemingly inhibited situation was the exercise of parliamentary will. He recommended that the PEC adopt the widest possible interpretation of the task laid on it by Parliament, if legislative advice and consent for fiscal plans and budgetary decisions were to have any real meaning.

Further research will be needed to establish how far the PEC is prepared to take this type of informal expansion of its advisory services - and the extent to which it is capable of acting upon the advice it receives from such ad hoc sources without obtaining a change in its formal terms of reference. Nonetheless, the incident signalled an important development in MPs' determination to play a more effective part in fiscal planning.

Influences on the PEC

von Tunzelmann has suggested that the post-1970 establishment of parliamentary party research units may have improved MP's performance in select committees, at least "to the extent that members can make use of their research staff, (and so) be better informed on any particular issue".²⁶ However, by 1979 there was little indication in parliamentary debates that this alternative source had provided more than occasional insights for

individual PEC MPs, in their search for expert or informed advice.

Clearly, if Parliament is to participate effectively in the fiscal planning process, access to relevant information is crucial. In their discussion of the sources of information available to an MP in the British House of Commons, Anthony Barker and Michael Rush found that "for a politician, 'information on public affairs' is a very broad concept indeed... he needs 'information' only partly for its own intrinsic sake, and, beyond that, judges it in the practical political terms of what good it does him and his political position to take the trouble to absorb it." Barker and Rush argued, however, that "unless MPs are nothing more than political eunuchs, they need information whatever their role. If, for example, their role is to sustain, or oppose the government of the day, they need information to do this effectively; or if their role is to scrutinise the activities of the government, they need information; or, if their role is to represent their constituents and defend their interests, once again they need information." ²⁷

These multiple roles are related to a number of other factors, such as MPs' attitudes towards parliamentary reform, the constitutional arrangements for consultation between the political elites and other powerful groups in society, and the role of the news media. The MP is always a public actor - she or he cannot regard information in the same way as a private citizen, a Minister or a public servant may do. As a participant in the Public Expenditure Committee, the MP not only is a consumer of information. He or she knows that at least in the presentation of the annual PEC report to Parliament (and any controversy there may be over specific aspects of that report), she or he will inevitably contribute to the flow of information in the government system and, through the news media, to the electorate at large. Observation of the

Committee at work suggests that this awareness markedly affects the manner in which the political actors (MPs) receive, analyse and transmit information in the PEC network.

Barker and Rush point to several other factors which apply to the New Zealand MP on the PEC, as well as to his/her British counterpart. First, although an MP may have a strong interest in a particular subject, such as capital investment, the exchange of expertise between the public and private sectors, education planning or agricultural development, it does not necessarily follow that she or he will have a correspondingly strong desire for factual information on the matter.

Second, the proposed level of future expenditure by the Government on a particular item or activity is not necessarily an indicator of what attracts an MP's attention, since the financial estimate may bear little relationship either to his or her electoral interests, personal or professional experience, immediate party concerns, or current public interest.

Third, the nuts and bolts of policy or departmental expenditure plans may not interest MPs. Although they may be intensely concerned over the dismantling or reforming of some advisory structures (such as quangos), they may not necessarily see themselves as responsible for prohibiting or even supervising such government action, particularly when it may have local repercussions in their own electorate.

Fourth, MPs are frequently less interested in what has been or will be spent on activity^X than in whether any spending on X would mean that there was more or less money available for activities Y or Z, for which they have some particular concern.

Finally, while an MP may favour the general notion of rigorous parliamentary scrutiny of executive activity, and approve of the theoretical concept of parliamentary participation in the government planning process, she or he may not necessarily feel that the operations of committees specifically established to carry out such work are "among the salient issues of their parliamentary working lives".²⁸ In any case, in New Zealand as in the United Kingdom, "it has never been part of the case for establishing specialised committees that they would discover and reveal state secrets." ²⁹

With these caveats in mind, it is helpful to refer to various characteristics of the PEC, as these bear directly on its capacity as an information network, and as an active participant in the planning of public expenditure.

Bi-partisan Approach

First, although PEC membership has always been strictly along party lines reflecting the parliamentary majority, its members are conscious of opportunities to act on behalf of the whole House. Here modest cross-party activity does occur. Morgan has observed that in the British House of Commons there are procedures allowing for bi-partisan activities which are followed by MPs and offer more opportunities for co-operation than is possible in the debating chamber itself. "Composed of representatives of all parties in the Commons, (such committees) seek to influence government by building up consensus and by trying to disentangle the technical from the political in a particular field." The growth of this sort of activity may be interpreted, Morgan suggests, as "an assertion of ... consensus in the face of party direction and executive power". ³⁰

A similar phenomenon can be observed in the New Zealand PEC. Although the Estimates examination does relatively

little to modify the outcomes of fiscal proposals, this exercise and other activities such as the PEC's special inquiries and post-expenditure reviews do allow for a considerable relaxation of party lines and a submerging of party political differences. One Government member, summing up her three years' experience on the PEC, stated: "In the full Committee, hearing the Estimates, you have to be watchdog of the minister; on a sub-committee, or during special inquiries, you are the watchdog of the public."

Absence of Ministers

A second characteristic of the PEC is that, unlike most other select committees, it does not normally have ministers among its members. Exceptions to the rule of back bench as opposed to front bench membership demonstrate the significance of this. For example, in 1978, during the examination of the departmental Estimates for Trade and Industry, the Minister in Charge of this portfolio attended the PEC meeting in substitution for another National Party member. Legislative Department officials later described this as 'unique'. His presence appeared to inhibit both members and officials. On this occasion, the Minister was present for almost full three hours. Questions and departmental responses were constantly referred to him. At one stage he expressed himself very negatively on whether or not the PEC should be given the information which an Opposition member was requesting. He added, somewhat belatedly, that this was of course entirely a matter for the discretion of the department, and that he would not make their decisions for them. Nevertheless, the officials decided to act as the Minister had suggested, with a face-saving modification which they hoped would allow both the Minister and the PEC to be satisfied.³¹ It was clear that direct ministerial involvement would significantly affect the confidence with which backbenchers and officials operate in this forum.

Occupational Background

A recent study of the membership of New Zealand Parliament's from 1954 - 1978 claims that "the New Zealand Parliament (now) contains a high level of intelligence and ability". This is based on von Tunzelmann's analysis of the changing patterns in MPs occupational background (e.g. more lawyers, fewer farmers among MP's), improved formal educational qualifications (e.g. in 1963, 50 percent of MP's entering Parliament had had some form of tertiary education; by 1978 this proportion had risen to 81 percent); age on entering Parliament (younger in recent years); and the range of experience MP's had had in community and interest group activities prior to entering the House for the first time. The combination of these and other factors prompted von Tunzelmann to suggest not only a higher level of "professionalism" among recent generations of new MP's, but a greatly increased interest in, and use of, existing Parliamentary facilities such as the party research units. ³²

The observed performance of tertiary-educated, younger MP's appointed to the PEC (particularly those with professional qualifications in law and accountancy) appears to support von Tunzelmann's findings. In 1978/79, for example, the PEC included a number of MP's whose prior training and education directly qualified them for appointment to this Committee, and appeared to enhance their understanding and interpretation of the fiscal and other data presented by officials. This not only improved the quality of the PEC's reports to Parliament (eg the Kaimai tunnel and Government Printing Office procedures reports tabled in 1979); it also enabled them to demonstrate their skills to talent-spothers for new Cabinet material. Derek Quigley, for instance, entered the House in 1975 and was soon appointed to the PEC. His obvious talents in this forum quickly identified

him for fast-track promotion, and within three years he held portfolios in both Housing and Finance.

The Influence of Women in the PEC network

During its first 12 years of operation, the PEC system was an exclusively male affair. In 1974, a departure from this homogeneity came with the appointment of von Tunzelmann from the parliamentary Office of the Clerk as the Committee's Legislative Department Advisory Officer. Her appointment has been significant. Her formidable academic qualifications, administrative experience and report-writing skills contributed in no small way to a general improvement in the standard of reporting by the Committee to the House from the late 1970s on.

A second development took place in 1976, when the National Government appointed two women MP's, Colleen Dewe and Waring to the PEC. Dewe lost her Lyttleton seat in 1978, and her electoral successor, Hercus, was appointed by Labour to the PEC in 1979. Hercus, like the two other women MPs before her, was highly-educated, and had had considerable experience as a government appointee to the Commerce Commission. Her legal and commercial experience made her an obvious candidate, just as Dewe's pre-parliamentary work as an accountant had been seen as a desirable qualification by her party managers. Waring had worked as a university tutor and as a research officer in the National Party parliamentary research unit prior to 1975, and her academic background and widely publicised interest in parliamentary reform and legislative efficiency no doubt recommended her for appointment to the PEC.

Observation of the PEC at work over 1978 and 1979 sessions (during which time all four women were involved in this network) suggests that when women are in a competitive work situation with men they have high expectations of

themselves and different attitudes from men to their work. Hercus and Waring, for instance, selected for fiscal slaughter different sacred cows and they reacted differently from their male colleagues to the customary limitations of party discipline. Dewe, Waring and Hercus were consistently (and unusually) thorough in their preparation for PEC meetings and, unlike most male members, they appeared to be regarded by officials as persistent and aggressive during examinations.

There is no reason to suppose that women MPs are any less anxious than men to attract the favourable attention of party managers looking for potential Cabinet members. However, observation of the activities of the MPs associated with the PEC in recent years suggests that women are particularly concerned over parliamentary efficiency, have qualitatively higher expectations of themselves and the PEC's task than most of their male colleagues, and demonstrate considerable interest in Parliament's taking a much more active role in expenditure planning and budget control.

Old Boys and New Comers - Parliamentary Generations

A further influence on the PEC over the years is that of parliamentary generations: the effect of waves of 'newcomers' or the 'old-timers'. As we noted earlier, an MP's sources of information, and his or her attitudes towards this information, its analysis and use, are varied. Barker and Rush suggest that the MP him or herself may be the main determinant of how many people bring what kinds of issues, troubles, opinions and other information to his/her attention.³³ An MP who has had considerable political experience, and lengthy exposure to information from various sources such as the local party branch, national party headquarters, regional and national party headquarters, regional and national party conferences, parliamentary party caucus, different party leaders, the

research services available in Parliament itself (such as the party research units of the General Assembly Library), the news media and so forth, will have a very different attitude towards information from a new and younger MP.

If in addition the MP has served as a Cabinet Minister, his knowledge of the PEC network and his actual or potential role in it will be quite different from those who have not held a ministerial portfolio. 'Old-timers', particularly ex-ministers, may, covertly at least, support the view that exchanges of information between departments and backbenchers should generally be kept to a minimum, or referred to them indirectly through a Minister.

Long-serving members, even when in Opposition, may regard backbenchers as obstacles to be got around, rather than useful recipients of information. ³⁴

Conversely, newer MPs may find the maze of channels through which information flows in the PEC network confusing, even threatening. They may either rely heavily on more experienced MPs for guidance, or become frustrated, feeling unable to extract what they believe to be important information, and not knowing which questions will produce the desired replies. If the new MP's primary objective, in his/her first term of office, is to seal his lips, listen and watch (advice given by an ex-Prime Minister to parliamentary newcomers) in order to secure his position in the party hierarchy, then his attitude towards the PEC will reflect this.

On the other hand, appointment to this prestigious committee is widely regarded as a tap on the shoulder. The new MP may feel obliged to demonstrate his/her particular skills as interrogator, analyst and transmitter, and ensure that these come to the attention of the party managers. The facts of expenditure investigations may be less important to this MP than his/her actual "performance" when expenditure policies are

discussed by officials and the PEC. The ambitious MP may use the reputation of the Committee to get close to (or remain among) the more influential members of the party.

Like other senior people working in central government, MPs are granted little respite from the demands of their office - demands which are as often in conflict as in accord. They therefore need to discipline the miscellaneous flow of fact and information which passes through the parliamentary networks. The pressure of business and the many demands on an MP's attention may cause him/her to neglect or ignore aspects of public expenditure which seem riveting to officials or 'outsiders' such as the news media.

Research in Britain has shown that length of parliamentary service and ministerial experience do not necessarily increase MPs' desire to improve the quality or the form of information reaching them.³⁵ Indeed, it has been suggested that ex-ministers are particularly cautious about changing the information flow, or increasing parliamentary control over this, on the grounds that this could affect the "doctrine" of ministerial responsibility; or because "it has been accepted ... that confidentiality [in certain key select committee procedures] is necessary in order that exchange of information and ensuing discussion can be free and uninhibited".³⁶

Observation of the PEC at work tends to confirm the view that length of service is the main indicator of whether an MP will react conservatively to proposed parliamentary reforms or such innovations as making budgetary information more freely available to select committees, requiring ministers to front-up to MPs, expanding the work of select committee and so forth. As a result, elections which throw up numbers of new younger MP's tend to have a marked "generational" effect - a phenomenon which can be seen in the history of the PEC.

The most notable examples of PEC activity occurred during 1966-67, 1976-77 and in the post-1978 period.³⁷ During each of these periods a 'ginger group' of young, usually ambitious, MPs was appointed to the Committee. While undoubtedly serving their own and their parties' political ambitions, these politicians extended and enriched the PEC's impact on the executive and the House itself.

In the British House of Commons, such members tend to be younger university graduates, graduate Labour MPs or 'coming' Conservative backbenchers. Much the same is true of the New Zealand legislature. Energetic PEC groups included such MPs as Muldoon, McIntyre, Gill, Gordon, Gair, Quigley, Waring, Birch (all National) and Freer, Kirk, Tizard, Douglas, Burke and Hercus (all Labour). At one time or another all these parliamentarians have been known variously as "young Turks", "radicals", "young hopefuls", "future Cabinet material", or just plain "stirrers". All subsequently held ministerial office, were 'shadow Ministers' in opposition, or acquired a position of prominence in party leadership. But of more direct importance for the purpose of this study is the fact that the PEC is seen to be activated and influential, or relatively inert, in direct reflection of the parliamentary generations passing through the network.

While there is undoubted advantage for political parties in deploying their more experienced members in areas which are information-rich, observation suggests that the effects of familiarity and long service tend to blunt, rather than sharpen up, the manner in which ex-ministers, at least, work on the PEC. Prior knowledge of procedures, reservations about the deterrent and promotional impact of PEC recommendations and reports, and, in some cases even boredom with the repetitive business of government, appear to lower the expectations of ex-ministers.

In 1978-79, when all the ex-ministers on the PEC were Opposition (Labour) members, two further matters became apparent. All parliamentary party leaders are in constant demand for a range of caucus duties and public obligations which are less pressing for newer backbenchers. This obviously affected the consistency with which Labour's senior members applied themselves to fiscal examinations. Labour party caucus leaders appeared somewhat diffident, in the context of the PEC, about probing too deeply into the policy and resource proposals of officials they once controlled (albeit briefly) as ministers. Ex-ministers who sustained the political optimism of a party in Opposition hesitated to establish a precedent for intense Parliamentary scrutiny of executive action. This could presage future embarrassment for themselves, should they re-take the Treasury benches.

Most ex-ministers demonstrated this diffidence in a number of ways: they arrived late and left early, attended PEC as infrequently as possible, took few positive steps to ensure that Opposition members presented themselves as a well-disciplined, thoroughly prepared and assertive team, encouraged little in-caucus debate or discussion of PEC matters, and took little part, if any, in subsequent debates in the House on the wide range of topics brought to their attention during PEC examinations.

This behaviour may, of course, be peculiar to Labour representatives on the PEC. Their long experience as the Opposition party, and their enervating disappointment at being rejected by the electorate in 1975 probably influenced their attitude to parliamentary select committee work. von Tunzelmann has suggested that in 1972 (which she regards as "something of a watershed" in the history of the PEC) the incoming Labour government could be assumed to have spent its long time in opposition in preparation for executive office, devising a

confident approach to the possibilities of the PEC in which officials could be directed to table information difficult to obtain elsewhere. If Labour MPs did this, and if they were then prepared to apply what they learned in Government to the work of the PEC after they lost office in 1975, it was not obvious to the observer.

The development of an active, probing, publicity-conscious PEC appears to depend, among other factors mentioned earlier, upon:

- (a) the personal attributes of individual MPs, such as those demonstrated by Muldoon;
- (b) the extent to which MPs perceive the PEC as a route to ministerial office - which itself depends on how far MPs see their party as the typical party of government;
- (c) the 'special' political experience of such groups of MPs as the women members of the PEC, mentioned earlier;
- (d) the willingness of party managers to select and support as PEC members any 'ginger groups' within their rank e.g. Muldoon and others in 1966; Hercus, Douglas and others in 1978-79;
- (e) the effects of parliamentary generations, who pass through the legislature in erratic waves. Younger, well-qualified, graduate members benefit from their experience on the PEC, and use this to rise to positions of importance in government, leaving the PEC under-nourished until the next injection of relative youth and enthusiasm for greater efficiency in public expenditure planning and management.

There is a further dimension to the generational differences between young/older - new/longer-serving MPs in the PEC network. It is not, on the whole, in the

interests of senior MPs and Cabinet ministers to allow too much backbench attention to be paid to executive budget decisions and economic planning, and they deal with this in two ways. First, they ensure that PFC backbenchers who

less partisan and possibly better informed about educational matters. On the other hand, the PEC has more senior members on both sides, among its membership, and in any case has rather more standing and prestige among departmental officials. The permanent head and I have to front up, and we, of course, understand the limitations of the Committee. But the junior people (that is, at about director level) we take with us regard the PEC very seriously.....

The PEC members are more quizzical (at least, the Opposition ones are) and regard the PEC as demanding a greater effort from us than does the Education select committee. The PEC may begin in a very searching manner - for example, this year Mr T- began as though he intended to go through line by line, and we felt we would undergo a very close grilling. But they soon become sidetracked by partisan considerations, and lose the thread of their discussions

While we don't regard the PEC as much more than a generator of work, and a bit of a distraction in the whole budgetary process, it does provide a necessary means by which governments can be seen to be examining and assessing the performance of departments in terms of previously allocated funds. Without it, we would have much less work to do. For example, the Notes to the Estimates, which are time-consuming, go only to government MPs. I asked the Minister a couple of years ago if they could also go to the Opposition, but he was opposed to that. This means that if we refer to something in the Notes and an Opposition member says 'I can't find that' he is referring to the Notes in the Estimates themselves, Part E, and I have to refer to some other part of the printed Estimates to let him in on what is being discussed

The provision of written answers takes a lot of time - there were 60 or 70 this year. But I myself have suggested to Russell Marshall (Opposition spokesperson on Education) a couple of years ago that if the Opposition wanted information, all they had to do was ask a question in the House and make sure they got the answer - I've been a bit hoist on my own petard in this, since the number of questions this year has been phenomenal.

The PEC certainly does not act in any way as a rod, or measuring stick for us on our own performance, but it does fulfil an important formal function in government.

There is usually little relationship between what is asked by the Opposition on the PEC, and what is debated later in the House. This year I think only one of the 60-odd written answers was even referred to in five hours of petty bickering. Yet sometimes you can be very busy sitting there behind the Minister, really working flat out. You never really know what they're going to do, but on the PEC, even for their most searching questions, you know that they are seeking information for the House, or reference to their own electorates

There has been absolutely no noticeable difference in the range or pressure of questions since the PEC got its new (Audit secondment) research officer. In many ways the whole hearing depends very much on the tone and manner of its conduct. It's almost like a ritual chore they have to go through - they know that by five minutes to one it will be all over, and they can't actually affect anything anyway.

While the sort of questions they ask do give us a sort of a steer (as to how the public is reacting to our forward policies) we get even more information on this from the

debates in the House. They do reflect public opinion, we feel.

We take care to protect the Minister. Buildings are always a popular area for questions - 70-80 percent of all questions are about capital works - so before the Estimates we get a report from the regions and give the Minister a potted reply on this. But no, I don't think we could or should dispense with the PEC - it does have a vital role in our kind of democracy." 38

Contained in this statement are many of the myths, and some of the explanations, for the problems of linking parliamentary oversight with finance management and public resource planning: the unexamined myth of parliamentary control; the little-questioned determining power of the executive; the uncritical observation that a select committee responsible for a specific area (such as Education) is likely to be more expert than a generalised select committee - while at the same time preferring to retain a formal link with those bodies such as the PEC which are believed to be more prestigious through their closer links with the executive itself; the denial of certain realities (such as the fact that most members of the PEC are relatively inexperienced backbenchers, and only the minority have had extensive experience as "senior members"); the sentimental notion that maintenance of the forms of parliamentary consultation and participation is sufficient to justify the present system, no matter how ritualised and hollow it has become.

Not all officials share this 'old-timer's' view. This is particularly so in the case of officials from the control departments of Treasury and the SSC. In its discussions with Treasury people, the PEC appeared more inept and much less confident than with any other single group of officials. During the 1978/79 Estimates examinations, for instance, Treasury officials adopted the role of the

featured players, with the PEC as an inexperienced and under-rehearsed supporting cast. Discussions about the terms of reference of the PEC, its authority under Standing Orders to press officials for information, and the nature of its relationship with Ministers were both more acrimonious and more ambivalent during these hearings than others.

For example, during one hearing on Vote: Capital Participation in Crown and Other Organisations (1978/79), PEC members engaged in a very lively debate amongst themselves (stoically observed by the Treasury men) on whether or not the PEC was in fact eligible for a report by Treasury on the gross net involvement of the Crown in "all other organisations". The Chair asserted that the PEC could discuss only what was specified in the Estimates; the Opposition claimed that anything arising anywhere in the Public Accounts or the Budget, which affected the forward Estimates, should qualify. The Chair was unwilling to rule on this, and a Government member suggested that the PEC should "ask the Minister of Finance whether he would approve an investigation into the historical participation by the Crown in the complete range of capital and other organisations". To this the Opposition retorted that "It doesn't matter where else the information appears (e.g. in the Public Accounts). This committee must have full statements of accounts in order to determine the extent and efficiency of the Crown's involvement in organisations other than those listed (ie. on p. 34 Estimates 1978)". The chair commented: "But we can't discuss policy, and some of these questions relate to policy", to which the Opposition replied "Yes, we can discuss policy now, though we couldn't in the past." A government member then moved that "in future the Minister of Finance should be asked to rule on whether Estimates prepared by Treasury could show all movements of Crown investment." This was accepted by the Chairman with the final ruling that "that information could not be made

public, though it could be made available to the PEC." 39

At another (1978/79) hearing, Opposition members expressed their dissatisfaction with Treasury's written reply to a question. They claimed to want "much more specific replies", while what Treasury had submitted were only "the most general and unspecific". "The departments need a shaking-up", one member stated, "and if we don't get satisfaction from them we will take the matter to the House". Treasury was again asked for a satisfactory reply. Later discussion by the author with Treasury officials revealed that immediately after this hearing Treasury asked the Minister of Finance for a ruling, and he had adamantly denied the right of the PEC to have the information its members sought. Officials added privately that "since it's only old [MP] who wants it, they won't push", and suggested that the matter would probably be dropped. (As a sidelight on this, a paper which contained the information requested was forwarded confidentially to the Chairman of the PEC, but owing to a secretarial error it was distributed to one of the Opposition members earlier demanding the 'right to know'. This member apparently did not recognise it for what it was, much to the relief of the Treasury officers, who had been a little discomfited at the possible repercussions from the Minister.)

During discussions of Treasury's own Vote for 1978/79, conflict between the officials and the Opposition members was more explicit. Not only was the propriety of Opposition questions challenged by Government members, it was also openly disputed by the officials. In every case the officials and Government MPs supported each other against one particularly persistent (though inept) Opposition member. The Chair was under considerable pressure, and on two occasions turned for assistance directly to the officials, suggesting that their greater experience on "this sort of thing" might allow them to

indicate whether Opposition members ought to ask, and receive an answer to, the information they sought. The Treasury official leading the team commented on one occasion during the hearing that if the present line of questioning continued "it would become very difficult for us to co-operate with the PEC while we give advice (which we are not prepared to discuss here), the final decisions are up to the Ministerssometimes it's not proper, or possible, to give some things to you....." 40

Part of the problem of the PEC in relation to this group of officials is the psychological attitude of MPs towards Treasury, which complicates other difficulties they have in areas of ministerial sensitivity. For instance, in 1978/79 Estimates examinations, Vote: Prime Minister's Department, officials were led by an ex-Treasury senior official. He briskly announced at the outset that he had a plane to catch, which meant he had to leave in 30 minutes. The PEC was extremely deferential and at considerable pains to accommodate what was hardly couched as a request. Another senior permanent head with whom this incident was later discussed claimed to be "astonished", since, he said, "we always assume that we are entirely at the disposal of the Committee, and do not expect to be permitted to leave early for any reason whatsoever".

In the context of the PEC network, Treasury appears to represent the Establishment: uncorruptible, unassailable, highly-trained, well-informed servants of the Minister, before whom the PEC are callow amateurs. This phenomenon may however, be limited to weak phases of PEC history, since in 1966-67, 1976-77 and 1979 stronger leadership for the PEC apparently gave the MPs considerably more confidence in fronting up to Treasury officials.

They Also Serve - Clerks and Other Bit-Players

Finally in this range of PEC actors there are the bit-players - the Estimates Clerk and the Legislative Department clerks who provided basic servicing functions in much the same way in 1979 as they had done sixteen years earlier. Indeed, in two cases, these positions had been held for most of the period by the same men.

Committee clerks, like the secretaries of Cabinet committees, form a distinctive class in the bureaucratic - Parliamentary hierarchy. The Clerk of Committees (1979) was probably atypical, not only by virtue of her sex, but her academic qualifications. The other clerks, accountable to her, were generally older men of the same generation as most of the MPs. Whatever private reservations they may have had about individual MPs, the clerks not only had a strong proprietorial interest in "their" select committee's performance, but a firm belief in the meaning of "public service". Rarely officious, and loyal by conviction rather than ideology, the PEC clerks were courteous, deferential without being obsequious, and formally neutral in providing for the needs and demands of the main actors.

Unlike their Cabinet office counterparts, the PEC clerks and the Estimates clerk, all nearing retirement, were less concerned with immediate political crises than to protect the confidentiality of their committee's work. Although initially intrigued and privately amused, for instance, by the novelty of a young woman as PEC chairperson, in 1979 they were prepared to find a great deal to interest them in the resuscitation of "their" select committee under Waring's style of leadership.

The clerks demonstrate something of the policies of those responsible for recruitment and selection for secretarial and other services for Parliament. At this level,

personal flair is apparently not rated as highly as modesty and reliability. Personal ambition must be constrained by an appreciation of the ritualistic gravity of the work being carried out - regardless of any actual evidence to the contrary. Intellectual skills are less highly regarded than rather more old-fashioned virtues of diligence, discretion and loyalty to the institution of Parliament. These virtues, cultivated here as elsewhere in the "service divisions" of Parliament and the Cabinet office, ensure a stable infra-structure for the complex networks of influence and power in the central government system. The principal players frequently appeared unaware of importance - and even the identity - of these Parliamentary servants. As the Estimates Clerk (who had held this position for 15 years) rather stiffly observed to the author half way through 1979: "I haven't actually been introduced to the Committee this year - I bet half of them don't have any idea who I am or why I sit through all the Estimates meetings". ⁴¹

Summary: Dramatis personae:

The actors in the PEC network constitute a varied group. This variety shapes the meaning of their Parliamentary instructions and affects not only the rate and complexity of information flowing through the network, but its transmission and reception by other networks - principally Parliament and the executive itself.

From among the many and complex messages reaching this Committee, both from within and outside Parliament, the MP's and the officials must make a selection. The messages may repeat, confirm or contradict each other. Some information may appear capable of affecting the basic facts of executive power; some may be ignored because its value is not recognised, or is simply not seen as relevant to the MP's personal view of his parliamentary task. The MP requires to have certain facts at his/her disposal. If

the PEC provides these, the Committee is useful to him; even if it does not, it may still enlarge his "appreciative framework", and inform him about certain situations or relationships. The MP on the PEC must live off his/her intellectual and experiential capital which may be both supplemented or starved by serving on the PEC. ⁴²

The regular participants in the PEC network sometimes act as stage-managers for other people's dramas - as in conflicts between Treasury and the Audit Office over proposed changes in the financial cycle. On other occasions, they provide an audience for certain kinds of semi-public performance by senior public servants - as when Estimates are examined, and officials have an opportunity to observe their peers or their subordinates enacting an unusual role as supplicants who, given the constitutional rules, cannot lose, yet must be interrogated by laymen with no power to alter the allocative plans put before them.

Significantly absent from the list of actors described above are the news media. ⁴³ Attempts to open the PEC to public hearing have been unsuccessful. If the PEC is, at best, an imperfect receiver and a faulty transmitter of information, this may be partly because this particular channel for direct feedback is not built into the parliamentary system.

In the formal examination of the Estimates, the PEC appears to have few effective means (or even the desire) to facilitate the flow of information either into or out of the government system. Yet among experienced officials there is motherhood-and-apple pie agreement about the necessity for this parliamentary task. They see the PEC as desirable in unspecified "democratic" terms but filling a role which neither MPs nor officials can actually define in qualitative (or quantitative) terms. Apparently the

PEC satisfies a need for some formal ritualistic demonstration of legislative concern about the planning function of the administration - essentially a symbolic value. Yet, it may, almost incidentally, provide some marginal gains for astute or ambitious MPs:

"It's frustrating on the main committee because there are all sorts of questions you, as a backbencher, would love to ask, but you're frightened because you might be feeding information to the Opposition. You don't want to expose the Minister to public criticism. So you have to temper your own desire for information with knowledge of the political reaction which could flow from an open debate on that information.....Yes, it is a good way up. Several other MPs have commented rather wistfully that 'you PEC people have far more idea of what's going on than we do on say Land and Agriculture or Local Bills'.....It's not just the prestige, it's the information you can get for yourself." [Government member of the PEC.]

Changes in the Script: 1962-79

There have not only been changes in the "cast" of those involved in the PEC network since 1962 - there have also been amendments to the script - that is, the documentary basis for the Estimates examination.

In 1962 none of the documents to which members had access was specifically written for the Committee, and only two were used directly by Committee members in their task of Estimates examination. The relevant documents were:

- (1) the audited Public Accounts;
- (2) the annual Budget statement;
- (3) the annual Estimates of expenditure (the formal basis for PEC inquiries into proposed government spending);

- (4) the annual departmental reports to the House of Representatives (used by the PEC as a supplement to, and partial explanation of, the annual Estimates).

In addition to this information, the PEC, like the public at large, also had available to it:

- (5) the annual reports to Parliament of the Controller and Auditor-General.

By 1979, other documents had been added:

- (6) the annual reports of all Public Expenditure Committees since 1963;
- (7) occasional reports and commentaries written for the PEC by any of its specialist advisers from the Legislative Department or the Audit Office;
- (8) an annual, supplementary paper (submitted in response to instructions from the PEC) from government departments in receipt of public funds, including comments on matters such as over and under-expenditure of the previous year's allocation, major changes in departmental policy in the previous year, and so forth.

The last two items included material written "for the eyes of the PEC only". Various developments of the past 16 years have contributed to their production and to other changes in system through which the PEC carries out its examination of the forward spending proposals of government departments. The most notable developments include the following:

1962

In 1962, the same year as the Public Expenditure Committee was set up to replace the old Public Accounts Committee, a Royal Commission of Inquiry into the State Services in New Zealand reported to the government. In its report the Commission stated that while constitutional responsibility for financial control still rested with the legislature, "Parliament had been compelled to restrict its direct control to a system of appropriation which does no more than fix overall limitations and the general direction of expenditure. For the rest, there has been by convention a transfer of control to Cabinet, and by specific delegation from Cabinet to Cabinet Committees, Ministers and departments. Delegation has led in turn to a greater need for, and a greater reliance on, control departments (then the Public Service Commission, the Audit Office, the Treasury, and the Ministry of Works)". ⁴⁴

The Commission reported that this process of transfer and delegation had been increasingly rapid since 1939, when Parliament had been able to rely on itemisation of estimates and on full Cabinet control. Since then however, the presentation of the Estimates had been simplified, with far-reaching consequences, in the Commission's view. Many separate items were grouped in block sums, such as capital works projects, and under general headings. Inclusion of a particular project in the Estimates had "thus come to involve no more than tentative approval, and approval in principle. The principle is re-considered, and the detail and timing of the project determined (in the light of fuller information and of any changes in conditions) either by the Cabinet itself, or by a subordinate authority exercising delegated power". ⁴⁵

The 1962 Commission had noted that while either the comments or the concurrence of Treasury was almost

invariably obtained by Cabinet when planning the allocation of funds, the same concurrence was neither expected nor required from Parliament. The growth in public business, and the rapid pace of development in government's involvement in management of the national economy sharply emphasised the significance of the Budget and the annual Estimates, the Commission stated. However, the time available to Parliament for scrutiny through the Public Accounts Committee, and the kind of attention the House and its committees could give to these financial documents, was increasingly limited. The consequence of this situation - the declining ability of Parliament to exercise meaningful control over the allocation of public funds - was, in the Commission's view, to intensify the importance of the control departments, as advisers to the Cabinet. 46

1967

In 1967, a working party was set up in the Treasury to investigate aspects of the increasing burden of management and control of government finances. The study group was asked to examine, with a view to their reform if necessary, the current procedures for approvals, delegations of expenditure authorities, and investigation of financial proposals by Treasury. The financial management system (which incorporated all existing procedures within the government sector for the allocation and expenditure of public funds) was defined by the working party as follows:

a set of organisational arrangements by which Government makes decisions on the use of financial resources, communicates these decisions to the people responsible for acting on them, receives advice and information on policy and performance, and ensures that its directions are being carried out. 47

Since the basis of the government's power to obtain control over public resources, and allocate these

according to given priorities, lay ultimately with Parliament, it was apparent to the Study group that the PEC must be included in any comprehensive survey of the financial management system:

Government administration is a pyramid of responsibility, and at all levels the problem is to define and develop a management information system which provides the information appropriate for control and review at different levels of the pyramid. ⁴⁸

In the opinion of the Study Group, a satisfactory information situation did not exist, at least insofar as Parliamentary control was concerned. Their report described in some detail various techniques such as accounting procedures employed in the financial management system. ⁴⁹ The first aspect of public accounting was described by the Study Group as "authority accounting" - a cash control system intended to ensure that expenditure appropriation and disbursement was carried out in line with statutory requirements laid down by Parliament. The effectiveness of this (through the Vote system of appropriations to authorised government agencies) depended, it was argued, upon information: at very least, information must be available in an appropriate form and at an appropriate time to permit corrective action to be taken. Seen in this light, the PEC, for example, was part of a learning system in which feedback was the critical element of control.

The second aspect of public accounting described by the Study Group was that of "responsibility accounting" - a qualitative assessment of the uses to which the funds were put, and the persons designated to use them. It involved setting job-standards to perform - and controlling those activities on the basis of periodic information on costs and performance. The form and control of such data depended upon the nature of control to be exercised. The Study Group suggested that while this sort of data and other information (such as the efficiency with which

resources are drawn from the private sector and used by the Government; the impact of government's financial activities on the distribution of private incomes, and the economic growth of the nation) was "mainly relevant to central Government in its function of overall economic policy-making", there were obvious implications here for Parliament itself, both directly and indirectly. For example, the Study Group commented that:

Although we have discussed this whole question in the light of the needs of management, the general public should not be neglected. Since planning and policy-making are part of the political [sic] mechanism, information must be available to the public as a whole to promote informed discussion on and an awareness of the means and ends of public policy. At the review end this has the desirable effect of increasing the accountability of Government to Parliament, and the public, for its stewardship of public funds. 50

The Study Group recommended that:

if at all possible, the work of the PEC should be expanded in depth and scope to include more extensive examination of departmental programmes and performance and interrogation of officers responsible for them. Some consideration should be given to increasing the investigative capacity of the Committee. This would require an improvement in the scope and quality of information available to such bodies as Parliament and the Committee. 51

In the Study Group's view, there were important deficiencies in various aspects of the existing system of financial management and control, such as the form and context of the Public Accounts (by which they meant "any published financial document of Government"). On the basis of their investigations the Study Group appeared to see any increase in the effectiveness of the PEC, as part of the financial planning mechanisms of government, as dependent on several developments:

- (1) the availability of relevant information, in an appropriate form for use by what was essentially a lay body (MPs):
- (2) the provision of supporting services, whether from Treasury or from some expanded secretariat and research unit;
- (3) acceptance by government departments (and the Government itself) of the general desirability of closer Parliamentary scrutiny of executive performance.

Clearly, the third point would depend on the political will of the ministers, and their permanent advisers - while all three were related to the specific information processed through the PEC network.

The Study Group reported that the Estimates presented to the PEC were in such a form that detailed attention could not be given to the allocated sums. The consequences of this, it was stated, were adverse, not only limiting the usefulness of the select committee's work, but reducing Parliament's control over the executive fiscal planning decisions. For example:

- (a) Estimates of under \$100 appeared as 55 differently coded items; estimates of over \$40,000,000 appeared in 20 differently coded items.
- (b) In individual Votes there was substantial variation in classification (with items ranging from \$20 to \$72,000,000 in the Health Vote alone).
- (c) Although expenditure was roughly described by function, insofar as classes of Votes, Votes themselves or subdivisions of Votes reflected functions performed under these headings, this was

only a very rough guide to the actual purpose of a proposed allocation. The total cost of a specific function (such as soil conservation) was not available from the Estimates, since the salaries of persons engaged in this activity, for example, would appear only under the general "Salaries" heading.

- (d) Estimated costs could not, through the published Estimates, be related to responsibilities for controlling them, ie to specific 'cost centres'. ⁵²

1968

In 1968 the Minister of Finance announced changes in the format of the Estimates. ⁵³ The first of these was the introduction of the dollar unit, and the adoption of thousand dollar units for the forthcoming Estimates: "A result of this has been to remove about 300 minor items from the Estimates". The second change was the amalgamation of smaller items of a similar nature, such as grants and subsidies, in a general simplification of the presentation of the Estimates. The third, and the most useful from the PEC's viewpoint, was a move towards functional and activity costs in several departments, in some cases with an accompanying description of the programme to be funded by the proposed financial allocation. The Minister noted that this form of presentation would be expanded to other departments in the future.

1969

The following year (1969), the Estimates for the new Ministry of Transport were presented in a revised form, and the government stated that, after referring the matter to the PEC for comment, it intended to adopt the new style of presentation as the standard form for all departments. ⁵⁴

These changes in the format of information presented to the PEC were part of the general movement towards establishing a PPB system in the financial management of the New Zealand government.⁵⁵ A system of integrated government management accounting (SIGMA) had been developed during the late 1960s, and this influenced the style of presentation of the Estimates, with a refinement of the form in which activities were related to their immediate expenditure amounts.⁵⁶ There were still, however, significant deficiencies in the information available to the PEC.

1973

In 1973, the Controller and Auditor-General reminded the House of extensive changes that had been made to the form and content of the Public Accounts in 1964-65 as a result of recommendations of a special committee set up by the government in 1961 to simplify those documents. He reported that since then Treasury had again reviewed the format of the Public Accounts, with a view to adapting them to changing administrative circumstances. The Audit Office had itself undertaken an inquiry into the progress of such developments as SIGMA and PPBS, and the effect of these on the annual Estimates, and Parliamentary control over public spending. The Controller and Auditor-General stated his reservation as to how comprehensive the adoption of SIGMA, as the sole accounting system of government, should be, and how far the advantages of PPBS could be realised while departmental staff were not yet fully trained in the new techniques.

However, he gave most attention to whether the financial management system provided for the maintenance and strengthening of Parliamentary control: "There is not at present available to Parliament the feedback necessary to judge programme effectiveness" he stated: "There is also

little basis for determining whether a specific policy or programme is being implemented properly, or how well it is serving the public".

The Controller and Auditor-General pointed out, firstly, that current Estimates were presented in a "two tier" form of expenditure, by programme and group activity (Part C of the individual Estimates), and by objects (Part D), which included standard expenditure groups (SEGs) expanded to include items which departments considered particularly relevant or significant to Parliament. Secondly, the presentation of the previous year's actual expenditure (outturn), included in the Estimates, was the only public accounting record of the financial transactions of administrative departments.

Most of the Auditor's criticism centred on the deficiencies of Part D, which was, he said, both too selective and too general to convey any meaningful information to Parliament or the select committees. "Ideally, the inclusion of targets of performance stated in physical terms, where these can be so expressed, together with an accounting in those terms, would do much to improve parliamentary control; however, it appears at this stage this will not be possible in the immediate future, and until the introduction of such a feature, Part D should be retained in its present form."

The Auditor stressed that any pressure for change, or improvement must come, primarily, from Parliament itself: reform of the information system, in which there was detailed disclosure of the activities and items of departmental expenditure, would have to be initiated by the legislature, as it became aware of the effects of the developing PPB system, and saw the possibilities for itself in this development. 57

In the same year, (1973), the Treasury published a booklet describing the newly-developed system of planning and control of government expenditure. This publication described the "model" format of the Estimates developed since the 1968 Budget announcement, and recently adopted by the ministers and Parliament. It was derived from the Ministry of Transport format (based on its 1969-70 Estimates), and was divided into five standard sections (or reports), as follows:

- (a) Vote summary: grouping the Vote by major activity programmes.
- (b) Staff strength and salaries: additional information on the type of staff employed, and on staff ceilings.
- (c) Activity programmes: major activity programmes broken down into SEGs (standard expenditure groupings, of which there were eight).
- (d) Expenditure items: additional detail, written at the discretion of the department, of expenditure items of particular interest to Ministers of Parliament, narrative statements on each major activity programme. 58

By this time therefore, the PEC received:

- (i) in the Estimates, details of actual expenditure for the previous financial year (actual outturn) compared with the amount voted for a particular activity programme, and a list showing the estimated amount to be spent on the same category of expenditure in the current financial year;
- (ii) the audited Public Accounts; and

- (iii) any supplementary information provided by the departments to explain variations such as over-or-under expenditure.

1974/75

In 1974, however, the Controller and Auditor-General pursued the topic of the form in which information was made available to Parliament. He again referred in his annual Report to the form and content of the Public Accounts, the accounting system associated with these accounts, and other developments connected with EDP services and internal audits conducted in departments as "a means of improving accounting and administrative efficiency."⁵⁹ The following year (1975), the Controller and Auditor-General pointed out that the current form of the Public Accounts was the result of the findings of a special Treasury committee which had included some persons from the private sector. Recommendations for change, made as the result of a further Treasury committee review, had implications for Parliamentary control. The Auditor urged that the PEC should be consulted fully before any changes were made, in order to safeguard its own interests. The complexity of the issues involved suggested to the Audit Office that reform measures could take some time to implement.⁶⁰

In the same report, the Controller and Auditor-General returned to the question of the timing of the Budget - a matter which had been raised in 1966, again in 1967, in the Treasury report, and yet again in the Audit Office report in 1971. The main problem here, as the Controller and Auditor-General saw it, was the effect of a change in the timing of the Budget on the amount of information available to the House. An earlier presentation, for example, would not only affect Parliamentary scrutiny, but increase the existing difficulties faced by the Audit Office in its auditing task.⁶¹ The question of timing

was to recur - pursuit of this issue raised some fundamental questions for politicians and departmental officials, and their inter-relationship with each other and the executive.

1976

By 1976, more specific Treasury instructions required that when Departmental Estimates went before the PEC, detailed written reasons for any significant over-expenditure of individual items in the Vote for the previous year were to be provided. This represented a response to the Controller and Auditor-General's observations over the previous two years, and a reaction by government's financial advisers to the gross over-spending which had occurred in the previous financial year, when, overall, over-expenditure represented 5 percent of the amount appropriated by Parliament.

Although, by 1976, the PEC had been able to benefit to some extent from general improvements in financial management information with the development of PPB and computerised accounting systems, it still had some major problems. Despite the urging of the Controller and Auditor-General, and the recommendation of Treasury nearly 10 years earlier that the investigative capacity of the PEC should be improved, little had been done in this field, either by Parliament itself on its own initiative, or by the executive in the interests of legislative scrutiny. By 1976, the research capacity of the PEC had expanded only slightly from its traditional Treasury adviser (the Estimates clerk) and the secretarial services of a Legislative Department clerk to include the advisory assistance of an appointee from the office of the Clerk of the House. In the interim period (1967-76) the scope of government spending had widened, with increases not only in the range of goods and services provided, but in the costs of those activities. In addition, the process of

government had become more complex, and the tools used by financial controllers more sophisticated. However, the PEC had only modestly improved its own analytical capacity. The new accounting techniques were probably beyond the comprehension of most MPs. Lay people who had generally had little personal experience in the administration of public funds were attempting to perform an essential control task, on behalf of Parliament, with few supporting services, and little interpretive assistance.

In its 1976 report to the House, the PEC stated that:

as a result of the committee's experience this year in examining departmental expenditure and Estimates, Treasury and Audit Office have been requested to liaise on the issue of a standard format which could be used by departments when supplying to the committee details explaining their expenditures and Estimates. In addition to explanations of expenditures and Estimates, the committee will require a statement of significant changes in policy by each department. The Committee will also in future require departments to give details in their reports to the committee of any funds appropriated by Parliament which have been reallocated. 62

The PEC's attention to its own limited ability to understand, interpret and approve information placed before it was closely related to the general economic and political circumstances of the time. The new National Government (1975) was, by necessity, taking a hard look at its financial capacity. It had established a new Cabinet Committee on Expenditure (the CCEX) to review all existing and proposed financial commitments with a view to reducing public sector spending, limiting the amount of borrowing needed to cover deficits between income and expenditure, and controlling the extent to which government became committed to policies with significant cost implications for the future.

Gross over-expenditure by departments in 1974/75 had caused considerable adverse public comment, and strengthened the determination of the new government - and the new chairman of the PEC - to improve the control mechanisms in government. One area which seemed to lend itself to special attention was the data presented to the PEC as part of its Estimates examination.

The new Controller and Auditor-General (Shailes 1976), recruited from the senior ranks of Treasury, had chaired the 1967 Treasury investigation into procedures for financial planning and control in government. His first report to the House clearly demonstrated where his major interests lay.⁶³ Shailes emphasised his intention to seek ways to increase the legislature's control over expenditure, as his predecessor had done, particularly those areas which had hitherto been permanently appropriated and thus outside the immediate scope of Parliamentary influence. Although the Auditor considered that "on the whole" the administration of public funds was "satisfactorily conducted", he pointed out that good financial management depended, ultimately, on the willingness of management (which, by implication, included ministers themselves, as well as departmental and other officials) to learn from past mistakes and correct the existing system when deficiencies were discovered.

Members of Parliament and the executive were aware of dissatisfaction over the ability of the legislature to make the best use of improved management information systems. It was repeatedly drawn to their attention by the Controller and Auditor-General. Associated with this was another problem - the extent to which technical advances in planning and estimating the costs of specific programmes had been accompanied by parallel improvements in internal departmental controls over spending. COPE, for example, had carried out its survey of the costs of

existing policies for some years, with numerous attempts to separate out the unavoidable costs of past commitments from the discretionary costs of proposed new policies.

However, the Controller and Auditor-General was not confident about this aspect of government's control system. In his report to Parliament in 1976, he commented: "Instances of breakdowns in internal controls in departmentscame to notice during the year (1975-6), indicating that this aspect of management is not receiving the attention from departmental officers that it warrants".⁶⁴ It was obvious that if neither Treasury nor the Audit Office was yet sufficiently well informed by departments of such breakdowns in time to recommend corrective action, then Parliament itself, through the PEC, was likely to be even more seriously disadvantaged.

While the assistance of an expanded secretariat could help, the departments themselves were urged to improve the information they provided, particularly in the format of preliminary papers submitted to the PEC under Treasury Instructions. Nonetheless, the 1976 circular from Treasury to permanent heads on this matter was somewhat ambivalent. There was no sense of ultimatum; a suggested format was available "on request" from Treasury, but Treasury (through the Estimates Clerk) indicated that departments would probably prefer to adopt their own style of reporting. The main purpose of the exercise was modest. It was described as enabling the PEC "to adopt a more consistent and uniform approach in its discussions on the Estimates".⁶⁵

1977

It soon became apparent that not only MP's, but also departmental officials appearing before the Committee, were anxious for some more explicit directive for this particular exercise. Another similar circular was sent to

permanent heads in June of the following year (1977). This time, the departments were requested to present their supplementary information in a standardised form, in order to achieve "greater uniformity" in the papers going before the Committee. Not only did the PEC require preliminary papers, and written answers to questions asked during examination of individual Votes; it also wanted a short 2/3 page summary of the major variations in Vote expenditure. A standardised format was appended:

- (i) a Vote summary, by programme and total sum, showing the estimated expenditure for the past and current financial years, the actual outturn for the past year and the variation between anticipated and actual expenditure for the previous year in both cash and percentage terms.
- (ii) comment on significant and under-expenditure, and unauthorised expenditure due to overspending;
- (iii) In addition, the PEC wished to see a record of significant over or underspending in individual programmes, and any internal variations within a given programme in terms of under or overspending on individual SEGs which had taken place, but not materially affected the programme total. New items of expenditure were to be noted;
- (iv) other comments were asked for - for example, any significant changes of policy; any funds appropriated by Parliament but consequently reallocated; and an assessment of the total amount (if any) of commitments carried forward from the previous year into the current financial year;
- (v) finally, a brief summary of changes in departmental receipts was requested. ⁶⁶

In its 1977 Report to the House, the Public Expenditure Committee emphasised the attention it had given (presumably as a result of the additional information requested from departments) to trends in over and under-expenditure, and to the actual outturn of spending, as a background to its consideration of the current Estimates. It claimed that the more rigorous application of controls to departments the previous year had had a marked effect.

The PEC noted that "in 1976/77, out of 59 Votes only 14 were overspent, and the amounts by which individual votes were in excess was in most cases not very significant." On the other hand, although a number of votes were underspent by large sums in proportion to the whole vote, in each case most variations were not material. Auditors' reports showed that on the whole expenditure during 1976/77 had been kept under restraint and that any under-expenditure and over-expenditure had resulted from "factors which to a greater or lesser extent were outside the ability of departments to control".⁶⁷

The PEC had itself examined 27 out of the 45 Votes in the Main Estimates, plus the Supplementary Estimates - the other Votes had been referred to other select committees. With "increased confidence in the ability of departments to apply internal controls to their own spending pattern", the PEC had therefore decided to give more attention to detailed special investigations, looking at the wider and more general question of financial management and control overall.⁶⁸

Towards the end of the 1970s, the PEC, like other review agents, was increasingly aware that financial management planning and control required more stringent analysis than could be provided by aggregated cash totals, the familiar details of annual departmental intentions, or by

post-expenditure investigations into changes in spending patterns. It was the decisions upon which policies were based and the degree of future commitment to those decisions which affected the information passing before the PEC. But it was in this area that the PEC felt least confident of its knowledge.

A former Secretary to the Treasury (H Lang) had commented publicly that there were clear limits to what Treasury could do to control growth in spending, even when there was political will to do so. The Treasury was still experimenting with procedures which would enable it to isolate the causes of spending growth, and "set out clearly the degree to which forward commitments are involved in the adoption of policies and the variety of associated costs which may otherwise be hidden in a department's total Vote".⁶⁹ If Treasury itself was having difficulties of the magnitude implied by Mr Lang, then control and supervision by the PEC - 10 members with a small handful of assistants - was likely to be cursory.

1979

Earlier in this chapter, mention was made of the PEC's June 1979 invitation to various senior government officials to discuss the question: How should we go about our business on this committee? We examine this meeting in further detail.

As was the case in all PEC meetings till August 1979, no official verbatim record was kept of the discussion, and individual MPs took whatever notes they felt were of relevance. All PEC members were present with the exception of Hercus who was repl-ced, on the Labour side, by S Rodgers MP. Two senior officials attended from the Treasury, along with the Deputy Auditor-General and the permanent heads of the Departments of Justice and Customs. PEC administrative staff present at the meeting

included two members of the Audit Office and the Committee Clerk. It is worth reporting this lengthy meeting in some detail since it illustrates the dynamics of power (as well as the suggestibility of MPs) in this network, where information is the key to influence.

The chairwoman invited the officials to instruct the committee on what they considered to be its area of responsibility for Estimates examination. "This", she recommended, "is a classroom exercise for members of the Committee."

The senior Treasury official began with an account of what he saw as the main forms of control over public sector expenditure:

- (i) parliamentary examination to ensure that money had been spent as intended on things such as staffing;
- (ii) parliamentary investigation to ensure that the proposed use of public money was not extravagant when spent on items such as school buildings and jails;
- (iii) parliamentary control over the achievement of departmental objectives.

"And I am not clear", he added, "on where the role of this Committee ends and the Government takes over. For example, I remember about 15 years ago when three year teacher training came in. This Committee could examine the objectives of that scheme - or could it? If it didn't, it could not ask: what were the objectives at the time? Were these objectives achieved? How long would it take to achieve them? Could they ever be achieved?"

During the subsequent discussion, Treasury continued to emphasise its ambivalence as to how far and in what direction the PEC could go, and how far, and in what direction it should go before intruding upon the role of Government. Other officials, and members of the Committee itself, had differing views:

Official (Justice): The role of the PEC is wider than (Treasury) says. I am a strong believer in constitutional rights, and I think you should be able to ask about objectives, and their achievement, right across the board. Permanent heads appear before the PEC and this is a real disadvantage, because the Permanent Head necessarily speaks for the Minister ... In 1977 I suggested that if necessary the PEC should be entitled to examine the Minister if the permanent head can't answer policy questions.

PEC (Government): Doesn't this quizzing of the Minister properly take place in the House ?

Official (Customs): I am annoyed by the silly little questions the PEC usually asks, and I would like to see an examination of objectives, procedures, changes to procedures, what the department is trying to achieve and why ...

Official (Justice): Yes, there are many lines of questioning here which usually lead nowhere - the PEC tends to concentrate on Part B (Staff strengths and salaries) of the Estimates, rather than on activities and programmes - and on which of those have demonstrated growth in real terms. Permanent heads have already done this for Treasury by the time they come before this committee. Concentration on only one area has serious consequences ...

Official (Audit): Yes, the PEC must concentrate instead upon Part C (Programme). Part D (Expenditure Items) is an anachronism nowadays.

Official (Justice): The Estimates are not very good or very useful yet because the departments are not yet cranked up to provide a statement of objectives, and costs. Treasury and Audit have a long way to go in getting a useful format. Customs will be in a new format this year, and the construction of annual departmental reports (to Parliament) is being looked at, and reviewed now.

Official (Treasury): But it is very difficult to get some departments to define their objectives in operational terms, and even more difficult to measure progress towards them. Departments can be as precise as possible (though not all are), but there may be difficulties later.

The permanent head of the Justice Department then described, at some length, his experience in taking over his present position. He had asked for a statement of objectives from officials in one section of the department, and had found very little understanding of the meaning of 'objectives' and very little evidence that these had ever been made explicit. Speaking to his tabled paper, he then developed an argument for moving permanent heads around the state services in order to provide a regular infusion of "new blood" at the top administrative levels. The PEC, he suggested, must itself examine departmental objectives - not just ask the permanent head to state what he believes these to be at any given time, and accept these at face value.

The chairwoman of the PEC then suggested a revised schedule for the supplementary information forwarded by departments to the Committee. For example, she would require a statement of:

- (a) the statutory authority for specific items of expenditure;
- (b) the objectives and social justification for any given policy;
- (c) the costs of policies over four years to date;
- (d) the duplication of activities within a department;
- (e) conflicting functions within a department;
- (f) duplication of activities between departments.

An official (Justice) added that the PEC could also ask departments to suggest alternative agencies which could carry out the same functions. The chair agreed, since, she said, she had observed considerable duplication in activities - fresh water, for example, was "looked at by the Departments of Agriculture and Fisheries, Internal Affairs, Ministry of Works and Development, the DSIR, and the Commission for the Environment". The chair questioned whether this was either desirable or efficient. Officials added that one could also ask whether there were alternatives to the administration of certain activities by state departments - it might, for example, be better to have an activity run by a limited liability company with proper statutory authority. The Computer Services Division of the SSC, for instance - could its work be carried more efficiently by a different kind of machinery? The purchase of uniforms for the government services - could this be done better by a single government agent, rather than by a series of government departments? Officials suggested that the PEC could look at these sorts of options.

The PEC chairwoman agreed with this line of argument - although she herself was inclined to call such options "lost opportunities" which needed identification. The problem, however, was what questions could/should the PEC ask of officials to obtain the answers they needed? Officials assured the MPs that it was quite possible to persuade other officials to suggest alternative forms of machinery for the provision of certain services - although they might baulk at telling the Committee their particular preference, or that of the Minister. One government MP inquired, with some apprehension, whether the machinery of government was properly within the Committee's terms of reference - to which the chairwoman replied that they were concerned with anything on which a dollar of public money was spent.

The PEC then pursued the question of how it should estimate whether an activity or programme should be run down, and, eventually, phased out. One official (Justice) commented that, from the viewpoint of a permanent head, this could be done only by examining the social environment surrounding the activity/activities: "You (MPs) can then look at the given objectives, and apply your own political judgement as to whether that activity is, in your view, still justified." Another official (Customs) added that one indicator of whether an activity should be run down was the length of time that had elapsed since it had last been reviewed.

Treasury agreed that there may be a need for a review, but that Treasury itself could not provide any more information to the PEC on this than "the level of activity and changes in activity over time. There are no problems in the departments providing you with a statement of their own objectives, but I am still concerned about the line between this committee and the Government. I'm not sure what is proper for the PEC to ask the public servants".

Other officials agreed that this was a problem, but suggested that the PEC could still "get behind the facts and follow through".

Discussion moved to the associated area of the PEC's advisory services. The PEC commented that "we have looked for additional research staff, and we have been told that it can't be done, although we have asked for a regular stenographer for all oral examinations. But written submissions from departments vary greatly in quality, and most just look at Part D when making suggestions on what they see as (areas of interest)".

The PEC and officials then returned to the long-standing question of the timing of the financial year, and whether changes here could reduce existing waste of time. If Parliament were to take an enlarged role in public expenditure planning, this was a vital area for change.

One MP (Labour) asked whether there would be any advantage for the Committee in changing the time schedule so that "we get all the stuff in from the departments early in the year, and call in what we need on an ad hoc basis later". Officials agreed that there could be scope for the PEC to examine departmental objectives and the past year's activities during the early part of the year, so that they were fully briefed prior to the Estimates examination. MPs differed however, as to whether the proper time for a parliamentary inquiry into departmental objectives was before, or after, the Estimates examination. Some Government members clearly wished to avoid any suggestion of pre-Budgetary investigation by MPs of ministerial policies. Others, including Opposition members, felt that a post-expenditure examination robbed Parliament of some of its "proper controlling power". The difficulties of co-ordinating the timing of various sorts of reports and budget-related activities were canvassed - for example, the timing of annual departmental reports, the timing of

the Budget, the publication of the PEC's own report, the pressure to ensure that Estimates flowed on smoothly and quickly back into the House from the PEC in time for adequate debate, the complication of printing reports, and relating the return of the Estimates with the seniority of Ministers.

One official (Justice) suggested that the format of the Estimates needed revision: "Departmental objectives don't change very much at all, but the emphasis on different objectives does, as is demonstrated in the level of activity in any one year. Two documents are needed by the PEC, if it is to examine this sort of changing emphasis:

- (a) a statement of objectives, by programme; and
- (b) a statement of current and past levels of activity in relation to these objectives".

Finally, the PEC and the officials discussed alternative modes of parliamentary examination - for example, the current New Zealand practice of sending Estimates to other select committees, or the establishment of a system along the lines of that proposed for the British House of Commons, where specialised select committees each examined their own class of Estimates. Officials differed as to whether the present New Zealand system of "farming out" certain classes of Estimates to other select committees produced more, or less, competent parliamentary review. One official suggested that select committees such as Defence conducted deeper and more detailed inquiry than when that class of Estimates came before the PEC. Other officials disagreed, since in every case so much depended upon the time MPs were prepared to put into study and consideration of the papers and Estimates prior to their examination of officials.

It was, however, recommended by officials that when Parliament approved of a particular expenditure item, it should be satisfied that some kind of review machinery existed to evaluate the work of the agency responsible. For example, the Human Rights Commission was funded under the general heading Vote: Justice, but the permanent head of the Justice Department had no power to satisfy himself that the objectives of this agency were being achieved, or to accept responsibility for any spending by the Commission. Treasury agreed that despite its concern for the limits of Parliamentary inquiry and control, it could foresee no difficulty in the Committee requiring a statement of departmental objectives, and more extensive quantitative information as to the components of various programmes.

Officials from the departments of Justice and Customs then withdrew, and the PEC, with advisers from Treasury and the Audit Office, drew up a new schedule, to be circulated by Treasury to departments prior to their appearances before the Committee for the Estimates examination.

A Treasury official provided an extremely simplified outline of the mechanics of the budget cycle - the timing of the existing policy and new policy reviews, the introduction of the Financial Forecasting system (FFS) and the type of computer printout available to Treasury in its investigations of departmental 'bids'. For most members of the PEC this was clearly new information, although very few questions were asked. The main principle stressed by the Treasury officials was that "the Estimates simply update COPE figures - that is, they are the publication of an update of the COPE forecasts." One official emphasised that "the principle is, that what goes into the Estimates is already approved policy - there are no speculative sums, no speculative, future policy amounts of money".

The chairwoman of the Committee inquired, not entirely seriously, whether the Committee could at any stage change the Estimates, and asked whether a paper could be submitted on this. The Audit officer commented that on this matter the Committee should work out how much information it could cope with. In an apparent attempt to head off this rather ticklish line of inquiry he then moved quickly on to suggest that Treasury should immediately draw up a new schedule of information, limited (to avoid overload) to selected areas of expenditure. Another Audit officer added "better still, do not only a few departments, but examine specific programmes only, in some sort of depth".

It was agreed, after some rather strenuous differences of opinion between Labour and Government MP's over the possible range of their new inquiries, to allow the Opposition to select three departments for trial examination in the current year. In any case, as officials pointed out, the existing schedule had already been circulated by Treasury, and a new circular would be too late for some of the early Estimates.

All previous instructions were to be incorporated in the new instruction which would be "as precise as possible". The format of the new schedules, agreed to by MP's and officials, was as follows:

1 All departments:

- definition of policy objectives in each programme;
- social and economic need behind each policy;
- justification for current level of activity, with reference to physical measures, such as farms still to be settled;
- alternative ways to meet the same policy need;
- conflict or overlap with other departments which provided the same or similar services;

- statutory authority for the policy;
- the date at which the policy was instituted, and, if possible, the anticipated date of completion.

2 Departments of Health, Agriculture and Fisheries and Trade and Industry only:

- programme statement;
- breakdown into staff in each programme or activity;
- operational staff numbers in each programme or
- support staff numbers in each programme or activity;
- costs in dollar terms in each sub-group;
- reasons for any increases or decreases in staff, relative to the last financial year. ⁷⁰

On the 22 June 1979, Treasury presented a new schedule, on the lines agreed, to the PEC for approval. ⁷¹ A circular was distributed immediately to all permanent heads.

Departments responded with little difficulty - the new instructions required only minor adaptations to already-existing data prepared as part of the COPE and Estimates reviews. Given the way in which the earlier Existing Policy Review had been conducted by the Cabinet Committee on Expenditure, departments were well placed to field any parliamentary investigation, even where this was conducted with the benefit of improved documentary information. ⁷²

Other factors, however, such as the willingness and the ability of MP's to follow through during oral examination, remained constant. The 1979 PEC included members who, for a variety of reasons, were anxious to improve the intensity of select committee investigation into public sector spending, and there was considerable

cross-pollination of ideas among members, regardless of party. For example, on both sides there were members who were particularly concerned that the full costs of delivering current and proposed services should be identified. This interest gave additional point to their examination of officials on matters such as the planning and construction of public buildings, or the availability of private sector sources for the provision of similar services at less cost to the government.

The two women members of the Committee, one from each side of the House, regularly consulted each other and planned a bi-partisan strategy of approach to the oral examination of officials. However, only a few other MP's pursued their inquiries with this vigour, or with the same intellectual grasp of the issues involved in any particular departmental activity. All MP's demonstrated the characteristic variation noted earlier, in their receptivity, and differing ability to handle certain types of information.

Despite the active encouragement and interest of their specialist supporting Audit and Legislative Department staff, by the time it began the 1979 Estimates examination the PEC still had not been successful in extending its research capacity. Pressures of time, inter-party rivalries and continuing departmental resistance to intensive examination by parliamentarians combined to limit the value of the improved documentation available to the PEC.

However, one factor, reported to the author by the senior Audit officer associated with the PEC, was probably more significant than any other:

"This year, because some of the questions they [the PEC] have asked in the past of permanent heads and other officials have been fairly naive, we [Audit] got them to

ask about the assumptions behind items of expenditure. What they found in almost all cases was there there weren't any assumptions. The item is explained simply as last year's figure plus 10 percent. That is, there is a base figure, and the only explanation for it is historical. Departments can only say: We have always provided this, or we have historically done this in this way. It's good for MPs (well, those MPs who are interested) to ask this sort of thing, but it's really pretty hopeless." 73

3 The Audience: Who receives the information and provides the feedback ?

In 1979, Pierre Trudeau, then Prime Minister of Canada, described the policy-making process of central government in cybernetic terms which placed parliamentary parties in a "goal-seeking and error-correcting information system that [could] learn how to learn ... We are like the pilots of a supersonic airplane". he said. "By the time an airport comes into the pilot's field of vision, it is too late to begin the landing procedure. Such planes must be navigated by radar. A political party, in formulating policy, can act as society's radar." 74

If a political party adopts this cybernetic model of politics, it may view any parliamentary agent such as the PEC as a gatekeeper for critical information. On the other hand, a constitutional model which describes government largely in terms of checks and balances may not allow for this perspective. Indeed, much of the noise which appears in the PEC network is precisely the result of differing conceptual approaches by officials and MPs to the task of government.

To pursue Trudeau's analogy, an official or MP who understands Parliament's proper task to be that of providing the legal authority for a landing strip, or the

registration of landing craft, may regard any radical attempt to expand the scanning capability of Parliament as invalid. On the other hand, officials and MPs may see Parliament and its select committees as components in a complex information system, in receipt of strategic political and other data which must be efficiently processed and relayed elsewhere to provide essential feedback for planners and decision-makers. Their approach to handling strategic information will differ accordingly. The two models are not mutually exclusive - indeed it is part of this argument that they must be complementary, if the liberal democratic parliamentary system is to remain viable.

The PEC has a clear, if relatively ineffectual, role in the constitutional model. Its role in a cybernetic model may be less apparent, particularly during the Estimates examination phase of its annual activities, but it is potentially very significant.

The Committee occupies a gatekeeper position in the information networks of central government because it has the power to activate certain information flows (such as supplementary documentation to the Estimates, oral and written answers to questions put to officials by MPs during Estimates and other inquiries), to interpret such information, and to report publicly on its findings through an extensive network of parliamentary and other channels. This nodal position is unique insofar as the Committee is placed to receive information in a form not available to Parliament, or the executive. Ministers, for example, may avoid or fail to provide a full range of strategic information for their own party caucus; questions asked by MPs in the House may not elicit all the desired information, and are limited in both number and scope by the caveats of convention and Standing Orders; the Opposition does not have regular, direct, formal channels for consultation with departmental advisers to

government; the symbiotic relationship of ministers and senior officials may lead either group to withhold certain kinds of information from the other, although they may be prepared to disclose it in another setting.

The bi-partisan PEC, closely involved with the budgetary cycle, has two unique functions: first, it is itself an audience, or receiver of certain classes of information not otherwise released outside the executive; second, it transmits information to other audiences, actual and potential, which may provide feedback to the Committee and the executive planners and decision-makers as well. Although the PEC is still defective in both respects, largely because it operates in a closed setting, there is substantial scope for improvement.

Financial management and control procedures of the executive came under increasingly intense scrutiny during the 1970s. As a result, any authority with the right and the power to audit these procedures, and call members of the executive to account, acquired potentially greater significance in the budgetary and planning process. In the past, effective parliamentary investigation of executive policies - and their proposed costs - may have depended upon the vigour of particular individuals (such as Muldoon in 1966-67) or on small cells of aggressive MPs (such as the 'young Turks' of the later 1960s). Since 1976, however, this approach gained a more formal character.

In recent years, senior officials and ministers have been geared to expect regular and sometimes searching reviews of their budgetary decisions and planning proposals. When government departments prepare their Estimates of expenditure, for example, they know in advance that among the numerous audiences before which they will have to justify their proposals is the Public Expenditure Committee. In terms of its traditional constitutional

power to alter executive decisions, the Committee might constitute only a minor hazard. Nonetheless, it has specific authority, powers which senior public servants themselves believe capable of wide interpretation, and reputable allies such as the Controller and Auditor-General.

The significance of its dual role as audience and transmitter to other audiences was probably greater in 1979 than in, say, 1967, when the Treasury study Group recommended better provision for parliamentary and public participation in the budgetary process. The fact that in both respects the PEC was and remains defective - an imprecise receiver and a faulty transmitter - does not preclude the possibility of improvement and certainly ought not to obscure its unique role in the expenditure planning process.

In 1979, for example, departmental officials mounted special "command performances" for this PEC audience. During Estimates examinations, the style of their presentation was generally deferential and as accommodating as their interpretation of the rules allowed. Any occasion on which their unseen "producers" - the ministers - might be embarrassed was avoided. Every attempt was made to escape a bad press later, when matters under discussion could again be raised in the House. Some departments, such as Treasury or the State Services Commission, less dependent on the box office than others such as Maori Affairs or Education, may be relatively cavalier. But in general the PEC was assumed to be a serious audience, and tiresome interjections, demands for replays, threats or recriminations later in the House, or, more rarely recommendations, were treated with equanimity wherever possible.

Officials appearing for the Estimates examination not only had to keep the MPs in mind. They were aware that

parliamentary "backers", such as officials from the Treasury, the Legislative Department and the Audit Office were also present, formally entitled to participate in greenroom discussions later. Although such officials may remain silent throughout an entire Estimates meeting, they might make critical assessments of each departmental performance, and could even be instrumental in instituting some subsequent, and less attractive, form of audit on the basis of what they learnt here.

The PEC also provided a forum for inter-departmental changes. For example, during discussions on the format of information required from departments in support of their annual Estimates, MPs took relatively little part in the proceedings. The officials were more concerned with each other than with the group which had called them together. Exchanges of certain kinds of information, specific (if covert) bargains, exploratory forays into new ground - these were enacted before the PEC because the committee provided a relatively neutral setting. Officials knew that there would be few immediate consequences as a result of MPs "eavesdropping", and in any case the occasional direct costs would probably be outweighed by the signals officials received about their public service colleagues' intentions or current actions.

Summary

Since there are no published notices, departmental officials have few means to gauge the reception of their performance before the PEC except through the range and difficulty of questions and debate later in the House. If a very intense grilling has been experienced during their PEC appearance (for example, in 1978 Education Department officials were asked over 112 oral questions, and given over 60 questions for written reply), but there is little carry over from that later in the House (in 1978 only five of the questions asked by the PEC were even alluded to

during the debate on Vote: Education) officials may feel cheated. On the other hand, when massive funding proposals, as for Health or Energy, are dispensed with in the same way, officials may feel virtuously that they have done their constitutional duty and protected the minister with few scars to show for the potential ordeal.

Some departments use the PEC "audience" as an opportunity to introduce managerial and administrative trainees to a new aspect of high-level government work. The Education Department permanent head, for example, is almost always accompanied by a large team of subordinates. This is justified not only on the grounds that several experts may be required to cover all possible questions asked, but also because the permanent head and his senior colleagues can demonstrate negotiating and other skills to younger or less experienced colleagues by direct example. Some departments, such as Energy or Health, attend in formidable numbers because of the range of programmes included in their Vote, or because of the complexity of aspects of their administrative tasks. Other departments, such as Social Welfare, may be proposing massive expenditure, but in relatively simple categories, such as transfer payments, which can readily be explained by the permanent head and one or two senior colleagues. A spending agency may have a star player, or a specific expert whom it anticipates may be needed "on tap" because of immediate political interest in a given area. In 1978, for example, the Accident Compensation Commission included an ex-minister in the team it brought to the PEC - not, it appeared from the oral discussions, because of his particular expertise in the area, but because his familiarity to old political colleagues created an air of good-humour which mollified MP anxieties about aspects of this Vote.

On the other hand, the PEC itself has a diverse series of audience-receivers for the information it processes. Once

the Estimates are referred back to the House, any information derived from examination by the Committee is assumed to have been re-circulated throughout party caucuses. Inquiries about the Labour Party in 1979 suggests that this recycling process has not always been satisfactory. Until 1979, the longest-serving member of the PEC, an ex-minister of the Labour Party, was responsible for the very occasional reports on PEC activities to the Labour caucus. Early in the 1979 Parliamentary session the chief opposition whip informally invited the author to comment on the PEC, and later to discuss with new PEC Labour Party MPs how the party might improve its use of the available information. Given the conventions of the party, it was difficult for the whip and his 'ginger group' to devise a procedure for reporting back which would not offend older members, but would ensure that the caucus made the best strategic use possible of the data available through this particular network. While Estimates debates during the 1979 session did not demonstrate any marked overall improvement in the preparedness of Labour MPs (as a result of what they might have learned through their colleagues on the PEC), there were indications that informal feedback from the PEC to the parliamentary party had increased.

Caucuses, and the House itself, are not, however, the only perceived audiences for the PEC information. In 1979 the chairperson of the PEC took up a number of opportunities to publicise information gained through her association with the Committee. Although on the whole officials dismissed her attempts as futile, or, worse, ill-informed, they no doubt heightened the executive's awareness of the potential difficulties which an aggressive parliamentary select committee could create.

Conclusion

There are a number of justifications for maintaining parliamentary control over how public money is to be spent. Lord Diamond, for example, asserts that "the accretion of power to the executive which would result from Parliament ceasing to have the final control of expenditure would be so substantial that what remained of the system of self-government would no longer justify the description of Parliamentary democracy." ⁷⁵

Diamond also argues that the extent to which Parliament is involved in the control and allocation of public expenditure is "a measure of the extent to which members of the community are involved in decisions about how resources should be allocated, and can satisfy themselves that they are getting value for money." ⁷⁶

Michael Rush suggests that given the general accretion of power to the executive, and the degree of responsibility for forward economic planning this entails, the Government requires considerable political support in its task of managing and controlling public expenditure so that it can more effectively realise national objectives. ⁷⁷

Parliament, through its committee system, can provide a significant part of this support.

In his analysis of the impact of PPB in the United Kingdom Peter Else examined the complexity of information, and the rate at which it passes through the government system, and suggested that certain nodal points can be identified as having a gatekeeper role in the reception, analysis and transmission of information. ⁷⁸ Parliament, through its committee structure, provides one such nodal point.

In her account of the British Expenditure Committee, Robinson points to some significant deficiencies in this gatekeeper role. She concludes that although the (UK)

Committee has "increased the flow of information from the civil service to Parliament and between pressure groups and Parliament to some extent," ⁷⁹ its effectiveness in modifying (let alone controlling) executive decision-making and planning is severely limited. ⁸⁰ (Indeed Robinson suggests that it not only makes little sense to think of the British Parliament as being in control of public spending patterns - it is also unrealistic to imagine that central government itself is the "final determinator" of spending, since it is invariably reactive and makes decisions not in the light of prior plans but in response to influences from such agencies as the IMF, the TUC and local authorities.) ⁸¹

In a report to the Canadian Royal Commission on Financial Management and Accountability (1977), Paul Thomas argued that it makes sense to talk of Parliament's legal control of expenditure: the House legitimises Cabinet decisions, ensuring that the amounts spent do not exceed the amounts voted and determining whether the funds are used for the authorised purposes. ⁸²

However, Thomas goes on to suggest that it may not make sense to extend the notion of Parliament's legal control to that of managerial control, a role which involves assessment of the efficiency of government spending agencies. ⁸³ Further, Thomas denies any likelihood that Parliament or its instruments (such as PEC) should have strategic control, which is "the allocation of expenditures among the various areas of government activity and the assessment of the results of programmes in terms of realising stated objectives." ⁸⁴

In his analysis of Parliamentary participation in government, J Lovink avoids the notion of control and examines instead the effectiveness of the electoral legislature in terms of its influence over the executive. He suggests three possible indicators of effective

influence : the select committee as a "spur to political responsiveness", as "a spur to administrative competence" and as a "political educator and stimulator".⁸⁵

In New Zealand, von Tunzelmann has demonstrated that although Parliament, through the Public Expenditure Committee system, may be able to stimulate scrutinise, advise upon and influence certain aspects of executive action, these powers are linked. "Publicity" she states, "is the natural corollary to criticism" - and it is in this area that the Committee is weakest.⁸⁶ This is partly a result of problems inherent in the select committee system, partly inadequacies in the PEC itself, in part a failure in its relationship with the House, and partly because of the lack of consistent, appropriate executive response.⁸⁷

Given its own self-denying ordinance of public exclusion during Estimates (and all other) hearings, the PEC loses almost entirely one vital channel for expenditure planning feedback. The news-media are excluded from all but Estimates debates in the House. Public awareness of the nature and range of parliamentary scrutiny of the Estimates is promoted obliquely through the parliamentary press gallery and other forms of news-media. Public broadcasts of debates (even if matters raised during PEC examinations were fully reported) are limited, in that only 16 days are given to Estimates examination.

The PEC remains heavily reliant on other agencies, such as the Controller and Auditor-General, to report to the electorate on the concerns which may have surfaced during Estimates examination, such as the availability of essential planning and management skills in the public service, identification of the actual size and proposed future deployment of the state-funded workforce, or the relationship between current spending and proposals for future financial commitment to projects such as

power-generating plants.

Despite its undoubted authority to identify and comment on a wide range of information, including policy matters, the PEC operates in what is essentially a closed system. Its networks of communication are potentially far-reaching, but in practice they lack the refinement and sustained vigour necessary to place Parliament nearer the centres of control, or to enable the House, as an institution to contribute more effectively to the expenditure planning process.

Using the unique location of the Public Expenditure Committee, MPs could actively and openly contribute to the means by which government becomes a "goal-seeking and error-correcting information system that [can] learn how to learn".⁸⁸ Nonetheless, it is this critical dimension of the PEC network which is the weakest, in cybernetic, if not in constitutional, terms. In its second major function - post-expenditure reviews and special, one-off inquiries - the PEC is possibly more effective. But expenditure planning is essentially forward-looking, and it is in this task of forward Estimates examination that Parliament's relative impotence is still most apparent.

NOTES

- 1 S A Walkland, Parliamentary Affairs, Winter, 1979, p.9

- 2 The Public Expenditure Committee replaced the Public Accounts Committee, which had been established in 1871. For discussion of the reasons behind the change see J P Egan, V J Wakelin and J Yuill, Parliamentary Control of Public Expenditure in New Zealand, unpublished paper, Victoria University of Wellington, 1968; A von Tunzelmann, Control of Expenditure and the New Zealand Public Expenditure Committee in The Parliamentarian, LIX No. 4, October 1978 and "The Public Expenditure Committee and parliamentary control of public expenditure" in Victoria University of Wellington Law Review, Vol. 10, No. 1, February 1979. See also Standing Orders Committee 1962 New Zealand Parliament. House of Representatives. Appendix to the Journals, Vol. 4, 1962, I,17; (for adoption of Standing Orders Committee recommendation) New Zealand. Parliament. House of Representatives. Journals, 1962: 470; (for debate on the establishment of the Committee) New Zealand Parliamentary debates Vol. 330, 1962. In 1976 the PEC reported need for permanent heads' accountability for expenditure to be formally defined: see B1 (Pt II), 1980, p 70-71. The Government accepted the PEC and Audit Office recommendations and directed that permanent heads should be identified as the 'principal accounting officers' in each government department, CO Circular, approved 14 August, 1978. CM 78/31/8 refers.

- 3 A F Von Tunzelmann, op cit. 1979: 24.

- 4 Standing Orders 336, Standing Orders of the House of Representatives, 1975.

- 5 Ibid.

- 6 A F von Tunzelmann, loc. cit, 1979: 28-29.

- 7 In Alan D McRobie, the New Zealand Public Expenditure Committee (1974) 26 Political Science (No. 1) 36, note 43.

- 8 New Zealand Parliamentary debates Vol. 382, 1973:45.

- 9 Public Expenditure Committee 1976 Interim Report New Zealand. Parliament. House of Representatives. Appendix to the journals, Vol. 4, 1976 I 12 A : 3-10; Public Expenditure Committee 1977 Interim Report New Zealand. Parliament. House of Representatives. Appendix to the Journals, 1977 I 12A.

- 10 A F von Tunzelmann, loc. cit. 1979:30.
- 11 Public Expenditure Committee 1976. New Zealand Parliament. House of Representatives. Appendix to the journals. Vol 4, 1976, I. 12:15.
- 12 A F von Tunzelmann (1979) loc. cit: 21.
- 13 In 1962 the Standing Orders Committee recommended that special post-expenditure and other investigations should take place during parliamentary recesses. However, in practice this part of the PEC's activities has gradually extended into the sessional period. "The practice has now been taken further with sub-committees continuing to sit during consideration of the Estimates. Indeed in 1977 two new investigations were initiated after the Estimates programme had begun." A von Tunzelmann (1979) loc. cit. 34.

Re the latter point made by von Tunzelmann:

Consideration of the Estimates began on 3 August 1977. A PEC sub-committee began investigation into the financial management of a television programme 'The Governor' on 7 September 1977. Another sub-committee examination of aspects of the construction by the Ministry of Works of the Kaimai tunnel began on 28 September 1977; the report on this was eventually tabled in July 1979 by which time a new select committee had been appointed with a near complete change in membership but still chaired by a (National) government appointee.

The Committee operates in and around the Estimates examination with considerable flexibility in scheduling special investigations. Such meetings are arranged, for example, to accommodate electoral and other demands on members; with regard to the strategies decided upon by both the sub-and full committees for the timing of their investigations; the preparedness of different PEC members to apply themselves to a given task and the need to avoid conflict (which can arise particularly if Opposition members feel that too much time is being taken up by special inquiries to the detriment of their attention to the Appropriation Bill and other ongoing debates).

The Committee is conscious of the need to avoid abuse of the powers to summon officials to attend hearings, and to reduce waste of officials' time through prolonged hearings. Most of this is at the discretion of the PEC chairperson and is general s/he adopts an attitude of considerable delicacy in encouraging the Committee to approach its special inquiries with

consistency and vigour but avoiding any suggestion that officials are being railroaded.

- 14 Anthony Barker and Michael Rush, The Member of Parliament and his Information, (London: George Allen and Unwin, 1970), p.32
- 15 Peter Else, Public Expenditure, Parliament and PPB, PEP Broadsheet 522, November 1970. See especially pp. 84-92.
- 16 A F von Tunzelmann (1979) loc cit. : 28 and 35. Comments from PEC members during their 1978/79 meetings included frequent reference to the problems created for the committee by late tabling of departmental reports (Author's records of PEC hearings, 1978/79). See also Government Notices of Motion re select committees. Weekly Bulletin, No. 25 - Nov 13, 1979. NZHR p.7. Also see Appendix 4A for Treasury Circular to Permanent Heads on Departmental Annual Reports, 1971 and memo from A C Shailles to H G Lang (Treasury) on same - 14 May 1971.
- 17 Officials occasionally have barely 24 hours to return answers to the PEC. This not only increases existing strains on senior public servants but probably exacerbates the complaint frequently made by members of the PEC in their deliberations and in public that officials' answers are inadequate or too meagre for any real value to be derived from them. See, inter alia, Marilyn Waring, Chairperson of the Public Expenditure Committee, 1979 in a lecture given at Waikato University, Hamilton reported in the Evening Post 29 July 1979. See also I. 14 AJHR, 1979, pp 10-11.
- 18 Treasury Study Group, Financial Planning and Control, December, 1967 - p.46 and p. 98. See also discussion of conflict of Treasury loyalties, pp 21-22.
- 19 A F von Tunzelmann. p. 31; See also Appendix 4A for analysis by E E Winchester of Parliament's information needs.
- 20 I.12, 1977 A J H R p 24.
- 21 The following notes are taken from discussions between the author and the PEC research officer (Ian Leggett, Audit) on 12 September 1978:

In his first year as research officer it was necessary for Mr Leggett to establish the nature his relationship with the Committee and their expectations of him.

He "expected a fairly low level of activity, as it is election year, and since the gross overexpenditures of the

1975-77 period no longer appear." However, he did have much higher expectations of the investigative capacity and interest of the PEC than were realised.

The Audit office recommends certain departments for special consideration by the PEC. In 1978, Education, Government Printer and MWD were recommended - the latter was already due for special consideration by the PEC during recess. PEC may at its own discretion decide to adopt these recommendations or choose its own. Decisions about which Estimates go to other select committees is made entirely by the PEC itself.

Virtually no work for the Audit officer whatsoever was generated as a result of, or in anticipation of, the Estimates hearings as such. From time to time the research officer himself would take up matters which he considered required further questioning in that they had been unsatisfactorily answered by departmental officials, or were not dealt with satisfactorily in the Department's written reply to a question from the PEC e.g. a reply given by Govt. Printer in 1978 was referred back to the PEC and thence to the acting Minister for further questioning and discussion. "Such discussion occurs, however, after the total allocation has been approved as a matter of form by the PEC."

Matters which were adopted for special recess inquiry, such as an inquiry into foreign aid, generated considerably more work and interest for the research officer. Indeed, he claimed that the advisory and research officers from Audit led the PEC to precisely the point they wished the Committee to reach.

The provision of a research officer was expected to make a significant difference: "I don't know how on earth we managed before" (Opp. member of PEC). But in 1978 at least, the research officer himself felt that the influence of the Audit office (which is necessarily the influence of public servants) predominated:

"On the foreign aid inquiry we (Audit) generated the questions which the committee then asked the foreign affairs people; then we went away and did the research to answer the questions; we then reformulated the questions so they could be put again at the second hearing, and then we wrote the recommendations for the PEC to approve. The PEC wanted to see the officials (although this was entirely superfluous, but they like to have the officials before them, it gives them a sense of power I guess) but in fact the whole thing was done from here.

"On the whole the way the PEC treats questions is disappointing - they fail to see the relationship between the questions we provide for them, they ask additional trivial questions and so forth, and they fail to see the

underlying structure of the questions.

Another major inquiry begun in 1978 arose from an earlier report of the Controller and Auditor General on the Ministry of Works and Development. The decision to carry out a review was made by the PEC at the beginning of the year. It took the research officer three weeks to gain an appointment with the Chairperson (his sole direct contact with the committee) to establish the nature of the inquiry.

The Chair and subsequently the PEC decided to adopt suggestions put to them by the Audit officer;

- (i) the inquiry should not be categorised as an investigation into the MWD, but as the Public Sector Construction Procedures and Resources Review;
- (ii) the inquiry should seek information regarding their manpower and plant and equipment resources from all departments other than the MWD initially, then establish the relationship between these departments and the MWD in terms of capital works planning and construction and maintenance;
- (iii) the Research officer should draw up a suggested questionnaire for circulation among all departments for the purpose of obtaining the required information;
- (iv) the PEC should then request selected information from the MWD, and should visit the department, fully informed, to discuss its findings with the officials.

A questionnaire was drawn up and circulated. The research officer then left Wellington for a week. During that time the PEC visited the Development and Planning Division of the MWD - precipitately, in the official's view:

"They got lost on what they were sold over there [and failed to see that] those people are really just another branch of Treasury. They all got interested in the capacity of the MWD computer, without really knowing what on earth they should be asking about."

By June 21 the Estimates had started to come through, and the MWD inquiry was set aside until that task was completed. The PEC specifically asked the Research Officer to "carry on with the inquiry on his own, in whatever way (he) thought best". The officer was somewhat hesitant to do this, but arranged that all communications with departments go through the Clerk of the PEC Committee. He saw the gathering of information from the departments as having at least one important function:

they could see that the PEC was interesting itself in certain specific sorts of information, and seeking quite specific answers. The officer began putting together the responses, and suggesting questions which should be asked by the PEC. He anticipated that this exercise would be completed before the end of November (by which time he would have been in Niue for a month). He added that to work much longer for the PEC would "send him round the bend." He did intend, however, to write a report on his first year with the committee, noting deficiencies in their procedures as he saw them, and suggesting possible improvements.

He identified the main problem as one of definition: what is the proper function of this committee? Should it regard itself as a research body (and would this even be possible); or should the PEC have a fully serviced think-tank which provided it with data which would then form the basis for more selective investigations, and decisions from the PEC?

See also: Alan D McRobie, Parliamentary 'Control' of Public Expenditure in Politics in New Zealand, S Levine (.) George Allan and Unwin (1978).

- 22 In 1979, a 4-man sub committee of the PEC, chaired by Mr D Jones (Govt MP) carried out an inquiry into the question of additional staff requirements. This inquiry arose "when the present Chairwoman raised the possibility of the Committee reporting formally on its examination of the Estimates." See I. 12, AJHR 1979.
- 23 This comment is based on observation of the relationship between officials and PEC members and informal discussions held by the author with both parties during 1978-79.
- 24 See Appendix 4A for transcript of notes of PEC meeting 20 June 1979.
- 25 See Appendix 4
- 26 von Tunzelmann, Law Review loc.cit., p.32
- 27 Barker and Rush loc. cit., p.20.
- 28 Ibid. pp. 18 ff.
- 29 Ibid. p.167.
- 30 G Morgan, Parliamentary Affairs, Vol XXXII, No. 1, Winter 1979, p. 56. See also S E Finer, H B Berrington and D J Bartholomew, Backbench Opinion in the House of Commons 1945-55, (Oxford, 1973); R J Jackson, Rebels and Whips, (London: 1968); J J Richardson and R Kember, 'The Role of Parliamentary

Committees in the House of Commons', Parliamentary Affairs, Summer, 1972; S A Walkland and M Ryle (eds.) The Commons in the Seventies, Study of Parliament Group, (Fontana/Collins, 1977).

- 31 See Appendix 4A.
- 32 Adrienne von Tunzelmann. See also Appendix 4A.
- 33 Barker and Rush, (loc. cit., p 230)
- 34 Ibid. p 367.
- 35 Ibid.
- 36 Source not located. Probably Hon. P Wilkinson at select committee hearing on Internal Revenue, Sept 6, 1979.
- 37 See also Alan D McRobie, The New Zealand Public Expenditure Committee 26, Political Science, 1974; Hon R Tizard in New Zealand Parliamentary Debates. Vol. 382, 1973:48; First Report of the Controller and Auditor General for the Year Ended 31 March 1976. New Zealand. B.I. (Pt. II) AJHR 1976.
- 38 Noel Sutton, director of policy, Department of Education in interview with author 26 September, 1979 in Education department, Head Office, Wellington. See Appendix 4C for documents and transcripts related Education and the PEC.
- 39 See Appendix 4B.
- 40 See Appendix 4B.
- 41 Ron Sims, Estimates clerk (Treasury) in a discussion with the author, 3 August 1979 in the Treasury, Wellington.
- 42 Barker and Rush, 10 loc cit. p.37.
- 43 See, for discussion of 'closed' nature of PEC, von Tunzelmann, loc. cit. 1978 and 1979; also Part III, 112, AJHR 1976 and 1977.
- 44 Report of the Royal Commission of Inquiry, The State Services in New Zealand, (Wellington: New Zealand, June 1962), p.63.
- 45 Ibid. p.64.
- 46 Ibid.
- 47 Treasury, Financial Planning, p.

- 48 Ibid.
- 49 Ibid pp 6-7.
- 50 Ibid.
- 51 Ibid, p.98.
- 52 Ibid. p.58.
- 53 Budget, 1968 AJHR p.15.
- 54 B.6 AJHR, 1969, p.38. See also B1 (PtII) AJHR, for reference to changes in the audit reports.
- 55 B1 (Pt 1), AJHR, 1970, p.39 and B1 (Pt 1) AJHR, 1971 pp 5-6. See also Appendix 4.
- 56 B1 (Pt II), AJHR, 1972. See also Appendix 4.
- 57 B1 (Pt II), AJHR, 1973, pp 5-9.
- 58 The Treasury, The Planning and Control of Government Expenditure (Wellington, 1973), p.31.
- 59 B1 (Pt II) AJHR, 1974, pp 62-63.
- 60 B1 (Pt II), AJHR, 1975, pp 5-6.
- 61 Ibid. pp 58-59.
- 62 I12, AJHR, 1976, p.16.
- 63 B1 (Pt II), AJHR, 1976.
- 64 Ibid. p.63. See also Appendix 4A for example of supplementary information provided to PEC by departments.
- 65 Treasury circular 1976/35 T3/9/76. Treasury records see also Appendix 4A.
- 66 Treasury circular 1977/21. T 3/9/77. Treasury records. See also Appendix 4A.
- 67 I.12 AJHR, 1977, p. 13.
- 68 Ibid.
- 69 H G Lang, The Role of Treasury - Control and Advice, Economic Bulletin, Canterbury Chamber of Commerce, 610, No. 4/1977.
- 70 See Appendix 4A, No. 24

71. See Appendix 4A.

72. Appendix 4A includes a selection of documents, and the transcripts of two PEC meetings, which indicate the range of the Committee's interests in expenditure planning and control, the manner in which MPs pursued these is formal meetings with officials, the advice provided and instructions circulated on the basis of the PEC's approval:

- (i) Comment to PEC by New Zealand Forest Service on Audit Office Review of Financial Management and Control. Undated, 1978.
- (ii) Transcript of PEC discussion with Messrs M S Morris and R D F Pyatt, members of the team that reviewed financial management and control in administrative Government departments. Meeting held in room 30 on Parliamentary Annex on Wednesday 14 June, 1978.
- (iii) Comment to the PEC on behalf of the Clerk of the House on two recommendations in the Controller and Auditor-General's Report (B.1 (Pt IV): Revenue and the Budget date, 26 June, 1978.
- (iv) Submission to PEC by Education on C & AG Review and transcript of meeting between PEC and officials from the NZ Forest Service and Education department on their submissions on the Controller and Auditor-General's Report on Financial Management and Control in Administrative Government Departments, 27 September, 1978; and transcript of meeting on same subject between PEC and officials from Government Printing Office on 4 October, 1978.
- (v) Submission to PEC on Controller and Auditor-General's Report from the Audit Office: Internal Audit in Government departments. 2 October 1979.
- (vi) Comment to PEC on A Change in the Government's Financial Year from J R Battersby, Assistant Secretary to the Treasury, 12 October 1978. See also T40/185, Treasury records.
- (vii) Joint comment to the PEC on progress made by both the Task Force on Financial Management and by the control departments in respect of the 30 recommendations contained in the Controller and Auditor-General's report on financial management (B1 Pt IV, 1978), submitted by J R Battersby, Assistant Secretary to the Treasury and J T Chapman, Deputy Controller and Auditor General, 15 October 1978. See also T. 3/18, Treasury

records.

- (vii) Comment to PEC on Revolving Funds from J R Battersby, Assistant Secretary to the Treasury, 10 January, 1979.
- (ix) Submission to PEC on alternative methods of presenting departmental receipts for the Public Accounts (Bl. Pt 1), from J R Battersby Assistant Secretary to the Treasury. Includes comment on why a new format had not yet been introduced, 15 March, 1979. See also Ty 1766, T 3/2/78-79, Treasury records.
- (x) Submission to PEC recommending pilot projects in Maori Affairs and Customs departments for new financial techniques, for the Task Force on Financial Management, from R de Jardine, Treasury, on 22 March, 1979.
- (xi) Comment to PEC on cash versus accrual accounting and the information that would be available to Parliament and to the Public Expenditure Committee under proposals made by Treasury on 12 October 1978 (see (vi) above). Change in the Government's Financial Year, from R de Jardine, Treasury, 19 April, 1979.
- (xii) Transcript of discussion between PEC and SSC officials on General Means of Staff Control, 24 April, 1979.
- (xii) Comment to PEC on benefits as seen by Audit Office to financial management by departments and departments' reactions to a change in the balance date of government from 31 March to 30 June. Change in Balance Date of Government from P M Cross, Assistant Controller and Auditor General 30 April 1979. Also Audit records, A 35/40/79.
- (xiv) Transcript of discussion between PEC and officials from the Treasury and the Audit Office on the Budget cycle, 18 May 1979.
- (xv) Notes of meeting between PEC and Audit and Treasury officials on the 1978 Joint Task Force on the C and AG's report, and subsequent developments in financial management and control. 27 June 1979.
- (xvi) Introductory report to PEC on Management Survey of Legislative Department by Michael Cox, MP 18 July 1979.
- (xvii) Comment to PEC on Report of Controller and Auditor-General of 31 March 1978 from W Renwick,

Director General of Education on 30 March 1979.

- 73 S T Keane, Assistant Controller and Auditor General. Comment to author, September 26, 1979, Wellington.
- 74 P Trudeau, Office of the Prime Minister, Notes for remarks by the Prime Minister at the Harrison Liberal Conference, Harrison Hot Springs, British Columbia, Nov. 21, 1969, pp 2-3 in P Aucoin and G B Doern (eds) The Structure of Policy-Making in Canada, (Toronto: Macmillan and Co., 1971) p.67.
- 75 Lord Diamond, Public Expenditure in Practice (London: George Allen and Unwin, 1975), 131. See also white papers on Public Expenditure 1969 (CMND 4234) and 1971 (CMND 4829); G Bruce Doern, Public Scrutiny of Canadian Government Spending (Rideau Public Policy Research Group, 1978); B W Fraser, Who Controls Government Expenditure ? : Public Service Control of Government Spending, lecture to the Victorian Division of Australian Society of Accountants, 1977 lecture series (Australia); the First Report from the Select Committee on Procedure, Vol.1, Report and Minutes of Proceedings, House of Commons (UK) 17 July 1978.
- 76 Diamond, loc cit.: 132
- 77 Michael Rush, The Development of the Committee System in the Canadian House of Commons in The Parliamentarian
- 78 Else, Public Expenditure, loc. cit. See especially, pp 84-92.
- 79 Ann Robinson, Parliament and Public Spending, The Expenditure Committee of the House of Commons 1970-76. (Heinemann Educational Books, 1978): 54.
- 80 Ibid: 156.
- 81 Ibid: 158.
- 82 Paul G Thomas, Parliament and the Purse Strings, a study prepared for the Canadian Royal Commission on Financial Management and Accountability, Canada, 1977. pp 203.
- 83 Ibid.
- 84 Ibid.
- 85 J A A Lovink, Parliamentary reform and governmental effectiveness in Canada, in Canadian Public Administration, Vol. 4, No. 2, 1973: 43-47. See also I Gálnoór, Reforms of Public Expenditure in Great Britain, in Canadian Public Administration, Vol. 12, No. 2, Summer 1975.

- 86 See von Tunzelmann p. 226 loc. cit (1978).
- 87 See A F von Tunzelmann (1979) loc. cit: 27, n. 21; Alan D McRobie, The New Zealand Public Expenditure Committee (1974) 26 Political Science (No. 1). For discussion of legislative consent for public expenditure management see also I.14 AJHR, 1979, pp 10-11.
- 88 G Bruce Doern, The Development of Policy Organisations in the Executive Arena, Aucoin and Doern, Structures, loc. cit. p.67

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