



Change and Challenge – A Secretary's Reflections

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Thank you everyone for the invitation to be here tonight. This is my last private speaking engagement before I step down as Secretary to the Treasury and I am honoured to be among a group for whom community service is such a powerful motivation. We live in changing and challenging times, and it is in all times but especially in times such as this that society is indebted to community-minded organisations like your own. Just as the Treasury works to make a practical difference to the lives of everyday New Zealanders through its vision of helping government to achieve higher living standards for all, so too do you good folk work to make a practical difference: by reaching out to those who – initially at least – may need help to help themselves.

Change and challenge are the catchcry for our times, and change and challenge are what I'd like to talk to you about tonight. I'll do that in the context of the New Zealand public service and especially in terms of the Treasury. It is fair to say that the Treasury I joined more than three decades ago was a very different Treasury from the one that I will leave at the end of this month. But let me take you back a little bit further than that.

A Brief History

Formally established in 1840, the Treasury is one of New Zealand's oldest institutions. In fact it is arguably older than New Zealand itself: on a trip to Sydney I discovered that there had been a NZ section of the NSW Treasury in the 1830s. One of its earliest tasks had been to assess proposed spending on the New Zealand Resident's dwelling (now the Treaty House). We were not in favour of course!

Initially, the New Zealand Treasury consisted of just four officials responsible for managing the Government's day-to-day financial affairs but as time went on it grew, and while they might not have known the modern terminology of "stakeholder relationships", they certainly knew something about them.

In the early days, for example, if a Treasury employee got married, they received a gift from the organisation in the form of a horse. In common with the rest of the public service, if you were a female employee getting married, you were expected to give up your job to stay at home. A dilemma was presented on more than one occasion, however, when two Treasury staffers became betrothed. I understand that this was resolved by making a gift of a horse and cart, although who got what and which came first I'll leave to your speculation.

Today, however, we are a very different Treasury. It has been interesting to note that of all the speeches I've made as Secretary – many on important economic and financial topics – the one that by far achieved the greatest number of hits internationally on our website was an address to a very similar gathering as this about 18 months ago. In that speech, I highlighted that, as in other New Zealand institutions, there is a wide range of activities that Treasury staff get up to. From memory, I mentioned - among others - a former staffer who runs a nudist colony, and a current staff member who dances burlesque (and who, incidentally, subsequent to the speech, was crowned the inaugural Miss Burlesque New Zealand). As with all these things, it is the people stories that are often the most interesting.

Nowadays, we employ almost 400 staff and the task of looking after the Government's finances is no longer our only role - our core responsibilities now are to act as the Government's lead advisor on economic, financial and regulatory issues, and to demonstrate public sector leadership as a Central Agency, alongside the State Services Commission and the Department of the Prime Minister and Cabinet.

And, I'm delighted to say, women – whether married or not - are at the forefront of our workforce in these more enlightened times.

One of our Deputy Secretaries has just returned from a secondment to New York where she performed a structural review of the United Nations Development Programme's business model, working alongside one of the foremost women of our time: former Prime Minister now UNDP Administrator Helen Clark.

Another of our trailblazers is fast forging her way to great heights, having recently left us to take up the position of Chief Executive of the Ministry of Women's Affairs. It is gratifying to see the Treasury proving such fertile ground for developing state sector leaders. While one door closes, another opens and such farewells offer the opportunity for others to step up and to grow.

Of course our male staff, too, are leaving their mark on the world. One has just returned from Afghanistan, where he spent six months as a military advisor to the United Nations Assistance Mission. And another, our Communications Manager, is literally on his way to the greatest height of all – tackling Everest's Base Camp as we speak.

Our distinguished alumni speak for themselves, foremost among them our Finance Minister Bill English, who started his career as a fresh-faced graduate at the Treasury.

Our staff, clearly, are not afraid of change or challenge.

And that is just as well, for the world in which the Treasury operates is undergoing swift and marked transformation, with the face of the Treasury necessarily changing with it. Today's Government has set out new priorities and different performance expectations. Ministers are looking for the Treasury to take a lead in improving state sector performance, acting as a catalyst for sector-wide change. We have had to call on all our strengths as an economic and financial advisor, demonstrate state sector leadership as a Central Agency, and take on important new operational roles.

And if all that were not enough, consider the events of recent times: the Global Financial Crisis, finance company failures, the Canterbury earthquakes, insurance company collapses, floods and tornadoes.

We are indeed living in challenging times. So how have we changed?

The Way We Were

Way back in the days before I joined The Treasury, the Budget was a matter of high-level secrecy with no leaks or hints of what it would contain: the main game was guessing how much duties on beer, wine and baccy would go up.

These were the days of the Economic Stabilisation Act 1948, under which the Government could do almost anything that it considered contributed to the stability of the country and the economy. The whole wage/price freezes were done under regulation under this act. It was the overarching piece of legislation that no one seriously challenged that enabled the Government to do a lot of things without it going near Parliament. At least today, you do need to seek legislation, as in the Canterbury Earthquake Recovery Act.

In the early 1980s, we were haemorrhaging staff due to freezes on wages and salaries. The SSC set pay and conditions across the state sector and staff would go into banks and financial institutions for often two to three times the pay they could get at the Treasury.

Lost talent has taken a long time to recover. The young guys 25 years on who would have been CEs now had they sat around just aren't here anymore.

We've had our moments during that time. I well remember a Treasury proposal in the 1980s that New Zealand should sell its Milton collection, no doubt confirming the views of many that the Treasury is an organisation that knows the price of everything but the value of nothing. On the other hand, a Treasury report that I particularly enjoyed revealed that it would be cheaper to give every passenger on a particular North Island branch rail line a chauffeur-driven Rolls-Royce than to continue the current subsidy arrangements. In those days of corporate welfare, the shortest report I remember ran along the lines of: "Minister, I visited NZ Steel. They asked for more money. I said no. This report is for your information."

People have a picture of the Treasury as being about looking after the dollars. There is, of course, a lot of truth in that. Seared into my memory is an exchange with Finance Minister of the '90s, Bill Birch. He'd been arguing for about half an hour about a proposal to spend \$10,000. I recall leaning over to him and quietly saying that maybe we should let this one go, since the next item on the agenda involved \$50m of pretty poor value for money. After the meeting I got one of the biggest telling-offs of my career: along the lines of "give them an inch and they'll take a mile, and look after the pennies and the pounds will look after themselves". The Minister, as always of course, was right.

Despite our idiosyncrasies and failings, we clearly need an organisation like the Treasury because the incentive on just about everyone else is to spend money or to regulate – if we didn't have the Treasury, we'd have to invent something like it to lean against those tendencies.

Today - A Treasury Fit for the Times

But the times they are a-changing. Today, the demands on the Treasury are very different to what they were 30 years ago when I started my career there in 1982 as a senior analyst. Where once we were tasked with advice and implementation on a small range of issues, now we are asked to advise on and assist with the implementation of a very wide range of issues. Our focus is much broader and we are expected to be able to answer questions on just about anything the Government asks, all the while ensuring we have a reserve of capability to deal with just about any issue that concerns senior ministers.

We provide advice and services to three Vote ministers through Votes Finance, Crown Research Institutes and State-Owned Enterprises. Advice and services are also supplied to the Minister for Regulatory Reform, the Associate Ministers of Finance, and a number of ministers responsible for Crown entities.

In addition, the Treasury administers around \$30 billion of assets and \$58 billion of liabilities directly on behalf of the Crown, and oversees the entire Crown balance sheet of around \$225b in assets.

Our advice and assistance is being sought across a huge range of activity. So how does this translate in terms of making a practical difference to the lives of New Zealanders? Let me run briefly through a few examples.

The Canterbury Earthquake

The second earthquake on February 22 was an enormous tragedy that overshadowed everything else in both our work and personal lives. The Treasury responded within a few hours, including by making emergency funds available without the usual parliamentary appropriation. We have created a dedicated team that is making a practical difference to those affected by this disaster through advice to Ministers on issues ranging from housing supply to insurance cover.

The Mixed Ownership Model

The Prime Minister revealed in his State of the Nation speech earlier this year that the Government is considering a mixed ownership model for four state-owned enterprises, along with further diluting the Crown shareholding in Air New Zealand, as part of a package of measures to boost savings and investment. By and large, these are organisations that affect our everyday lives and our Crown Ownership Monitoring Unit has been tasked with formulating advice on such a model.

A Record Bond Tender

Our Debt Management Office has been credited with “keeping New Zealand afloat”. This small Treasury team raises about \$300 million a week to do so - money that the Crown needs to bridge the gap between revenue and expenditure. Recently, because conditions have been favourable for us, we've been raising more than we need – in one recent tender we broke the billion-dollar mark for the first time.

There is no doubting the practical difference that team is making to the country. It is ensuring that the government's bills get paid, and that state services keep functioning.

International Connections

New Zealand is a small and slow-growing economy that has to fight very hard for our place in the world. And so the Treasury provides advice to the Government on a range of issues that influence the links between New Zealand's economy and the rest of the world. Our senior management undertake trips overseas each year that are crucial to building, maintaining and strengthening our relationships with other countries, and thereby in supporting New Zealand's economic performance and exports.

Ultimately, these trips are about improving living standards for New Zealanders i.e. our Treasury vision.

The Tri-Treasury Conference

In February, I hosted the Tri-Treasury conference. This was a significant international event, an opportunity to bring together the leaders of the New Zealand, Australian and United Kingdom Treasuries for in-depth discussions on the challenges that all three countries are facing in the wake of the Global Financial Crisis. It was the first such international Treasury conference of its kind and an invaluable opportunity to strengthen strategic links between the three countries.

Personal Highlights

Of course change and challenge bring new opportunity and lessons learned, and it is from some of these lessons that I draw my personal highlights.

One such highlight was the Central NI Treaty Settlement, where we led the government negotiations in a settlement that set new parameters in terms of partnership between the Crown and iwi. We took this on because the size and complexity of the issue meant we were the only organisation in government with the capability to deliver on this exercise.

The Fiscal Responsibility legislation is also something I am pretty proud about, and it received a lot of attention internationally. The underlying principle is that you are likely to get a better and more responsible result when people are given top -class information and the process is as transparent as possible. I'll return to the question of transparency, as I conclude these comments.

I'm also very proud of the role we played in helping to guide New Zealand through the global economic and financial crisis. The situation in New Zealand – especially in terms of loss of jobs and wealth - could have been much, much worse if it hadn't been for some effective steering through stormy waters.

And I'm proud of how we helped create the buffer that provides resources to respond to major disasters of the sort we've seen recently in Canterbury.

The One Treasury Family

Developing talent is what gives me the greatest satisfaction, however. In managing and leading staff, I've been privileged to be able to watch people grow – there's no greater reward than to see someone who may have started very unsure of themselves grow to do a better job of the task than I am capable of myself.

We like to have a laugh at ourselves - in keeping with New Zealand culture, this often seems to involve ritual humiliation of senior management at Christmas parties etc. But one thing I have learned in my role is that you have to create a sense of fun. People are much more motivated if their job is enjoyable.

However, we also hurt when others hurt. For example, in February we had a number of staff with relatives caught up, injured or killed by the Canterbury earthquake. Staff who needed it were given time off; the others of us held the fort to ensure that the Treasury responded to the emergency by playing its part right through an intense period of personal worry and concern.

Looking Ahead

In a change and a challenge of my own, I am honoured and delighted to have been nominated as New Zealand's candidate for the post of Executive Director at the World Bank. The role represents a strategic opportunity for our country to exert its influence at the World Bank, and to develop networks and raise our profile for the wider benefit of the New Zealand public service. I will take up my new post in Washington in August 2011 for a period of two years.

And so it is that as my tenure draws to a close, I find myself reflecting on a career that has been defined by changes and challenges. I'd like to leave you with a couple of thoughts.

The world in which the Treasury operates is always changing and full of challenges, but in the last few years, that change has been on a scale that we haven't seen before, which has had a considerable impact on what we at Treasury do, and how we do it. And the same is true for the wider public service.

Nowadays, the expectation on public servants is much greater than it used to be. This is as it should be, and in the recent Canterbury disaster it was notable that despite the fact that undoubtedly mistakes were made, commentary by overseas experts highlighted just how well New Zealand – including government – had done.

But we're human too. If we are to keep improving and meet the growing demands of the public, then it needs to be remembered that we in the public service are just people too. And people are not perfect, they make mistakes. But the best way to improve is to learn from mistakes, not to hide them.

Why am I highlighting this point? Well, in the drive for a more open, transparent and accountable public service, a number of leaders in the public service – and it's probably fair to count myself among this number – have been promoting greater openness and transparency as a key part of the answer. In other words, we are increasingly laying bare our strengths and weaknesses.

Do you remember that part of Shakespeare's play "The Merchant of Venice" where Shylock is talking about the persecution of Jewish people in the Venice of his day – subject to abuse, spitting, curfew and all sorts of discrimination:

"I am a Jew. Hath not a Jew eyes? Hath not a Jew hands, organs, dimensions, senses, affections, passions? Fed with the same food, hurt with the same weapons, subject to the same diseases, healed by the same means, warmed and cooled by the same winter and summer as a Christian is? If you prick us, do we not bleed? If you tickle us, do we not laugh? If you poison us, do we not die? And if you wrong us, shall we not revenge?"

Now I don't mean to compare the experiences of the public sector with the terrible discrimination Jewish people have experienced over the centuries. That would be absurd. My point is simply that – like Shylock, and in his case with disastrous consequences - people respond to incentives, and public servants are no different. If the result of increased openness about our successes and failings is a litany of condemnation by the press and the public, then people will stop being so open. And then people will stop learning from their mistakes. And that indeed would be disastrous in achieving the public service that New Zealand needs and deserves.

What we need to remember is that the staff at the Treasury and in the public service more generally share the same aspirations as the rest of the population. Like other New Zealanders, they want a more prosperous future for themselves and their families. They want safer communities and lower levels of crime. They want better education and health outcomes, and greater protection for our fragile natural environment. They want more jobs and fewer people unemployed. And of course they want the higher rates of economic growth that will give people the potential to succeed and provide the resources for all these other things we want. In short, they hanker for a better standard of living for all.

The other thought I'd like to leave you with involves aspiration.

As a nation we're worried about growth, about financial vulnerability. We're worried about the gap with Australia. Why? Not just because we like beating Australia at things. The Government is strongly committed to improving productivity, because it is one of the major reasons that we haven't kept pace over the last 20 years with the incomes of Australia and some other countries.

If you want a world-class health system, you need a world-class economy. We need to look at our aspirations and ask ourselves what's needed to achieve them.

In Conclusion

In conclusion, I want to again thank you for inviting me here today, and for the interest that you have shown in Treasury and its work.

It has been an enormous privilege for me to do this job. The Treasury is an agency of highly capable public servants who are resolutely determined to build a better future for this country. There will be some who will be thinking - well, of course he would say that. Not only do I say it, but I also profoundly believe it. The financially precarious times in which we live are not only stretching budgets, but also stretching our minds. And I never stop being impressed at the intellect and enterprise and energy of those who work in Treasury, and their tenacious pursuit of good policy, and of good services.

I will be leaving the Treasury at a time of great change and challenges for this country, but also a time of great opportunities. The Treasury has people with the intellectual horsepower and dedication to provide the ideas and advice that will enable us to seize those opportunities to create better living standards for those who live here.

This year is a very important one – the Treasury is expected to provide advice that will shape New Zealand's economic future, and the Government will be looking to us to be more effective state sector leaders. There's the Budget to come next week and, of course, a general election later this year.

I think we can all agree that these changing times have brought their challenges. Through them all, the Treasury has achieved a lot in support of the Government, made positive steps through its own change process, and has much to feel proud about - and much still to learn and do.

It has been a huge privilege.

Thank you.