

# Statement of Intent

2010-2015



THE TREASURY  
Kaitohutohu Kaupapa Rawa

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# Statement of Intent

2010-2015

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**New Zealand Government**

## An overview of the Treasury's strategic direction 2010-2015

<b>THE GOVERNMENT'S PRIORITIES</b>
This Government has three key economic objectives, which together will result in improved and enduring economic growth. These are: increasing New Zealand's productivity growth, maintaining high levels of employment and reducing New Zealand's vulnerability to adverse events.
<b>THE TREASURY'S VISION</b>
A world-class Treasury working for higher living standards for New Zealanders.
<b>THE TREASURY'S GOAL</b>
The Treasury is a highly-engaged, relevant and respected economic, financial and regulatory policy advisor, making an impact on the issues that are important to New Zealanders.



<b>THE TREASURY'S OUTCOMES</b>		
<p><i>Improved economic performance</i></p> <p>Improving New Zealand's economic growth is crucial for a better standard of living and relies on smarter use of the country's capital, skills and other resources. The Treasury will continue to provide advice on the wide range of policies affecting economic growth.</p>	<p><i>A stable and sustainable macroeconomic environment</i></p> <p>Our focus is on the institutional frameworks that promote macro stability and the sound operation of fiscal policy. We have specific responsibilities in terms of fiscal policy and give effect to these through the Budget. The aim is to reduce our economy's vulnerability and improve our overall performance.</p>	<p><i>Improved State sector performance</i></p> <p>The ongoing pursuit of a better-performing State sector is of fundamental importance because of its economic implications and effects on New Zealanders' welfare. Our primary concern is to see better services delivered for less cost.</p>

<b>THE TREASURY'S RESULTS FRAMEWORK</b>						
Medium-term Economic Strategy	Financial Operations – Guarantee Schemes and NZECO	Financial Operations – Debt and Financial Asset Management	Macro and Fiscal Advice to achieve a Stable Macroeconomic Environment	Infrastructure	Management of Crown Risks and Balance Sheet	State Sector Performance – including working with SSC and DPMC on a shared Central Agency work programme
<i>Supporting a high-performing Treasury</i>						



<b>THE TREASURY'S OUTPUT APPROPRIATIONS</b>						
Policy advice: Economic performance Establishment of New Zealand Productivity Commission	Crown Guarantee Schemes Administration of guarantees and indemnities given by the Crown New Zealand Export Credit Office	Management of Crown lending and Crown bank account Administration of borrowing Administration of derivative transactions Administration of investment of public money	Policy advice: Fiscal and macroeconomic Fiscal management Fiscal reporting Economic and tax forecasting	Infrastructure advice and coordination	Management of liabilities, claims against the Crown, and Crown properties Crown company monitoring advice to the Minister of Research, Science and Technology and the Minister for Economic Development Crown company monitoring advice to the Minister for State-Owned Enterprises and other responsible Ministers	Policy advice: State sector performance

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## Foreword: Minister of Finance

New Zealand's economy has returned to growth after the global financial crisis and recession but the next five years will remain challenging. The Government is still borrowing large sums to pay for public services and welfare entitlements for New Zealanders in need. So, for the foreseeable future, we must improve the quality of those services with little or no extra money.

Our other challenge is achieving higher, sustainable economic growth so New Zealanders can enjoy opportunities, jobs and higher incomes in this country.

The Government expects the Treasury to help it create and cement in place policies so that the recovery results in an improvement in long-term economic performance. Like all other State agencies, the Treasury must do its work within tight financial constraints. The Government also expects the Treasury to support effective decision-making and management of the State sector.

The Government has identified six key drivers of economic performance:

- 1 Investing in productive infrastructure.
- 2 Removing red tape, improving regulation.
- 3 Supporting business innovation and trade.
- 4 Improving education, lifting skills.
- 5 Lifting productivity and improving services in the public sector.
- 6 Strengthening the tax system.

Work by the Treasury outlined in this *Statement of Intent* will be crucial to achieving progress on these drivers of economic performance. I will be looking to the Treasury to encourage the State sector to play a leading role in this process.

This *Statement of Intent* sets out what the Treasury will do to help the Government achieve results in its priority areas. The Treasury's work in the near term, and particularly its work on infrastructure and State sector productivity, will deliver not only immediate benefits but also provide a stronger foundation for our economy over the next decade.

I am satisfied that the information on future operating intentions provided by the Treasury in this *Statement of Intent* and the *Information Supporting the Estimates* is in accordance with sections 38, 40 and 41 of the Public Finance Act 1989 and is consistent with the policies and performance expectations of the Government.



Hon Bill English

Minister of Finance

## Introduction from the Chief Executive

The Treasury's role is to raise the living standards of New Zealanders by helping the Government improve New Zealand's overall economic performance. While many factors influence the economy, a high-performing Treasury can have a significant impact. Having this impact is the focus of the five-year strategy set out in this *Statement of Intent*.

After the recent recession and global financial crisis, New Zealand's economy and the Government's finances are now reasonably well-placed compared with many other countries. New Zealand remains exposed to international factors beyond our control so both the Government and the private sector will remain dependent upon debt for the foreseeable future. For New Zealanders to have a secure economic future, we need to earn our way in the world, rather than borrowing and spending.

The Treasury has moved from urgently responding to the recession and financial crisis to supporting longer-term plans. To be effective, the Treasury needs to be dynamic and engage with a broad range of stakeholders. We have reshaped our organisation and leadership so that we are better placed to advise the Government about the economy and its finances.

Our work is designed to create sustained improvement in the following three key outcomes that will improve New Zealanders' living standards:

- ▶ improved overall economic performance
- ▶ a stable and sustainable macroeconomic environment, and
- ▶ improved State sector performance.

Improved economic performance generates higher incomes and creates greater security for people. The Government's immediate priorities for improving economic performance are expressed in the Government's six drivers for economic growth, which are a central plank of our work.

Lifting economic performance is integrally linked to the Treasury's other two main outcomes. A stable and sustainable macroeconomic environment lays the foundation for improved economic performance by providing people with confidence to take risks and innovate, and the certainty to get involved with productive enterprises, as workers, investors or suppliers. Strong economic performance also serves macroeconomic stability by reducing the vulnerability of the economy to external shocks.

New Zealand's State sector accounts for about a third of all economic activity and over the next five years the country will need to borrow large sums to pay for the services that the Government provides. Improved State sector performance is essential to ensure that public services remain sustainable over the long term. We need to alter and adapt the sector to match the realities of the tight economy as successful State sector reform complements strong economic growth. The Treasury will work closely with the State Services Commission (SSC) and the Department of the Prime Minister and Cabinet (DPMC) to lead the drive for improved State sector performance. Our particular focus is on improving State sector productivity; ensuring taxpayers get value for their money.

I am confident that the Treasury's staff can act upon the ideas and work outlined in this *Statement of Intent*, improving the three key outcomes that will help raise the living standards of New Zealanders.

In signing this statement, I acknowledge that I am responsible for the information contained in the *Statement of Intent* for the Treasury. This information has been prepared in accordance with the Public Finance Act 1989. It is also consistent with the proposed appropriations set out in the Appropriations (2010/11 Estimates) Bill, as presented to the House of Representatives in accordance with section 13 of the Public Finance Act 1989, and with existing appropriations and financial authorities.



John Whitehead

Chief Executive



Counter-signed: Fergus Welsh

Chief Financial Officer

# Nature and Scope of Functions

## Our purpose

The Treasury is Government's leading economic, financial and regulatory advisor. Our core job is to help the Government improve New Zealand's overall economic performance, and increase the living standards of New Zealanders, through the provision of high-quality advice and services. Our advice contributes to improved performance by making challenging issues more tractable to effective Government decision-making. The Treasury supports effective delivery of services by the State sector through its policy advice, and delivers some services directly where it is best placed to do so.

## The scope of our work

The Treasury provides advice and services to Ministers through three Votes: Finance, Crown Research Institutes and State-Owned Enterprises.

We perform three roles through these portfolios:

- ▶ Providing services directly, such as monitoring and managing the financial affairs of the Crown, including managing the Crown's debt through the New Zealand Debt Management Office (NZDMO), and supporting New Zealand's economic performance through the provision of services through the New Zealand Export Credit Office (NZECO), Crown Wholesale Guarantee Facility and the Retail Deposit Guarantee Scheme.
- ▶ Raising the quality of advice and service delivery in the State sector, by leading improvements in State sector management and performance through a shared work programme involving the three Central Agencies: the Treasury, the DPMC and the SSC, and providing second-opinion advice on the economic and financial implications of other government agencies' proposals.
- ▶ Providing policy advice direct to Ministers to facilitate Government decisions on changes and initiatives that support better economic performance and higher living standards.

These outputs are funded through 17 specific output appropriations. These are detailed in the *Estimates of Appropriations 2010/11*.

## Legislation we administer

The Treasury currently administers approximately 35 pieces of legislation plus the Appropriation and Imprest Supply Acts relating to each financial year, and various Finance Acts. The most significant of these are the Public Finance Act 1989 and the State-Owned Enterprises Act 1986. The Public Finance Act 1989 provides the platform for the advisory roles expected of us by the Government. The Treasury's scope includes an interest in institutions, macroeconomic performance and structural policy issues and financial advice to the Government.

To view an up-to-date list, visit: <http://www.treasury.govt.nz/abouttreasury/legislation>

# Setting our Strategic Direction

## Our changeable operating environment

The external environment is significantly more stable than this time last year. The global economy continues to face a higher level of uncertainty than was the case for several years leading up to the financial crisis. There is significant international debate about economic and fiscal management that directly affect the role of the Treasury and many private and public institutions. The Treasury is actively integrating the microeconomic and macroeconomic foundations of our thinking and advice. We aim to provide solutions for the Government to address New Zealand's macroeconomic vulnerabilities and improve the resilience of the economy.

The goals the Government has set for the Treasury are the most important factor in determining our priorities. As the immediate effects of the financial crisis recede, the Government has asked the Treasury to reinforce the economic recovery, improve long-term economic performance and lift the living standards of New Zealanders, through a focus on six drivers of economic growth. We will also support effective decision-making and management of significant or systemic cross-government issues with our Central Agency partners (DPMC and SSC).

The Treasury has undertaken significant internal restructuring to improve our ability to address these challenges, and we will be focusing on organisational health over the next few years to continue lifting our performance. These changes are discussed in more depth on pages 35 to 37.

The Treasury will continue adopting strategies that enable it to provide services to Ministers within the resources available. The anticipated reduction in our baseline over the next three years (primarily because fixed-term projects, such as the Retail Deposit Guarantee Scheme, wind down) and a flat baseline thereafter, will require tight financial management and a reduction in staff over the medium term. We will manage this change through natural attrition and careful planning to ensure that limited resources are directed to our highest priorities. The performance improvement actions set out on page 37 of this *Statement of Intent* support these changes.

The Treasury's short-term focus continues to be on prioritising operating expenditure and managing within baselines. Our long-term focus is on examining ways to meet increasing cost pressures within relatively fixed baselines, while minimising the impact on priorities.

## Changing the way we work

We are making significant changes to the way we work, the way we are organised and how we exercise leadership to better manage and accommodate the changes in our environment.

Our functions continue to evolve. Since 2008 we have developed and implemented the Guarantee Schemes and a National Infrastructure Unit, and integrated the Crown Company Monitoring Advisory Unit's (CCMAU's) functions within the Treasury.

In 2009/10 we substantially reviewed and restructured the framework we use to understand and drive our business. The new framework integrates the functions and responsibilities of the Treasury

into eight high-level results. The new framework integrates the focus of the four Strategic Result Areas (SRAs)<sup>1</sup> that were referred to in our previous *Statements of Intent*.

We have also reviewed our leadership structure and behaviours and how these could be adapted to maximise our efficacy as an organisation. This review led to the appointment of two Deputy Chief Executives to work with the Secretary to the Treasury to bring a fresh focus to our planning. This Executive Leadership Team is taking a strategic view of what the Treasury aims to achieve over the next five years, while a team at Deputy Secretary level will lead the Treasury's work to deliver on immediate and medium-term priorities. The impact of these changes in our leadership is already being felt within the organisation and we will continue developing the organisation, demonstrating the responsiveness and adaptability that we expect of all State sector agencies.

<sup>1</sup> The SRAs represented our long-term work programme and focused on the following four areas: fiscal sustainability, international connections, natural resource management and skills.

# Our Operating Intentions 2010-2015

The Treasury's work is designed around three key outcomes that support the Government's priorities:

- 1 Improved economic performance
- 2 A stable and sustainable macroeconomic environment, and
- 3 Improved State sector performance.

Our influence on these outcomes is long term and indirect, and many other factors, including other public sector agencies, contribute towards achieving these outcomes. However, using these as a framework helps to ensure that we focus our efforts and resources on the work that can best give effect to the Government's goals.

We expand on these outcomes on pages 9 to 16.

## Making an impact through managing for results

Our contribution to these outputs is further refined through a focus on eight high-level results; each of these covers core functions of the Treasury. The results framework is central to our internal planning and ensures that it is always directing its attention and resources on the things that matter most across the breadth of our portfolio, and enables us to maximise the impact of our work.

An annual review and refresh of the Treasury's results helps to maintain our focus on the regulatory or policy issues that have the greatest potential to have a significant or pervasive impact on New Zealand's overall economic performance, rather than attempting to provide advice on every fiscal and economic issue.

We expand on our results on pages 17 to 34.

## Measuring our service performance

For each of our results we have identified measures to help demonstrate the impact we are seeking to have through these results over the three- to five-year term of this *Statement of Intent* and milestones that indicate the progress we seek to have over the next year.

Output measures for assessing the Treasury's service performance through the 2010/11 year are included in the Estimates. As much of our work is policy advice, we are using the Treasury's quality standard to ensure the quality and timeliness of delivery of these outputs. Additional measures are provided for the other financial and management functions we perform.

# The Treasury's Three Outcomes

## Improved overall economic performance

The Government has set itself the overarching goal of delivering greater prosperity, security and opportunity for all New Zealanders. Improving our economic performance helps in several ways. First, better economic performance means higher incomes, brought about primarily by improving productivity – how we combine our labour and capital more efficiently to produce and sell the goods and services that are demanded both domestically and overseas. Second, it also means greater security, by progressively shifting resources to, and creating new jobs in, the productive and economically-sustainable sectors of the economy. Third, it means more opportunity for firms and individuals, by reducing barriers to the investment and entrepreneurial endeavour that underpins dynamic growth in the economy, which in turn flows through to opportunities for individuals to realise their potential by participating in the labour force. In the wake of last year's financial crisis, and recognising the pervasive contribution of economic growth to raising living standards, the Government has identified lifting economic growth as its top priority for 2010.

Improving economic performance is integrally linked to the Treasury's other outcomes. A strong macroeconomic foundation is critical to a credible growth programme; firms and investors need certainty about the long-term prospects for their investments. This includes confidence in the basic institutions and rules that underpin economic activity, including property rights, the Government's fiscal plan and its overarching regulatory practice. A strong economic performance also serves macroeconomic stability by reducing the vulnerability of the economy to further shocks, which would otherwise put pressure on the Government's borrowing and spending programme. Economic growth and macroeconomic stability are mutually dependent on each other.

A strong growth programme requires that the Government has its own house in order. The public sector is such a significant component of the New Zealand economy that its own performance and productivity matters for the overall performance of the economy. In the 2008/09 financial year, core Crown expenses amounted to 35.5% of Gross Domestic Product (GDP). Growth in government expenditure over recent years has exacerbated the vulnerability of the economy caused by an over-reliance on domestic consumption and external borrowing. This must be turned around to an economy that is driven instead by investment, saving and growth in exports, if we are to achieve sustainable growth on a par with or better than that of countries, like Australia, with which we typically compare ourselves. Achieving such a transformation requires a shift in resources from the non-tradeable to tradeable (competition-exposed) parts of the economy. This is a two-way relationship: stronger economic growth will in turn make the Government's other objectives, including its social policies, easier to achieve. Successful State sector reform is complementary to strong economic growth; one cannot happen readily without the other.

### What will we do to achieve improved overall economic performance?

Reflecting these inter-linked outcomes, the Government has articulated an economic growth agenda based around the Government's priority policy drivers. The Treasury will contribute to these drivers through the results set out below:

GOVERNMENT'S POLICY DRIVER	THE TREASURY'S RESULT
<p><b>Growth-enhancing tax system:</b> Support growth and productive investment by reducing the distortionary effects of taxation, and making the system as fair and efficient as possible.</p>	<p><b>Medium-term economic strategy:</b> Lift economic growth by supporting a dynamic environment for firms in which they are given every opportunity to expand and shift their activities in line with market signals. We will do this by providing well-integrated, analytically robust and persuasive advice on policies to deliver:</p> <ul style="list-style-type: none"> <li>▶ an economy that is integrated and connected to the world economy</li> <li>▶ a competitive business environment and efficient financial system that reward business investment, innovation and enterprise</li> <li>▶ productive and sustainable use of our natural resources</li> <li>▶ a more highly skilled workforce that supports growth in the economy over the long term, and</li> <li>▶ regulatory and tax systems that reduce barriers to investment and promote economic growth while balancing efficiency with fairness.</li> </ul>
<p><b>Better and less regulation:</b> Make New Zealand more internationally competitive and attractive by removing roadblocks to growth, increasing competition, reducing compliance costs, giving greater certainty to investors and enabling resources to shift to their most productive use.</p>	
<p><b>Improved education and skills:</b> Ensure New Zealand has both the quantity and quality of skills needed to support growth in the economy, with a focus on literacy and numeracy, youth achievement and tertiary system performance.</p>	
<p><b>Support for science, innovation and trade:</b> Support firms to overcome barriers to enterprise and access the ideas, finance and skills they need to grow and succeed.</p>	
<p><b>Better public services:</b> Significantly lift the performance of the public sector by improving both the efficiency and effectiveness of spending, and the sustainability of fiscal policy. This includes:</p> <ul style="list-style-type: none"> <li>▶ ensuring the public sector does the right things, does them well and does them in a sustainably affordable way</li> <li>▶ reducing the overall level of government spending and improving its quality, and</li> <li>▶ strengthening the macro economy by reducing imbalances, notably in debt-financed consumption, with a focus on lifting savings and productive investment.</li> </ul>	<p><b>Macro and fiscal advice to achieve a stable economic environment:</b> Provide integrated advice across fiscal, monetary, regulatory and tax policy which is aimed at:</p> <ul style="list-style-type: none"> <li>▶ strengthening the stability of the macroeconomic environment in which firms operate and invest, and</li> <li>▶ delivering a fiscal programme for Government that is sustainable, and that strengthens the resilience of the economy to future shocks by reducing imbalances.</li> </ul>
	<p><b>State sector performance:</b> Improve the overall performance of the State sector by focusing on:</p> <ul style="list-style-type: none"> <li>▶ ensuring that the State sector does the right things</li> <li>▶ doing them better, smarter and for less, and</li> <li>▶ doing them in a way that is affordable over the long term.</li> </ul>
	<p><b>Management of Crown risks and balance sheet:</b> Ensure that the Crown's balance sheet is fit-for-purpose, and is managed in a way that protects value, enhances performance and reduces risk.</p>
<p><b>Investment in productive infrastructure:</b> Maximise the contribution of infrastructure to growth by investing in high-quality public projects that have net economic benefits, and improving the regulatory environment in which local government and private sector investment decisions are made.</p>	<p><b>Infrastructure:</b> We will focus on optimising the contribution of infrastructure to economic growth by ensuring that:</p> <ul style="list-style-type: none"> <li>▶ the supply of infrastructure is secure and reliable, and</li> <li>▶ its use and management are efficient. This includes removing bottlenecks, addressing infrastructure deficits and directing spending to areas where it will deliver the greatest benefits.</li> </ul>

In supporting this overall economic growth agenda, the Treasury will focus in particular on:

- ▶ assisting the Government to develop a clear and informed economic strategy
- ▶ providing advice that enables the Government to make significant policy decisions to boost growth
- ▶ supporting broad public debate about, and agreement on, what drives growth, and
- ▶ ensuring that the Government is well informed about the equity impacts of policy choices.

## A stable and sustainable macroeconomic environment

A stable and sustainable macroeconomic environment is fundamental to all of the Government's policy objectives and integral to the Treasury's other outcomes. Economic growth and macroeconomic stability are mutually dependent on each other. An economy that has low and stable inflation rates and predictability in tax and spending allows individuals and businesses to plan and invest more effectively for the longer term. Improved planning and investment are key factors in economic growth. In addition, economic growth makes the economy less vulnerable to shocks.

An improved State sector and stable and sustainable macroeconomic environment are also related. A high-performing State sector can provide an environment that supports economic growth; for example, by reducing unnecessary compliance costs associated with regulation. A State sector that is performing well reduces pressure on the Crown's fiscal position and assists in developing a more balanced economy by enabling a shift in resources from the non-tradeable to tradeable sectors.

Ultimately, a stable and sustainable macroeconomic environment is a significant factor in achieving the improved economic performance that enables higher living standards for New Zealanders.

The New Zealand economy faces large challenges over the next few years as it deals with the after-effects of the global financial crisis. The economy is dealing with a shock that sharply reduced economic activity, lifted unemployment and pushed the Crown accounts into deficit. While the economy is recovering, the after-effects are likely to remain for some time. Continued efforts are needed to bring government debt back to a prudent level to provide a buffer to future economic shocks and prepare for the longer-term fiscal challenges associated with the pressures of an ageing population.

In addition to helping the Government manage its overall fiscal position, we will provide options that encourage a more balanced pattern of economic growth than in much of the past decade, which featured high current-account deficits and high levels of household debt.

### What will we do to achieve a stable and sustainable macroeconomic environment?

This outcome has two separate though interrelated parts: a stable macroeconomic environment and the sustainability of this environment. The Treasury will contribute to each of these parts through the results set out below:

THE TREASURY RESULTS THAT CONTRIBUTE TO THIS OUTCOME
SHORT- AND MEDIUM-TERM MACROECONOMIC STABILITY
<b>Macro and fiscal advice to achieve a stable macroeconomic environment:</b> We will offer advice on options in fiscal, monetary, regulatory and tax policy to promote the stability of the economy.
<b>State sector performance:</b> We will provide advice on key elements of the public management model, including the provision of institutions and interventions to achieve the Government's economic objectives, monitor the performance of significant Crown entities and advise on industrial relations issues.
SUSTAINABILITY OF THE MACROECONOMIC ENVIRONMENT
<b>Macro and fiscal advice to achieve a stable macroeconomic environment:</b> We will deliver a programme for Government that is sustainable over the long term, and a macroeconomic environment that is increasingly robust to economic shocks. This will incorporate the development of fiscal, monetary, regulatory and tax policy to promote the sustainability of the economy.
<b>State sector performance:</b> We will focus on spending in key sectors, to ensure that it is consistent with the long-term fiscal strategy (in particular, health, education, justice and welfare spending).
<b>Effective and efficient management of financial operations – debt and financial asset management:</b> We will secure the Government's borrowing requirements, and manage debt and associated assets in a way that minimises costs while keeping risk at an appropriate level.
<b>Management of Crown risks and balance sheets:</b> We will improve the management of risk across the Crown's balance sheet to support achieving strong financial performance and effective risk management, through improved direct and indirect governance and monitoring.
<b>Medium-term economic strategy:</b> Lift economic growth by supporting a dynamic environment for firms in which they are given an opportunity to expand and shift their activities in line with market signals. We will do this by providing well-integrated, analytically robust and persuasive advice on policies to deliver: <ul style="list-style-type: none"> <li>▶ an economy that is integrated and connected to the world economy</li> <li>▶ a competitive business environment and efficient financial system that reward business investment, innovation and enterprise</li> <li>▶ productive and sustainable use of our natural resources, and</li> <li>▶ better use of a highly skilled workforce, and regulatory and tax systems that promote economic growth while balancing efficiency with fairness.</li> </ul>
<b>Infrastructure:</b> We will focus on consistently identifying the most welfare-enhancing public infrastructure projects (including social assets such as schools and hospitals), improving the management of public infrastructure assets, removing regulatory bottlenecks and increasing certainty for private sector investment.

## Improved State sector performance

A strong State sector<sup>2</sup> is essential to lifting New Zealand's overall growth performance. The State sector in New Zealand is a significant component of the whole economy, so its performance can make the difference between a strongly or poorly performing economy overall. Recent growth in government expenditure has exacerbated the vulnerability of the economy, including by increasing our indebtedness.

A high-performing State sector is also critical to achieving the Government's wider social objectives, supporting high-quality health, education and labour market outcomes. High performance means achieving the Government's objectives, including growth, social and other objectives, in the most efficient and effective way.

What we aim to achieve here is balance. This outcome links strongly to our other two outcomes: improved overall economic performance (given the sector's size in the economy), and a stable and sustainable macroeconomic environment (by helping to bring government debt back to a prudent level, to provide a buffer against economic shocks and prepare for the longer-term fiscal challenges associated with an ageing population). Improving State sector performance is also important in that the quality and level of public services is important to New Zealanders in their everyday lives.

The Treasury will work alongside other Central Agencies (SSC and DPMC) on this outcome. Together, we have a shared goal of improving State sector performance and to achieve this we will focus collectively and individually, bringing our own areas of responsibility to bear. The Treasury's role is focused on monitoring and managing the financial affairs of the Government and managing the Budget process. We provide particular insight into the efficiency and effectiveness of government agencies, institutional settings and their interventions. This complements leadership by the SSC on the capability of agencies, sectors and systems, and by the DPMC on ensuring that the State sector responds to the Government's priorities. The table below sets out our respective roles and objectives in more detail.

<sup>2</sup> The term "State sector", in this context, refers to all institutions of Government, other than local government.

## What will we do to achieve improved State sector performance?

The Treasury will contribute to this outcome through the following combination of results and focus:

THE STATE SECTOR DOES THE RIGHT THINGS...
<p><b>State sector performance:</b> Our advice will focus on ensuring that the State sector has robust institutions and incentives, and delivers interventions that assist the Government to meet its economic and social objectives. This includes ensuring that government spending is aligned with its priorities; and that sectoral and institutional settings set appropriate incentives for key players. In particular, we will focus our efforts on those sectors with the highest levels of government spending: health, justice, education, welfare and defence.</p>
<p><b>Medium-term economic strategy:</b> As one of the six drivers of economic growth, the State sector plays its part in helping to reduce New Zealand's external vulnerability and in improving productivity. In particular, this means managing expenditure growth. We will also ensure better-quality regulation.</p>
<p><b>Macro and fiscal advice to achieve a stable macroeconomic environment:</b> We will help manage overall government spending, to help bring government debt back to prudent levels. We will ensure that expenditure at an aggregate level is consistent with the Government meeting its long-term fiscal objectives.</p>
<p><b>Management of Crown risks and balance sheet:</b> We will improve the management of risk across the Crown's balance sheet and provide robust advice on improving the performance of Crown assets.</p>
<p><b>Infrastructure:</b> We will focus on consistently identifying the most welfare-enhancing public infrastructure projects (including social assets such as schools and hospitals), improving the management of public infrastructure assets, removing regulatory bottlenecks and increasing certainty for private sector investment.</p>
... DOES THEM WELL...
<p><b>State sector performance:</b> Our focus is on ensuring that incentives are in place to drive performance at an agency level. This includes support for better administrative and support services across the State sector, innovative service delivery models and ensuring that agency structures are simple and effective. The Treasury will provide advice on key elements of the public management model, monitor the performance of significant Crown entities and advise on industrial relations issues.</p>
<p><b>Management of Crown risks and balance sheet:</b> Improve performance by State-Owned Enterprises (SOEs), Crown Research Institutes (CRIs) and Crown Financial Institutes (CFIs), and other parts of the wider State sector.</p>
<p><b>Medium-term economic strategy:</b> Improve State sector productivity, as a significant driver of New Zealand's overall economic growth.</p>
... AND DOES THEM IN A WAY THAT IS AFFORDABLE NOW AND IN THE FUTURE.
<p><b>State sector performance:</b> We will focus on the sectors with the highest levels of government spending, to ensure that it is consistent with the long-term fiscal strategy: in particular, those areas with the highest levels of government spending – health, justice, education, welfare and defence.</p>
<p><b>Macro and fiscal advice to achieve a stable macroeconomic environment:</b> Bring together spending, regulatory and tax policy to promote the stability of the economy.</p>
<p><b>Medium-term economic strategy:</b> Government spending consistent with reducing debt, and therefore New Zealand's vulnerability to economic shocks.</p>

We will work with our Central Agency colleagues to improve State sector performance through a focus on:

CENTRAL AGENCY SHARED OUTCOME	STATE SECTOR PERFORMANCE IS IMPROVED		
	STATE SERVICES COMMISSION	THE TREASURY	DEPARTMENT OF THE PRIME MINISTER AND CABINET
<i>The role of each Central Agency</i>	The SSC appoints and manages the performance of chief executives in the public service. It provides leadership on the capability of agencies, sectors and systems; sets standards; and ensures that State servants focus on delivering the Government's priorities.	The Treasury monitors and manages the financial affairs of the Government and provides economic and fiscal policy advice. The Treasury also provides advice on and manages the budget process. It provides insight into the efficiency and effectiveness of government agencies and their interventions.	The DPMC supports the process of collective decision-making, conveys Cabinet's decisions to the relevant Ministers and officials and ensures that the Cabinet receives well-conceived and coordinated advice. The Department also works to ensure that the State sector responds to the Government's priorities and conveys the Government's priorities to officials.
<i>What are we seeking to achieve?</i>	<p><b>A public management system that delivers improved services at a lower cost</b></p> <p>Why: The State services operate in a fiscally constrained environment. System design and operation must evolve and improve over time, to meet changing needs.</p>	<p><b>A State sector that maximises the contribution of government interventions to the Government's economic and social priorities</b></p> <p>Why: To enhance the achievement of the Government's economic and social objectives, services and interventions must be well-targeted, value for money and consistent with the Government's fiscal strategy.</p>	<p><b>The State sector responds to the Government's priorities to improve performance</b></p> <p>Why: To ensure that officials respond to Cabinet direction in improving the quality of services within existing baselines – building smarter, better public services for less cost – and that the policy process supports that goal.</p>
<i>How will we demonstrate success in achieving this?</i>	<p>Our shared measures of success:</p> <ul style="list-style-type: none"> <li>▶ Improved agency capability and value to the public<sup>3</sup>.</li> <li>▶ Public sector expenditure is consistent with the Government's fiscal strategy<sup>4</sup>.</li> </ul>		

<sup>3</sup> **New Zealanders express increased satisfaction with the public services they receive**

The Commission's work with chief executives, agencies and Ministers influences the way that services are delivered to New Zealanders and over time we would expect to see increasing levels of satisfaction with these services.

The New Zealanders' Experience research programme is a multi-year programme that provides information on New Zealanders' experiences of the services they receive from government. The Commission will be using the overall satisfaction measure from the Kiwis Count survey to gauge its success in contributing towards its own outcomes as well as the shared Central Agency objective: State sector performance is improved. The first set of results from the biennial Kiwis Count survey was released in 2008 and the second set in 2010.

The next iteration of the Kiwis Count survey will be in 2011, with the results available in 2012. Previous average satisfaction scores were 68 (2008) and 69 (2010). The Central Agencies measure success in this area by an improvement in this score over time. The target for the next survey is an improvement of at least 2 points.

<sup>4</sup> **Public sector expenditure is consistent with the Government's fiscal strategy**

The Government publishes the *Fiscal Strategy Report* (FSR) each year as part of the Budget. Readers who are interested in understanding more about the FSR can find this on the Treasury's website: [www.treasury.govt.nz](http://www.treasury.govt.nz)

CENTRAL AGENCY SHARED OUTCOME	STATE SECTOR PERFORMANCE IS IMPROVED		
	STATE SERVICES COMMISSION	THE TREASURY	DEPARTMENT OF THE PRIME MINISTER AND CABINET
<i>What will we do to achieve it?</i>	<p>The SSC will:</p> <ul style="list-style-type: none"> <li>▶ advise Ministers and agencies on pay and employment conditions and employment relations</li> <li>▶ advise Ministers and agencies on system design, agency collaboration and governance arrangements</li> <li>▶ set standards and expectations on key aspects of agency, sector and system performance</li> <li>▶ assess the effectiveness of agency, sector and system performance, and</li> <li>▶ advise Ministers and agencies on achieving agency, sector and system performance improvement.</li> </ul>	<p>The Treasury will:</p> <ul style="list-style-type: none"> <li>▶ integrate and improve budget frameworks and tools to enable better identification of priorities and opportunities for doing things better, smarter and for less</li> <li>▶ work with departments to provide prioritisation advice and to identify opportunities to provide improvements in quality and “more for less”, and</li> <li>▶ design budget and financial management systems that create incentives for continuous improvements and support the Government’s fiscal strategy.</li> </ul>	<p>The DPMC will:</p> <ul style="list-style-type: none"> <li>▶ ensure that State sector departments and agencies are clear about the Government’s priorities</li> <li>▶ coordinate State sector departments and entities in delivering on the Government’s priorities, and</li> <li>▶ enhance governance and management arrangements where necessary to improve delivery on the Government’s priorities.</li> </ul>
	<p>Specific Central Agency priority projects are:</p> <ul style="list-style-type: none"> <li>▶ providing joined up Central Agency support to those agencies most needing it, with the objective of lifting agency performance, and</li> <li>▶ rolling out the Performance Improvement Framework to the majority of Public Service departments and some large Crown entities over the next three to four years, with the objective of identifying, and following up on, actions that make a material difference to the performance of those agencies.</li> </ul>		

## The Treasury's Results

The Treasury seeks to have an impact on its outcomes through seven high-level result areas. These are:

- ▶ Medium-term economic strategy
- ▶ Infrastructure
- ▶ Macro and fiscal advice to achieve a stable economic environment
- ▶ Effective and efficient management of financial operations – NZECO and the Crown guarantee schemes
- ▶ Effective and efficient management of financial operations – debt and financial asset management
- ▶ Management of Crown risks and balance sheet
- ▶ State sector performance.

### Result: Medium-term Economic Strategy

#### What are we seeking to achieve?

The Government has signalled an ambitious and wide-ranging economic growth agenda. Medium-term economic strategy is focused on promoting economic growth and reducing vulnerabilities. However, other Treasury results also contribute to these aims, notably State sector performance, infrastructure, macroeconomic stability and fiscal policy.

The medium-term economic strategy result aims to lift economic growth by supporting a dynamic environment for firms in which they are given every opportunity to expand and shift their activities in line with market signals. We will support the capability of the State sector to progress and implement policy changes and help Government to act where the State sector can better support economic performance. We will also ensure that when other agencies provide Government with policy advice, the economic impact of that advice is adequately addressed. This will help us deliver:

- ▶ an economy that is integrated and connected to the world economy
- ▶ a competitive business environment and efficient financial system that rewards business investment, innovation and enterprise
- ▶ productive and sustainable use of our natural resources
- ▶ better use of a highly skilled workforce, and
- ▶ regulatory and tax systems that promote economic growth while balancing efficiency with fairness.

#### What will we do to achieve this?

The Treasury will provide expert advice on economic strategy that is well-integrated, analytically robust and persuasive. Our advice will support the Government's current economic agenda, focusing on both current and future priorities, and will be informed by leading thinking (from New Zealand and

abroad) and empirical evidence. We will also inform public debate on economic issues through publications and speeches.

We will promote regulatory reform by providing policy advice on key regulatory sectors that matter for growth and advice on how to improve the regulatory management system, which may include the introduction of a Regulatory Responsibility Bill. We will support Ministers to improve the flow of regulation through our role in assessing major Regulatory Impact Assessments, and building agency capability. We will also support agencies in their assessments of the stock of regulation, and the establishment of the Productivity Commission.

Our work on education and skills includes advising on benefit reform and the design and implementation of the Youth Guarantee to ensure the labour force has good incentives to work. Institutional settings will be important in our work over 2010/11: tertiary reforms that get the incentives right to focus students and providers on achieving qualifications valued by the market; and better governance, accountability and leadership in the school sector that improves teaching and learning, and builds on National Standards.

To get better results from the Government's role in innovation and business assistance, we will focus on: ensuring advice from government agencies is coherent, integrated and focused on economic outcomes; increasing levels of business research and development; and getting better value from our public investment in research and development and in enterprise-related activities. Our focus in 2010 will be on implementation of decisions on research, science and technology agency structures, and on initiatives aimed at increasing business research and development and technology transfer.

The implementation of the 2010 Budget tax package will be a key part of the Treasury's work programme to achieve a world-class tax system. Looking to future tax reforms, we will focus on the effects of tax on savings and investment. We want to ensure that our advice – and resulting decisions – are based on robust empirical information, and on high-quality analysis of relevant trade-offs.

To improve New Zealand's international connections we will identify areas for further integration with Australia in a Single Economic Market and actively contribute to international fora that advance New Zealand's goal of regional integration, including ensuring progress is made on the Asia-Pacific Economic Cooperation's (APEC's) structural reform agenda. As with our work on tax, we want to ensure that our advice is based on robust understanding of the effects of policy on the economy. To this end, we will gain a better understanding of the role and determinants of cross-border investment, the role of economic geography and trade in services.

Our work on investment and financial systems includes advice on the broad set of policies that influence savings. We aim to understand better the importance of savings for New Zealand's economic growth and reducing vulnerabilities. We will provide advice on reviews of the Securities Act 1978, any key changes to financial sector regulation, international developments (such as G-20<sup>5</sup> outreach) and enhancing financial crisis response effectiveness.

<sup>5</sup> The G-20 is an international forum designed to promote discussion about key issues relating to global economic stability between industrialised and developing economies. The G-20 is so named because it comprises 20 Finance Ministers and Central Bank Governors.

Our work on natural resources incorporates advice on New Zealand's international climate change negotiating position, achieving emissions reductions at least economic cost and on economic policy relating to areas such as water and the Resource Management Act 1991. Two thematic elements of our work are the role of different policy instruments in allocating resources, and the role of Māori in natural resource management. Our work on the return to the economy from the use of natural resources also includes advice on the primary sector.

### How will we demonstrate success in achieving this?

IMPACT MEASURE FOR 3 TO 5 YEARS	MILESTONES FOR 2010/11
REGULATION	
Productivity Commission lifts the quality of regulatory analysis.	Productivity Commission is effectively established.
There are improvements in the quality of both existing and new regulation.	Fewer significant Regulatory Impact Statements bypass Regulatory Impact Assessment requirements and an increasing proportion of regulatory proposals are assessed by the Treasury as adequate.  Agencies are actively reviewing the stock of regulation for possible improvements to regulation.
SKILLS	
Greater proportion of young people attain NCEA Levels 2 and 3.	Advise on design and implementation of Youth Guarantee to lift achievement and outcomes for school-leavers.
TAX	
Case made for further evidence-based tax reforms to promote economic growth.	Implementation of a growth-enhancing package of tax reforms in Budget 2010.
ENTERPRISE AND INNOVATION	
Increased business investment in research and development and increased technology transfer between public research organisations and firms.	Implementation of initiatives aimed at increasing business research and development and on technology transfer.
INTERNATIONAL CONNECTIONS	
Significant impediments to trans-Tasman business are removed.	Develop a clear agenda of issues to be advanced in the Single Economic Market context that is based on potential economic gain.
INVESTMENT AND FINANCIAL SYSTEMS	
Advice to Government on savings policies is coherent, integrated and focused on economic outcomes.	Advise on broader savings policy options and optimal system design.
Financial market regulation is sound, efficient and credible.	The Treasury influences a high-quality Securities Act 1978 review, resulting in efficient regulation of the New Zealand securities market.
INTEGRATED ADVICE ON THE GOVERNMENT'S ECONOMIC AGENDA	
The Government adopts policies that are based on robust evidence and research that maximises the impact on economic growth.	The Government's economic strategy is informed by Treasury advice. Research is published that fills gaps in the understanding of the New Zealand economy.
NATURAL RESOURCES	
New Zealand's target for emissions reductions is fair, as measured by comparable economic cost, and achieved at minimum economic cost.	New Zealand's negotiating position in international climate change negotiations is consistent with a fair target. The Emissions Trading Scheme design minimises the economic cost of meeting international obligations.

## Result: Infrastructure

### What are we seeking to achieve?

The Government has identified improving infrastructure as a priority within its medium-term economic strategy. Perceptions of infrastructure failures and bottlenecks are regularly cited as disincentives to private sector investment. This result has relevance to a broad range of infrastructure sectors, including the four key economic network infrastructures (transport, communications, water and energy) as well as social infrastructure such as hospitals, schools and prisons.

The Treasury undertakes a range of work in support of this priority, with a focus on optimising the contribution of infrastructure to economic growth by ensuring that the supply of infrastructure is secure and reliable and that its use and management are efficient. We will also focus on reducing the barriers to growth caused by bottlenecks or deficits in infrastructure and prioritise spending where it will deliver most benefits.

Infrastructure improvement can have positive benefits for other result areas. Substantial parts of New Zealand's physical infrastructure are owned and managed by the public sector (eg, roads). Many of the assets are also used by the public sector to deliver services (eg, education and health). Improving performance in this area therefore assists the Government in managing the Crown's balance sheet (supporting the management of Crown risks and balance sheet result), and in delivering better value for money in provision of public sector services (supporting the State sector performance result).

The National Infrastructure Unit (NIU) was created mid-way through 2008/09. It has a broad role that includes developing overarching infrastructure policy, preparing the National Infrastructure Plan, driving improved decision-making and asset-management practice in the public sector and developing a market for public private partnerships.

*For more information on the NIU, visit: [www.infrastructure.govt.nz](http://www.infrastructure.govt.nz)*

### What will we do to achieve this?

We will achieve this through a focus on:

- ▶ enabling improved economic performance through New Zealand's infrastructure, and
- ▶ optimising the Government's investment in the State sector's physical assets relative to service needs and net worth objectives.

In particular we will work to:

- ▶ identify and address regulatory or other impediments to private and public infrastructure investment
- ▶ ensure that public sector infrastructure investment is targeted at those opportunities that offer the best prospects for economic growth

- ▶ improve investor certainty across the economy, by presenting a clear picture of the Government's and the wider public sector's infrastructure strategy, policy, priorities and spending plans. The principal tool for this will be the ongoing development and updating of the National Infrastructure Plan
- ▶ provide frameworks, guidance and support across the public sector to assist in improving decision-making and management of public sector assets, to deliver better value for money, and
- ▶ develop and implement, in partnership with other government agencies and institutions, innovative approaches to procuring and managing public sector assets and the services delivered from them that will deliver improved value for money.

The NIU will also provide oversight and advice to the Government about specific major infrastructure investments; for example, broadband and rail.

### How will we demonstrate success in achieving this?

IMPACT MEASURE FOR 3 TO 5 YEARS	MILESTONES FOR 2010/11
NEW ZEALAND'S INFRASTRUCTURE ENABLES ECONOMIC GROWTH	
<p>Identify and seek removal of regulatory and other barriers to infrastructure development.</p> <p>Impact measure: Key stakeholders (eg, New Zealand Council for Infrastructure Development, Business New Zealand, Local Government New Zealand and Central Government Chief Executives) consider barriers to have been removed or reduced.</p>	<p>Infrastructure Bill passed, Utilities Access Code agreed, to provide utilities with efficient and consistent access to transport corridors.</p> <p>Ensure that phase two of the Resource Management reform process recommends improvements to planning regulations (including, for example, the Resource Management Act 1991 and Historic Places Act 1993), to facilitate future infrastructure investment.</p>
<p>Ensure that Government's infrastructure investment is directed to where it will most likely deliver the greatest long-term economic benefits.</p> <p>Impact measure: Cost-benefit analysis undertaken in the course of development of major projects demonstrates that investment is directed to those projects with the greatest net benefits.</p>	<p>Develop and embed prioritisation and investment assessment frameworks focused on economic performance.</p>
<p>Improve investor certainty by presenting a clear picture of the Government's and wider public sector's infrastructure strategy, policy, priorities and spending plans, in the National Infrastructure Plan. Providing clarity about the Government's approach to infrastructure improves certainty for domestic or overseas investors in all sectors of the economy.</p> <p>Impact measure: Key stakeholders (eg, New Zealand Council for Infrastructure Development, Business New Zealand, Local Government New Zealand and Central Government Chief Executives) consider barriers to have been removed.</p>	<p>Revised National Infrastructure Plan published with 10- to 30-year demand and service level analysis. This aims to quantify future public investment requirements, as a key input to ongoing development of infrastructure strategy and policy.</p> <p>Ensure that the Auckland spatial plan facilitates a coordinated approach to central and local government infrastructure investment.</p>

IMPACT MEASURE FOR 3 TO 5 YEARS	MILESTONES FOR 2010/11
GOVERNMENT OPTIMISES ITS INVESTMENT IN THE STATE SECTOR'S PHYSICAL ASSETS RELATIVE TO SERVICE NEEDS AND NET WORTH OBJECTIVES	
<p>The 15 Capital Intensive Agencies<sup>6</sup> have in place and actively use the standards, capability and information needed to drive the efficient and effective planning, investment, delivery and management of the Crown's major physical assets.</p> <p>Impact measure: Independent quality assurance processes embedded in business-as-usual demonstrate appropriate performance by agencies.</p>	<p>Capital Asset Management project embedded within public sector business-as-usual:</p> <ul style="list-style-type: none"> <li>▶ information on capital intentions is reflected in budget considerations</li> <li>▶ capability and support for improved business cases and decision-making processes is owned by broader public sector, and</li> <li>▶ standards for improved capital asset management are set and refined by the NIU.</li> </ul>
<p>Deliver better value for money, through the use of innovative procurement models, from the management of major physical assets and the services delivered from them.</p> <p>Impact measure: Public private partnership projects approved where they demonstrate value-for-money improvements over the relevant public sector comparator.</p>	<p>Subject to value-for-money tests, in partnership with the relevant public sector agency, take the first two public private partnership transactions to market.</p> <p>Develop a pipeline of projects to provide certainty to the market of the ongoing public private partnership programme.</p> <p>Promulgate a public private partnership toolkit (guidance on terms and conditions, risk matrix, public sector accounting treatment, tendering methodology) to assist procuring agencies to develop public private partnership projects.</p>

<sup>6</sup> The 15 Capital Intensive Agencies comprise 11 departments, and four Crown agents. These are:

**Departments:** Conservation, Corrections, NZ Customs Service, NZ Defence Force, Ministry of Defence, Ministry of Education, Ministry of Health, IRD, Ministry of Justice, NZ Police, Ministry of Social Development

**Crown agents:** Housing NZ Corporation, Tertiary Education Commission, the District Health Board sector and NZ Transport Agency

## Result: Macro and Fiscal Advice to Achieve a Stable Economic Environment

### What are we seeking to achieve?

A stable and sustainable macroeconomic environment is fundamental to all of the Government's policy objectives and integral to the Treasury's other outcomes. Economic growth and macroeconomic stability are mutually dependent. An economy that has low and stable inflation rates and predictability in tax and spending allows individuals and businesses to plan and invest more effectively for the longer term. Improved planning and investment are key factors in economic growth. In addition, economic growth makes the economy less vulnerable to shocks.

We will assist the Government over the next few years to deal with the after-effects of the global financial crisis. The recovering economy presents a number of risks to the Government. It also presents opportunities such as addressing some of the imbalances that built up over recent years. We will assist the Government to build a stable and sustainable macroeconomic environment.

### What will we do to achieve this?

Providing appropriate support to the Government requires timely, high-quality analysis and advice. We will produce accurate forecasts of the economic and fiscal outlook at least twice yearly in the *Budget Economic and Fiscal Update (BEFU)* and *Half Year Economic and Fiscal Update (HYEFU)*. In addition, information will be produced on a weekly (Weekly Economic Update) and monthly (Monthly Economic Indicators) basis to provide analysis and updates on developments in the domestic and international economies. Advice relating to the Government's fiscal position will also be provided each month.

The Treasury will incorporate forecast and monitoring advice and other relevant information to advise the Government how it can stabilise debt at a prudent level, and assist the Minister of Finance to produce the annual *Fiscal Strategy Report (FSR)*. We will also advise on options for changes the Government can make in fiscal, monetary, regulatory and tax policy to promote the stability of the macroeconomy. Advice regarding the economic and fiscal outlook will be well-integrated and linked to a wider perspective that picks up progress in dealing with the imbalances in the economy.

Our focus is not only on assisting in the formation of the Government's strategy, but also on how to support and deliver it. A large component of this is the assistance provided in managing the annual fiscal management cycle to ensure that baseline expenditure and changes in expenditure advance government priorities, and are consistent with the fiscal strategy. This activity will integrate with other Treasury activities related to management of the State sector and enhancing New Zealand's productivity performance and economic growth.

## How will we demonstrate success in achieving this?

We will have demonstrated success when:

- ▶ the Treasury forecasts and financial reporting provide reliable information to assist decision-making, and tax revenue forecast accuracy is maintained within a 3% variance
- ▶ the Government has fiscal plans, as evidenced in the FSR, that will lead to levels of debt and net worth being maintained at, or returned to, prudent levels as soon as possible within the 15-year projection period
- ▶ decisions are taken to address the long-term fiscal challenges that will contribute to the stabilisation at prudent levels of government debt and tax as a percentage of GDP over the next 40 years, and
- ▶ national saving increases, New Zealand runs smaller current-account deficits and consequently an improved net international investment position, and neutral real interest rates are lower.

The above success measures encapsulate what we need to achieve to meet the key challenges arising from the economic downturn. The first measure provides the Government a good basis from which to make decisions. The second and third measures relate to ensuring that the fiscal position is sustainable over time. Finally, the fourth measure will reduce the economic vulnerability New Zealand faces in the context of a large external shock or loss of investor confidence.

IMPACT MEASURES FOR 3 TO 5 YEARS	MILESTONES FOR 2010/11
OVERALL IMPACT	
<p>Levels of debt and net worth being maintained at, or returned to, prudent levels.</p> <p>The long-term fiscal challenges are addressed in a way that will contribute to the stabilisation at prudent levels of government debt and tax as a percentage of GDP over the next 40 years.</p> <p>National saving increases, New Zealand runs smaller current-account deficits and consequently an improved net international investment position, and neutral real interest rates are lower.</p>	<p>Fuller engagement with the Minister on developments and drivers in the economy and discussion of macro and fiscal policy options to enhance performance of the economy and the State sector in particular.</p> <p>Enhance our reputation with the Minister and other key stakeholders for authoritative analysis. This will be demonstrated in meeting all quality standards for financial reporting, insightful analysis and accurate forecasts.</p> <p>Provide options to stabilise debt at a prudent level, and assist the Minister of Finance to produce the annual FSR.</p> <p>Advise potential changes the Government can make in the areas of fiscal, monetary, regulatory and tax policy to promote the stability of the macroeconomy.</p>

IMPACT MEASURES FOR 3 TO 5 YEARS	MILESTONES FOR 2010/11
FISCAL REPORTING AND MANAGEMENT	
<p>The budget process and fiscal reporting are consistent with the Government's overall fiscal objective and ensure government spending represents value for money.</p>	<p>Better integration of fiscal management and reporting into the State sector outcome. Fiscal management and the budget process cease to be standalone and are integrated into the achievement of other results.</p> <p>Ministers are provided with options that allow them to decide whether to affect the price, quantity and standards of existing expenditure. Budget strategy advice and the <i>Budget Policy Statement</i> (BPS) are developed to support the Government's fiscal strategy, growth and State sector objectives.</p> <p>Unqualified audit opinion on the 2009/10 Crown accounts.</p> <p>Advice provides options that enable the Government to deliver the Budget consistent with their fiscal strategy and BPS.</p> <p>The scope of the annual review of the budget process is widened to test that Chief Executives and Ministers consider the budget process integrates with relevant State sector improvement activities.</p>
FORECASTING AND MONITORING	
<p>Forecasts and financial reporting provide reliable information to assist decision-making and forecast accuracy is maintained within a 3% variance.</p>	<p>Produce forecasts of the economic and fiscal outlook at least twice yearly (BEFU and HYEFU), provide regular updates on developments in the domestic and international economies and provide monthly updates on the Government's fiscal position.</p> <p>Revenue forecasts improve to within a 3% variance.</p>

## Result: Effective and Efficient Management of Financial Operations – NZECO and the Crown Guarantee Schemes

### What are we seeking to achieve?

From time to time, government decisions require the execution of certain ongoing or repeated Crown commercial financial transactions with significant fiscal implications or risks. The Treasury will administer key types of transaction, particularly where they require the use of powers of the Minister of Finance or the Treasury on an ongoing basis. There are currently three main areas of financial operations reported under this result: the New Zealand Export Credit Office, the Retail Deposit Guarantee Scheme and the Wholesale Funding Guarantee Facility. Financial operations included under other results include the management of ongoing contractual obligations of the Crown (such as under the SOEs, Maui gas contracts and the Treaty of Waitangi settlements), management of New Zealand House in London, unclaimed money, bona vacantia and the operation of the NZDMO. The evolution of this portfolio of financial operations over time will depend on what policy interventions the Government decides to make that involve administration of significant Crown commercial transactions, followed by consideration of what functions the Treasury is best placed to administer.

The overarching purpose of this result is to operate these functions efficiently and effectively on behalf of the Government.

### New Zealand Export Credit Office (NZECO)

The purpose of the NZECO is to assist New Zealand companies to increase exports by providing government-guaranteed export credit insurance products to New Zealand exporters, particularly for those countries, sectors and contracts that the private sector may not have the capacity or willingness to cover. The products offered by the NZECO currently include: export credit guarantees, short-term trade credit guarantees, general contract bond guarantees, short-term working capital guarantees and US surety bond guarantees. The scope of the NZECO is set out in the Delegation Agreement between the Treasury and the Minister of Finance.

*For more information on NZECO, visit: [www.nzeco.govt.nz](http://www.nzeco.govt.nz)*

### Retail Deposit Guarantee Scheme (RDGS)

The purpose of the RDGS is to help maintain public confidence in New Zealand's financial system and deposit-taking financial institutions in the wake of the global financial crisis. If an institution that is party to the scheme defaults, eligible depositors will receive their money back. The original scheme expires in October 2010, before which a number of entities are expected to default. Last year, legislation was passed to extend the scheme on a reduced basis to 31 December 2011.

*For more information on the RDGS, visit: [www.treasury.govt.nz/economy/guarantee/retail](http://www.treasury.govt.nz/economy/guarantee/retail)*

### Wholesale Funding Guarantee Facility (WFGF)

The purpose of the WFGF was to facilitate access to wholesale financial markets by financial institutions with substantial New Zealand borrowing and lending operations, in a global environment where international investors remain highly risk averse and where many other governments have offered guarantees on their banks' wholesale debt. The facility enabled banks to issue sovereign-guaranteed debt in international wholesale markets. It is now closed to new issues but there is a tail of outstanding guaranteed issues at risk until their maturity (up to five years).

For more information on the WFGF, visit: [www.treasury.govt.nz/economy/guarantee/wholesale](http://www.treasury.govt.nz/economy/guarantee/wholesale)

### What will we do to achieve this?

#### NZECO

Capability and systems are in place to:

- ▶ market NZECO products to exporters and financial institutions
- ▶ assess applications for NZECO guarantees
- ▶ service the NZECO Advisory Board that oversees the management of NZECO and makes final recommendations
- ▶ make decisions and issue of guarantees under delegation from the Minister of Finance, and
- ▶ manage any claims made under the guarantees.

A report back to Cabinet, reviewing the suite of NZECO products, is due in 2011, when funding for some of the existing products ends. This may result in changes in the scope and mandate of the NZECO; these changes could take the form of expansion or contraction of existing services.

#### RDGS

Capability and systems are in place to:

- ▶ process and make decisions on applications for guarantees by eligible banks and non-bank deposit-takers
- ▶ monitor entities' compliance with the guarantee deeds
- ▶ assess and collect Crown revenue from guarantee fees
- ▶ manage any claims from depositors in a timely and efficient way in the event of a default, and
- ▶ report the progress of the scheme, including provisioning in the *Crown Financial Statements*.

The RDGS operates under legislation that expires in December 2011, with a likely tail of claims management going into 2012.

## WFGF

This facility is now closed to new issues, however there will be a tail of outstanding guaranteed issues at risk until their maturity (up to five years). Capability and systems are in place to:

- ▶ monitor entities' compliance with the guarantee deeds
- ▶ manage any claims in a timely and efficient way in the event of default on guaranteed debt issues, and
- ▶ report on progress with the scheme, including provisioning, in the *Crown Financial Statements*.

Unless a bank gets into difficulty or breaches deed provisions, future administration of the WFGF should require minimal resources.

## How will we demonstrate success in achieving this?

IMPACT MEASURES FOR 3 TO 5 YEARS	MILESTONES FOR 2010/11
OVERALL IMPACT– EFFECTIVE AND EFFICIENT MANAGEMENT OF FINANCIAL OPERATIONS	
<ul style="list-style-type: none"> <li>▶ No surprises: Stakeholders are fully informed of significant developments and confident that the Crown's exposure is properly managed.</li> <li>▶ Audit expectations: Any issues raised during the financial statement audit process are fully addressed.</li> <li>▶ Maintain ethical standards: Full compliance with the Treasury standards and professional obligations.</li> </ul>	<ul style="list-style-type: none"> <li>▶ No surprises: Stakeholders are fully informed of significant developments and confident that the Crown's exposure is properly managed.</li> <li>▶ Audit expectations: Any issues raised during the financial statement audit process are fully addressed.</li> <li>▶ Maintain ethical standards: Full compliance with the Treasury standards and professional obligations.</li> </ul>
NZECO	
<ul style="list-style-type: none"> <li>▶ Customer/Stakeholder Satisfaction Survey feedback: No complaints, or within acceptable thresholds and actively managed.</li> <li>▶ International norms: Conform to international obligations and best practice for the provision of the export credit insurance, as specified in Organisation for Economic Cooperation and Development (OECD) and World Trade Organisation (WTO) guidelines.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Customer/Stakeholder Satisfaction Survey feedback: No complaints, or within acceptable thresholds and actively managed.</li> <li>▶ International norms: Conform to international obligations and best practice for the provision of the export credit insurance, as specified in OECD and WTO guidelines.</li> </ul>
RDGS	
<ul style="list-style-type: none"> <li>▶ Processing efficiency: Claims are administered in an efficient and timely manner.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Processing efficiency: Claims are administered in an efficient and timely manner.</li> </ul>
WFGF	
<ul style="list-style-type: none"> <li>▶ Processing efficiency: Claims are administered in an efficient and timely manner.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Processing efficiency: Claims are administered in an efficient and timely manner.</li> </ul>

## Result: Efficient and Effective Management of Financial Operations – Debt and Financial Asset Management

### What are we seeking to achieve?

NZDMO is responsible for funding the Government's borrowing requirements, and associated activities that include managing the Government's overall net cash flows and some of its interest-bearing assets. Our goal is to manage debt and assets in a way that minimises costs while keeping risk at an appropriate level.

The overall result we are seeking is effective and efficient debt and financial asset management. Our primary objective is to minimise the long-run cost of government borrowing. Lower interest costs improve the budget position, and help to maintain New Zealand's international credit rating. This contributes to a stable and sustainable macroeconomic environment.

*For more information on NZDMO, visit: <http://www.nzdmo.govt.nz>*

### What will we do to achieve this?

Following the global financial crisis and associated recession, there has been a large increase in the size of the Crown's forecast debt programme. There is a risk that borrowing costs may increase in the coming year. The large increase in global sovereign-debt issuance could lead to reduced international investor demand; or a perceived increase in New Zealand's sovereign risk could raise our borrowing costs. To keep borrowing costs as low as possible, in 2010/11 we will focus on the two areas described below.

#### Cost-effective funding

- ▶ Successfully conducting regular domestic bond tenders in an efficient manner, and supporting liquidity in the domestic bond market. This includes work on the possible introduction of inflation-indexed bonds, and secondary market trading activity by NZDMO.
- ▶ Choosing debt instruments that minimise the cost of new borrowing while achieving an appropriate risk profile. We continue to maintain funding options across a range of instruments, and a range of domestic and foreign currency markets.
- ▶ Managing funding risk by building up assets in advance of bond maturity dates, thus smoothing the Crown's borrowing requirements.
- ▶ Increasing our marketing effort in order to retain existing investors and encourage new investors. Maintaining relationships with credit-rating agencies will continue to be a high priority.

#### Maximum value added within an appropriate risk management framework

- ▶ Ensuring that our investment and derivatives portfolios, and capital market services provided to Crown clients, continue to generate value and manage risk for the Crown.

## How will we demonstrate success in achieving this?

The key measure of NZDMO success is the New Zealand Government's cost of borrowing. However, there are many factors influencing borrowing costs that are outside NZDMO's control. The performance indicators set out below focus on the specific actions that NZDMO can take to reduce the Government's cost of borrowing.

IMPACT MEASURES FOR 3 TO 5 YEARS	MILESTONES FOR 2010/11
OVERALL IMPACT	
Average cost of new borrowing is lower than the long-run average.	Borrowing cost: Cost of new core Crown borrowing is less than 6%.
COST-EFFECTIVE FUNDING	
Improved demand and liquidity in the domestic bond market results in more efficient issuance.	Tender efficiency: Average domestic bond tender cover ratio is greater than two.
	Tender efficiency measure: Average range of successful bids in domestic bond tenders is lower than five basis points.
Minimise funding risk generated by maturing bonds (potentially up to \$8 billion).	Funding risk: The nearest bond maturity will be fully funded from NZDMO's holdings of cash and short-term liquid assets within three months of maturity.
MAXIMUM VALUE ADDED WITHIN AN APPROPRIATE RISK MANAGEMENT FRAMEWORK	
Investing and derivatives activity generates value for the Crown.	Value added: Value added in the investment and derivatives portfolio is \$40 to \$60 million.
Risk measures of the investment and derivatives portfolio are maintained within target limits.	Investment and derivatives risk: Risk, as measured by monthly value at risk, of the investment and derivatives portfolio averages less than \$1.4 million.

## Result: Management of Crown Risks and Balance Sheet

### What are we seeking to achieve?

This result seeks to ensure that the Crown's balance sheet is fit-for-purpose, and managed in a way that protects value, enhances performance and contains risk. It involves:

- ▶ monitoring the Crown's investment and ownership interests in its portfolio of commercial entities, CFIs and CRIs, and providing shareholding Ministers with advice on the performance and issues arising from this portfolio
- ▶ assisting Ministers with advice on how to obtain better value from, and manage risks associated with, the assets and liabilities on the Crown's balance sheet, and identify and reduce risks that could affect the Crown's finances in the future, at both the aggregate and institutional levels
- ▶ developing a balance sheet strategy that over time aligns the composition and shape of the Crown's assets and liabilities with the Government's value, performance and risk objectives, and
- ▶ building a Centre of Excellence within the Treasury to assist other agencies in their monitoring and governance responsibilities, and to provide Ministers with an assessment of monitoring capability and performance within the State sector.

This work programme is closely related to fiscal, budget and debt management policy. The individual portfolio work is closely related to value-for-money and State sector performance, a focus on baseline capital spending and better capital management through budgeting and allocation processes.

The agencies we monitor are listed on page 42 of this *Statement of Intent*.

### What will we do to achieve this?

We will achieve this by:

- ▶ improving the quality of information available, to ensure that the balance sheet is well measured and understood, and using this information to drive strategic decisions and improvements in performance
- ▶ developing a balance sheet strategy that meets Government objectives, and then subsequently plan and implement changes to the structure of the balance sheet and the ways in which the balance sheet is managed
- ▶ improving the performance and management of the Crown's assets and liabilities through effective monitoring, risk management and governance, and
- ▶ recognising the need for improved balance sheet management and performance across the wider State sector, we will establish a Centre of Excellence to provide advice and support to other monitoring agencies on performance and governance issues.

Much of this work will be undertaken by the newly formed Crown Ownership Monitoring Unit (COMU), created by integrating the CCMAU with the Treasury's monitoring activities. While the monitoring of the performance of the Crown's commercial portfolio is core business for COMU, the work around balance sheet strategy, supporting other agencies' monitoring efforts and risk management is relatively new.

## How will we demonstrate success in achieving this?

IMPACT MEASURES FOR 3 TO 5 YEARS	MILESTONES FOR 2010/11
OVERALL IMPACT	
The Crown's balance sheet is fit-for-purpose in meeting the Government's objectives, and is managed in a way that protects value, enhances performance and contains risk.	The Government's objectives have been agreed, and a framework for managing towards these objectives has been put in place.
IMPROVED INFORMATION FOR MEASUREMENT AND DECISION-MAKING	
The extent and quality of information around the value and risk associated with assets and liabilities is significantly improved.	Net worth, risk and portfolio return are adequately measured and monitored in a consistent and transparent manner.
DEVELOPMENT OF A BALANCE SHEET STRATEGY, AND AN ASSOCIATED PLAN FOR CHANGING THE STRUCTURE AND THE WAY IT IS MANAGED	
Clear strategy in place for the balance sheet. Agreed plans for implementing changes to the structure of the balance sheet.	Clear strategy in place for the balance sheet. Agreed plans for implementing changes to the structure of the balance sheet.
IMPROVED PERFORMANCE THROUGH EFFECTIVE MONITORING, RISK MANAGEMENT AND GOVERNANCE	
The overall net worth of the Crown's balance sheet has increased. The return from the economic assets owned by the Crown has improved. Both of the above measures are achieved without creating additional risk.	The overall net worth of the Crown's balance sheet has increased. The return from the economic assets owned by the Crown has improved. Both of the above measures are achieved without creating additional risk.
COMU is recognised as a Centre of Excellence for monitoring and governance advice.	COMU's monitoring centre is up and running, and is engaged with a number of key agencies on implementing improved governance and monitoring measures.

## Result: State Sector Performance

### What are we seeking to achieve?

The Government has signalled the importance it places on improving State sector performance as a part of its medium-term economic strategy; in particular it is one of the six drivers of economic growth. A high-performing State sector is also critical to achievement of the Government's wider social objectives: supporting high-quality health, education and labour market outcomes.

The Treasury works closely with other Central Agencies to support this priority. The Treasury's role is focused on monitoring and managing the financial affairs of the Government and managing the budget process. We provide particular insight into the efficiency and effectiveness of government agencies and their interventions. This complements leadership by the SSC on the capability of agencies, sectors and systems, and by the DPMC on ensuring that the State sector responds to the Government's priorities.

Overall, we are seeking to maximise the contribution of government interventions to the Government's economic and social priorities.

### What will we do to achieve this?

We will achieve this by focusing on three intermediate results:

- ▶ Doing the right things: delivering institutions and interventions that achieve the Government's economic and social objectives.
- ▶ Better, smarter and for less: delivering quality public services that provide value for money.
- ▶ Consistency with fiscal strategy: revenue and expenditure decisions achieve the Government's long-term fiscal strategy.

Through these results we will work to:

- ▶ provide frameworks and advice around the economic impact of government (in particular, government size and role)
- ▶ provide advice aimed at ensuring that the Government's spending is aligned with its priorities; and that sectoral institutional settings put incentives in the right places, so that all agencies play their part in delivering better performance overall. In particular, we will focus our efforts on those sectors with the highest levels of government spending: health, justice, education, welfare and defence
- ▶ provide advice to Ministers, and work with other agencies directly to ensure that incentives are in place to drive performance at an agency level. This includes support for better administrative and support services across the State sector, innovative service delivery models and ensuring that agency structures are effective. The Treasury will provide advice on the evolution of the public management model, monitor the performance of significant Crown entities and advise on industrial relations issues, and
- ▶ monitor and advise on spending, with a focus on those sectors with the highest levels of government spending – health, justice, education, welfare and defence – to ensure that spending is consistent with the long-term fiscal strategy.

## How will we demonstrate success in achieving this?

IMPACT MEASURES FOR 3 TO 5 YEARS	MILESTONES FOR 2010/11
OVERALL IMPACT	
<p>Government expenditure growth reduces over time.</p> <p>Improvements in public sector productivity and innovation in service delivery.</p> <p>Improved agency capability and value to the public.</p> <p>Overall satisfaction with public services is improved by 2 points – demonstrated in the biennial Kiwis Count 2011 measure.</p>	<p>The public sector lives within the operating and capital limits set by government.</p>
DOING THE RIGHT THINGS	
<p>The Treasury is looked to as a key source of advice on State sector institutions (as measured by interest from Ministers and external commentators).</p> <p>Ministers have clear choices for how to anticipate medium-term pressures in the big spending areas of government – health, defence, justice, education and welfare.</p>	<p>The economic impact of government (size and role) is clearly articulated and informs the Treasury's advice.</p> <p>Advice on aligning government spending with its priorities.</p> <p>Advice on settings and institutions in key sectors.</p>
BETTER, SMARTER AND FOR LESS	
<p>Improvements in the quality, value for money and public satisfaction of government interventions and services.</p> <p>Lifting capability and performance in core agencies.</p>	<p>Supporting Ministers to undertake systematic reviews of key agencies and sectors so as to improve the quality of public expenditure.</p> <p>Through the "Better Administrative and Support Services" (BASS) programme:</p> <ul style="list-style-type: none"> <li>▶ a suite of 'quick win' efficiency initiatives have been commissioned, and</li> <li>▶ longer term options for improving efficiency and effectiveness have been identified in the business case.</li> </ul> <p>Supporting improved agency capability through the Performance Improvement Framework, better quality information on expected and actual performance.</p>
CONSISTENCY WITH FISCAL STRATEGY	
<p>Public sector expenditure is consistent with the Government's fiscal strategy (<i>joint Central Agency measure</i>).</p> <p>Government is able to adhere to its fiscal strategy while achieving its priority objectives.</p>	<p>Advice on practical options to enable the Government to live within the operating allowance it has committed to.</p> <p>Savings are identified for re-investment in frontline priorities.</p>

# Enabling and Supporting a High-performing Treasury

## Maintaining our organisational health and capability

The Treasury's aim over the next five years is to lift its performance to a significantly higher level and so maximise progress towards its three outcomes. As our baseline reduces over coming years, we also need to produce ongoing efficiencies.

We will know we are succeeding when:

- 1 The Treasury delivers its full potential as economic and financial advisor to the Government:
  - ▶ Ministers look to us to help open up debate with other Ministers and stakeholders on difficult issues that have the greatest impact on our outcomes.
  - ▶ Our advice to Ministers (1) is analytically sound, (2) takes into account a range of views, (3) considers the impact and implications of our advice for a range of stakeholders and (4) deals with practical implementation issues.
- 2 The Treasury is an exemplar of a well-run public sector agency because:
  - ▶ we have a clear strategy for achieving optimal impact on outcomes and follow through with action
  - ▶ our people have the right mix of skills and experience
  - ▶ we manage rising cost pressures within baselines
  - ▶ we have a workplace culture that supports accountability, influence and working together as “one Treasury” to deliver better results
  - ▶ leaders and managers have the right information and advice to make informed decisions, and
  - ▶ our corporate service functions provide levels of advice, service and support, in an efficient and effective manner.

## Supporting strategic leadership and governance

Strategic leadership and governance plays a key role in determining what we need to do to maximise the impact on our outcomes. Our aim over the next five years is that the Treasury's leadership:

- ▶ focuses at a strategic level, and leads the organisation to best maximise its influence and impact on our outcomes
- ▶ makes decisions about policy, operational and organisational issues on the basis of robust and complete information
- ▶ models the behaviours associated with our desired workplace culture, and
- ▶ empowers staff to focus on their areas of responsibility.

## How will we demonstrate success in achieving this?

- ▶ We identify financial implications and capital needs well in advance so that the resulting decisions are reflected in the Treasury's own Baseline Alignment Proposals.
- ▶ Our accountability documents are of a high standard, receiving positive feedback from the Minister of Finance and our auditors.
- ▶ The Treasury addresses any issues that are raised through the Performance Improvement Framework evaluation in 2010/11.
- ▶ We continue to develop and implement a five-year strategy that assists in identifying the financial risks and capabilities of the Treasury, and ensures that these are addressed as part of any strategic planning and resource allocation decisions.

## Acquiring, developing and engaging the people we need

Last year, we reviewed the Treasury's leadership model, behaviours and culture, which resulted in substantial changes to the Treasury's leadership team. We have reshaped our leadership to position ourselves to deliver more effectively on our core goals.

This year, the Treasury's focus is on ensuring we have the capability within the new structure, throughout all levels of the organisation, to achieve our results over the next five years. We will implement plans to attract, recruit, deploy, develop, engage and reward people in a way that supports the delivery of the Treasury's results. This will include developing a leadership model with clearly articulated behaviours that drive change, providing managers with the information they need to manage supporting our leadership team in the implementation of a capability plan and a new remuneration and reward framework.

The Treasury will continue to review practices with an Equal Employment Opportunities (EEO) perspective to continue to support the EEO policy for the public service, Equality and Diversity, which took effect in April 2008<sup>7</sup>.

## How will we demonstrate success in achieving this?

We will actively monitor our progress with regular reviews throughout the year and adjust our strategy and approach in response. Specific milestones will include a follow-up staff engagement survey to the 2009 Gallup Engagement Survey, targeting a shift from the 62nd percentile (NZ Government) to above the 65th. We will also establish a benchmark of leadership behaviour across the organisation and review this annually.

## Supporting the Treasury's teams to achieve their results

Our people and teams need a range of corporate support services (including legal, communications, human resources, finance, accommodation, information technology, publishing and administrative support) in order to operate effectively and achieve their results.

<sup>7</sup> A summary of the New Zealand Public Service Equal Employment Opportunities Policy is available from the SSC website: [www.ssc.govt.nz](http://www.ssc.govt.nz)

Our aim over the next five years is to:

- ▶ optimise the price, quantity and standard of these corporate services
- ▶ increase our focus on decision support and efficiency through reduced effort on transactional processes, and
- ▶ continue investigating options for delivery of corporate functions in the Central Agencies and more broadly across the Public Service, drawing on the BASS programme to identify opportunities.

### How will we demonstrate success in achieving this?

- ▶ Within the next five years, the Treasury will be acknowledged by its peers as being one of the best public sector exemplars for price, quantity and standards of its corporate service functions.
- ▶ The BASS benchmarking review will indicate that the Treasury has efficient and appropriately resourced support services, or highlight potential improvements that are actioned.
- ▶ Over the next five years, we will deliver cost-effective services through a corporate service group that is appropriately-sized, given the findings of the BASS review.
- ▶ Leaders, managers and staff will be satisfied that they receive the appropriate level of support to achieve their objectives.

### Performance improvement actions

The Treasury will monitor progress on the following areas:

PERFORMANCE IMPROVEMENT ACTIONS	
WHAT WE ARE SEEKING TO ACHIEVE	OUR INTENDED 3- TO 5-YEAR IMPACTS
<i>People capability strategy</i>	
To know the capability we need to achieve our results, and to attract, recruit, deploy, develop, engage and reward in order to achieve this capability.	A clearly articulated people capability strategy aligned to supporting the achievement of our organisational goals. Our strategic investment decisions in recruitment and retention will ensure appropriate levels of engagement and turnover.
<i>Performance management and measurement</i>	
Clear expectations of performance directly contribute to the achievement of goals and the achievement of desired outcomes. Effective performance management ensures maximum return on the people investment and delivers value for money from the staffing budget.	We will have a clear and strong performance culture of accountability that raises the performance of the Treasury as an organisation.  People at all levels of the Treasury are held accountable for their contribution. A clear process for aligning staff contribution to ensure that the Treasury recognises and rewards excellence and deals swiftly with under-performance.
<i>Efficient decision-making</i>	
Establish a five-year strategy that assists in identifying financial risks and capabilities, and ensure that these are addressed.	The Treasury is positioned to deliver with the resources available to it over the medium term.
Review our management information systems to reduce transaction costs and enhance the quality and accessibility of the information that managers receive.	Managers will have access to up-to-date and integrated financial, human resource and non-financial information.

## Departmental capital and asset management intentions

The Treasury's forecast capital expenditure reflects the three- to four-year cycle of replacement or upgrading assets to maintain and develop our capability. Our capital asset strategy ensures we invest in a work environment that supports flexibility, mobility and efficiency, which also assists in attracting high-performing staff.

The most significant component of our capital programme relates to maintaining our computing environment and internally generated software, including the ongoing development of the NZDMO in-house system.

We will continue to review our capital expenditure requirements at least annually.

FORECAST CAPITAL EXPENDITURE	2009/10 BUDGET \$000	2010/11 FORECAST \$000	2011/12 ESTIMATED \$000	2012/13 ESTIMATED \$000	2013/14 ESTIMATED \$000
Furniture and Fittings	25	-	-	-	-
Leasehold Improvements	11	-	-	-	-
Computer Hardware	853	801	871	1,293	1,523
Office Machinery	-	50	100	75	75
TOTAL PLANT, PROPERTY AND EQUIPMENT	889	851	971	1,368	1,598
Internally Generated Software	-	364	586	339	164
Other Software	2	160	20	50	-
TOTAL INTANGIBLES	2	524	606	389	164

## Cost-effectiveness

The Treasury will continue to ensure it provides efficient and effective services to Ministers by continuing to target investment in people, processes and systems. Work specifically being undertaken as part of the performance improvement actions identified in this *Statement of Intent* will support this objective.

The Treasury is participating in the BASS programme, which will assist it to identify opportunities to improve services in an effective and efficient manner through benchmarking, monitoring and evaluation.

As part of establishing and monitoring our results, the Treasury's leadership regularly considers the level of resources (both staff and consultancy advice) devoted to areas of work, making adjustments to ensure it optimally allocates resources. As the Treasury's baseline is decreasing over coming years, it is putting an increased focus on its finance strategy and seeking efficiencies.

## The Management of Risk

The Treasury's risk management practices use an approach modelled on the joint Australian/New Zealand Standard. Under this approach, a broad range of risks that affect our business are considered, including organisational risks arising from our strategic direction and our operating environment. The Treasury's risk approach is implemented through business processes such as strategy and priority setting, policy advice, operational planning monitoring and reporting and project management.

We oversee and manage our overall set of risks and risk management framework through a Risk and Audit Committee, which includes external members to provide independent perspectives. We are currently improving our risk management approach to ensure that we have a consistent understanding of the strategic risks we face in the context of delivering the results our stakeholders need.

The first stage in lifting our risk management practices is for our leadership to identify our strategic risks, agree their priority ranking and ensure regular review discussions take place. This process will commence with a facilitated workshop.

The Treasury undertakes a number of specialist functions and roles where additional risk management practices and processes are utilised. These include:

### NZDMO

NZDMO is managing risks through the use of:

- ▶ specialist risk management roles
- ▶ a specific risk management framework for the portfolios managed by NZDMO, and
- ▶ an independent advisory board to provide quality assurance on NZDMO's activities, risk management framework and results plan.

### NZECO

NZECO is managing risks through the use of:

- ▶ expert underwriting analysis by international specialists who have institutional knowledge in risk assessment
- ▶ an independent advisory board of specialists in finance and insurance risk assessment, pricing and risk management to review the final analysis and make recommendations for approval of each transaction and undertake ongoing monitoring
- ▶ employing (in-house) staff with appropriate banking expertise
- ▶ applying robust systems and processes to ensure that risks are analysed consistently and in accordance with our mandate (including our delegation, international regulations, international Export Credit Agency best-practice and risk-based pricing), and
- ▶ actively managing risks with the commercial sector (exporters and banks) to mitigate potential issues.

### Crown risks in the financial sector

The Treasury manages and administers two guarantee schemes on behalf of the Crown that relate to the financial sector:

- ▶ the Retail Deposit Guarantee Scheme (RDGS), and
- ▶ the Wholesale Funding Guarantee Facility (WFGF).

### RDGS

The initial RDGS was announced on 12 October 2008 for a two-year period, expiring on 12 October 2010. In September 2009, the Government announced the introduction of an extended RDGS for the period from 12 October 2010 to 31 December 2011. Entry to the extended scheme is by application and is limited to deposit takers who have a credit rating of BB equivalent or better.

In addition, with effect from 1 January 2010, the Treasury introduced revised deeds governing the operation of the initial scheme for the period from 1 January 2010 to 12 October 2010. The revised deeds provided additional flexibility to the Treasury in managing the risks associated with the scheme, as well as giving guaranteed entities the option to issue unguaranteed debt securities. The ability to issue unguaranteed securities provides an opportunity for those entities not eligible to participate in the extended scheme to transition off the initial scheme before it expires on 12 October 2010.

Exposure to risks related to the initial scheme are being managed through the prudential regulation processes for registered banks, and by requiring non-bank deposit takers who sign the guarantee to agree to certain controls on their business, including:

- ▶ restrictions on distributions to shareholders
- ▶ requirements to provide assurance that related party and large transactions are undertaken on arms-length terms
- ▶ the ability for the Crown to appoint an inspector and to seek information from a range of parties, including the auditors and trustees of the entities
- ▶ the ability for the Crown to withdraw the guarantee on a range of grounds, including if an entity is not being managed prudently, has breached the terms of its trust deed or the Deed of Guarantee or if its business is being conducted in a manner that is otherwise inconsistent with the intentions of the Crown in entering into the guarantee, and
- ▶ personal undertakings from directors to ensure the non-bank deposit takers comply with the guarantee.

Non-bank deposit-taking institutions whose depositors are covered by the retail deposit guarantee are also subject to regular financial reporting requirements, on at least a monthly basis. That reporting forms the basis for ongoing monitoring under the guarantee scheme and, where appropriate, the Treasury follow-up of any issues identified on a case-by-case basis. Banks whose depositors are covered by the scheme are monitored under the prudential supervision regime that applies to banks under the Reserve Bank Act 1989.

## WFGF

The Government announced the introduction of the WFGF in November 2008.

On 10 March 2010, the Government announced that the WFGF was being terminated with effect from 30 April 2010 and that no further guaranteed issuance would be approved from that date.

Although no new guaranteed issues are being approved after 30 April 2010, the guarantees for existing issues remain in force until the earlier of the scheduled maturity or five years from the date of issue.

The registered banks approved under the WFGF were also all approved under the Crown RDGS. In addition to the risk management under the retail scheme, the Government further manages its risk exposure by:

- ▶ limiting the availability of the scheme to financial institutions that have an investment grade credit rating (BBB- or better), and have substantial New Zealand borrowing and lending operations (but not to institutions that are simply financing a parent or related company)
- ▶ limiting the amount of debt covered by the guarantee to debt up to 125% of the total stock of eligible types of debt in issue prior to the intensification of the crisis
- ▶ establishing additional capital buffers by requiring an additional 2% Tier 1 capital buffer above the 4% regulatory minimum, and
- ▶ requiring the debt issuer to hedge and manage any foreign exchange risk.

## Monitoring of Crown Agencies

### THE TREASURY HAS MONITORING RESPONSIBILITY FOR THE FOLLOWING:

#### *State-Owned Enterprises:*

- ▶ Airways Corporation of New Zealand Ltd (Airways)
- ▶ Animal Control Products Ltd (ACP)
- ▶ AsureQuality Ltd (AsureQuality)
- ▶ Electricity Corporation of New Zealand Ltd (ECNZ) (the residual company)
- ▶ Genesis Power Ltd (Genesis)
- ▶ Kordia Group Ltd (Kordia)
- ▶ Landcorp Farming Ltd (Landcorp)
- ▶ Learning Media Ltd (LML)
- ▶ Meridian Energy Ltd (Meridian)
- ▶ Meteorological Service of New Zealand Ltd (MetService)
- ▶ Mighty River Power Ltd (Mighty River Power)
- ▶ New Zealand Post Ltd (NZ Post)
- ▶ New Zealand Railways Corporation (KiwiRail Group)
- ▶ Quotable Value Ltd (Quotable Value)
- ▶ Solid Energy New Zealand Ltd (Solid Energy)
- ▶ Timberlands West Coast Ltd (Timberlands)
- ▶ Transpower New Zealand Ltd (Transpower)

#### *Crown Research Institutes:*

- ▶ AgResearch Ltd (AgResearch)
- ▶ Industrial Research Limited (IRL)
- ▶ Institute of Environmental Science & Research Ltd (ESR)
- ▶ Institute of Geological & Nuclear Sciences Ltd (GNS Science)
- ▶ Landcare Research New Zealand Ltd (Landcare Research)
- ▶ National Institute of Water & Atmospheric Research Ltd (NIWA)
- ▶ New Zealand Forest Research Institute Ltd (Scion)
- ▶ The New Zealand Institute for Plant & Food Research Ltd (Plant & Food Research)

#### *Other Crown entity companies:*

- ▶ New Zealand Venture Investment Fund Ltd (NZVIF)
- ▶ Radio New Zealand Ltd (RNZ)
- ▶ Television New Zealand Ltd (TVNZ)

#### *PFA Schedule 4 companies:*

- ▶ Crown Fibre Holdings Ltd (CFH)
- ▶ Research and Education Advanced Network New Zealand Ltd (REANNZ)

#### *Other companies in which the Crown holds shares:*

- ▶ Air New Zealand Ltd
- ▶ Christchurch International Airport Ltd (CIAL)
- ▶ Dunedin International Airport Ltd (DIAL)
- ▶ Hawke's Bay Airport Ltd (HBA)
- ▶ Invercargill Airport Ltd (IAL)
- ▶ Pacific Forum Line Ltd (PFL)

#### *Statutory Crown entities:*

- ▶ Earthquake Commission (EQC)
- ▶ Government Superannuation Fund Authority (GSF)
- ▶ Guardians of New Zealand Superannuation (NZSF)
- ▶ New Zealand Lotteries Commission (Lotteries)
- ▶ Public Trust (Public Trust)

#### *Other Statutory entities:*

- ▶ Board of Trustees of the National Provident Fund (NPF)