
PERFORMANCE IMPROVEMENT FRAMEWORK

Follow Up Review of the Treasury

OCTOBER 2012

State Services Commission, the Treasury and the Department of the Prime Minister and Cabinet

Lead Reviewers' Acknowledgement

The assistance and cooperation extended by the Chief Executive of the Treasury, his staff and a range of stakeholders are appreciated.

**Performance Improvement Framework
Follow Up review: The Treasury**

**State Services Commission, the Treasury, and the Department of the Prime Minister and Cabinet
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PIF FOLLOW UP REVIEW

It is important to understand the context within which the Performance Improvement Framework (PIF) is being delivered. There are two developments driving change across the public sector. The first one is that everywhere across the world people are under some fiscal constraint of one sort or another, some more severe than others. What that means is that there isn't a lot of money around to fund services, so people have to look really hard at how they get the best value from the dollar they've got. The second big development is that people's expectations, citizens' expectations, are rising. People want to interact with government in a different way. People's expectations of the sorts of services they can get from government are changing. It's partially a generational thing, there is a huge change coming in terms of the way individuals want to access services. But, more critically, people expect more from their tax dollar. These two things in particular are driving the need for the State Services to do things differently. The changes we made in the late 80s and early 90s were world leading. They had lots of strengths but they had lots of weaknesses. While PIF builds on the strengths of those early reforms the stated aspiration is to take New Zealand from having a good public service, which it has today, to a great public service in the future.

The New Zealand public service is already number one in the world for the absence of corruption. Senior leaders in the State Services want to lift performance in a number of other areas to make sure we have the best public service in the world. PIF is a key tool to enable public servants to do just that. At its heart a PIF is a review of agencies' fitness-for-purpose as they prepare for the challenges in the future. It looks at the current state of an agency, then how well placed the agency is to deal with the issues that confront it in the near future. It looks at the areas where the agency needs to do the most work to make them fit-for-the-future. And, because change does not happen overnight, the PIF is evolving to assist chief executives and Chairs beyond their first report. The PIF Follow Up review is a stock take of the progress the agency has made since its initial review. It is another example of the public service taking ownership of its own continuous improvement and using the PIF to do its job better. As with the first reports, these reports are published. That way the public can have confidence that the public sector is continuing to improve its performance year in and year out.

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INTRODUCTION

A Formal PIF review of the Treasury was conducted in late 2010 and published in May 2011. The Treasury's Change Programme was the vehicle through which matters identified in the report were prioritised and addressed.

This Follow Up review was undertaken during June/July 2012. It focused on the Treasury's strategic leadership and organisational performance as they were considered to be the key enablers for the Treasury to make the greatest contribution to NZ Inc. They are also critical given that the Treasury has had a new Chief Executive Officer (CEO) appointed since the Formal review and he in turn has made some significant changes to the leadership structure and style. Murray Nash, who also participated as Technical Expert in the Formal review of the Treasury in 2010, assisted me in undertaking this Follow Up review. Paula Rebstock peer reviewed this report.

This review concentrates on the challenges for the Treasury as it faces a new context within which it is operating, while also understanding its role in the Corporate Centre along with its other central agency partners and the implications of the Government's Better Public Services strategy.

A list of organisations contacted as part of the review is in the attachment to this report, together with a list of the areas in which reference material was provided by the Treasury.

Sue Suckling

Lead Reviewer

BACKGROUND

The Treasury has a key leadership role for New Zealand...

The Treasury has a vital role in the effectiveness of constitutional government in New Zealand through its enabling of the appropriation by Parliament of moneys to meet the obligations placed on the Executive and ensuring the continuing capacity to make informed, proper appropriations in the future. The role of the Treasury gives it many levers for bringing the coherence, direction and change needed for effective government and for a high performing public sector.

The Treasury was the first of the central agencies to participate in a PIF review...

The Formal review was undertaken at the end of 2010 under the previous CEO, albeit he had announced his retirement from the role. The findings of the Formal review have guided the focus for the new CEO and new Executive Leadership Team (ELT).

FOCUS OF THE FOLLOW UP REVIEW

The Follow Up review (the review) focused on a number of critical areas...

The new CEO proactively asked for this review, and ELT welcomed it as they saw it would provide an assessment of progress post the first review and their readiness for the future within which they operate.

Areas of focus for the review included:

- the Treasury's strategic leadership for New Zealand (economic and State sector performance strategy)
- the Treasury's organisational performance including: external engagement; effective leadership; alignment and line-of-sight within the organisation; internal discipline and accountability; and drive for improved effectiveness and efficiency.

The review was limited to these areas as they were considered to be the key enablers for the Treasury to make the greatest contribution to NZ Inc.

THE TREASURY'S OPERATING CONTEXT

The context in which the Treasury now operates has changed and is challenging for the organisation...

While in the period post the first Formal review the Government's focus was on managing the immediate events and consequences of the global financial crisis and the Christchurch earthquakes, there is now an increased focus on what needs to be done to secure New Zealand's place amongst first-world economies that can afford first world healthcare, education and welfare.

Affordable first class healthcare, education and welfare are a small subset of what is needed and will be led by a focus on better public services and improved economic performance.

The Treasury plays a critical role in driving the desired performance step change. This will require more innovative and better-coordinated government policy as well as a different more effective and efficient modus operandi within the State sector – including across sector co-creation of solutions and shared responsibility for successful implementation.

The Government is committed to a coherent systemic programme of renewal for the public service with a commitment to cross-cutting services delivering results that will benefit all New Zealanders.

At the time of the review, the new Better Public Services (BPS) paradigm was in its early days of execution, including the establishment of a coordinated Corporate Centre (for the three central agencies) and an empowered platform/sector strategic approach for State services. The latter is including sector boards, sector funding and new functional lead positions. Openness, transparency and accountability are demanded of the State sector, supported by innovation and 'disruptive challenge'.

The Treasury must lead on both of these fronts - improved economic performance and better public services - within this new context. This will require the Treasury doing things differently than it has in the past. The Treasury is in the process of redefining how it plays its role in this new context. It needs to be very clear on its value-add proposition for the Crown within this new paradigm, and is currently developing how it will fully respond to this challenge.

FOLLOW UP REVIEW FINDINGS

Significant leadership change has occurred within Treasury since the 2010/11 PIF Review and further change is about to occur...

The 2010/11 Formal review was carried out on the eve of the retirement of the previous CEO. The new CEO (Mr. Gabriel Makhlouf) has been in place for just over 12 months and has significantly changed the leadership structure (a new ELT structure) and style within the Treasury (a more deliberate leadership style internally and externally).

The CEO has articulated a clear organisational vision and framework for the Treasury, which encapsulates the external paradigm within which the organisation is required to operate. The ELT is relatively new – and is further identifying and refining its role in regard to organisational leadership. There is however, coherence and strong ownership within ELT of the new framework, and evidence that ELT members have an organisational focus, which sits above their own portfolio focus. Internally, the Treasury has improved its own forums for debate, and accountabilities for decision-making under this new leadership.

The ELT needs to further develop its capacity for strategic leadership and to tackle the fundamental issue of operationalising the new vision and framework for the Treasury within the new State sector context and Better Public Services.

This needs to be addressed with urgency for the Treasury to be able to deliver on the Government's agenda and expectations in this area, along with the other central agencies and State sector organisations. Third parties are looking for the Treasury to execute its new operating paradigm but in many instances they are still not seeing tangible change on the ground - with the Treasury 'lagging' versus 'leading' in some key areas.

There have been a number of personnel changes at the senior level within the Treasury post the 2010/11 Formal review with a number of senior managers leaving the organisation. This provides both an opportunity and a challenge for the organisation. The loss of institutional knowledge has adversely impacted some key external parties but the Treasury has developed acceptable strategies to address this with these parties.

On the positive side, the incoming leaders that have replaced those leaving may help enable the Treasury to more readily move to its new operating paradigm.

During the review the Treasury appointed Vicky Robertson to the role of Deputy Chief Executive (DCE), following the departure of the previous DCE who moved from the Treasury to head the Department of the Prime Minister and Cabinet (DPMC). This is a critical position within the organisation and must be leveraged to enhance the organisation's capacity to undergo the transformation that is required.

The direction on which the Treasury has embarked under the new CEO is the right direction...

The new environment has required the Treasury to rethink what they are there to do, ie, their purpose and role, what the challenges are, and how they will deliver, ie, their new operating model.

While the CEO and ELT have done considerable work in this area and have identified a framework for the future which will redefine how the Treasury performs its Ministry of Finance and Corporate Centre roles, and engages externally, this work has not been completed nor have the implications for the operating model been determined. This will have significant implications for the role and capabilities of the Treasury's devolved vote and policy analysts, as well as its interaction and modus operandi with its two other Corporate Centre partners (DPMC and State Services Commission (SSC)), and the newly coordinated sectors and functional lead roles.

Changing the Treasury operating model and in particular the roles, accountabilities and capabilities of frontline policy and vote analysts is a prerequisite to the Treasury leading and adding significantly more value in the new State sector paradigm. Further, operationalising the economic strategies, which the Treasury has developed and published since the 2010/11 Formal review, and using its new 'higher living standards for New Zealanders' framework, will impact the Treasury's prioritisation in decision making and identify where it has capability gaps.

While this framework and associated goals, roles and values could be very powerful in refocusing the Treasury's future role, purpose and operating model, it is essential that it is brought down to a level that is owned and operationalised across the organisation, and on the frontline. This must occur with urgency so that the Treasury can be effective in playing the role that is being demanded of it.

The critical issue facing the Treasury is that there is a major gap between the CEO/ELT intent and aspirations for the organisation and frontline delivery...

The CEO and the ELT acknowledge that they are very much at the beginning of the organisation's transformation journey.

Consistently, the review found that frontline delivery (which is devolved in the Treasury operating model) has undergone little or no change from what it has been in the past (and what was observed in the 2010/11 Formal review). This is a consequence of the new operating model not being operationalised, and hence delivery on the ground is not aligned to the intent articulated by the CEO/ELT, and is not aligned to the new State sector paradigm.

Line-of-sight from leadership intent and prioritisation to actual frontline delivery is still a major issue facing the Treasury. This is a real issue given most of the contact between the Treasury and other organisations (even for their CEOs) occurs at this level.

With empowerment and accountability moving to sector leads, the role and engagement model for the Treasury frontline analysts must change. The Treasury has not clarified what this means for them nor have they identified how they would manage the change process required to undergo this transformation.

Changing its operating model is extremely challenging for the Treasury due to the breadth of its reach (versus depth), its need to be responsive to issues of the day, and the devolved execution of its functions. These current characteristics and the current modus operandi are deep in the culture/'DNA' of the organisation and motivation of its workforce. A key challenge will be to keep clarity and focus on developing and moving to the reformulated operating model while being challenged by the need to be responsive to day-to-day demands.

The current engagement scores for staff provide a further barrier and challenge in regard to addressing this.

The gap will only be closed through culture change and capability-build (in areas such as engagement and co-creation/co-production). This will be very challenging. Recognition is needed of what beliefs need to change deep in the organisation's 'DNA' and what is required to change these, ie, what does it look like? why work at the Treasury? etc. The fundamental role and capability of a Treasury Analyst needs to change.

Treasury has refocused its senior external engagement strategy and external leadership and has demonstrated a boldness to be prepared to lead external debate...

However, effective engagement is person dependent and variable, and is exacerbated by the gap observed between frontline delivery and the articulated leadership intent.

In regard to frontline engagement between the Treasury and agencies, it is sometimes unclear who the Treasury counterpart is and whether progress made with the counterpart will actually stick. Organisations spoken to in this review feel they can still get blindsided by the Treasury in a non-timely and 'costly' manner.

In the new context the Treasury is being asked to engage and help find and take ownership in solutions and ways forward. This co-production model has not been part of the culture for many in the organisation.

Treasury has made significant progress on the development and articulation of a medium-term economic strategy for New Zealand and usefully contextualised this into 'higher living standards for New Zealanders'...

This has the potential to be a powerful lens for the Treasury's own prioritisation and capability development going forward. The next challenge is to turn this into useable advice and ensure coherent consistent alignment and action by the organisation to support it and drive innovation.

The Treasury's organisational understanding and responsiveness to work with Māori is undeveloped despite this being needed using the 'higher living standards for New Zealanders' lens.

Operational disciplines within the Treasury have been enhanced and will be required to support the leadership aspirations and change management challenge ahead...

A demonstrable cultural change is evident at the leadership level in regard to recognising the role and benefit of strong operational disciplines and process to underpin organisational performance.

The Treasury has recently invested in operational tools to better support the organisation including an improved performance management system, management information system and risk management framework. Further work is in progress to reposition the external Advisory Board to enable it to add more value to the organisation. These tools all require further development to be able to be fully leveraged. They will then be able to support the Treasury's transformation but they will just be platforms to assist the change – they will not drive the change themselves.

Treasury's work with Central Agencies Shared Services (CASS) is a positive commitment to improved efficiency and effectiveness but this now needs to be fully leveraged and progress against aggressive implementation Key Performance Indicators (KPIs) measured and reported upon...

Engagement in State sector change needs significant development (the BPS and CASS work to date is not enough). Deep acceptance from within the Treasury is needed regarding the developing Corporate Centre (also known as Ministry of Finance also known as BPS), versus the nervousness and/or reserved position that was observed at the time of the review. The organisation will need to give up some deep held positions to make real progress.

SUMMARY

In summary, while progress has been made in the right direction, significant change is required for the Treasury to be able to fully realise its leadership contribution to New Zealand's economic strategy and the State sector Better Public Services strategy...

The Treasury is at a critical point in the repositioning of the organisation under its new leadership, which, if not addressed, will create real risk for the organisation. The leadership has a clear vision for the future but has yet to implement it. There is therefore still a strong disconnect between the leadership articulation (internally and externally) of the vision and intent the Treasury has for New Zealand and the State services, and the actual frontline delivery.

The new medium-term economic strategy work provides a very positive platform for the future. However, it must be translated into real policy, be integrated into the organisation and used as a lens to prioritise, focus, and draw conclusions. The new 'higher living standards for New Zealanders' framework has the potential to be very powerful but at the time of the review it is underutilised and significant work is required to embed it into the organisation and use its logic to drive the Treasury prioritisation internally and externally.

The Treasury to date has 'reserved its position' in regard to its future role and accountabilities in the Corporate Centre. It needs to step up to this new configuration and recognise it as the new operating paradigm for the State sector which it needs to lead from the front.

To deliver on these challenges the Treasury must address its role and operating model in the new State sector context, realign the deep 'DNA'/culture that underpins its current modus operandi, and redefine and develop capability to support the new operating model.

The challenge in this is not to be underestimated and the CEO and ELT will require the appropriate support and expertise to assist them to achieve this. However, the prize will be worth it for New Zealand and the leadership of the Treasury (CEO and ELT) are committed to deliver on this challenge. Further, external stakeholders are also committed to supporting this transformation and the current leadership of the Treasury. Increased urgency is required to drive this transformation to mitigate the risk associated with a change programme of this magnitude.

APPENDIX A

List of Interviews

In addition to input provided by a number of Treasury staff and Ministers, this Follow Up review was informed by representatives from the following communities, businesses, organisations and agencies.

AGENCY/ORGANISATION
Business NZ
Department of Internal Affairs
Ministry for the Environment
Ministry of Business, Innovation and Employment
Ministry of Justice
Ministry of Social Development
New Zealand Trade and Enterprise
Reserve Bank of New Zealand
State Services Commission
The Treasury Board

APPENDIX B

List of Documents

This Follow Up review was informed by a range of documents in the following areas:

KEY DOCUMENTS
<ul style="list-style-type: none">• Action plan and progress monitoring that was put in place post the original PIF• State sector performance strategy• Economic strategy• External engagement• Leadership effectiveness• Organisational alignment and line-of-sight• Organisational discipline and accountability• Organisational performance management and measurement• Change management