B.27 SOI (2012)

THE TREASURY
Kaitohutohu Kaupapa Rawa

The Treasury Statement of Intent

2012–2017

New Zealand Government

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2012–2017

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Higher living standards for New Zealanders

Our goals:

- Improved economic performance
- A more effective and efficient state sector
- Stable and sustainable macroeconomic environment
- High-performing Treasury

Our roles:

- Navigators for overall economic and state sector direction setting
- Problem solvers where we need to be, fulfilling a central agency role
- Exemplars for wider state sector in organisational approach
- Experts in core roles such as macroeconomics and public sector management

Our values:

Bold and innovative

- We use new and different ways of thinking about and doing things
- We know where we can take measured risks – and take them

Passionate and ambitious

- We treat people with respect
- We behave constructively towards others
- We set challenging but achievable goals that will make a real impact for New Zealand

Collaborative and challenging

- We work in collaboration with others to achieve our outcomes and take them
- We base our advice in expert analysis, research and reasoning
- We are open-minded, seeking out, listening to, and understanding the views of others

Adaptable and focused

- We focus on what matters most
- We adapt our thinking and our work when it is right to do so
- We stay the course, seeing things through from ideas to implementation

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Foreword: Minister of Finance

Over the next few years, the Government is committed to advancing its comprehensive economic programme to build a brighter future for New Zealanders after the series of external and internal shocks that hit our economy between 2008 and 2011.

The Government's programme is designed to rebuild and strengthen the economy. It has set out its main priorities for this term, which are:

- Responsibly managing the Government's finances.
- Building a more productive and competitive economy.
- Delivering better public services within tight financial constraints.
- Rebuilding Christchurch.

Success on these fronts will require ongoing steps to raise the economy's international competitiveness and productivity, give businesses the confidence to invest and create new jobs, and improve public services by delivering them in more innovative and effective ways. The Government will continue to support the people of Christchurch in rebuilding their city.

The Government aims to return the Crown's accounts to surplus in 2014/15 and in following years. We will do this so we can start reducing public debt and help unwind the long-term imbalances that have held our economy and society back.

Compared with many countries, particularly in Europe, New Zealand is relatively well placed: our terms of trade are expected to remain at elevated levels because our larger trading partners are among the stronger-performing economies in the world; rebuilding Christchurch will provide a substantial impetus to some of the domestic-orientated sectors of the economy over coming years.

Overseas economic events still pose a risk for New Zealand. The Government will continue to monitor those developments, while remaining focused on tilting the economy towards exports, savings and investment and away from over-reliance on overseas debt-funded consumption.

This *Statement of Intent* sets out what the Treasury will do to help the Government achieve its economic priorities and long-term goal of growing the country's economic performance. I am satisfied that the information on future operating intentions provided by the Treasury in this *Statement of Intent* and the *Information Supporting the Estimates* is in accordance with sections 38, 40 and 41 of the Public Finance Act 1989 and is consistent with the policies and performance expectations of the Government.

Hon Bill English

Minister of Finance

Introduction from the Chief Executive

The focus of the five-year strategy set out in this *Statement of Intent* is the delivery of the Treasury's vision to be a world class organisation working towards higher living standards for New Zealanders.

Our concept of living standards encompasses economic, human, social and environmental dimensions which are set out in our 'Living Standards Framework'. Our aim is to embed the framework as the cornerstone of our policy-making process.

The context for our strategy is a rapidly changing world which is characterised by uncertainty, fragility and volatility. But it is also a world which offers opportunities for New Zealand. The most significant development is the shift in economic power from West to East and, in practice, closer to New Zealand. This trend has been under way since before the global financial crisis but it has accelerated as emerging economies have led the global recovery. Increasingly, the Asia-Pacific will be the benchmark against which others measure their progress, rather than the traditional Organisation for Economic Cooperation and Development (OECD) community.

New Zealand's challenges in this time of change are not the same as other countries. We have a flexible exchange rate, relatively low levels of Government debt, a healthy banking sector and a generally flexible labour market compared with many other European economies. But our overall growth performance has been low for some time: New Zealand's GDP per capita has been stuck at around 85–90% of the OECD average since the mid-1990s. We have also seen a build-up of imbalances in the economy. New Zealand's stock of external liabilities exceeded 80 per cent of GDP in 2008. Household debt rose rapidly and consistently exceeded 100 per cent of disposable income since 2001.

Our challenges are to reduce imbalances and build resilience and capability to cope with future global instability, and to boost our own growth performance.

This *Statement of Intent* is focussed around three outcomes: *A Stable and Sustainable Macroeconomic Environment*, *A More Effective and Efficient State Sector* and *Improved Economic Performance*. In the short term returning the budget to surplus will reduce pressure on our interest and exchange rates which is critical to support the tradable sector of the economy. It will require the State sector to live within tight fiscal constraints while delivering on key results. Taking advantage of the dynamic international environment and capturing the enormous economic opportunities created by the ongoing rise of the Asian economies will play an important role in helping New Zealand lift its trend growth. We need to ensure that we have an internationally competitive domestic business environment which will require action on a number of different fronts, including improving our education outcomes and the management of our natural resources.

The Treasury's policy priorities are designed for a time of uncertainty, and we are ready to adapt our thinking as the world continues to change and as we learn from experience and new ideas. I am confident that the Treasury can help the Government and government agencies respond to these challenges in a way that ultimately leads to higher living standards for New Zealanders.

Chief Executive's Statement of Responsibility

In signing this statement, I acknowledge that I am responsible for the information contained in the *Statement of Intent* for the Treasury. This information has been prepared in accordance with the Public Finance Act 1989. It is also consistent with the proposed appropriations set out in the Appropriation (2012/13 Estimates) Bill, as presented to the House of Representatives in accordance with section 13 of the Public Finance Act 1989, and with existing appropriations and financial authorities.

Gabriel Makhlouf

Chief Executive

Counter-signed: Fergus Welsh

Chief Financial Officer

Nature and Scope of Functions

Our Functions

We perform five core functions:

- Economic: we are the lead expert for Ministers on economic and fiscal performance, concentrating on policy areas that have a significant impact on the economy. This includes leading improvement of the quality of regulation, removing barriers to growth and increased productivity.
- Financial: we manage the financial affairs of the Crown, concentrating on issues that have significant fiscal implications on public sector financial management and standards.
- Central Agency: with the Department of Prime Minister and Cabinet (DPMC) and the State Services Commission (SSC), we assist the Government to develop its overall strategy for the State services and manage significant issues.
- Performance monitoring: we monitor the performance of State sector agencies, including State-Owned Enterprises (SOEs), and work with them to improve performance.
- Commercial policy and operations: we provide commercial policy advice (eg, financial markets, assets) and provide financial operational services through the New Zealand Debt Management Office (NZDMO) and the New Zealand Export Credit Office (NZECO). This area will be subject to some change as we, for example, exit delivery of the Deposit Guarantee Scheme.

These outputs are funded through 11 specific departmental output appropriations. These are detailed in the *Estimates of Appropriations 2012/13*.

Legislation we Administer

The Treasury currently administers approximately 36 statutes and related secondary legislation. The most significant of these are the Public Finance Act 1989 and the State-Owned Enterprises Act 1986. The Public Finance Act 1989 provides the platform for the advisory roles expected of us by the Government.

Strategic Direction

The Treasury's Vision and Outcomes

The Treasury's vision is to be *a world class Treasury working towards higher living standards for New Zealanders*.

The Treasury recognises that there are a number of factors that underpin the living standards of each individual. Our Living Standards Framework[1] identifies four types of capital that are integral to current and future living standards:

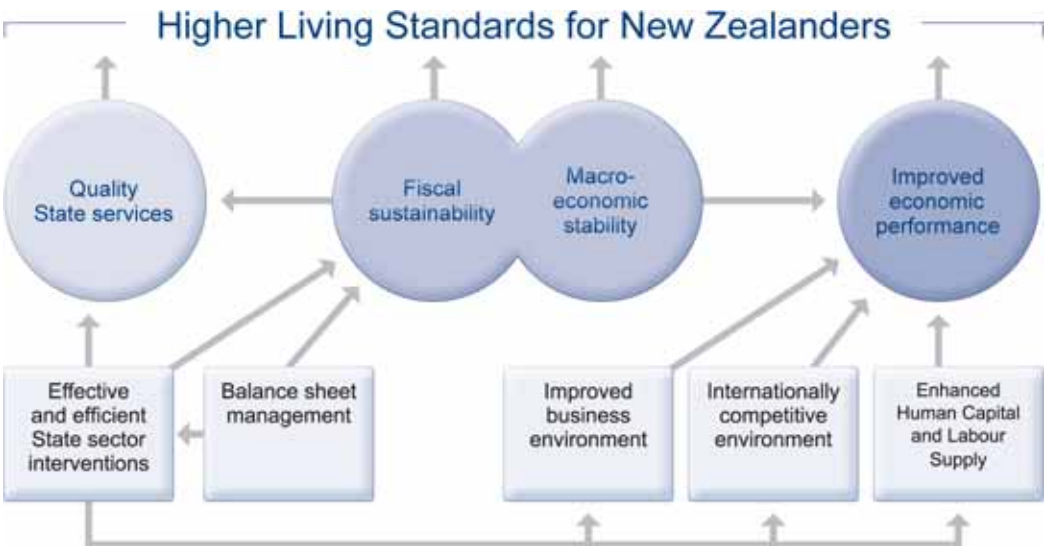
- financial and physical capital, which includes infrastructure, housing and wealth
- human capital, which includes health and skills
- social capital, which includes institutions and trust, and
- natural capital, which includes the stability of the climate, quality of water, as well as biodiversity.

These capital stocks create flows of goods and services (eg, income, innovation, security) that contribute towards the living standards of New Zealanders both now and in the future.

As the Government's lead economic and financial advisor, the Treasury has a particular focus on the elements that improve the contribution of income to New Zealanders' living standards along with ensuring the best use of our capital stocks – both now and maintaining them for the future. This is reflected in our outcomes *Improved Economic Performance* and *A Stable and Sustainable Macroeconomic Environment*.

As a Central Agency, through our performance monitoring function and as the Government's lead economic and financial advisor we are interested in the performance of the State sector (its efficiency, effectiveness and affordability) and its impact on all four types of capital as the provider of services (eg, education and health services), as a regulator (eg, regulation of financial services and natural resources) and as an owner (eg, schools, hospitals, SOEs). This is reflected in our outcome *A More Effective and Efficient State Sector*.

The Treasury's three outcomes are interconnected and mutually reinforcing (see diagram below).



1 See http://www.treasury.govt.nz/publications/research-policy/tp/higherlivingstandards

Opportunities and Challenges

New Zealand's underlying economic performance has been poor for some time, pre-dating the onset of financial turmoil in 2008, with labour productivity and trend growth slowing over the past decade. New Zealand's longstanding large net external liabilities, high levels of private sector debt and currently large fiscal deficit expose the economy to financial risks, especially if the global economy deteriorates further. Building greater economic resilience and lifting trend economic growth is critical for preserving and increasing income.

While improving economic performance and increasing incomes is important, our vision requires us to think about how these incomes (as well as other factors that contribute to living standards) are distributed within the population. In particular, the Treasury is focused on how the Government can reduce the number of individuals and households that have persistently low living standards. These include individuals with low incomes, but also poor health, education and other social factors. In an environment of government budget restraint, the challenge will be to design policy that targets the limited resources towards these particular groups – where the potential for improvements in living standards is greatest.

In addition to these wider, persistent challenges, New Zealand has also faced, and continues to face, significant economic and social challenges arising from the Canterbury earthquakes.

New Zealand is well placed to respond to these challenges. We have strong institutional settings, dedicated and trusted public servants, low starting levels of government debt, credible monetary and fiscal policy and generally flexible microeconomic policy settings. While the global economy has been weak, growth in a number of our key trading partners in the Asia-Pacific region has been relatively strong. We need to leverage these advantages in order to achieve improvements in New Zealanders' living standards.

Supporting the Government's Priorities

In light of the opportunities and challenges outlined above, the Government has set out four priorities:

- manage the Government's finances responsibly
- build a more competitive and productive economy
- deliver better public services to New Zealanders, and
- rebuild Christchurch.

Through our core functions, the Treasury will contribute largely to the first three government priorities. As the Government's lead financial advisor we will help it manage the Government's finances responsibly and achieve *A Stable and Sustainable Macroeconomic Environment*. As the Government's lead economic advisor we will provide advice on how to build a more competitive and productive economy (*Improved Economic Performance*). Finally, as the Government's lead financial and economic advisor and through both our Central Agency and performance monitoring roles we will provide advice on how to deliver better public services to New Zealanders (*A More Effective and Efficient State Sector*) and support agencies in doing so.

Our intermediate outcomes, outlined in the next section, provide more detail on the specific actions the Treasury will take to help achieve the Government's priorities.

How we will Measure Progress

To fulfil our core functions, we need to keep track of what is happening in the New Zealand economy as a whole along with the effectiveness, efficiency and affordability of the State sector. This is reflected in our vision, outcomes and intermediate outcomes and the ***indicators*** we use to track progress in these. Tracking progress on these indicators helps us provide advice to the Government and to determine where we will focus our work programme (our priorities).

As an organisation we also need to monitor our effectiveness and efficiency. We use our intermediate outcome and output ***measures*** to help us determine what we need to do differently to be more effective and efficient as an agency, what we should stop doing and what we should do more of. Our output measures are set out in our *Information Supporting the Estimates* and our *Output Plan*.

Taken together these indicators and measures provide an overview of what the Treasury thinks is important, where we will focus our attention and how effective and efficient we are as an organisation.

How we will Work with Others

Alongside DPMC and SSC we perform a Central Agency function. Our shared focus is to improve performance of the State services. This recognises that the Central Agencies are jointly responsible for enabling performance improvements in the State sector, albeit with distinctive roles and perspectives. The Central Agencies are seeking to work together more collaboratively as a de facto “corporate head office” of the State services. The Treasury’s particular role and perspective is reflected in our outcome *A More Effective and Efficient State Sector*.

The Central Agencies work individually and collaboratively across agencies, sectors and the public management system. We provide guidance and support to State service agencies to enable them to fulfil their Public Finance Act 1989, Crown Entities Act 2004 and Cabinet requirements and to continually improve their performance. We work with agencies in a collaborative and challenging way to provide second opinion advice on the economic and financial implications of government interventions.

We provide first opinion advice alongside a number of other agencies, including the Ministry of Economic Development (MED), Ministry of Foreign Affairs and Trade (MFAT), Inland Revenue (IR) and Ministry of Transport (MOT). Our shared objectives are reflected predominantly in our *Improved Economic Performance* outcome. As joint lead of the Welfare Reform Programme we also work collaboratively with the Ministry of Social Development (MSD). We have shared objectives with the Reserve Bank of New Zealand (RBNZ) which are reflected largely in the *A Stable and Sustainable Macroeconomic Environment* outcome.

In addition to monitoring the performance of State service agencies, the Treasury currently has monitoring responsibility for: SOEs, Air New Zealand Ltd, Crown-entity companies (Television New Zealand [TVNZ], Radio NZ), four airports (constituted as Council-Controlled Trading Organisations), the Crown financial institutions (CFIs) (Accident Compensation Corporation [ACC] Investment Fund, Government Superannuation Fund [GSF], New Zealand Superannuation Fund [NZSF], Earthquake Commission [EQC], National Provident Fund [NPF]), Crown Fibre Holdings, the Pacific Forum Shipping Line Ltd, Public Trust and the Lotteries Commission.

We also have secondary monitoring responsibility for Crown research institutes (CRIs) and the following agencies: Dispute Resolution Services, Health Benefits Ltd, New Zealand Local Government Funding Agency, New Zealand Venture Investment Fund (NZVIF), Research and Education Advanced Network New Zealand (REANNZ) and Rugby New Zealand 2011 Ltd.

The Treasury's Vision, Outcomes and Intermediate Outcomes

Our outcomes and vision: The status of these indicators shows if our vision and outcomes are on track. They influence both the content of our advice and the topics we propose for our work programme

Our intermediate outcomes: Whether these indicators are on track strongly influences whether our outcomes will be reached. Over time, the Treasury's work has some influence on these indicators.

Our Vision: A World Class Treasury Working Towards Higher Living Standards for New Zealanders

See Living Standards Framework for indicators

Improved Economic Performance

- Trend growth lifts to materially narrow the income gap between New Zealand and the most advanced economies: 2.0 – 3.0% pa over 2012-2017, ultimately reaching 4% pa
- Tradable sector growth of 2.5-3.5% pa over 2012-2017 and ultimately reaching a rate consistent with achieving GDP per capita growth of 4%

Improved Business Environment

- New Zealand improves its ranking in the OECD Product Market Regulation "Barriers to Entrepreneurship" indicator and retains a top 5 ranking in the World Bank's "Ease of Doing Business"
- New Zealand's tax system is considered to be internationally competitive while still achieving the Government's revenue raising targets
- The perceived quality of New Zealand's infrastructure, as measured in its ranking from World Economic Forum Global Competitiveness report, increases

New Zealand has a More Internationally Competitive Economy

- Exports increase as a proportion of GDP
- GDP per hour worked grows substantially faster than the OECD average.
- Business investment as a percentage of GDP increases substantially relative to OECD mean level

Enhanced Human Capital and Labour Supply

- 85% of 18 year olds have a NCEA level 2 or equivalent qualification by 2016
- Increase the proportion of 25-34 year olds with advanced trade qualifications, diplomas and degrees (at level 4 or above)
- Reduction in the number of people who have been on a benefit for more than 12 months

A More Effective and Efficient State Sector

- Government spending as a share of GDP is reduced to around 30% of GDP 2015/16
- Further improvement in the community experience of the service quality of public services (as measured through Kiwis Count)
- Better Public Services Results are achieved

State institutions deliver sustained performance improvement in results and capability

- New Zealand's public management system is world leading (as judged by international commentators
- Robust performance and value measurement supports and demonstrates effectiveness and efficiency in resource use (as judged by OAG reports, PIF, quality of Four-year Budget Plans and Workforce Strategies)
- Treasury and other agencies demonstrate ongoing improvement in financial management capability (measured by direct assessments and by PIF against a rising expectations target)

The Crown Balance Sheet is Managed Efficiently and Effectively

- The composition and shape of the Crown's assets and liabilities is aligned with Government's value, performance and risk objectives
- The overall level and performance of assets in the Crown's social, financial and commercial portfolios are consistent with the Government's medium term directions
- Agencies have the appropriate level of management capability

A Stable and Sustainable Macroeconomic Environment

- Reduced concerns about New Zealand's external vulnerabilities as reflected in New Zealand's sovereign credit rating
- Inflation and inflation expectations anchored within 1-3%
- Gross national saving trending to around 25% of GDP over the next 5 years and remains elevated
- Indicators of long-term fiscal sustainability show improvement

Fiscal position returned to a sustainable footing

- Structural fiscal position is returned to broad balance and a primary surplus achieved inside the current 2011/12 to 2015/16 forecast period
- Net debt is reduced to no higher than 20% of GDP by 2020
- Government spending as a share of GDP is reduced to around 30% of GDP by 2015/16

A Stable Macroeconomic Environment

- Variability in GDP growth is minimised and absolute falls in annual real GDP are avoided
- Current account and net international investment position (NIIP) are sustainable
- Financial stability risks related to New Zealand are either generally falling or are within the normal range

The Treasury's Outputs and the Impact On Our Intermediate Outcomes

Our intermediate outcomes: How we seek to have an impact on our intermediate outcomes through strong performance on our outputs.

Our Outputs: What we deliver that contributes towards achieving our intermediate outcomes.

Improved Business Environment

- Regulatory Impact Statements meet most or all of Regulatory Impact Analysis requirements: 75% by 2012 and 90% by 2013
- The tax policy work programme, including examination of reform of the taxation of savings and investment, helps achieve the Government's Revenue Strategy
- The National Infrastructure Plan and annual Infrastructure State of the Nation report provide certainty to business/investors and the public over the performance of New Zealand's infrastructure

- First opinion policy advice on tax policy, the regulatory quality system, infrastructure frameworks, medium-term economic growth strategy
- Second opinion policy advice on key regulatory sectors, including better devolved management of our natural resources
- Guidance and support to agencies to enable them to fulfil their PFA and Cabinet requirements, including RIS assessments

New Zealand has a More Internationally Competitive Economy

- OECD sector-specific regulatory restrictiveness indices
- Components of the World Bank Ease of Doing Business index
- Trade and investment flows with other countries that are priority markets
- Better international linkages and relationships

- First opinion policy advice on IFIs and investment, and on medium-term economic growth strategy
- Second opinion policy advice on NZ's offshore presence
- Provision of Export Credit

Enhanced Human Capital and Labour Supply

- Welfare reform programme is delivered on time, to budget and achieves the desired results
- The operating and capital funding models used within the schooling sector are sustainable and consistent with the Government's fiscal objectives

- Jointly lead the welfare reform programme
- Second opinion policy advice on education, schooling, youth achievement

State institutions deliver sustained performance improvement in results and capability

- Improvements in PIF measures of sector collaboration, leadership, and the effectiveness and efficiency of core business
- Central agencies draw together indicators of agency performance in agency 'dashboards'
- Efficiency indicators (eg, BASS, policy advice measures,) show improvements over time
- Health, education and income support spending is well targeted, shifting towards low income households
- Improved cross- and within-sector prioritisation and risk management
- Agencies Four-year Budget Plans, supported by Workforce Strategies, outline a credible medium-term plan for living within baselines and delivering on the Government's priorities
- More effective Treasury contribution to improved financial capability of other agencies
- Departments meet all their statutory requirements of the PFA
- All new significant spending proposals are subject to cost benefit analysis (or similar)

- First opinion policy on institutional settings and the public management system
- Implementation of the Better Public Services reforms
- Second opinion policy advice on agency interventions
- Guidance and support to agencies to enable them to fulfil their PFA and Cabinet requirements and to lift performance
- Monitoring advice on the performance of key departments and key areas of expenditure

The Crown Balance Sheet is Managed Efficiently and Effectively

- All major new social spending proposals are based on rigorous strategic, economic, financial, commercial and management analysis
- The Government's mixed-ownership-model objectives are met
- Appropriate rates of return and dividends are achieved from the Crown's portfolio of financial assets and commercial entities
- Long-term returns of the Crown's CFIs meet or exceed their fund objectives
- The average cost of new core Crown borrowing is less than the long run borrowing rate of 5.5%

- First opinion policy advice on balance sheet management, Crown ownership, SOE governance and policy settings, PPPs, CAM framework
- Implementing the Mixed Ownership Model
- Monitoring advice and board appointments
- Managing New Zealand's debt
- Managing any residual issues arising from the expired Deposit Guarantee Scheme

Fiscal position returned to a sustainable footing

- Budget decisions are in line with short term fiscal intentions in the Budget Policy Statement

Gross capital requirements are met from balance sheet over the next four years

- A majority of New Zealanders want action taken to address the long-term fiscal position within the next 10 years
- The average cost of new core Crown borrowing is less than the long run of borrowing rate of 5.5%

- First opinion policy advice on fiscal policy, strategy and frameworks; fiscal reporting frameworks; and balance sheet management
- Fiscal monitoring, reporting and forecasting, including the production of the Crown financial statements and the Long-term Fiscal Statement
- Budget production
- Managing New Zealand's debt

A Stable Macroeconomic Environment

- First-opinion policy advice on fiscal policy, strategy and frameworks, with a particular focus on completing a quality economic growth narrative integrating our advice around a productivity diagnosis and clear policy proposals
- Economic and fiscal monitoring, reporting and forecasting, including the production of the *Financial Statements of the Government of New Zealand*

- First opinion policy advice on macroeconomic strategy; fiscal policy, strategy and frameworks; and financial stability
- Research and advice on savings policy
- Economic and fiscal monitoring, reporting and forecasting
- Second opinion policy advice on that impact on the macroeconomic environment

Outcome: Improved Economic Performance

What are we seeking to achieve?

New Zealand's average *GDP per capita growth* for the last six decades has been poorer than all other OECD countries. New Zealand's GDP per capita ranked third among OECD countries in 1950 and 22nd in 2009 (of 34 OECD member countries). In order to maintain New Zealand's living standards we need to materially narrow the income gap between New Zealand and the most advanced economies. In our previous *Statement of Intent* we indicated that to close the gap with Australia within 15 years would require average GDP per capital growth of above 4%. We still consider this is a relevant long-term target. Reflecting the current global economic environment, a more feasible target for the period of this *Statement of Intent* is real GDP per capita growth of 2% to 3%. For a country of New Zealand's size, much of this growth will need to be driven by strong export performance as reflected in *tradable sector growth*.

New Zealand's poor performance reflects its labour productivity, associated with relatively low levels of both capital intensity and multi-factor productivity. To reverse this decline requires policy changes with the potential to lift productivity across the economy and support a substantial lift in export performance. This will require:

- restoring fiscal buffers and supporting rebalancing of activity towards the tradable sector through continued restraint in government spending (expanded under the *A Stable and Sustainable Macroeconomic Environment* outcome)
- avoiding macroeconomic instability (expanded under the *A Stable and Sustainable Macroeconomic Environment* outcome)
- encouraging increased savings relative to investment to lower the cost of capital and reduce pressure on interest rates and the exchange rate (expanded under the *A Stable and Sustainable Macroeconomic Environment* outcome and below)
- improving the domestic business environment by raising the productivity performance of firms, minimising the cost pressures they face and maintaining their ability to adjust to changing circumstances (the Treasury's role and focus in achieving this are outlined below)
- maximising the long-term value of New Zealand's significant natural resource endowment, by providing certainty and efficient allocation (the Treasury's role and focus in achieving this are outlined below)
- improving international competitiveness to overcome the disadvantages of size and remoteness and to increase incentives to invest and conduct business in New Zealand (the Treasury's role and focus in achieving this are outlined below), and
- enhancing our human capital and labour supply to improve our labour productivity and utilisation (the Treasury's role and focus in achieving this are outlined below).

How we will assess whether we are achieving Improved Economic Performance		
Indicator	Current performance	Target
Real GDP per capita growth.	Real per capita GDP was 1.8% lower in the year ending December 2011 than in the year ending December 2006. 2011 was the first year we have had positive GDP per capita growth since 2008. NZ's GDP per capita would need to increase 36% to reach Australia's GDP per capita level, 20% to reach the UK's, 56% to reach USA's, and 14% to reach the OECD average.	Growth rates sufficient to deliver high incomes to New Zealanders. A solid recovery in 2013 is sustained, lifting five-year average real GDP per capita above the OECD average and ultimately reaching 4% per annum. This requires real GDP per capita growth of between 2% and 3% per annum over 2012–17.

How we will assess whether we are achieving Improved Economic Performance		
Indicator	Current performance	Target
Tradable sector growth.	Tradable sector output was 4.9% lower in the year ending December 2011 than in the year ending December 2006.	2.5% to 3.5% per annum over 2012–17 and ultimately reaching a rate consistent with achieving GDP per capita growth of 4%.

What will we do to achieve this outcome?

Intermediate outcome: Improved domestic business environment

New Zealand's business environment needs to strongly outperform other countries to overcome the disadvantages of size and distance. The Government impacts on the business environment particularly through its policies relating to education, welfare, tax, savings incentives, regulation, science and innovation, infrastructure and the management of natural resources. Overall, there has been relative slippage in relevant policy settings over recent years (as shown through indicators such as OECD's Product Market Regulation Barriers to Entrepreneurship indicator, the World Bank's Ease of Doing Business ranking, tax-related OECD indicators and World Economic Forum Global Competitiveness report ranking). This reflects some deterioration in New Zealand and improvements elsewhere.

On these key policy settings, the Treasury provides first opinion policy advice on tax, regulatory quality, savings and infrastructure; and second opinion advice on the other areas. We focus on tax and regulatory policy settings because of their pervasive effects on incentives to compete, invest and take risks.

We also provide first opinion advice on priorities for medium-term economic growth strategy. This includes supporting decision-making to advance policy that makes the business environment as internationally competitive as possible, understanding and improving New Zealand's competitiveness and economic structure, ensuring micro- and macroeconomic settings reinforce each other and advising the Government on actions to improve overall economic performance in the medium and long term.

The Government has articulated its overall business growth agenda structured around six key inputs required by businesses to succeed. The goal is to lift economic performance by delivering a more productive and competitive economy. The Government's focus is on building: (i) capital markets; (ii) innovation; (iii) skilled and safe workplaces; (iv) resources; (v) infrastructure; and (vi) export markets. The initial stages involved implementation and communication of a wide range of actions supporting this agenda. The Treasury is providing advice to Ministers, along with MED, on implementation, coordination and next steps in the Government's business growth agenda.

The Treasury's tax policy work will focus on delivering the Government's tax policy work programme (available at http://taxpolicy.ird.govt.nz/work-programme), working alongside IR's Policy Advice Division. This includes a focus on raising revenue in a way that is efficient and fair.

The Treasury will promote regulatory reform by providing policy advice on key regulatory sectors that matter for growth and advice on how to improve the regulatory management system. We will support Ministers to improve the quality of new regulation through our role in assessing major Regulatory Impact Assessments, and building agency capability. We will also support agencies in their assessments of existing regulation based on principles of best practice regulation. Ultimately, we are aiming to ensure that all New Zealand's regulatory regimes, particularly those of significance to business, reflect the principles of best practice regulation – proportionality, certainty, flexibility, durability, transparency and accountability, growth-supporting, and with capable regulators.

Our work on infrastructure takes into account its contributions both to economic growth and to quality of life. Our work will give effect to the *National Infrastructure Plan 2011*, which aims to give businesses confidence that New Zealand's infrastructure environment is responsive and supports the productive and tradable sector.

We will work to ensure that policy settings maximise the value of New Zealand's significant natural resource endowment, by providing certainty and efficient allocation. The topics we focus on include climate change policy, new organisms, the Resource Management Act 1991 with a particular focus on water, and ensuring Māori rights and interests are well integrated into regulatory regimes.

We will support the Government in returning prosperity to the Canterbury region. We will provide advice on ensuring that policies and institutions support the rebuild of Christchurch and there are no unjustified policy blockages. We will monitor and provide advice on the implications of recovery in Canterbury on the Government's fiscal position. We will provide first opinion advice on the impact of insurance issues on rebuilding Canterbury. We will undertake a review of the Earthquake Commission (EQC) to ensure the Crown efficiently manages the risk it faces from private property damage in natural disasters while also supporting the private insurance market's own transition to a new equilibrium in which risk is efficiently priced and allocated.

Over the period of this *Statement of Intent*, the Treasury will research and provide advice on policy changes (across tax, government spending, welfare, retirement income, saving and investment policies) which could sustainably increase New Zealand's national savings rate without creating unacceptable tradeoffs elsewhere. We will assess and advise on science and innovation policy, business assistance programmes and competition regulatory settings.

Refer to Measures section below to see how we assess the Treasury's contribution.

Intermediate outcome: Internationally competitive environment

New Zealand's small population and extreme remoteness make it more difficult to realise the benefits of economies of scale, agglomeration and competition. To overcome these difficulties, New Zealand needs to have an internationally competitive business environment and be well integrated and connected into the global economy. We need to ensure that we take an international lens to our policy settings so that they are best aligned to facilitate the flows of trade, people, capital and ideas. Some of the indicators that will let us know whether or not New Zealand has an internationally competitive economy are our exports as a proportion of our GDP, GDP per hour worked growth relative to OECD average and business investment as a percentage of GDP.

The Treasury will provide economic strategy advice to the Minister of Finance on improving our international competitiveness. This will include integrating micro- and macroeconomic advice; addressing barriers to improving our international competitiveness; and addressing cost barriers that affect the prices that firms face for fundamental inputs such as capital, land, skills and regulation. This will ultimately help improve our policy settings as indicated by measures such as OECD sector-specific regulatory restrictiveness indices and components of the World Bank Ease of Doing Business index.

Improving New Zealand's international competitiveness is not only influenced by improving New Zealand's policy settings but is also influenced by the policy settings in other countries and policy-making by international institutions (such as the G20). We will develop and maintain effective international relationships so that the Treasury and the Government can more widely influence policy-making by other countries and international institutions. We will manage New Zealand's ownership interests in international financial institutions and New Zealand's input into international Finance Ministers' forums. We will also

provide second opinion policy advice on improving the effectiveness and efficiency of New Zealand's offshore presence.

The Treasury also provides NZECO products and services to increase exports that otherwise would not have occurred owing to constrained access to trade finance or appropriate risk mitigation techniques.

Refer to Measures section below to see how we assess the Treasury's contribution.

Intermediate outcome: Enhanced human capital and labour supply

Skills influence productivity and growth directly, through their impact on labour productivity and labour utilisation; and indirectly, through their effect on other drivers of growth, such as innovation and international connectedness. Overall, New Zealand performs relatively well in terms of both the utilisation and skill level of its labour force; however, there are some areas of underperformance. Population ageing and the "skill-bias" of technological change present increasing challenges, as would the demands of a strongly growing economy.

Along with MSD, the Treasury is the joint lead on the suite of reforms to the welfare system, with a particular focus on the accountability and funding arrangements (which are critical to the ultimate success of the reforms). The purpose of welfare reforms is to reduce the number of people who remain on a benefit for more than 12 months thereby increasing labour force participation and ultimately economic performance.

The Government is pursuing a broad and interconnected reform agenda on a complex set of topics relevant to youth achievement, schooling and education which the Treasury will focus on supporting. The objectives of these reforms are to boost skills and employment by focusing on increasing the proportion of 18-year-olds with National Certificate of Educational Achievement (NCEA) Level 2 or equivalent qualification and increasing the proportion of 25–34-year-olds with advanced trade qualifications, diplomas and degrees.

The Treasury can add to the advice of other agencies by helping senior Ministers and Cabinet to weigh fiscal, economic and social objectives of proposals and helping agencies craft fit-for-purpose advice. Where a broad range of advice is produced by agencies, a coordinated and coherent approach is not guaranteed, and the Treasury can support the Government to achieve this objective. The Treasury will work with the Ministry of Education (MOE) and MSD to ensure that proposals are consistent, coherent, evidence-based and cost-effective. Our support can facilitate effective leadership and decision-making by government and help it achieve its educational objectives.

Realising these and other priorities will require further refinement and reshaping of tertiary education funding and policy settings. Our advice in this area will have a particular emphasis on improving flexibility, performance, price and value for money.

The Government also makes a significant fiscal contribution to this sector through education provision and through welfare settings. Therefore, welfare and education policy settings contribute to the *A More Effective and Efficient State Sector* outcome.

Refer to Measures section below to see how we assess the Treasury's contribution.

Intermediate outcomes (and outcome indicators)	Current situation	Impact measures	Core activities and services
What will medium-term success look like?	How are we currently placed against our outcome indicators?	How will we demonstrate our success?	What will we do to have an impact on our intermediate outcomes?
Improved domestic business environment			
New Zealand improves its ranking in the OECD Product Market Regulation Barriers to Entrepreneurship indicator and retains a top 5 ranking in the World Bank's Ease of Doing Business.	New Zealand was 21st in 2008 on the OECD Product Market Regulation Barriers to Entrepreneurship indicator. New Zealand was 3rd out of 183 countries in the World Bank's Ease of Doing Business 2012 rankings.	Regulatory Impact Statements meet most or all of Regulatory Impact Analysis requirements: 75% by the end of 2012 and 90% by the end of 2013. The tax policy work programme, including examination of reform of the taxation of savings and investment, helps achieve the Government's Revenue Strategy, which is published as part of the Government's Fiscal Strategy. The *National Infrastructure Plan* and annual *Infrastructure State of the Nation* report provide certainty to business/investors and the public over the performance of New Zealand's infrastructure.	First opinion policy advice on tax policy (with IR), the regulatory quality system, infrastructure frameworks, medium-term economic growth strategy. Second opinion policy advice on key regulatory sectors, including better devolved management of our natural resources. Guidance and support to agencies to enable them to fulfil their Public Finance Act 1989 and Cabinet requirements, including assessments of Regulatory Impact Statements. Monitoring advice on the performance of key departments.
New Zealand's tax system is considered to be internationally competitive according to tax-related OECD indicators while still achieving the Government's revenue raising targets.	New Zealand has: ▸ The most comprehensive (least distorting) GST or VAT in the OECD ▸ Amongst the lowest tax wedges on labour income in the OECD ▸ Amongst the easiest tax system in the OECD to comply with ▸ A relatively high share of taxes collected from capital income.		
The perceived quality of New Zealand's infrastructure, as measured in its ranking from World Economic Forum Global Competitiveness report, increases.	New Zealand ranked 34th out of 142 countries in 2011 on its perceived infrastructure quality, an improvement on our 2010 ranking.		

Intermediate outcomes (and outcome indicators)	Current situation	Impact measures	Core activities and services
What will medium-term success look like?	How are we currently placed against our outcome indicators?	How will we demonstrate our success?	What will we do to have an impact on our intermediate outcomes?
New Zealand has a more internationally competitive economy			
Exports increase as a proportion of GDP.	Exports as a % of GDP (real) have been between 30% and 32.5% over the past 10 years, most recently around 32%.	OECD sector-specific regulatory restrictiveness indices. Components of the World Bank's Ease of Doing Business index. Trade and investment flows with other countries that are priority markets. Better international linkages and relationships as demonstrated through exchange activities with our international counterparts in Treasuries and Ministries of Finance.	First opinion policy advice on international financial institutions and investment, and on medium-term economic growth strategy. Second opinion policy advice on New Zealand's offshore presence. Provision of export credit.
GDP per hour worked grows substantially faster than the OECD average.	GDP per hour worked increased by 5.7% in New Zealand between 2005 and 2010, compared to an OECD-wide increase of 5.3%.		
Business investment as a percentage of GDP increases substantially relative to OECD mean level.	In 2011, New Zealand's business investment as a percentage of GDP (real) was 13.7% compared to the OECD average of 10.4%.		
Enhanced human capital and employment			
Eighty-five percent of 18-year-olds have an NCEA Level 2 or equivalent qualification by 2016.	Around 68% of 18-year-olds have an NCEA Level 2 or equivalent qualification.	Welfare reform programme is delivered on time, to budget and achieves the desired results. The operating and capital funding models used within the schooling sector are sustainable and consistent with the Government's fiscal objectives.	Jointly lead the welfare reform programme. Second opinion policy advice on education, schooling and youth achievement.
Increase the proportion of 25–34-year-olds with advanced trade qualifications, diplomas and degrees (at Level 4 or above) (target to be decided through Better Public Services work programme).	Fifty-two percent of 25–34-year-olds have an NZQA Level 4 qualification or above.		
Reduction in the number of people who have been on a benefit for more than 12 months (target to be decided through Better Public Services work programme).	As at March 2012 there were 49,647 work-obligated clients who have been on a benefit for more than 12 months.		

Outcome: A More Effective and Efficient State Sector

What are we seeking to achieve?

The quality of expenditure, regulation and other interventions by State sector agencies has a significant impact on the living standards of New Zealanders. It impacts both directly and indirectly on New Zealand's stocks of financial and physical capital, human capital, social capital and natural capital. Given the significant impact it has, the State sector needs to do the right things in the right ways at the right time – and they must be affordable.

The size of the State sector has grown dramatically over the last decade, both in terms of expenditure and the size of the balance sheet. The results achieved have not always matched this growth nor have increases in spending always been targeted to those most in need.

The Treasury is working to help the Government *reduce government spending as a share of GDP* to around 30% by 2015/16. Reducing government spending supports the achievement of the *A Stable and Sustainable Macroeconomic Environment* outcome as the main way of bringing government debt back to a prudent level. This will reduce our vulnerability to economic shocks and prepare for the longer-term fiscal challenges associated with an ageing population. The short-term challenge is to return to fiscal surplus by 2014/15.

The fiscal environment means that the State sector must improve the effectiveness and efficiency of government expenditure and assets. The Government has set a challenge for the State sector to make more progress on a number of key results and to deliver better services within lower allowances for new spending. Meeting this challenge will depend on focusing on government interventions, whether spending, regulation or government ownership, that have the biggest impact on New Zealanders' living standards – and that have benefits that outweigh their costs to society. Keeping this focus on effectiveness and efficiency is important, regardless of the fiscal situation. As raising taxes or debt to finance government expenditure and assets has economic costs, we need to make the most of every dollar that is spent.

Delivering on this challenge to get greater value out of public resources will require changes. It will require better measurement of the performance of the State sector to better understand and improve the value we are adding. It will require being more innovative, collaborative and responsive to the needs and expectations of New Zealanders. The *Kiwis Count quality score* is a high-level indicator of whether the public service is delivering quality services and the *Better Public Services results* provide a measure of progress against some of the biggest challenges facing New Zealand.

How we will assess whether we are achieving A More Effective and Efficient State Sector		
Measure	Current performance	Target
Government spending as a share of GDP.	Core Crown government spending as a share of GDP is forecast to decline from 34.4% in 2011/12 (excluding earthquake costs) to around 30% in 2015/16.	Government spending as a share of GDP is reduced to around 30% of GDP by 2015/16.
Kiwis Count quality score.	68 in 2007. 69 in 2009.	Assessment of a further improvement in the community experience of the service quality of public services[2].
Better Public Services Results are achieved.	The Government has set 10 challenging results to be achieved over the next three to five years. For more information on the current status of these result areas, see http://www.dpmc.govt.nz/better-public-services/results-for-new-zealanders	1. Reduce the number of people who have been on a working age benefit for more than 12 months. 2. Increase participation in early childhood education. 3. Increase infant immunisation rates and reduce the incidence of rheumatic fever. 4. Reduce the number of assaults on children. 5. Increase the proportion of 18- year-olds with NCEA Level 2 or equivalent qualification. 6. Increase the proportion of 25–34-year-olds with advanced trade qualifications, diplomas and degrees (at Level 4 or above). 7. Reduce the rates of total crime, violent crime and youth crime. 8. Reduce re-offending. 9. New Zealand businesses have a one-stop online shop for all government advice and support they need to run and grow their business. 10. New Zealanders can complete their transactions with the Government easily in a digital environment.

2 The Kiwis Count survey is now being run as a continuous survey, with fieldwork 50 weeks of the year and quarterly reporting on a six-month rolling average.

What will we do to achieve this outcome?

Intermediate outcome: State institutions deliver sustained performance improvement in results and capability

Delivering more progress on key results and better public services depends on ensuring the right mix of interventions (expenditure, regulatory and ownership) are in place and there is sustained performance improvement across the State sector. The Treasury has an important role to play in providing advice to the Government on the economic and financial implications of proposed and existing government interventions. It also has a role to play in supporting agencies to build their capability to better deliver results now and in the future.

As the Government's lead economic and financial advisor we will provide Ministers with advice on the benefits and costs of policy options, including on targeting resources to where there is greatest benefit or need. We aim to improve value for money, and to support agencies to deliver high-quality policy advice and regulatory assessments.

As a Central Agency, the Treasury works with SSC and DPMC to provide advice on the design of State institutions (the systems and structures of the State sector) and to support, and sometimes lead, changes to these. We want a public management system that is world leading in ensuring agencies have the incentives and capability to advise the Government on the right things to do and to do them in the most efficient and effective way. This is about both sound implementation and continuous improvement of this framework, as well as working with agencies, to lift performance in advising the Government and delivering services.

The Treasury has a particular focus on the Crown's overall balance sheet (outlined further under the intermediate outcome below) and ongoing operating expenditure. However, the Central Agencies are seeking to work together more collaboratively as a de facto "corporate head office" of the State sector. An example of Central Agency collaboration is the Performance Improvement Framework (PIF), which is focused on defining and measuring agency performance, as a basis for driving improvement.

The Better Public Services programme is the next phase in the Government's public sector reforms and is focused on getting the system working to deliver better results and improved services for New Zealanders, while at the same time continuing the work of recent years to reduce costs and increase efficiency. The Treasury will support the implementation of this programme; including supporting the legislative changes to the Public Finance Act 1989[3] required to enable greater collaboration around results and system leadership, and providing the support required to deliver the key results and increased efficiency.

Delivering the outcomes the Government is seeking within fiscal constraints will require changes in the way some services are delivered. A priority for the Treasury is providing advice on reforms that will result in changes to the way services are delivered to ensure that they deliver the desired efficiency and effectiveness improvements. For example, the Treasury has a key role to play in improving the effectiveness and efficiency of the welfare system as Cabinet has mandated the Treasury to have a joint lead of the overall welfare reforms (alongside MSD).

As the Government's lead financial advisor and the financial manager of the Crown's accounts, we also have a particular focus on improving the financial management capability of the State sector (including our own). A crucial element of high-quality financial management is the use of robust performance and value measurement that supports effectiveness and efficiency in resource use.

3 Alongside the Public Finance Act amendments, SSC is leading amendments to the Crown Entities Act 2004 and the State Sector Act 1988.

The Treasury will help the Government make focused investment and reprioritisation decisions, both across the State sector and within particular sectors and agencies, through our understanding of performance across the State sector and the way these services, sectors and agencies operate. We will work with agencies, both individually and through system-wide interventions, to improve performance. We will identify and promote benchmarking of agency activities and opportunities to raise productivity across the State service; for example, the Administrative and Support Services benchmarking exercise that the Treasury is now running annually. Alongside working with agencies to improve their performance, we also provide advice to the Government on the performance of key departments. Our focus and advice will vary over time depending on our assessment of the risks of underperformance and opportunities to improve performance. The Treasury will continue to provide guidance and support to agencies to ensure activities comply with the Public Finance Act 1989 and Cabinet directions.

Refer to Measures section below to see how we assess the Treasury's contribution.

Intermediate outcome: The Crown's balance sheet is managed efficiently and effectively

The New Zealand State sector manages over $240 billion worth of assets – around half of which are physical assets – across three portfolios of social assets (such as roads and schools), commercial assets and financial assets and liabilities. These assets are forecast to grow by $30 billion over the next five years.

The Treasury's roles with respect to these assets include ensuring there are incentives to use existing capital well, introducing private sector capital and commercial disciplines where this is appropriate and advising on the allocation of capital to its highest value use. These activities and interventions are designed to increase State sector productivity and the ability of the Crown to deliver more for less.

Over time, we seek to align the composition and shape of the Crown's assets and liabilities with the Government's value, performance and risk objectives (eg, through advising on choices about the scale of new investment in social infrastructure assets versus reducing Crown debt). We also provide advice on changes to the structure of the balance sheet and how elements of the balance sheet can be more effectively governed or managed to meet government objectives.

Social assets

We will enhance visibility over the performance of the existing portfolio of assets and liabilities associated with the delivery of social services, particularly in terms of asset utilisation, condition and fitness for purpose. Cost-effective disposal of surplus Crown assets will be a priority. During the period of this *Statement of Intent* we will publish information on government's future capital intentions under the auspices of the *National Infrastructure Plan*.

We will continue to play a lead role in influencing the quality of investment analysis, accountability and performance through the Budget process and we will work with agencies to support the application of good practice guidance and advice based on published Better Business Cases and Public Private Partnership material. The scope of this work covers projects that involve both central and local government agencies. At the same time we will help capital-intensive agencies bring their asset management capability to appropriate levels to better manage service delivery risks.

Commercial assets

We seek to obtain appropriate rates of return and dividends from the Crown's portfolio of financial assets and commercial entities, through high-quality governance, transparently available performance information and entity business strategies maximising long-term value for the Crown.

The immediate priority is the proposed Initial Public Offering (IPO) of up to 49% of Mighty River Power in 2012/13. Thereafter, our main priority is to apply the mixed ownership model to Genesis Power Ltd, Meridian Energy Ltd and Solid Energy NZ Ltd.

Financial assets and liabilities

Rising finance costs limit the Government's ability to pursue more worthwhile initiatives. In order to minimise debt costs within an appropriate risk profile, NZDMO will continue to market New Zealand Crown debt instruments to investors and will explore funding options across a range of instruments and a range of domestic and foreign markets.

We will also manage any residual issues arising from the expired Deposit Guarantee Scheme as required.

Refer to Measures section below to see how we assess the Treasury's contribution.

Intermediate outcomes (and outcome indicators)	Current situation	Impact measures	Core activities and services
What will medium-term success look like?	How are we currently placed against our outcome indicators?	How will we demonstrate our success?	What will we do to have an impact on our intermediate outcomes?
State institutions deliver sustained improvement in results and capability:			
▸ supporting government interventions that do the right things in the right way, and ▸ investing in agency capability to deliver better results now and in the future. This requires: New Zealand's public management system to be world leading (as judged by international commentators, such as the OECD). Robust performance and value measurement that supports and demonstrates effectiveness and efficiency in resource use (as judged by Office of the Auditor General [OAG] reports, PIF, quality of Four-year Budget Plans and Workforce Strategies). The Treasury and other agencies to demonstrate ongoing improvement in financial management capability (measured by direct assessments and by PIF against a rising expectations target).	New Zealand consistently ranks at or near the top on international and domestic surveys that measure public trust in government. Previous efforts to reform the State sector have gained New Zealand a reputation as a leader in State sector reform. However, we have not always been keeping pace with other countries in recent years. We have a very strong treasury function and are one of only a few countries in the world that routinely produces accounts that are fully compliant with International Financial Reporting Standards. Where there is scope for improvement, and where we will be focusing our efforts over the next few years, is to better measure the value created by spending the public dollar, or better information on the effectiveness and efficiency of expenditure. The current proportion of PIF ratings of "strong" or "well placed" is 50% for organisational management and 59% for results. PIF results suggest that there is real scope for improvement in leadership, strategic capability and delivery. Fifteen of 17 (88%) are "strong" or "well placed" for financial management. Four of 17 (24%) are "strong" or "well placed" for efficiency and 9 of 17 (52%) for review and evaluation.	Improvements in PIF measures of sector collaboration, leadership and the effectiveness and efficiency of core business. Central Agencies draw together indicators of agency performance in agency "dashboards". Efficiency indicators (eg, Better Administrative and Support Services [BASS], policy advice measures) show improvements over time. Health, education and income support spending is well targeted, shifting towards low-income households. Improved cross- and within-sector prioritisation and risk management (measured by Four-year Budget Plans and Workforce Strategies, PIF, ministerial feedback and reviewing external and independent assessments). Agencies' Four-year Budget Plans, supported by Workforce Strategies, outline a credible medium-term plan for living within baselines and delivering on the Government's priorities (measured by assessing the quality of Four-year Budget Plans through peer review processes). More effective Treasury contribution to improved financial capability of other agencies (measured by external engagement surveys, examples of sharing of good practice and examples of innovation and collaboration). Departments meet all their statutory requirements of the Public Finance Act 1989 (as measured by internal control ratings, avoiding unappropriated expenditure, audits). All new significant spending and government intervention proposals are subject to cost benefit analysis (or similar).	First opinion policy advice (with SSC and DPMC) on institutional settings and the public management system. Implementation of the Better Public Services reforms. Second opinion policy advice on agency interventions. Guidance and support to agencies to enable them to fulfil their Public Finance Act 1989 and Cabinet requirements and to lift performance. Monitoring advice on the performance of key departments and key areas of expenditure.

Intermediate outcomes (and outcome indicators)	Current situation	Impact measures	Core activities and services
What will medium-term success look like?	How are we currently placed against our outcome indicators?	How will we demonstrate our success?	What will we do to have an impact on our intermediate outcomes?
The Crown balance sheet is managed efficiently and effectively			
The composition and shape of the Crown's assets and liabilities are aligned with Government's value, performance and risk objectives. The overall level and performance of assets in the Crown's social, financial and commercial portfolios are consistent with the Government's medium-term directions. Agencies have the appropriate level of management capability to deliver required services in the most cost-effective way. New investments deliver expected value for money. Asset portfolios are performing to optimal levels.	Overall composition and shape appears reasonable but there is no objective measure to support this conclusion. Asset performance benchmarks are under development. Nine of 13 (69%) capital-intensive agencies surveyed are showing intermediate asset management maturity. Economic profit analysis suggests the Crown's portfolio of commercial entities has generally met its cost of invested capital. A five-year trend capturing the negative impact of the global financial crisis sees average CFI fund returns of 5.1% per annum in the period from 2007 to 2011. This was 0.5% per annum ahead of the aggregate benchmark but 2.1% behind the aggregate performance objective for the CFI portfolio.	A government strategy is in place to guide decision-taking around balance sheet management. As a result, changes are made to the composition of the balance sheet to optimise settings and allocate capital to government priorities. Social The level of asset management maturity in capital-intensive agencies improves over time relative to 2011 benchmarks. Asset performance indicators improve over time relative to 2011 benchmarks. Long-term capital planning provides government with key policy choices that can improve the cost effectiveness of social services over time. All major new social spending proposals are based on rigorous strategic, economic, financial, commercial and management analysis. Commercial The Government's mixed-ownership-model objectives are met. Appropriate rates of return and dividends are achieved from the Crown's portfolio of financial assets and commercial entities. Financial performance of the Crown's companies is comparable to private sector benchmarks. Financial Long-term returns of the CFIs meet or exceed their respective fund objectives and benchmark reference portfolios. The average cost of new core Crown borrowing is less than the long-run borrowing rate of 5.5%.	First opinion policy advice on balance sheet management, Crown ownership (including a Mixed Ownership Model), SOE governance and policy settings, public private partnerships, capital asset management framework. Implementing the Mixed Ownership Model. Monitoring advice on SOEs, CFIs and CRIs. Board appointments to achieve high-quality governance of our assets. Managing New Zealand's debt. Managing any residual issues arising from the expired Deposit Guarantee Scheme. Guidance and support to agencies to enable them to fulfil their Public Finance Act 1989 and Cabinet requirements.

Outcome: A Stable and Sustainable Macroeconomic Environment

What are we seeking to achieve?

A stable macroeconomic environment is a fundamental precursor for strong, sustained economic growth and higher living standards. A stable and sustainable macroeconomic environment provides a degree of predictability and certainty for households and firms which helps them to make decisions with respect to employment, saving, investing, innovating and grasping opportunities. The events of the past few years underline that macroeconomic stability cannot be taken for granted. Excessive real GDP and inflation variability hurt decision-making, leading to lower average growth.

Macroeconomic stability is supported by having sound macroeconomic and microeconomic settings and environment in place to ensure that we can weather the external shocks that come our way, as well as ensuring that policy itself is not a source of domestic imbalances. High government deficits and external debt can hurt economic stability, raise the impact of external crises (as measured by *credit ratings*) and push up real interest rates and borrowing costs. A stable macroeconomic environment is consistent with achieving a reasonably low degree of variability in GDP growth.

Price stability, defined as *low and stable inflation and inflation expectations*, is another element of macroeconomic stability. High and unexpected inflation is costly for the economy as it creates uncertainty and disrupts decision-making. It lowers people's living standards by undermining the value of their purchasing power. Price stability is the responsibility of monetary policy, but achieving it in an efficient manner is supported by other factors such as fiscal policy, competition and market structures.

A long-standing imbalance between national saving and investment has been identified as a contributor to macroeconomic vulnerability. *Increasing national saving* is consistent with reducing external imbalances whilst underpinning growth-enhancing investment. Lifting national saving will reduce pressure on interest rates and the exchange rate, and support growth in the more productive tradable sector. The Government can play a role in lifting national savings through its fiscal strategy and other policy settings.

A sustainable *fiscal outlook* contributes to macroeconomic stability. Government spending is always ultimately financed by increased taxation, whether now or in the future. Managing current and future spending pressures is important for growth, intergenerational fairness and ensuring that fiscal policy has the flexibility to deal with adverse shocks.

There are a large number of factors that influence the achievement of a stable and sustainable macroeconomic environment. The Treasury has a particular role in providing advice on how to achieve a stable macroeconomic environment and how to achieve a sustainable fiscal position. These are outlined in more detail below.

How we will assess whether we are achieving A Stable and Sustainable Macroeconomic Environment		
Indicator	Current performance	Target
Reduced concerns about New Zealand's external vulnerabilities as reflected in New Zealand's sovereign credit rating.	Two of the three major rating agencies have assigned New Zealand an AA rating on its external sovereign debt. The other (Moody's) still has New Zealand as AAA.	By 2015/16 two out of the three major rating agencies increase New Zealand's credit rating to AAA with stable outlook.
Inflation and inflation expectations.	Annual Consumer Price Index (CPI) inflation was 1.6% in the year to March 2012, taking the five-year average to 2.9%. Two-year ahead inflation expectations were 2.5% in the March 2012 quarter, the lowest since the September 2009 quarter and down from a 3% peak in the June 2011 quarter.	These remain anchored within 1% to 3%. Rolling five-year average of inflation outturns remains in the target band, and no higher than the average for the past decade.
Gross national saving rate increases.	National saving as a share of GDP was14.9% and 15.3% in the year and 5 years to March 2011 respectively.	Trending toward 25% of GDP over the next five years and remains elevated.
Improved fiscal outlook.	The operating balance before gains and losses (OBEGAL) has been in deficit each year since 2008/09 and core Crown net debt has increased from a low of 5.6% of GDP in June 2008 to an estimated 25% in June 2012.	By 2014/15 the fiscal position has moved into balance or surplus and net debt has peaked and begun declining. Indicators of long-term fiscal sustainability show improvement in the 2013 and subsequent long-term fiscal statements.

What will we do to achieve this outcome?

Intermediate outcome: A stable macroeconomic environment

Large fluctuations in activity and employment (as measured by GDP variability) have negative household income and social consequences, and therefore weigh on living standards. Over the 10 years to 2010 New Zealand had the 13th lowest GDP variability amongst OECD countries. This is better than our performance in the prior decade and one we should seek to maintain. Avoiding recessions is an important component of achieving higher living standards over time, as output lost during recessions is not always fully recovered. History shows New Zealand's level of GDP per capita has fallen behind that of Australia mainly at times of recession here, and this gap is not usually closed during economic booms.

An important indicator of New Zealand's macroeconomic vulnerability, New Zealand's net international investment position, was at a level in 2008 that was comparable with many of the countries that have since suffered severe economic crises, as markets came to doubt their ongoing solvency. New Zealand's net international position was cited as a reason by ratings agencies for New Zealand's recent credit downgrades. If market perceptions of the risks associated with New Zealand were to deteriorate significantly, the consequences could be severe, as currently evidenced by developments in some European countries.

Returning to surplus and rebuilding fiscal buffers by lowering government expenditure relative to GDP is the most direct and immediate contribution that the Government can make to reducing New Zealand's macroeconomic vulnerabilities. It also supports higher growth through a better allocation of resources across the economy. Reducing the fiscal deficit and returning to surplus will directly act to increase national saving and reduce the Government's contribution to the net external debt position. Returning government net debt to a prudent level could also improve macroeconomic stability by ensuring the Government has the option to let automatic fiscal stabilisers operate to help cushion the economy in the event of a future negative shock.

In addition to higher government saving, a number of policy changes would help achieve a lift in overall national saving relative to investment sufficient to arrest and reverse further deterioration in New Zealand's net external liability. Over the period of this *Statement of Intent*, the Treasury will undertake research and provide advice on a

comprehensive policy prescription (across tax, government spending, welfare, retirement income policies, saving and investment policy) to help raise national saving.

The Treasury's work aims to help the Government to reduce the risk of an abrupt negative economic adjustment through our macroeconomic monitoring and associated policy advice; and our fiscal strategy, policy and frameworks advice. Our work will provide advice to help government reduce variability in the typical business cycle and manage the impact of sudden economic shocks by being more careful to avoid pro-cyclical fiscal policy – especially during the upside of the economic cycle.

We will support the Government to amend of the Public Finance Act 1989 to ensure the fiscal responsibility principles help reduce future cyclical rises in interest and exchange rates. We will provide advice to ensure that fiscal policy settings support macroeconomic stability, and in particular do not contribute to economic imbalances and exacerbate the business cycle.

The Treasury will provide advice on improving the resilience of the wider financial system in order to reduce the macroeconomic risks associated with potential future financial shocks.

We will also continue to undertake economic and fiscal monitoring/reporting and forecasting, which are critical for identifying emerging risks that could undermine macroeconomic stability and sustainability and, through our advice, support timely policy responses.

The Treasury will advise the Minister of Finance as required on the monetary policy framework, including his Policy Targets Agreement with RBNZ.

Refer to Measures section below to see how we assess the Treasury's contribution.

Intermediate outcome: Fiscal position returned to a sustainable footing

Returning the fiscal balance to surplus and reducing government net debt back to prudent levels will contribute to macroeconomic stability over the short term and increase fiscal sustainability. The act of reducing the fiscal deficit will directly reduce upward pressure on interest and exchange rates over the next few years and help manage external vulnerabilities. Returning to surplus on a sustained basis will restore the fiscal buffer provided by low debt, will increase public saving and reduce future borrowing and finance costs. Alongside this, maintaining a broad-base, low-rate tax system minimises economic distortions. To help the Government achieve a sustainable fiscal position, the Treasury provides advice on fiscal strategy, policy and frameworks.

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 Treasury will provide advice on government expenditure – both new and existing – to assist Ministers to bring the operating balance back to surplus by 2014/15. Reducing government spending as a share of GDP will allow room for resources to flow to the rebuilding of Christchurch and the more productive parts of the economy. The Treasury will also manage the Budget production and provide fiscal monitoring, reporting (including production of the Crown financial statements) and forecasting.

In the most recent *Long-term Fiscal Statement* (2009), the Treasury outlined the choices and trade-offs that will be needed to meet future cost and demand pressures. It showed that, without policy changes, especially in public spending, New Zealand's ageing population structure will make it increasingly harder to avoid significant fiscal deficits. Either debt will lift, or tax rises will be required to keep debt in check, leading to significant impacts on macro stability and growth, whichever occurs.

The Treasury will publish another *Long-term Fiscal Statement* in 2012/13. We will evaluate the extent to which spending is consistent with the long-term fiscal strategy. This will include evaluating key policy choices and trade-offs with particular focus on tax and the sectors with the highest levels of government spending – health, education, welfare and justice. Our analysis will be tested by an external panel of experts and we will seek the individual views of a range of experts as part of developing and finalising our analysis and conclusions.

Refer to Measures section below to see how we assess the Treasury's contribution.

Intermediate outcomes (and outcome indicators)	Current situation	Impact measures	Core activities and services
What will medium-term success look like?	How are we currently placed against our outcome indicators?	How will we demonstrate our success?	What will we do to have an impact on our intermediate outcomes?
A stable macroeconomic environment			
Variability in GDP growth is minimised and absolute falls in annual real GDP are avoided. Variability is in the lowest third of OECD countries, and below that recorded in the 1980s and 1990s.	The standard deviation of New Zealand's annual real GDP growth was around 2.2 percentage points in the 10 years to 2010 (13th out of 34 OECD economies), compared to 2.1 (13th out of 28) and 2.6 (22nd out of 34) in the 1980s and 1990s respectively.	Fiscal policy that is not excessively pro-cyclical (as measured by a range of indicators), especially during the upswing in the business cycle, and does not contribute to a build up and continuation of imbalances. New Zealand has a high-quality fiscal framework as recognised by informed commentators (eg, international institutions, rating agencies, surveys and academic studies). The financial stability regime (regulatory, supervisory and resolution) appropriately balances managing the risks of financial crisis and supporting economic growth.	First opinion policy advice on macroeconomic strategy; fiscal policy, strategy and frameworks; and joint advice with RBNZ on financial stability. Research and advice on savings policy. Economic and fiscal monitoring, reporting and forecasting. Second opinion policy advice on proposals by other agencies that impact on the macroeconomic environment.
Current account and net international investment position (NIIP) are sustainable.	The Treasury forecasts in the Budget 2012 *Economic and Fiscal Update* show the current account deficit increasing from current levels, such that the NIIP also begins to increase again. The net international liability position fell as a share of GDP between March 2009 and March 2011 partly owing to re-insurance inflows associated with the Canterbury earthquakes, but nevertheless remains at a high level by international standards.		
Financial stability risks related to New Zealand are either generally falling or are within the normal range (as measured by the domestic financial sector components of the cobweb model published in RBNZ's *Financial Stability Report*).	In November 2011 financial stability risks remained above their normal range. The indicators relating to financial market conditions and funding and liquidity showed an increase in risks between May and November 2011.		

Intermediate outcomes (and outcome indicators)	Current situation	Impact measures	Core activities and services
What will medium-term success look like?	How are we currently placed against our outcome indicators?	How will we demonstrate our success?	What will we do to have an impact on our intermediate outcomes?
Fiscal position returned to a sustainable footing			
Structural fiscal position is returned to broad balance and a primary surplus achieved inside the current 2011/12 to 2015/16 forecast period.	The Budget 2012 fiscal forecasts show a small surplus in 2014/15, with net debt peaking below 29% of GDP and falling to less than 20% by 2021.	Budget decisions are in line with short-term fiscal intentions in the *Budget Policy Statement* (BPS). Gross capital requirements are met from balance sheet over the next four years. A majority of New Zealanders want action taken to address the long-term fiscal position within the next 10 years. The average cost of new core Crown borrowing is less than the long run of borrowing rate of 5.5%.	First opinion policy advice on fiscal policy, strategy and frameworks; fiscal reporting frameworks; and balance sheet management. Fiscal monitoring, reporting and forecasting, including the production of the Crown financial statements. Implementing the Mixed Ownership Model. Production of the Long-term Fiscal Statement. Monitoring advice on the performance of key expenditure areas. Budget production. Guidance and support to agencies to enable them to fulfil their Public Finance Act 1989 and Cabinet requirements. Managing New Zealand's debt.
Core crown net debt is reduced to no higher than 20% of GDP by 2020.			
Government spending as a share of GDP is reduced to around 30% of GDP by 2015/16.	Core Crown government spending as a share of GDP is forecast to decline from 34.4% in 2011/12 (excluding earthquake costs) to around 30% in 2015/16.		

Enabling and Supporting a Higher Performing Treasury

A world class Treasury

If we are to lift New Zealanders' living standards and achieve the programme of work set out in the rest of this document we will need to play a pivotal role in the State sector. This will require an ongoing focus on lifting our performance to ensure we stay at the cutting edge of policy development internationally.

We aim to be among the most respected and influential organisations in New Zealand and an exciting place to work. Our work will be bold and innovative. We will be passionate and ambitious about our people and performance. We will work with and learn from others by being challenging and collaborative in our interactions. We will be adaptable and focused to ensure that we are doing the things that have the greatest impact on our outcomes. To achieve this we will operate as navigators, experts, problem solvers and exemplars.

Our organisational health and capability

To be a *world class Treasury* w*orking towards higher living standards for New Zealanders* requires an ongoing programme to develop the capability of our staff and systems.

We have three objectives that reinforce each other:

- Our leadership role models and drives our values in order to lift our performance.
- We are an adaptable and productive workforce.
- We are a well-managed public sector organisation focused on continuous improvement.

Impact: Our leadership role models and drives our values in order to lift our performance

The Treasury is seeking to lift its performance by changing the Treasury's culture – how we go about our business – so that the way all Treasury people work is representative of and aligned to the Treasury values: bold and innovative; collaborative and challenging; adaptable and focused; passionate and ambitious. The Treasury can only live by its values if its leaders champion and role model those values, and if they consistently use leadership practices that foster this culture.

Alongside our internal leadership, we are also seeking to improve the Treasury's external leadership role. We want to achieve greater depth and breadth of two-way engagement with external stakeholders at all levels across the Treasury, with the aim of lifting the quality of our advice and being more influential.

Our focus is helping our leaders adopt and develop their competence in specific leadership skills, styles and practice; and improving engagement with external stakeholders at all levels across the Treasury. Given recent changes to our senior leadership team, a particular focus in the short term is establishing a collaborative and challenging executive leadership team dynamic.

We will demonstrate our progress by:

- The Treasury's assessment of leadership demonstrates a lift in constructive leadership styles.
- The Treasury stakeholder survey reflects a view that the Treasury is leading, and raising the quality of, critical policy debates.

Impact: We are an adaptable and productive workforce

We need a workforce that can adapt quickly and act to meet changing demands within the limited financial resources available to us. We need to be able to prioritise work swiftly and reallocate resources when required.

We must all be clear about our contribution to our outcomes, deepen our capability to influence and improve our ability to assist other agencies to align their work with the Government's economic agenda through effective, ongoing, two-way working relationships. Our people will be enthusiastic and demonstrate commitment to achieving our outcomes.

Our focus will be on embedding a number of significant initiatives that aim to lift the productivity of our people and our ability to have an impact on our outcomes, including improving the quality of our policy advice, improving our ability to operate as the State sector's corporate headquarters finance function, improving our cross-Treasury prioritisation and delivering on our Workforce and Diversity Strategies.

We expect these initiatives to lead to greater levels of staff productivity.

We will demonstrate our progress by:

- Our employee engagement survey results are in the top quartile of the public sector.
- The effectiveness and efficiency of our policy advice improve over time[4].

As part of the implementation of our Workforce Strategy we are developing measures to demonstrate progress against this strategy. Once these have been finalised we will report against them.

Impact: We are an exemplar of a well-managed State sector organisation focused on continuous improvement

As a Central Agency, the Treasury has a role in lifting the performance of the State sector. Our objective is to be recognised by our peers and through independent review as an example of how a well-managed organisation operates. We will continue making improvements to our systems and processes to allow maximum resources to go to the priorities identified in the *Statement of Intent*.

In March 2012 the corporate service functions (finance, information technology [IT], information management [IM] and HR) of Central Agencies were integrated into the Central Agencies Shared Services unit (CASS) sitting in the Treasury. The objectives of this are to minimise risk through building greater resilience and strengthening capability; develop better services, including both improving the capability to innovate, build job satisfaction and career development; and lead by example by building strong corporate services which will deliver services that exceed the sum of their parts. It will take time for the changes to bed in and for these gains to be achieved.

Our focus is to embed CASS, manage the risks associated with the change to a shared service model and start to realise the benefits. We will continue to improve our management information, planning and reporting systems to enable the Treasury to measure its impact and to support decisions about efficiency and effectiveness. The Treasury will also be strengthening its management and governance by introducing and embedding more systematic approaches to project, process and risk management.

We will demonstrate our progress by:

- PIF: The majority of the organisational management ratings move to "strong" at the next PIF assessment of the Treasury.
- Departmental Internal Control Environment (DICE): The rating is 4.5 or higher.
- BASS: Costs of supplying administrative and support services as a proportion of the Treasury's running costs decrease.

4 A set of effectiveness and efficiency measures is being developed through the Policy Unit Measurement Pilot Project with the intention that these will eventually be used across the New Zealand Public Service. The Treasury is participating in this pilot.

- BASS: The average of the Treasury's management practices indicators improves.

As the Treasury has recently moved to a shared support services arrangement for finance, IT, IM and HR (called CASS) we will need to revise our BASS targets once this new arrangement has had time to bed in. In the interim we have established the following CASS-related measures:

- an 8% reduction in the overall running costs of CASS by the end of 2013/14, and
- CASS will meet the agreed performance metrics outlined in the CASS service catalogue.

Our changeable operating environment

The ability to adapt quickly and to assist government in dealing with changes in circumstance are core capabilities of the Treasury. In the past we have devoted significant resource to matters of urgency; for example, the Canterbury earthquake response and in response to the global financial crisis. We may not be able to predict where the Treasury will be drawn in the future in response to issues of particular national importance, but we maintain a flexible and capable range of abilities when such issues arise. A challenge for the Treasury is to continue to invest in issues of longer-term importance during uncertain times, and to ensure that we are equally effective in reducing our commitment on issues where it is no longer critical.

The Treasury's ability to manage in an uncertain and changeable operating environment is enhanced by the quality of our risk management (risk is defined as "the effect of uncertainty on objectives"[5]). The Treasury has a range of approaches to risk management. This is led by our senior leaders regularly identifying and assessing our biggest strategic and emerging risks, and ensuring we are taking appropriate actions to manage these. We manage risks relating to our various change initiatives and projects, as well as day-to-day operational risks, to ensure that we anticipate and deal with uncertainty as effectively as we can.

One of the Treasury's priorities is to continue its internal change programme, making continuous improvement a part of business as usual in the Treasury. Like the public sector more generally, the Treasury will also continue to prioritise its expenditure to meet the Government's objectives while managing cost pressures associated with a reducing and then flat baseline (primarily because fixed-term projects, such as the Retail Deposit Guarantee Scheme, wind down). Managing these pressures will include a reduction in staff over the medium term.

Valuing diversity (Equal Employment Opportunities)

We want the Treasury to be respected for the relevance and value of what we say. To achieve this, our thinking and actions need to be informed by a diverse range of views. We need to understand different perspectives, constantly look for new insights and recalibrate our views in light of new evidence. A Treasury that fosters "diversity of thinking" is fundamental to its success. It enhances the credibility, value and relevance of our work and advice.

In addition to focusing on diversity of thinking more broadly, we have decided to focus on two important areas for the next year where we believe improvements are necessary:

- Ethnic diversity: The significant majority culture is currently Pākehā and does not reflect the broader society that we serve. In particular we want to bring a greater Māori perspective to our advice.
- The proportion of women in senior leadership roles: this is currently low. Progress has been made in recent years through a deliberate approach to creating pathways and flexibility (eg, team leader roles, part-time managers), but barriers to diversity still exist in recruitment practices that can unintentionally bias against women.

5 NZ Risk Management Standard – AS/NZ ISO 31000:2009.

Departmental capital and asset management intentions

The forecast capital expenditure will support the efficient delivery of services as set out in this *Statement of Intent*, which reflects the three- to four-year cycle of replacing or upgrading assets to maintain and develop our capability. Our capital asset strategy ensures we invest in a work environment that supports flexibility, mobility and efficiency, which also assists in attracting high-performing staff.

The most significant component of our capital programme relates to maintaining our computing environment and internally generated software, including the ongoing development of the NZDMO in-house system that supports the front office, middle office and back office business processes of NZDMO.

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

Forecast Capital Expenditure	2011/12 Budget $0	2012/13 Forecast $0	2013/14 Forecast $0	2014/15 Forecast $0	2015/16 Forecast $0
Furniture and Fittings	101	83	55	80	80
Leasehold Improvements	300	124	530	10	10
Computer Hardware	454	675	1,693	1,560	1,460
Office Machinery	585	30	42	42	42
Total Plant, Property and Equipment	1,440	912	2,320	1,692	1,592
Internally Generated Software	481	967	115	90	90
Other Software	1,470	21	653	653	653
Total Intangibles	1,951	988	768	743	743

Maintaining our current asset base from our limited capital reserves is an ongoing challenge. We will continue to reinvest in our asset base. This includes replacements, upgrades and enhancements to our information technology (IT) systems and infrastructure, software licences, computers, leasehold fit out, furniture and equipment. It also includes enhancements to existing systems that are required to deliver services or meet stakeholder demands - ahead of any investment in new systems.

The Treasury does not own land or buildings. We do fit out our leased office accommodation and we will continue to look at opportunities to reconfigure our working areas to meet the flexibility of our accommodation needs, for example investing in smaller furniture to reduce office accommodation demands per FTE. In addition, to minimise the need for significant un-forecast capital expenditure we undertake planned annual maintenance of our accommodation assets to ensure they remain fit for purpose and enhance the longevity of these assets.

The implementation of CASS will allow for capital infrastructure efficiencies over time, as resources are pooled to gain economies of scale for our core infrastructure needs (which are predominantly IT related), and a reduction in the total cost of ownership. In the medium-term the development of a CASS strategic asset management plan will ensure required levels of service are met in the most cost-effective manner and inform business planning, risk and programme management. As part of this we have introduced new governance arrangements for strategic oversight and management of the core infrastructure and information systems provided by CASS.

Work is currently underway to determine the prioritised work programme and timing. This will be partly determined by the funding constraints of the three agencies and other agency specific capital priorities, as well as the capacity of the agencies to collectively deliver on what will be a significant transformational programme in our core IT infrastructure. It is expected over time that the shared services will provide additional savings and the ability to utilise capital funds in a more effective way. We recognise the need to improve core systems. Improvements are necessary to ensure that we remain an agile and efficient organisation, which is able to respond to the needs of our stakeholders. Examples where capital investment will occur to support this include server consolidation and virtualisation technology – supporting our move towards reducing numbers of physical servers, thereby lowering ongoing investment costs.

Furthermore, as whole of government programmes are introduced, such as Infrastructure as a Service, these will enable our capital needs to be delivered through a cheaper alternative delivery model.