



THE TREASURY
Kaitohutohu Kaupapa Rawa

[New Zealand Government](#)

Statement of Intent

2008-2013

B.27 SOI (2008)

Statement of Intent

2008-2013

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Government's vision		
An inclusive New Zealand where all people enjoy the opportunity to fulfil their potential, prosper and participate in the social, economic, political and cultural life of their communities and nation.		
Government's priorities (themes)		
Economic transformation	Families - young and old	National identity
↑	↑	↑
The Treasury's vision		
A world-class Treasury working for higher living standards for New Zealanders.		
The Treasury's goal		
The Treasury is a highly engaged, relevant and respected economic and financial policy advisor, making an impact on the issues that are important to New Zealand's economic performance and State sector performance.		
↑	↑	↑
The Treasury's outcomes		
<i>Improved overall economic performance</i>	<i>A stable and sustainable macroeconomic environment</i>	<i>Improved State sector performance</i>
Improving New Zealand's productivity 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 that affect productivity.	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 this through the Budget.	The ongoing pursuit of State sector performance is of fundamental importance because of its economic implications and its effects on New Zealanders' welfare. Our primary concern is with ensuring that State services are delivered in the most efficient and effective way.
↑	↑	↑
Treasury Outputs (medium-term)		
Improved overall economic performance — we provide analysis and advice on: <ul style="list-style-type: none"> financial markets, investment and savings competition and regulatory frameworks sustainable use of natural resources skills, including social mobility international connections, including exporting and monetary policy infrastructure—particularly Auckland transport innovation labour market performance tax measuring and monitoring economic performance Treaty of Waitangi settlements. <i>International connections</i> — the implications of globalisation for New Zealand's economy <i>Skills</i> — leadership and analytical input into cross-agency work streams <i>Natural resource management</i> — how to achieve an economy that is both productive and sustainable.	A stable and sustainable macroeconomic environment (<i>also contributes to achievement of Outcome 1 objectives</i>) — we provide analysis, monitor, report and/or advise on: <ul style="list-style-type: none"> the fiscal position, and fiscal and macroeconomic policies and frameworks macroeconomic developments, tax, expenditure, and macroeconomic forecasts regulatory and tax policy settings, spending and tax needed to achieve government objectives, macroeconomic stability and delivery of better State sector performance. <i>Long-term fiscal sustainability</i> — <ul style="list-style-type: none"> options for managing long-term fiscal challenges promoting an understanding of long-term fiscal issues. We will produce a Statement of the Long-Term Fiscal Position. <i>And the Treasury</i> <ul style="list-style-type: none"> manages the Budget process manages and issues Crown debt contributes to Crown debt and financial asset management. 	Improved State sector performance (<i>also contributes to achievement of Outcomes 1 and 2 objectives</i>) — the Treasury, working with other central agencies and departments, provides advice and analysis on improving: <ul style="list-style-type: none"> overall performance in fiscally significant areas: Health, Education, maintaining the revenue base, the benefit system, and roading/transport the performance of agencies that significantly impact on firms/ economic transformation; skills/ social mobility, transport, Auckland, and climate change capital and asset management system-wide, with a particular focus on the capital intensive agencies management of State sector remuneration. <i>The central agencies</i> — seek better co-ordinated policy outcomes, increased agency engagement on performance improvement, and improvements to public management systems.
Treasury's strategic result areas (SRAs)		
<ul style="list-style-type: none"> International connections Natural resource management 	<ul style="list-style-type: none"> Skills Long-term fiscal sustainability. 	
These are areas identified as having a long-term pervasive impact for New Zealand where the Treasury can contribute most to framing the debate and crystallising strategic options and trade-offs.		
Treasury Output classes		
<ul style="list-style-type: none"> Policy advice and management: macroeconomic; economic performance; and State sector performance Debt and related financial asset management 	<ul style="list-style-type: none"> Management of claims against the Crown, contractual liabilities and Crown properties New Zealand Export Credit Office (NZECO). 	

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FOREWORD: MINISTER OF FINANCE

The Government works closely with the Treasury in striving to improve the living standards of all New Zealanders.

Our long-term vision for New Zealand is to build a fair society and a strong and prosperous economy.

This vision is underpinned by creating a solid foundation for economic growth through continued prudent management of public services, and by constantly seeking to improve the effectiveness and efficiency of government. Pivotal to the success of this vision are our efforts to increase savings, improve export performance and invest in the wellbeing of New Zealanders.

The Treasury has a critical role to play in ensuring all elements of this vision are achieved.

As the Government's lead economic and fiscal advisor, the Treasury contributes work critical to achieving better economic performance for New Zealand, as well as toward improved State sector performance and responsible macroeconomic objectives.

Already the positive impacts of the Treasury's refreshed strategic direction – "Stepping Up" – are making in-roads, with more effective engagement and response around economic challenges and a greater consideration of the needs and views of external stakeholders. The Treasury's new direction sees it focusing on four key areas where the impact it can have on the lives of New Zealanders is greatest. This lies around improving our skill base, fostering international connections, sustainable use of natural resources, and long term fiscal management.

This *Statement of Intent* sets out the way the Treasury will continue to contribute to the Government's goals over the coming year and into the medium term. It identifies key areas of work as underpinned by the solid foundations of economic growth, macro economic stability and State sector performance.

As the responsible Minister, I am satisfied that the *Statement of Intent 2008 - 2013* is consistent with the policies and performance expectations of the Government.

I look forward to the Treasury's continued high-quality advice, which is increasingly focused on the areas in which we can have the most impact on the living standards of New Zealanders.



Hon Dr Michael Cullen

Minister of Finance

INTRODUCTION FROM THE CHIEF EXECUTIVE

CHIEF EXECUTIVE'S FOREWORD

This *Statement of Intent* allows the Treasury to articulate its key achievements over the past year and our vision and goals moving forward.

Over the last year, we have improved the ways in which we have an impact on issues important to New Zealanders. In the context of the positive impact of "Stepping Up" – our strategic and organisational internal review, we have made significant inroads into being a more highly engaged and responsive Treasury.

Building upon this in 2008 we will be focusing our energies and experience on those areas we believe will have the greatest impact on the living standards of New Zealanders – namely around: improving skills; international connections; sustainable natural resource management; and ensuring long-term fiscal planning. The Treasury is taking a leadership role in these areas, anticipating the needs of Government and the people of New Zealand.

These areas of focus have been prioritised across the Treasury's three outcomes – improved economic performance, a stable and sustainable macroeconomic environment, and improved State sector performance. They are driven by our roles not only as the government's lead economic and financial advisor, but also in recognition of the importance of our role as one of three central public sector agencies.

A key and ongoing focus of the Treasury's work is around improving the efficiency and effectiveness of the government sector around exploring ways to deliver better State sector performance in order to achieve a more sustainable and stable economy. Our focus on the key areas of skills, international connections, natural resources, and long term fiscal management, means we will be able to offer more effective and productive policy advice.

Now more than ever the public service needs to be more responsive and innovative, and deliver better services. I am confident that with the changes the Treasury has made in moving toward being a more engaged, relevant and respected advisor to government, we will continue to improve the ways in which we make a real difference to the lives of New Zealanders.

With this goal in mind, during 2008/09, and over the next three to five years, I – with my team at the Treasury – will embrace with enthusiasm meeting the priorities outlined in this *Statement of Intent*.



John Whitehead

Secretary to the Treasury

NATURE AND SCOPE OF FUNCTIONS

The Treasury provides the government with financial and economic advice and services to help improve New Zealand's economic performance, including the performance of the State sector and macroeconomic stability. The Government goal that the Treasury contributes most directly to is that of *economic transformation*.

The Treasury currently administers around 52 pieces of legislation on behalf of the government. Most significant of these are the Public Finance Act 1989 and the State Owned Enterprises Act 1986 (<http://www.treasury.govt.nz/abouttreasury/legislation>). The Public Finance Act 1989 provides us with the mandate to administer Budget legislation. It is also the platform for the advisory roles expected of us by government. The Treasury's scope includes an interest in institutions, macroeconomic performance and structural policy issues, and financial advice to the Government.

Like all government agencies, the Treasury takes a "managing for outcomes" approach to our work. That is, we focus our efforts on key outcomes that support Government goals. We need to do this in collaboration with other agencies. As the Government's leading economic and financial advisor, the Treasury is one of the three central agencies.

The common purpose of the central agencies stems from a shared, mutual interest in a high performing, trusted and accessible State sector — delivering the right things in the right way at the right prices. In this role we meet the Government outcome for *improved state sector performance*. To perform this role we have a shared common purpose with the Department of the Prime Minister and Cabinet and with the State Services Commission.

In addition to the shared outcome, central agencies have unique roles and responsibilities that contribute to other outcomes.

The Department of the Prime Minister and Cabinet (DPMC) exists to support the process of collective decision making, to convey Cabinet's decisions to the relevant Ministers and officials and ensure that the Cabinet receives well-conceived and coordinated advice. DPMC also has a leadership role in relation to government themes and priorities, including conveying the Government's priorities to officials.

The Treasury exists to monitor and manage the financial affairs of the Government and to provide economic and fiscal policy advice. The Treasury is the key agency to support Ministers in balancing priorities through the Budget process. They provide insight into the efficiency and effectiveness of government interventions.

The State Services Commission (SSC) exists to appoint and manage Public Service chief executives, to provide leadership in improving the capability of agencies, sectors and systems, and to ensure that State servants are appropriately focused on responding to the Government's priorities.

OUR ROLE

We provide economic advice; financial advice, management and administration; and central agency performance leadership, including:

- policy advice on economic performance
- fiscal and macroeconomic policy advice
- management of economic and fiscal forecasts and fiscal strategy reports, *Statement of Long-Term Fiscal Position*, and economic and fiscal updates
- the Budget process
- presentation of Crown accounts
- controller functions – controlling money disbursement to departments from the Crown
- management of Crown financial assets and debt – through the New Zealand Debt Management Office (NZDMO)
- export credit insurance as delegated by the Minister of Finance – through the NZECO
- commercial operations – management of commercial, contractual, legal and Treaty of Waitangi related claims against the Crown; management of associated financial risks
- advice and policy for improved State sector financial and asset management performance - in our individual role and as a central agency.

Our policy advice focus is on issues with regulatory or policy implications that may have a significant and therefore pervasive impact on the performance of the economy as a whole, rather than providing second-opinion advice on all issues with economic implications. Supporting the Government focus on *sustainability* is an important aspect within our role and functions.

Outcomes	Output Classes	Treasury Groups
Macroeconomic performance	Debt and Related Financial Asset Management	Macroeconomic
	Policy Advice and Management: Macroeconomic	
State Sector performance	Policy Advice: State Sector Performance	State Sector Performance
Economic performance	Management of Claims Against the Crown. Contractual Liabilities and Crown Properties	Economic Performance
	New Zealand Export Credit Office	
	Policy Advice: Economic Performance	

The Crown Company Monitoring Advisory Unit (CCMAU)

CCMAU is a stand-alone unit within the Treasury. It provides monitoring advice to the Minister for State-Owned Enterprises and other responsible Ministers (Vote State-Owned Enterprises) and to the Minister of Research, Science and Technology and the Minister for Economic Development (Vote Crown Research Institutes). The Executive Director of the Unit is directly accountable to the Secretary to the Treasury for the Crown's investment in CCMAU, and for CCMAU's performance.

STRATEGIC DIRECTION

The Treasury's overall vision is to be a world-class Treasury working for higher living standards for New Zealanders. Our overarching goal is to be a highly engaged, relevant and respected economic and financial policy advisor, making an impact on the issues that are important to New Zealand's economic performance and State sector performance.

In 2006, the Government set out three themes describing its vision for New Zealand and the approach for State sector agency focus. Due to our role as the financial and economic advisor to government, the Treasury's primary direct focus area is *economic transformation*. Through our role as the manager and advisor for the government's budget, we also focus on and contribute to the effectiveness of spending and policy priorities affecting *families – young and old* and *national identity*.

The Government focus for *economic transformation* is directed towards lifting the performance of the economy. As is illustrated in the following table and described further in our Operating Intentions, the Treasury focus is well aligned to this intent.

The objective of our advice is to help the government achieve higher living standards for New Zealanders. Sustained and steady growth in New Zealanders' incomes is a central means of improving the living standards of New Zealanders. Economic growth enables choices by individuals and provides the means to acquire many of the things we value. It also gives the government choices; this includes how it funds education, health, environmental protection, physical and social infrastructure, and assistance to those in need.

Higher living standards also incorporate elements that are broader than increases in consumption and income. These determinants of an individual's well-being are likely to include such things as good health, a satisfying job, and a high-quality natural environment. And beyond individual well-being, most New Zealanders also place a high value on social inclusion, freedom, security, democracy, equality of opportunity, and our physical environment. These dimensions of wellbeing are clearly important in their own right, and some are also important contributors to economic performance. Some aspects of well-being are more relevant to the Treasury's responsibilities than others.

Government priorities	Alignment of Treasury activities
<p>Economic transformation</p> <p>Working to progress our economic transformation to a high-income, knowledge-based market economy, which is both innovative and creative and provides a unique quality of life to all New Zealanders:</p> <ul style="list-style-type: none"> • Growing globally competitive firms • World-class infrastructure • Innovative and productive workplaces, underpinned by high standards in education, skills and research • An internationally competitive city – Auckland • Environmental sustainability. 	<p>We support government by advising, consulting, collaborating, forecasting, and providing research and development of policies that will lead to a sustainable and productive economy.</p> <p>The Treasury advises on alternative paths to a fiscal position that is sustainable in both the medium-term (approximately 10 years) and longer-term (in the next 20-plus years).</p> <p>Through the Budget process we advise on priorities for spending in support of policies to meet this theme.</p> <p>Our work on improving the performance of the State sector also supports the theme, by supporting others to align their resources and effectively deliver to achieve <i>economic transformation</i>.</p>
<p>Families – young and old</p> <p>All families, young and old, have the support and choices they need to be secure and be able to reach their full potential within our knowledge-based economy:</p> <ul style="list-style-type: none"> • Strong families • Healthy, confident kids • Safe communities • Better health for all • Positive ageing. 	<p>Through the Budget process we advise on priorities and policies to support <i>families – young and old</i> and help prioritise spending in support of policies to meet this theme.</p> <p>For this theme, through advice on policies and the performance of agencies (individually and collectively), we focus on: health, education, justice, infrastructure and social development.</p>
<p>National identity</p> <p>All New Zealanders are able to take pride in who and what we are, through our arts, culture, film, sports and music, our appreciation of our natural environment, our understanding of our history and our stance on international issues:</p> <ul style="list-style-type: none"> • Who we are • What we do • Where we live • How we are seen by the world. 	<p>Through the Budget process we advise on priorities and policies to support a strong <i>national identity</i>.</p> <p>Our work on improving the performance of the State sector also supports the theme, by supporting others to align their resources effectively.</p> <p>We also contribute to Government’s Treaty related work.</p>

OUR OUTCOMES

As government’s leading economic and financial advisor, the best way that the Treasury can contribute to higher living standards is through sound and timely advice to the government of the day on issues that pertain to our three outcomes:

- Improved economic performance
- A stable and sustainable macroeconomic environment
- Improved State sector performance.

Our outcomes are linked to or shared with other agencies. In particular the Ministry of Economic Development (MED) works alongside the Treasury to provide economic advice to the government. The Treasury's main focus is on issues that have a pervasive impact on the performance of the economy as a whole. The Ministry's complementary focus is on ways of improving New Zealand's economic growth potential, drawing on its knowledge and understanding of firm and sector issues.

Improved economic performance – is largely about increasing incomes and living standards for New Zealanders. New Zealand has high labour participation and the main area of focus is improving productivity.

A stable and sustainable macroeconomic environment – includes low and stable inflation, predictability in tax and spending, and minimising unnecessary volatility in aggregate output (GDP). This contributes to higher economic growth, by allowing individuals, businesses and the government to plan more effectively for the longer term. This improves the quality and quantity of investment in physical and human capital, and helps to raise productivity.

Improved State sector performance – is of interest to us because of the need to provide value-for-money, well targeted, efficient and effective services – and our Central Agency role also contributes to and supports State sector performance as a key driver to improve wider State sector agency, policy and system performance.

Our focus on improving the performance of the State sector has specific individual commitments with other agencies, as well as having collective commitments with our central agency partners, as outlined in our outcomes. These commitments contribute to and align with the development goals for the State sector and provide a whole-of-government approach to improvement.

Over the medium-term the three central agencies will:

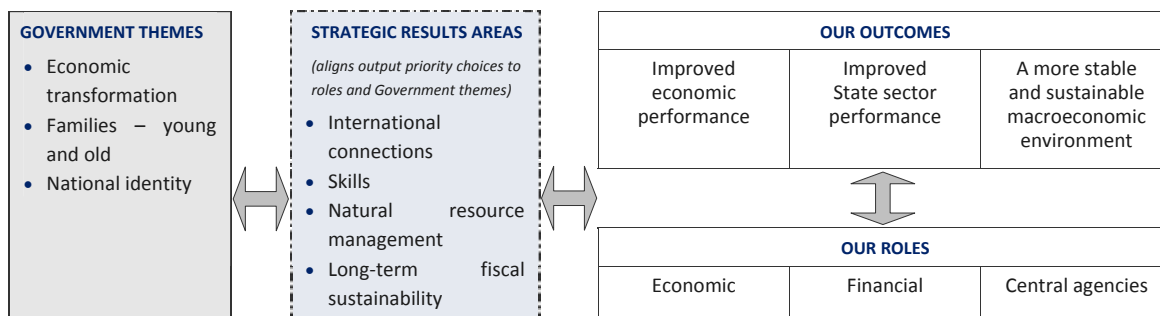
Provide effective leadership: Central agencies will take responsibility for making our devolved system work. To that end, we will work alongside other agencies on specific issues.

Central agencies will work to give Ministers better information and advice. We will ensure that the right guidance and monitoring are in place to enable the system to run smoothly, ensuring agencies will have a clear understanding of Ministers' performance expectations.

Focus on the things that matter: Efforts will be better targeted to where they are going to have the most impact on results. Central agencies will focus on priority issues and get action on these while retaining responsibility for a system-wide view.

Work together more effectively: By sharing information and integrating aspects of planning, the central agencies will develop joint views on where priority issues lie. We will then identify where there is value in taking joint action on issues, or where separate action is likely to be more productive.

OUR MEDIUM-TERM APPROACH TO MEETING GOVERNMENT PRIORITIES



In the *Treasury Statement of Intent 2007-2010* we introduced our “Stepping Up” programme. In this we discussed our plans for harnessing our capability to best advantage. As a result, we have now implemented Results Plans covering the work in which we engage. These describe our activities and intended results and enable us to measure and report to the Minister of Finance on our progress towards achieving the Government’s priorities and our mandatory functions, which we do on a four-monthly basis.

In 2007, we also indicated our intention of using this focus to concentrate more energy and have more impact on a smaller number of strategic issues, across our three outcomes. Our purpose in doing so was to have more impact in the areas that will most affect our outcomes and through these Government priorities. These are areas of long-term pervasive impact for New Zealand where the Treasury can contribute to framing the debate and crystallising strategic options and trade-offs.

Those chosen reflect the current environment, including Government themes, future challenges and risks to enable us to prudently channel our resources and focus towards those areas where we are able to have most impact.

Our four Strategic Results Areas (SRAs) are:

- International connections
- Skills
- Natural resource management
- Long-term fiscal sustainability

All of these SRAs involve multiple agencies. We aim to contribute our unique perspective – as a central agency, economic and fiscal advisor – to support the government’s medium-to-long-term thinking in these areas. We will work closely with other agencies on these issues, to offer the government the best solutions and new ideas.

These are not intended to cover all aspects of our activities, nor are they the only things we think are important. Rather, they are chosen to offer the best focal lens through which we may deliver a connected, value-for-money programme to meet the aspirations of government for New Zealanders into the future.

To ensure the optimal use of our resources in contributing to Government objectives, these will guide the Treasury’s choices, decision-making and results assessment. As they present a new approach for 2008, they will be progressed and assessed during the following two to five years. We will aim to establish measures of success and impact for the contribution of associated programmes.

OPERATING INTENTIONS

The Treasury is looking to have an impact on three outcomes. The outcomes are contributors to the Government's priorities; and the SRAs provide a focus across these outcomes. Below we detail what we intend to do over the next two to five years within each outcome. By their nature the SRAs and the activities cut across outcomes, which are themselves interconnected. Nevertheless our outcomes provide a useful framework for expressing our intentions.

OUTCOME 1: IMPROVED OVERALL ECONOMIC PERFORMANCE

Improving New Zealand's productivity is crucial for a better standard of living, and relies on better use of the country's capital, skills and international connections. Recent research undertaken by the Treasury suggests there are five drivers for productivity:

- Enterprise
- Innovation
- Skills
- Investment
- Natural resources

Increases in productivity come from investing in new capital, increasing skill levels, encouraging entrepreneurial activity, and better natural resource management, and using international connections to further each of those areas.¹ Our SRA focus is chosen to directly target these key drivers.

What are we seeking to achieve?

On economic performance we are seeking to achieve higher GDP per capita, higher productivity and higher living standards.

International connections – broadly, international connections are about flows of people, capital, ideas and trade into and out of New Zealand. These flows allow New Zealand to acquire scarce skills, raw materials, intermediate goods and services, leading edge technologies, new production techniques, management capability, profitable markets, distribution networks, and many other factors that affect productivity. We are seeking to achieve a sustained increase in economic performance resulting from international connections to and from New Zealand, progressively increasing the net benefit to New Zealand from these activities (and hence raising living standards for New Zealanders).

Skills – a number of factors relating to skills and social mobility are particularly critical for achieving an increase in the economic contribution of New Zealand's collective skills base over the medium-term. We are seeking to achieve a substantive increase in the economic contribution of New Zealand's collective skills base, and the contribution of skills to improving living standards.

Natural resource management – we are seeking economic sustainability for New Zealand in a world of limits. We want to see the New Zealand economy using natural resources sustainably and productively.

Long-term fiscal sustainability – we are seeking to influence decision-makers to take action to meet the long-term fiscal challenges. A sustainable long-term fiscal position aids economic growth through keeping the cost of raising government debt low and stable, and providing a reasonable degree of certainty to individuals as to the future path of government spending and taxes. Details are discussed under Outcome 2, *A stable and sustainable macroeconomic environment*.

¹ Papers on productivity published by The Treasury include:

3 April 2008: *Putting Productivity First; New Zealand's Productivity Performance; Does Quality Matter in Labour Input? The changing pattern of labour composition.*

15 April 2008: *Enterprise and Productivity: Harnessing Competitive Forces; Innovation and Productivity: Using Good Ideas to Work Smarter; Investment, Productivity and the Cost of Capital: Understanding New Zealand's "Capital Shallowness"; Working Smarter: The Contribution of Skills to Productivity Growth.*
<http://treasury.govt.nz/publications/research-policy/tprp>.

What will we do to achieve this outcome?	How will we demonstrate success in achieving this?
<p>To make the biggest difference to this outcome over the next two to five years the Treasury will continue to provide advice on the wide range of policies that affect productivity; and intensify and lift our level of engagement in the four SRAs.</p> <p>Issues that impact directly on the five drivers of productivity include:</p> <ul style="list-style-type: none"> • financial markets, investment and savings • competition and regulatory frameworks • sustainable use of natural resources • skills, including social mobility • international connections; including exporting • infrastructure – particularly Auckland transport • innovation • labour market performance • tax • measuring and monitoring economic performance. <p>In addition, and related to this, we will contribute to the settlement of Treaty of Waitangi claims.</p>	<p>Our impact will be measured by monitoring trends in the following areas:</p> <ul style="list-style-type: none"> • Productivity measures (labour productivity, capital productivity and multifactor productivity). • GDP and GNP per capita. <p>To progress our strategy for this outcome overall we will continue to work with the Inland Revenue Department Ministry of Economic Development (MED) and other agencies to achieve the effective implementation of government policies aimed at lifting the savings performance of New Zealanders. We will also be working with MED and others to advise the Government on policy changes to improve the development and performance of financial markets and to implement any changes agreed by government.</p>
<p><i>In particular, we are seeking to lift our level of engagement through the SRAs as follows:</i></p>	
<p>International connections – there is potential to increase the economic benefit to New Zealand from international connections. Most of these connections occur in the private sector, and the impacts we seek depend on many agents and drivers. Government has a pivotal role in establishing an appropriate environment through its institutions, regulatory settings, international engagements, and overall strategy to manage New Zealand’s place in a dynamic global context. This moves beyond the openness of our economy.</p> <p>As a central agency and economic and fiscal advisor, the Treasury is looking for a step-change in its performance as a strategic advisor to government on international connections. Working with agencies such as Ministry of Economic Development (MED), the Ministry of Foreign Affairs and Trade (MFAT), and New Zealand Trade and Enterprise (NZTE), the Treasury seeks to play a more effective leadership role in considering the implications of globalisation for New Zealand’s economy, framing the issues and addressing trade-offs and priorities, focusing on leveraging off the opportunities and mitigating the risks that New Zealand will face over the medium and long-term. This will involve a shift in focus for much of the organisation – we aim to embed an international connections focus throughout all our advice where relevant. For example, we expect this SRA to influence policy development in areas such as skills, regulation, tax, trade, infrastructure and natural resource management.</p> <p>To achieve a well-connected approach we will work with MED, NZTE, MFAT and other agencies as appropriate.</p>	<p>Over the long run we will be looking for increased trend growth attributable to the direct and indirect effects of international connectedness. While disaggregating these effects is difficult, we will monitor progress on trends in areas such as:</p> <ul style="list-style-type: none"> • exports as a proportion of GDP • skills stock and flows • capital stock and flows • ideas and innovation trends • productivity measures. <p>The Treasury’s role in helping government achieve long-term goals is as a strategic advisor. In the shorter term, we will measure our success through the quality of our advice. In particular, we know we are succeeding when we see the following:</p> <ul style="list-style-type: none"> • We are clearly articulating the implications of globalisation for New Zealand, including specifying areas where New Zealand can enhance the economic benefits from international connections. (This will set the scene for much of our work.) • We are providing targeted, in-depth advice on specified institutional/policy areas – in the first instance, this will be skills/immigration. • We are supporting the international relationships we most need to foster by engaging ourselves and better supporting Ministers to do so. • We are providing the analytical tools to support an international connections focus across all of our relevant advice.

What will we do to achieve this outcome?	How will we demonstrate success in achieving this?
<p>Skills – the Treasury will seek to provide greater levels of leadership and analytical input into cross-agency work streams where there are the strongest opportunities to achieve a substantive increase in the contribution of New Zealand’s collective skills base to economic growth and to living standards more broadly. This will include:</p> <ul style="list-style-type: none"> • engaging more strongly in the Schools Plus policy work to improve the engagement and achievement of 15-19 year olds • undertaking analysis and research relating to: <ul style="list-style-type: none"> - participation in early childhood education services (particularly for Māori, Pacific and low socio-economic groups) - the skills, capability and other attributes needed for improved economic performance (in order to achieve a better match between the skills, capabilities and other attributes we have and those needed for improved economic performance) • working with other State sector agencies to minimise domestic policy barriers to social mobility, undertaking research, and consulting with other agencies, NGOs and academics to provide policy advice. <p>For all these activities, we will have a specific role to ensure fiscal risks and budgetary implications are well considered and policies represent the best value-for-money outcome.</p> <p>We will advise on approaches and undertake research on skill needs for economic development.</p> <p>To achieve a well-connected approach we will work together with the Ministry of Education, the Tertiary Education Commission and the Department of Labour.</p>	<p>To gauge progress we will look for indications that:</p> <ul style="list-style-type: none"> • rates of labour productivity are increasing • skills shortages are reducing • wages are less correlated with ethnicity, gender and socio-economic background. <p><i>Contributory success measures are:</i></p> <ul style="list-style-type: none"> • increased participation rates of two to four year olds from targeted populations in high quality early childhood education services • increased levels of “school readiness” among new entrants and achievement for year 6, both overall and for targeted populations • an increased percentage achieving at each level of the qualifications framework, especially the percentage of school leavers with NCEA Level 2 or equivalent. <p><i>Specifically we will:</i></p> <ul style="list-style-type: none"> • provide advice on improving outcomes relating to participation and quality in early childhood education • produce a discussion paper on the skills needed for improved future economic performance.
<p>Natural resource management – the Treasury will seek to lead the policy debate on how to achieve an economy that is both sustainable and productive. We will work at a macro level, on how to smoothly adjust to sustainability, take advantage of opportunities and manage the risks from sustainability. We will also address the specific topics of climate change and water.</p> <p>We will implement effective and predictable policies to meet New Zealand’s current climate change commitments, and help efficient adjustment to climate change to occur.</p> <p>We expect this result area to impact on a number of other policy areas including competition and regulatory policy, industry policy, internationalisation, innovation, tax, and macroeconomics.</p> <p>To achieve a well-connected approach to sustainability we will work together with other central agencies, the Ministry for the Environment, the Ministry of Agriculture and Forestry and the Ministry of Economic Development.</p>	<p>Our work will be successful when:</p> <p><i>A sustainable and productive economy</i></p> <ul style="list-style-type: none"> • we have developed an understanding of and view on the barriers, opportunities and risks associated with moving towards a sustainable and productive economy; and frame the issues in a way that leads to better decision making • our work with other central agencies and other agencies has identified and provided advice on central government structures to support the sustainability agenda and economic adjustment, and on how to develop requisite capabilities <p><i>Climate change</i></p> <ul style="list-style-type: none"> • New Zealand meets national emissions targets at low economic cost • the domestic carbon price is close to the international price <p><i>Water</i></p> <ul style="list-style-type: none"> • key regions set quality and use limits for water and nitrogen based on integrated goals • allocation systems for water and nitrogen encourage their productive use.

OUTCOME 2: A STABLE AND SUSTAINABLE MACROECONOMIC ENVIRONMENT

A stable and sustainable macroeconomic environment allows individuals, businesses and the government to plan more effectively for the longer term, contributing to higher economic growth and higher living standards for New Zealanders.

By creating an appropriate environment for sustainable growth, macroeconomic performance is fundamental to all of the Government's policy objectives. Through the Budget process, the Treasury plays a key role in helping Ministers prioritise initiatives, ensuring that additional government spending is oriented towards achieving priorities through fiscally sustainable, value-for-money initiatives.

The performance of the State sector is also fundamental to achieving this outcome as public sector productivity and the spending path in key sectors, such as health, education and welfare, have significant impacts on the macroeconomic environment.

Long-term fiscal sustainability – is a vital lens through which to consider the successful achievement of all three of our outcomes and has therefore been chosen as a Treasury SRA. It underpins much of our work. Because it is an important part of achieving a stable and sustainable macroeconomic environment, the primary objectives, deliverables and measures relating to the long-term fiscal sustainability Strategic Result Area are provided below, within our stable and sustainable macroeconomic outcome.

What are we seeking to achieve?

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 this through the Budget.

We are seeking to achieve:

- government spending, tax and investment decisions that lead to a sustainable long-term fiscal position, which aids economic growth through keeping the cost of government debt low and stable, and providing a reasonable degree of certainty to individuals as to the future path of government spending and taxes
- fiscal policy decisions that have due regard for their effect on short-term movements in inflation, interest rates and the exchange rate
- regulatory and tax policy settings that support the smooth adjustment of the economy to domestic and international shocks and do not unnecessarily raise the costs of smoothing fluctuations in the economy
- Treasury forecasts that support decision-making by stakeholders.

In doing this, the Treasury works closely with agencies such as the Reserve Bank. It also engages with all government agencies. International relationships include the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF).

What will we do to achieve this outcome?	How will we demonstrate success in achieving this?
<p>The Treasury contributes to a stable and sustainable macroeconomic environment primarily by:</p> <ul style="list-style-type: none"> • advising on the underlying fiscal and macroeconomic policies and frameworks • monitoring and advising on macroeconomic developments, and providing tax, expenditure and macroeconomic forecasts • reporting on the fiscal position • managing the Budget process • providing advice on the best mix of spending and tax needed to achieve Government objectives, and macroeconomic stability, and deliver better State sector performance • advising on regulatory and tax policy settings that impinge on macroeconomic stability • managing and issuing Crown debt and contributing to financial asset management by maximising the long-term net return on the Crown's financial asset and debt portfolio, within an appropriate risk management framework • contributing to debt and financial asset management so that debt issuing and repayment are more closely linked with Budget and fiscal strategies. <p>Long-term fiscal sustainability –</p> <ul style="list-style-type: none"> • promoting understanding of long-term fiscal issues within the broader public sector and among the public • providing advice on options for managing long-term fiscal challenges using a mix of aggregate expenditure and taxation that is the best possible in terms of growth and value for money. 	<p>The success of the Treasury's strategy will be demonstrated when:</p> <ul style="list-style-type: none"> • New Zealand remains one of the better-performing OECD economies with respect to GDP and inflation variability • government maintains a sustainable fiscal position (as measured by fiscal indicators including levels of debt, net worth and stability in tax rates) • the tax system reflects a level and structure that are sustainable, taking appropriate account of equity and efficiency concerns • we achieve and maintain a record of accurate and unbiased macroeconomic and tax forecasts, and accurate Crown accounts. <p><i>Specifically we will:</i></p> <ul style="list-style-type: none"> • assist the Minister of Finance to produce annual Budget Policy Statements and Fiscal Strategy Reports • produce six-monthly Economic and Fiscal Updates. <p>Long term fiscal sustainability –</p> <ul style="list-style-type: none"> • Successive annual projections of the 10-year fiscal outlook show a strong fiscal position under credible and reasonable assumptions. • Decisions are taken that help stabilise debt-to-GDP in 40 years under credible and reasonable assumptions. <p><i>Specifically we will:</i></p> <ul style="list-style-type: none"> • produce a <i>Statement of the Long Term Fiscal Position</i> by June 2010 as required under the Public Finance Act 1989. <p><i>Cost-effectiveness measures for NZDMO and NZECO operations are presented in this Statement of Intent in the section on Cost-effectiveness.</i></p>

OUTCOME 3: IMPROVED STATE SECTOR PERFORMANCE

The ongoing pursuit of State sector performance is of fundamental importance because of its economic implications and its effects on New Zealanders' welfare. Due to its size, improvements in performance will have an impact on economic growth. Improved performance will also place less stress on fiscal policy, assisting in finding fiscal headroom to progress priority areas, and contributing to the Treasury's stable and sustainable macroeconomic environment outcome.

Understanding both the current and potential performance of the State sector also directly supports the Government to achieve the goals contained in its three themes of *economic transformation, families – young and old* and *national identity*. It helps identify where the government should focus its expenditure and what level of funding represents value for money.

We will apply leverage from our strategic results area focus to our work covering the State sector, with an increased focus on the productivity of the public sector system and the aggregate impact of spending and tax decisions. We are looking to improve short- and medium-term public sector productivity, performance and value for money, in order to achieve long-term fiscal sustainability.

Central agency advice to government is intended to contribute towards achieving *“a high performing, trusted and accessible State sector, delivering the right things in the right way at the right prices”*.

What are we seeking to achieve?	
<p>Our primary concern is with ensuring that State services are delivered in the most efficient and effective way (both to meet the Government's priorities and to generate the maximum possible benefit for taxpayers for a given level of expenditure).</p> <p>Central agencies have a key leadership role to play in aligning the activities of the State sector with Government's priorities and making sure that Ministers receive the best possible advice before making decisions. Each central agency has its own key responsibilities, but they also require contributions from the other two agencies.</p>	
What will we do to achieve this outcome?	How will we demonstrate success in achieving this?
<p>The Treasury, working with other central agencies and departments, is responsible for providing advice and analysis in all of these areas:</p> <ul style="list-style-type: none"> • Improving overall performance in the following fiscally significant areas: <ul style="list-style-type: none"> - Health - Education - Maintaining the revenue base - The benefit system - Roothing/transport. • Improving the performance of agencies that significantly impact on the priorities as reflected in our economic performance, or macro performance outcomes: <ul style="list-style-type: none"> - Firms/economic transformation - Skills/social mobility (early childhood education and skills for 15-19 age group) - Transport - Auckland - Climate change. • Improving capital and asset management system-wide, with a particular focus on the capital intensive agencies (CAM). • The Review of Accountability Documents (RoADs) is intended to provide Ministers, Select Committee and the general public with better performance information about the State sector. <p>We are also developing a consistent and coordinated approach to managing State sector remuneration pressures. All other areas will be streamlined to enable the Treasury to achieve its outcomes for State sector performance.</p>	<p>In the next two-to-five year period we will measure our progress on activities towards achievement of:</p> <ul style="list-style-type: none"> • a health funding track that is consistent with its fiscal strategy and pressures in other spending areas • education funding path forecasts that interpret demographic changes and give up-to-date projections on future education expenditure • success with development of a wider understanding about the long-term implications of New Zealand Superannuation policy changes and eligibility pressures. <p><i>The expected result of the CAM process is:</i></p> <ul style="list-style-type: none"> • better value for government from its increasingly large asset base, and particularly from its new capital investments. There should be fewer fiscal and operational "surprises", more reliable fiscal projections, a more sustainable asset base and, over time, improved service delivery. <p><i>The RoADs project will over time:</i></p> <ul style="list-style-type: none"> • provide more accessible information that assists Ministers, MPs and select committees • improve the quality of performance information, allowing for better assessment of the performance of the public sector • encourage collaboration between departments and the emergence of more cross-government/sector-based thinking.
<p>The central agencies have identified the following priority areas for their work together over the next three to five years:</p> <p>Policy outcomes – to better coordinate resources and support multi-agency initiatives to gain traction on the Government's highest priority policy areas.</p> <p>Agency engagement – to improve the effectiveness and efficiency of our engagement with senior leaders in the Public Service to support them in lifting the performance of their agencies and the State Services as a whole.</p> <p>Public management system improvements – to better coordinate our work to transform the State services through our joint leadership of the Development Goals for the State Services and our efforts to enhance performance information and reporting across the system.</p>	<p>The central agency outcomes are measured by reporting to Cabinet on:</p> <ul style="list-style-type: none"> • priority policy outcomes • the development goals; including capital asset management (CAM) and IT investment • New Zealanders' satisfaction with the public service (<i>Kiwis Count</i>) • industrial relations • agencies' work focuses on relationships rather than performance reporting (except where this is specifically required by Cabinet, such as on Crown entity performance). <p>The measurement of whether central agencies are adding value to State sector performance will be done through an annual survey of State sector agency leaders, and feedback from central agency Ministers.</p>

COST-EFFECTIVENESS

The Treasury is very focused on achieving cost-effectiveness, both with its own outcomes and across the wider State sector. The gains from policy advice are, by their nature, realised incrementally over a period of years from a cumulative series of interventions, making direct cost-effectiveness analysis difficult.

This year we have worked towards developing a framework for measuring the quality of policy advice, *Treasury Quality Standards for Policy Advice*. The framework is based on the principle that to achieve quality our policy advice should be “fit for purpose”. Therefore, regardless of whether our advice is accepted by government, its underpinning quality is essential.

Our measurement is aimed at testing the quality of our advice, whether it is analytically rigorous and is set in a wider strategic context, the timing reflects the necessary imperatives, it is customer focused and persuasive, and our internal control processes (for quality) have been effective. The framework will be used to measure our policy advice results using the agreed dimensions of quality and by applying a measurement process. We will also be using a continuous improvement approach, including reviews and case studies. The details of this framework are presented at the end of the *Statement of Intent*.

Stakeholder feedback provides an important measurement contributor regarding our delivery of policy advice. Our success is measured by feedback from the Minister of Finance, who is asked to indicate whether we are providing quality and timely advice (as defined in our quality measures), are managing within our delegated authority constraints, and are meeting our annual target objectives. We receive this feedback formally three times a year.

To assist us to demonstrate our value-for-money approach, the measures selected for our outcomes are oriented towards demonstrating impacts and progress towards desired changes over time. Where there is an indirect relationship and where other State sector agencies are also working towards a similar outcome, we will continue to collaborate and we may use similar measures of change.

Our focus is on how we will know the outcomes are being achieved, and because it is hard to measure our particular contribution we:

- have identified the deliverables we think will enable us to contribute most effectively to achieving these outcomes
- will include quality as a proxy for our contribution
- will target our resources to the four Strategic Results Areas identified for our medium-term focus
- will use skills and capability planning to ensure we can contribute most effectively.

Management of the Crown’s debt

One of the areas in which the Treasury is able to demonstrate the cost-effectiveness of its work is in the management of the Crown’s debt by NZDMO. The goal is to maximise net returns while reducing risk as much as possible. A set of measures has been developed to highlight trends in performance in key results. We will use these to explain changes over time. The measures are:

- profit generated (value added) for the Crown – annual profit
- market risk (interest-rate and foreign-exchange rate risk) – average monthly value at risk
- accuracy of settlement.

Management of export credit

NZECO measures the value of new exposure for:

- medium- to long-term credit insurance
- US contract bonds
- non-US contract bonds
- working capital.

The number of new policies is also monitored.

Measuring and monitoring economic growth

Sound information about economic growth is a lever for the government in decision making, to achieve the best value-for-money spending choices. Therefore it contributes to cost effectiveness for the State sector as a whole.

Best practice measurement of economic growth and productivity is important for informing the Treasury's policy advice to government. The Treasury's aim is to ensure there is ongoing best practice measurement of productivity (including in the service and public sectors) and that decision-makers have access to better information about aggregate growth performance.

MANAGING IN A CHANGEABLE OPERATING ENVIRONMENT

OUR OPERATING ENVIRONMENT

Key challenge: working smarter rather than harder

The Treasury's view is that raising our country's long-term productivity growth rate is New Zealand's biggest economic challenge. A problem since the 1970s, raising productivity – and incomes and standard of living – relies on investing in new capital, increasing skill levels, encouraging entrepreneurial activity, and managing natural resources better.

Turning around the productivity underperformance dating back 30 years relies on the performance of firms and individuals, and the government also has a key role to play in providing an environment that enables and encourages productivity gains. New Zealand's capacity to raise the standard of living depends on the ability to raise output per worker – the amount of goods and services each worker produces and the value they add.

New Zealand is currently 22nd out of the 30 OECD countries, as measured by GDP per hour worked (a measure of productivity) and GDP per capita (a measure of welfare). Our labour utilisation rate is now one of the highest in the OECD. Our labour productivity levels, on the other hand, look relatively low. Making the best use of international connections will also be key to productivity growth, due to the country's distance from markets and its small domestic market. An ongoing focus on regulation and tax incentives is also important, but they will not by themselves lift productivity growth to the levels to which New Zealanders aspire.

To understand the issues influencing the achievement of government outcomes now and into the future, the Treasury examines New Zealand's economic and fiscal performance to date, scans the horizon for issues that are likely to influence performance in the future, and engages with Ministers and stakeholders in the public and private sectors. This work helps us identify key leverage points for improving what the Treasury can do to help the Government achieve its priorities.

The Treasury's activity choices and focus take a longer term view of achieving desirable impacts. In most cases our achievements will be dependent upon successful collaborative effort within the State sector and through engaging with the private sector.

Economic analysis, modelling and forecasting are core activities for the Treasury. By these means, we seek to identify key results for the economy and monitor the performance of policy setting against achievement of these results. We use our resources and focus (SRAs) to address those aspects of the productivity drivers in which it has been identified we can have the greatest impact in the next two to five years. Our ongoing review of the environment will gather information on change and identify areas of risk and opportunity.

MANAGING RISK

The Treasury has developed an overall risk management framework modelled on the Australian/New Zealand Risk Management Standard [AS/NZS 4360:2004]. It is being integrated with the Risk Management policy into the internal control, audit, policy, planning and quality frameworks currently operating within the Treasury to identify and manage our strategic, operational and project risks.

Under our Risk Management Policy, risk management is the responsibility of all staff, with identification and mitigation of risk a part of planning at all levels of the organisation. In future all policy advice is to be measured by

our quality framework *Treasury Quality Standards for Policy Advice*. This sets out the dimensions of quality to be measured and a measurement process. The details of this framework are presented at the end of this *Statement of Intent*.

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

- the NZDMO – with 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 business plan
- the NZECO – with the use of expert underwriting analysis by international specialists who have institutional knowledge to assist in the assessment of risk, and an independent Advisory Board of specialists in finance and insurance risk assessment, pricing and risk management to review the final analysis and make recommendation for approval of each transaction and ongoing monitoring.

The Treasury has a key role to play in helping the government manage the impact of a national or regional emergency. As a central agency our role includes facilitating an all-of-government response. In addition, as an organisation we must be prepared for adverse events that might disrupt our own operations, or affect the safety of our staff or visitors. The Treasury has a Crisis Plan outlining the crisis response structure, roles and people required to ensure we respond effectively to a significant emergency affecting us or the New Zealand economy.

ORGANISATIONAL HEALTH AND CAPABILITY

The overall goal for the State services is: "A system of world class professional State Services serving the government of the day and meeting the needs of New Zealanders".

STRENGTHENING OUR CAPABILITY

Central agencies will look to further share information and resources to improve performance, increase alignment and integration of policies, and seek to build systems and processes to make working together as easy as possible.

The Treasury actively seeks to meet the State Sector Development Goals. It is important that central agency leadership of these initiatives is underpinned by strong performance by the central agencies in these areas. In 2007, in pursuit of improving our capability to deliver better and value-for-money services to Government, we started with "Stepping Up", a strategic change programme at the Treasury. This involved a fundamental look at our roles, outcomes and strategic direction, how we organise ourselves, how we operate, and the systems and processes we need to deliver on that strategic direction.

It was driven by a desire to move from being an organisation focused at varying levels of effort on a full range of economic and fiscal issues, to one which focuses its resources more intensely – and on issues of the highest priority. To pursue this capability development direction, we now report against Results Plans for our activities and are implementing the four Strategic Results Areas for the medium-term, three to five years.

The aim of our efforts to strengthen our capability is to improve the quality of advice and service the Government gets from the Treasury. When we have a "Stepped Up" Treasury, Ministers can expect advice that is more strategic, analytically rigorous and customer focused. This means advice that is more focused on the future, that anticipates issues before they loom large and there is a limited time or set of options to respond, and, whilst grounded in the highest standards of analytical rigour, is translated into real options for Ministers, informed by a greater understanding of key stakeholder interests and concerns.

We have identified a number of drivers where we need to lift our performance to achieve this goal for government. Our last year's *Statement of Intent* described these in some detail. Over the next two to five years, we will continue to focus on improving our results focus and our customer focus; the quality of our policy advice and other important functions; management and leadership; external engagement; behaviours; decision-making; and organisational performance.

While our own management and reporting frameworks will help us measure our success, the real value of our efforts will only be revealed by how well served Ministers feel in anticipating and managing issues of economic and fiscal significance for New Zealand.

The Treasury's plan to be carbon neutral by 2012

The Treasury is also one of six departments with a plan towards being carbon neutral by 2012. We have already achieved significant reductions in the carbon emissions from our energy consumption and waste through a number of targeted programmes and initiatives since 2004. Our plan to reduce carbon emissions going forward includes introducing further energy-saving practices and using more efficient equipment in our office. We will undertake a travel planning process during 2008 to investigate ways to reduce the emissions that arise from our business travel.

EQUAL EMPLOYMENT OPPORTUNITIES

The Treasury will embrace the new equal employment opportunities policy for the public service, *Equality and Diversity*, which took effect in April 2008. We will continue our commitment to the four EEO groups – Māori, ethnic or minority groups, women, and people with disabilities, and to appointments on merit.

We will analyse our biannual employee survey findings by age, gender and ethnicity which will support capability planning to ensure the Treasury is meeting the needs of our diverse workforce.

We collect data on gender and ethnicity distribution, including the proportion of male/female staff in each tier of management. The trends will be monitored and reported on, and action taken where necessary.

During the period the Treasury is committed to progressing its Pay and Employment Equity Response Plan.

CROWN COMPANY MONITORING ADVISORY UNIT

EXECUTIVE SUMMARY

CCMAU has an established reputation as an ownership advisor to the government on a portfolio of companies and commercial entities that have a significant role to play in New Zealand's economic transformation, one of the priority themes for the next decade.

While all companies and entities are expected to be financially viable, there are other expectations that are becoming increasingly important to the owner. This means higher demands on ownership monitoring and advice, and the need to broaden the suite of levers available to influence company and entity performance. CCMAU is focused on doing so.

CCMAU's performance is best judged by the feedback we receive from Vote Ministers. However, we will continue to seek other indicators that are a good proxy for measuring our contribution to portfolio performance.

We will continue to pay close attention to our staff recruitment and retention policies. The current low unemployment environment means there is strong competition for quality people. High-calibre staff are important if we are to exceed the expectations of our Ministers and wider stakeholders. A key strategy will be to maintain our commitment to staff training and industry knowledge development.

CCMAU'S ROLE AND PURPOSE

CCMAU's role is to do what we can to ensure that State-Owned Enterprises (SOEs), Crown Research Institutes (CRIs) and Crown companies and entities, singularly and collectively, meet or exceed the Crown's expectations of performance – financially, operationally and behaviourally. Their performance, and the value they create, contributes directly to the government's priority theme of economic transformation.

CCMAU provides a range of services that enable Ministers to hold boards accountable for creating shareholder value, however it is measured. These services cover four broad areas.

- Ownership environment management – maintaining a strategic perspective over the ownership environment and assisting Ministers to improve the clarity and awareness of the owner's expectations
- Performance monitoring – evaluating performance against agreed targets and external measures and, where necessary, advising Ministers on actions being taken to address performance that is below expectations
- Issue management – assisting Ministers to manage company and sector issues, and respond to correspondence, parliamentary questions and Official Information Act requests
- Governance – identifying and screening potential directors, managing the board appointment process and director fee-setting in the context of desired ownership outcomes, and taking a leading role in ensuring best practice corporate governance of SOEs, CRIs, and Crown companies and entities is achieved.

To achieve this purpose, CCMAU is currently structured around three sector-focused monitoring teams supported by an appointments and governance team, and a pan-unit corporate team that provides administrative and legal services.

STRATEGIC DIRECTION

In recent times, there has been a heightened expectation for companies and entities to produce results for the owner that are broader than pure commercial and/or legislative expectations. For example, there is now a greater expectation for companies (whether publicly or privately owned) to both act, and demonstrate that they are acting, in a socially responsible manner. These expectations, in turn, lead to higher demands on ownership monitoring and advice.

Over the longer term, opportunities exist for CCMAU to focus on achieving greater outcomes for the government by using the full suite of levers available to influence company and entity performance. Such levers might include:

- developing and managing clear ownership objective statements for all SOEs, CRIs and Crown companies and entities monitored by CCMAU
- strengthening performance feedback loops so that boards are in no doubt about whether current performance really meets the owner's expectations and aspirations
- using valuation techniques to provide a wider perspective on company and entity financial performance
- managing the appointments process in the context of more transparent board performance measures
- establishing CCMAU as the primary point of contact in terms of the company/entity-owner interface.

OPERATING INTENTIONS

In the year ahead, CCMAU will endeavour to maintain and, where possible, enhance its existing outputs. We will continue to provide advice that is well-informed, targeted, accurate and timely. Our main measure of success will be the feedback we receive on our performance from our two Vote Ministers every six months.

Over the next 12 months the companies and entities monitored by CCMAU will face a number of challenges.

Companies in the science and innovation sector are beginning to face challenging financial conditions as they seek to diversify their revenue sources. Other challenges include staff recruitment and retention, with many Crown Research Institutes reporting global competition for top scientific talent. For New Zealand Venture Investment Fund Ltd (NZVIF), a key challenge consists of attracting institutional investment into the venture capital market, for which NZVIF is currently investigating the feasibility of a new fund-of-funds product.

Entities in the communications, services and infrastructure sector continue to evolve and have a number of projects underway. For example, Kordia is focused on developing opportunities for Orcon Internet Ltd (which it acquired in mid-2007) in an unbundled telecommunications environment, CIAL is redeveloping the domestic terminal, TVNZ is making increasing use of digital technologies and has launched two new channels on the Freeview platform over the last year, ONTRACK has various rail upgrade and development projects underway, New Zealand Post is installing new mail-sorting technology, whilst its subsidiary Kiwibank continues to grow.

Energy sector SOEs face significant challenges in addressing ongoing security of supply issues, in both the short and long term, in the context of the New Zealand Energy Strategy (NZES) and the associated Emissions Trading Scheme (ETS). For SOEs, the challenge lies around building strategies and value consistent with both shareholder expectations and wider national benefit.

Land and environment companies are particularly susceptible to value erosion due to factors ostensibly outside of their control – such as international commodity prices, climate, and property values. CCMAU is faced with the

challenge of doing what it can to ensure that boards are managing such risks appropriately, and consequently maximising (or protecting) value in such an uncertain environment.

In the appointments and governance area, the main challenge will be continuing to develop our pool of director candidates to ensure that shareholding Ministers are able to make the best possible appointment decisions.

ORGANISATIONAL HEALTH AND CAPABILITY

Our aim is to exceed the expectations of our Ministers and wider stakeholders in everything we do. This requires CCMAU to recruit and retain high-calibre staff who have, among other things, a good mix of public and private sector experience; the ability and confidence to deal directly with Ministers, senior company managers and directors; and excellent analytical and report writing skills. Finding such people is not easy in the current low unemployment environment, where competition for excellent candidates is high. It is, therefore, important that CCMAU maintains its focus on staff training and industry knowledge development, and ensures it has staff policies that reflect modern best practice.

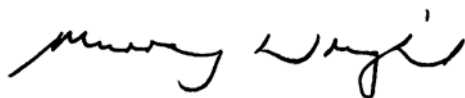
In 2008/09, CCMAU will maintain its commitment to staff training and development, and review its current staff policies to ensure they enable staff to perform to their highest potential. We will also ensure we keep abreast of developments in workplace policies that enhance staff wellbeing.

Last year we signalled our existing board succession management system was coming to the end of its useful life. A process is well advanced to replace the existing system with a new system that has greater functionality to meet our future needs. This includes enabling candidates to self-manage their own details which will reduce the administrative burden on CCMAU. The new system is expected to be operational by the end of 2008.

In order to retain a motivated team, we will seek their feedback and, where appropriate, act on their suggestions to improve the workplace. We will continue to monitor staff satisfaction levels by conducting an annual staff climate survey.

Around four years ago, CCMAU took a leadership role in setting up an international network of ownership monitoring agencies to share best practice policy and processes, and to facilitate the sharing of knowledge among between member organisations. This network has grown steadily and now has 33 member organisations from 24 jurisdictions. In September 2007, CCMAU led a very successful three-day workshop in London, where our leadership role was extended until 2010. Our challenge in the year ahead is to maximise the benefit from having this leadership role so that our ownership monitoring effectiveness is enhanced.

Our website is the major channel through which the New Zealand public can find out how well the companies and entities we monitor are performing. It is also a primary way of registering one's interest in becoming a director and finding out about upcoming board vacancies. In 2008/09, we will ensure our website is kept up to date with current information to enable the New Zealand public to reach an informed view on company and entity performance.




Murray Wright

Executive Director

THE TREASURY QUALITY STANDARDS FOR POLICY ADVICE

Quality policy advice is fit for purpose		
<p>This Quality Standard for Policy Advice sets out the characteristics or dimensions of policy advice that will best enable it to promote well-informed high-quality decision-making by Ministers. However the quality dimensions below are not a checklist and not all dimensions will be equally important in every case – judgements are required at the outset about how to apply and balance the quality dimensions to ensure a particular piece of advice is fit for purpose in achieving the result sought.</p> <p>When undertaking a piece of work, explicit consideration needs to be given to the following:</p> <ul style="list-style-type: none"> • What point are Ministers at in their decision-making process? Can the Treasury add value? What are our opportunities to have an impact? • What result are we seeking by providing a piece of advice? • How should the quality dimensions below be applied and balanced to achieve this result? • What is the relative priority of this piece of work? • What level of investment is warranted? 		
Dimensions of quality policy advice		
Analytically rigorous <i>(Analysis)</i>	Set in a wider strategic context <i>(Applied analysis)</i>	Customer focused and persuasive <i>(Advice)</i>
<p>Relevant frameworks Appropriate analytical frameworks are used, and:</p> <ul style="list-style-type: none"> • knowledge is up-to-date and informed by recent thinking and literature in the field • assumptions behind the frameworks used are explicit and consideration has been given to how they will be expected to play out in the real world (a world which includes information and transaction costs, market failure, government failure, etc) • consideration has been given to less traditional frameworks and whether they would add innovative or useful perspectives. 	<p>Strategic</p> <ul style="list-style-type: none"> • Advice is set in the context of the Treasury’s results and informed by a strategic view about what is important. • We are explicit about the relative importance and materiality of the issue, in fiscal, economic and strategic terms. • Connections across policy issues are made, ensuring that Ministers receive a whole-of-government perspective. • Advice considers the long-term implications of decisions and provides a perspective that goes beyond immediate impacts. • We frame issues and help set the agenda. 	<p>Clear Advice is compellingly presented. It is:</p> <ul style="list-style-type: none"> • brief and concise – key messages should be readily apparent to the reader • easy to read – has a clear and logical structure, avoids technical jargon and uses visual devices such as charts and tables where possible • pitched to suit the target audience – uses appropriate language, style and level of detail • framed in terms of how it fits with previous advice and communications with the Minister.
<p>Robust reasoning and logic Advice has a clear purpose, problem definition, evaluation of options against criteria, and assessment of risks and opportunities. We come to a conclusion and give action-oriented recommendations.</p>	<p>Practical Issues of implementation, technical feasibility, practicality and timing are considered and advice accurately identifies compliance, transitional, legislative, revenue and administrative implications and costs.</p>	<p>Timely Reports should meet Ministers’ need for advice that helps in the decision-making process (even if it means, at times, that advice is not fully developed) and indicate when a decision is required.</p>

Analytically rigorous (Analysis)	Set in a wider strategic context (Applied analysis)	Customer focused and persuasive (Advice)
<p><i>Evidence-based</i></p> <p>Analysis is supported by relevant evidence:</p> <ul style="list-style-type: none"> • Empirical methods are sound, data gaps are identified and the level of confidence/certainty in our empirical base is explicit. • We draw on New Zealand experience of current and past policy interventions and, where relevant, the experience of other countries. • We give our best judgement despite data imperfections; we acknowledge information limitations and advise within them. 	<p><i>Public sector consultation</i></p> <p>Ministers receive advice that enables them to engage with their colleagues on a fully informed basis because:</p> <ul style="list-style-type: none"> • thorough and timely consultation with other government departments has occurred and points of difference, and the reasons for these, are set out • where possible, advice is developed in conjunction with relevant government agencies. 	<p><i>Politically aware</i></p> <p>Advice:</p> <ul style="list-style-type: none"> • demonstrates awareness of the wider environment and political situation • is based on a clear understanding of the desired outcomes of the Minister/Government • relates to the perspectives of Ministers, even if suggesting something that tests those perspectives • recognises choices and constraints Ministers face, and includes a range of options to address these.
<p><i>Free and frank</i></p> <p>Our advice is honest, impartial and politically neutral – we have a duty to alert Ministers to the possible consequences of following particular policies, whether or not such advice accords with Ministers' views. Good free and frank advice is offered with an understanding of its political context and the constraints within which the Minister is operating.</p>	<p><i>Perspectives of wider stakeholders</i></p> <p>We understand and advise Ministers on the perspective of groups outside the public sector, consult with key stakeholders, and provide advice on communications where appropriate.</p>	<p><i>Solution focused</i></p> <p>We are proactive, anticipating, as well as responding to, Ministers' needs. Advice suggests a clear way forward ("Here is what you can do" as well as "Here is a problem") and includes a range of practical options (first best advice, but also second and third).</p>
		
<p>Quality involves continuous improvement</p>		
<p>At the end:</p> <ul style="list-style-type: none"> • Did we achieve the result we were seeking? • Were our judgements about what would be fit for purpose correct? • What would we do differently next time? • How can we capture and share this learning? 		