



THE TREASURY
Kaitohutohu Kaupapa Rawa

Leading through Change – The Challenge for the Treasury and the State Sector

Speech delivered by
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Introduction

Good afternoon everyone.

Thanks for staying to the last session of what I am sure has been an interesting and thought-provoking day. And many thanks to the Institute of Chartered Accountants for organising the conference and for inviting me to speak.

The issue of leading through change in the state sector is an important one. The performance of the sector has a huge impact on the lives and wellbeing of New Zealanders.

Annual core Crown expenditure is equivalent to over a third of the value of goods and services produced in the economy a year and the state sector represents around a fifth of those in paid employment.

So the better we do our job, the more we can help those in need and deliver on the economic and social benefits that all New Zealanders deserve and expect.

This is a huge responsibility. I was reminded of that recently when chatting to a member of the public. When she found out my job she said “You are taking care of us, aren’t you?”. It was a salient prompt that what we do affects people’s lives.

New Zealand consistently ranks at or near the top in surveys that measure trust in government. And the most recent Kiwis Count survey showed solid satisfaction scores for key public services.

But we cannot afford to be complacent.

The state sector can no longer look forward to a world where budgets increase every year. We won’t be returning to that world in the foreseeable future.

Even more challenging is that we struggled to make progress against many of the outcomes that matter most to New Zealanders even when resources were more plentiful.

Now we need to gain more traction on these outcomes in a world of flat budgets.

This leaves us with only one option: getting greater value out of the resources available to us.

So how does the state sector deliver on that challenge? Not by doing things the same way. We have to change.

There are two areas in particular which we need to focus on.

First, we need to measure our performance and monitor what behaviours produce the best results.

Second, agencies need to perform better by finding new and different ways of working that give us greater value from each public dollar. We need to harness all the passion and creativity of the public, private and voluntary sectors to find better ways of delivering on the results that matter most to New Zealanders. Innovation should run through our veins.

These challenges apply as much to my department, the Treasury, and the other central agencies as they do to the rest of the state sector. We will be working more closely with agencies to help them find ways to lift performance. But collaboration must be mixed with challenge and we will be looking for boldness and innovation.

The central agencies – the Treasury, DPMC and the State Services Commission – have the responsibility to lead and support change. Each central agency brings a different perspective or focus and together we perform some of the functions of a corporate head office across the state sector.

But reforming the sector is not just the responsibility of the central agencies. The challenges ahead will require commitment from chief executives and their leadership teams across the state sector. It will have wider implications too – well beyond the central core. For example, it will have an impact on local government, the way it deals directly with central government and by raising public expectations of better performance.

The Treasury is a strong and active advocate for state sector reform and as such we must set high standards for ourselves. What we do and how we behave as a champion of the cause will hold no weight if we don't practise what we preach. We aim to improve on everything we do.

We have started on that journey and we have made some progress working with agencies to better measure and drive performance through benchmarking and capability reviews. I am particularly excited about these steps we have taken to tap into private sector innovation in lifting state sector effectiveness and efficiency. We aim to build on that progress.

Today I want to talk about the challenges the state sector faces and my aspirations for supporting and leading the Treasury and the wider state sector through this change.

The case for change – why we need to change

It's not an over-statement to say that New Zealand faces the most challenging international economic environment in generations.

All over the world, governments are looking to maintain the quality of public services while containing or cutting costs. It is no different here.

The New Zealand Government has committed to running surpluses each year, starting in 2014/15, so that net public debt is no higher than 20% of GDP by the early 2020s.

That fiscal strategy recognises that the government has to play its role in lifting national savings to reduce New Zealand's economic vulnerabilities.

Fiscal constraint is not going away any time soon. Reducing net debt to 20% of GDP will require continuing expenditure constraint into the medium term with core Crown expenses falling as a share of GDP.

The days of everyone getting a pay rise every year simply for time served are over. But this is not just about short-term cuts to get through to next year's budget. This is not just about tightening our belts. This is not a fad diet. This is about a shift to a healthier lifestyle.

This is about radical transformational change. Living within lower allowances will become more challenging over time as cost pressures rise – including pressures from an ageing population. The way for the state sector to live within lower allowances is to get more out of existing spending and out of the assets that the Crown owns.

Chief executives have been stepping up and taking the initiative. And the challenge to public sector leaders to drive both incremental and more transformational innovations will continue. This is about an ongoing drive to get better results from both public expenditure and assets – we need always to be thinking about whether we are doing the right things in the right way.

Prioritising resources into areas that have the biggest impact on New Zealanders' living standards will also become increasingly important. Management is doing things right; leadership is doing the right things.

And given that changing policies takes time, the earlier that state sector leaders help government to start thinking about these options, the more options government will have.

Getting more out of spending and our balance sheets is critical not only to delivering the fiscal strategy but also to maximising the impact on social and economic priorities. People expect better public services, delivered to them in more accessible, responsive and flexible ways. We also need to do better on the outcomes that matter to people. This is not just about economic growth. In the Treasury we use our living standards framework to look at the financial, human, social and natural capital stocks that are at the core of our living standards.

There is scope to do better across a number of these living standards dimensions. In dollar terms, spending has doubled over the last decade. So has the Crown's balance sheet. But the results achieved have not always matched this growth.

Let me give you just a few examples.

Take law and order. Expenditure on the justice sector has doubled in the last decade to 2010/11, and the value of assets has nearly tripled in that time. The key challenge for the

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sector now is to deliver results on this investment – reducing crime and modernising the courts and correction system within existing spending levels.

As another example, we spend more of our GDP on health than most OECD countries, but our health outcomes haven't improved as rapidly as our spending has grown. And some groups of New Zealanders have much worse health outcomes than others – such as the high rates of rheumatic fever and skin infections amongst Maori and Pacific children.

Our education system also underperforms – three in ten of all students leave school without having gained the skills they need to succeed in a modern economy. Maori, Pasifika and students from poorer homes are overrepresented in this group.

We need to look for opportunities to deliver on New Zealanders' economic and social expectations while at the same time delivering real savings. One approach may be to better direct expenditure to those who need it most. For example, the Treasury's fiscal incidence work shows that, over the last 12 years, households in the top half of the income distribution enjoyed increases in social spending of almost 20% more than households in the bottom half.

How do we grasp these opportunities to improve outcomes within existing resources? The public sector reforms of the 1980s were bold and world leading. They allowed the public sector to work in new ways that improved efficiency and service. We need to hold onto these gains but now we need to focus more directly on the results we want – results that are tangible and measurable.

We need to understand how the state sector is performing and whether we are adding public value. This is about better measurement and using that performance information to support decisions about what we do and how we do it.

And we need to improve our performance through greater innovation and collaboration in the development of solutions to policy problems and in the delivery of public services.

Let me speak a bit more about both of these challenges.

Better measurement – measuring our contribution to results

The first theme I would like to explore is better measurement.

Before we can improve our performance, we need to better understand the value the state sector is adding in the pursuit of the things that matter most for New Zealanders.

State sector agencies need to get better at collecting information that will support strategic and operational decisions, making that information available to decision-makers in a way they can use it, and then measuring the impact of change.

It's the old adage that all accountants know: "you can't manage what you can't measure".

We need robust performance management systems that provide evidence of what works well and what does not. The better we understand performance, the better we will understand the value of different activities and where improvements can be made.

The Better Administrative and Support Services annual benchmarking exercise is making a valuable contribution towards this goal. Thirty-one agencies are working together to benchmark the cost, efficiency, and effectiveness of their services. Many chief executives and chief financial officers have found that this exercise provides new insight into their businesses. They are using it to identify opportunities for improvements and savings, including through cross-agency co-operation. A similar approach is now being extended to policy advice and service delivery performance.

The annual benchmarking report will be released next Wednesday but let me give you a preview. Some individual agencies have made substantial gains, reducing up to \$8 million in the cost of some functions. But overall, reduction in expenditure is limited – around \$20 million in inflation- adjusted terms.

But we know that mindsets are shifting. There is an increasing recognition of the need for better management information, more collaboration, new ways to find savings, and more strategic support services that can help agencies achieve stronger performance. The gains from bringing performance up to the median across agencies are in the hundreds of millions of dollars annually.

The Treasury and our fellow central agencies know that we, too, need to do better in this area. Next week, in fact, we are moving to a shared service delivery model. All 3 agencies will be supported by a single corporate services operation based in the Treasury.

The annual benchmarking exercise shows the potential power of better performance information. But it is only the beginning. We need better performance information across all of government expenditure.

The state sector also needs better information to support the management of over \$240 billion worth of Crown assets. The publication of the first ever Investment Statement in December 2010 was a significant step forward. But we still need better information about the assets that are currently available, what assets are needed to provide services, and whether the Crown is the best owner of those assets.

Improving performance information is one of the aims behind the ongoing review of the Public Finance Act. The PFA was state-of-the-art when it was brought in and last updated. It now needs a refresh to better support Parliament, working across agencies and the stewardship functions of the centre. This includes removing barriers to new ways of working, generating better quality information and reducing the cost of producing that information. It is also about making very clear the responsibilities of chief executives for financial management and stewardship.

Another lever to support agencies in lifting performance is the Performance Improvement Framework which is focused on defining and measuring performance, as a basis for driving improvement.

PIF is now two years into its stride and delivering real gains. Fourteen assessments have been completed, covering around 40% of departmental expenditure, and we expect all departments to have been reviewed by the middle of next year.

An emerging theme is that the New Zealand state sector does a pretty good job of responding to government priorities. But there is real scope for improvement in leadership, strategic capability and delivery.

Better performance through innovation – lifting our contribution to results

This brings me to the second theme I want to emphasise today – the need to lift state sector performance through greater innovation.

Delivering on results will depend on using performance information to prioritise public resources and to improve the management of these resources.

The Treasury has introduced Four-Year Budget Plans, supported by workforce strategies to provide agencies with greater flexibility and to bring a greater medium-term and strategic dimension to budget decision-making, looking at both the financial and workforce dimensions of capability side by side. Agencies still have some way to go before they are fully utilising the opportunities afforded by these plans to identify innovative approaches to working differently.

Leadership needs to become much more oriented to the needs of the system to deliver priority results over the medium term, and to encourage more innovation and collaboration to address underlying causes.

In many parts of the state sector, initiatives are delivering greater efficiency and effectiveness through different ways of working.

Christchurch, in particular, has taught us lessons about finding new ways to provide services to communities. New approaches include staff working remotely, the use of community facilities, sharing staff and resources, and maximising flexible working. As a specific example, the sharing of school facilities is an innovation that would have been inconceivable in the past. A number of these ideas are now being implemented nationwide.

A key part of innovation is looking for the most effective way to provide services, irrespective of whether they are provided through the public, private or voluntary sectors. While some people may value public sector provision for its own sake, it is the quality of the service that matters to most people rather than its provider.

There are already some good examples of innovations in service delivery.

The ACC's shift in focus toward early intervention and contracting of private providers to manage clients has generated significant improvements in rehabilitation and substantial cost savings.

The establishment of the Social Housing Unit in the Department of Building and Housing is making more and better use of alternative providers to meet housing needs.

The Defence Force is reprioritising cumulative savings of \$142 million by ceasing non-essential activities, outsourcing others, and changing the way it organises itself.

The introduction of outcomes-focused procurement tools, such as Public Private Partnerships, in a number of sectors will harness private sector innovation and enable Departments to deliver a greater level and quality of service at the same or lower cost, while achieving a whole of life approach to Crown asset expenditure.

Innovation will also be facilitated by getting better at working across boundaries.

The sharing of best practice across agencies will maximise the chances of success and minimise the costs of failure. The Treasury has published case studies of where collaboration and innovation is thriving to facilitate the sharing of good practice. At the functional level, the Government Chief Information Officer role within the Department of Internal Affairs, and the role that the Treasury's CFO plays with the CFO forum are great examples of what can be achieved by simply sharing information and best practice, and planning together.

Agencies will need to find new and more effective ways of working together to deliver the results that New Zealanders need. The justice sector provides an example of such interdependencies – the volume of arrests and prosecutions by the Police flow through to the courts and corrections system, while the rehabilitation and reintegration work of Corrections can feed through to lower reoffending. Given these inter-linkages, justice agencies have established a 'whole sector' approach, which involves thinking about what they are doing from a sector perspective rather than as individual agencies – this includes developing joint solutions using shared resources.

Diversity of ideas and contestability of advice is also vital to facilitating innovation.

And I should add that this is not just about using traditional economic frameworks but about tapping into the emerging research from other disciplines to better understand peoples' behaviour. Using good analytics, and the emerging techniques from behavioural economics offers further scope for innovation and greater effectiveness.

It is also about drawing on wider expertise. The Treasury has asked both the public and private sector for innovative ideas on how we can improve effectiveness and efficiency across the state sector. The focus is on solutions that address a clear problem and have the potential to bring benefits to a large number of public agencies. We have received an

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amazing response. Ideas that we want to explore seriously are now being evaluated by a panel with a broad state sector representation.

We are also running a more open and consultative process in developing our next Long-Term Fiscal Statement, a report which we produce for Parliament at least once every four years. We expect to publish the next statement in March of next year. The aim is to better engage both specialists and the wider general public in developing a richer understanding of the issues and challenges before us as a society, and to offer practical solutions for the way forward.

The Treasury has established an expert Advisory Group and will hold a conference on long-term fiscal issues jointly with Victoria University of Wellington in December. We are also venturing into schools for the first time. The schools challenge offers Years 12 and 13 students the chance to put themselves in our shoes in considering and advising on the long-run sustainability of government finances. We are targeting schools because this is a challenge for their lifetime – it is their generation that will be supporting ours.

The challenge is to embed these sorts of innovative practices and creativity across the state sector as part of the normal way we do our jobs.

Conclusion

The people who understand the public service best are those who actually work in it, and in particular those responsible for operating a process and delivering a service. They are also citizens and consumers of public services. They know what works well, what doesn't, what could be improved by local managers, what might need more central direction and what might need policy changes on the part of Ministers. So I call on these public servants: if you see a process that makes no sense, that could be improved, then speak up, say so. Let us unleash a revolution of innovation. And this isn't just about managers and staff. It's about everyone who has an interest in the public service. I welcome in particular the PSA's contribution to new thinking in public sector management.

I have confidence that the New Zealand state sector can rise to the challenges ahead. The sector is characterised by professionalism and a commitment to public service. It takes its responsibilities to all New Zealanders seriously.

But to fulfil our duty, we simply have to adapt to a changing environment. To quote Charles Darwin: "It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change."

The task is challenging. I won't pretend that it will be easy.

And we need to be honest about the uncertainty. As someone once said, there is nothing more certain and unchanging than change and uncertainty.

Let us meet the challenges ahead by being bold and innovative. Let us be passionate and ambitious about our performance. Let us work together, keeping our eyes firmly on results – in terms of what we are seeking to achieve for New Zealand.

This is the challenge I have set for the Treasury. It is the challenge that faces all of the state sector. I hope to work with you and learn from you all in leading through this change.