

Stewardship of the Public Service: Serving New Zealand's Needs and Changing the Way We Do Business

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Monday 15 April 2013

Hello everyone, it's a pleasure to have the opportunity to speak with you this afternoon.

Just over a year ago I spoke publicly about leading change in the public sector. And not too far back in the past, talking about the same subject just over a year later would have been seen as a bit risky – chances are there wouldn't be too much new to talk about.

But these are different times. The pressure for change is stronger. The pace of change is faster. And the expectation of meaningful, tangible results from change is much, much higher.

This afternoon I want to talk about some of the changes – why they're happening, what they're aiming to achieve, and what we're doing. And let me be clear from the start: this reform isn't a "new curtains and a lick of paint" spruce-up, it's a "knock down walls, re-wire and put in new plumbing" transformation. We're taking on something akin to a multi-year major renovation while living and working on-site, steadily and deliberately

enhancing what works well and building what needs to work better to meet New Zealand's needs.

The public service is changing the way it does business to a degree not seen since the 1980s. We're shifting the focus from delivering outputs to achieving results that matter for New Zealanders. We're designing services around what people and businesses need. We're lifting efficiency and capability to deliver higher quality advice, analysis and services in better ways. And we're trying to strengthen leadership within and across the system – not just to help drive change and raise performance, but to embed a greater level of stewardship needed to position us for the medium and long-term challenges ahead.

Why state sector performance is important

Some people may question why anyone north of Waikanae or south of Island Bay should care about the details of what's going on. But what the state sector does, how it goes about doing its work, and how well it does it, has a direct impact on everyone in the country. The people of New Zealand are providers of tax collected by the government, subject to legislative requirements monitored and enforced by the government, recipients of transfers or services or investment provided by the government, and users of assets and infrastructure maintained by the government. It matters.

Let's consider some numbers. In the year to the end of June 2012, core Crown expenditure was more than \$69 billion – one-third of New Zealand's nominal Gross Domestic Product. If you add in the expenses of Crown Entities and State-owned Enterprises, then total Crown expenditure was \$92.7 billion, or 44.4 percent of our nominal GDP. To put that expenditure into perspective, it is double the value of New Zealand's overseas merchandise exports for the year to February 2013. It's imperative that this money – and all the time, toil and talent that goes with it – is used efficiently and effectively for all New Zealanders.

Of course these are numbers. They don't include the legislation, the regulations, the frameworks that our businesses have to work within, that our resources are managed with, that our human capital is nurtured and developed by. And, I should add, from the perspective of the citizen, it's not just about Wellington. Local government rules, decisions and services all have an impact on local residents and local businesses.

The state sector's performance matters for Kiwi businesses, whether it's as a regulator, a contractor of services, a deliverer of services, an investor in human capital and a provider of physical infrastructure. It creates the business environment that can either help or hinder the private sector to succeed. And looking at the bigger picture, the state sector's productivity and performance is critical to the growth of the economy as a whole.

Of course the quality of our state sector absolutely matters for the public too. From health and education to welfare and law and order, it touches all our lives, throughout our lives.

And although I've been talking about the state sector, what I'm focusing on applies to everyone who serves the public, whether public service departments, Crown Entities, local government bodies and those in the private and NGO sectors involved in service delivery.

Stewardship

Given its importance, I'd like to take a moment to talk about the state sector's role.

I want to start by emphasising the importance of stewardship. All state sector leaders have a responsibility to look after the Crown's medium and long-term interests. We don't go to work to tell our Ministers only what they want to hear, save our face, cover our backside and get through each day as it comes. As the effective owners of our own state sector system, the onus is on us all to make sure it is sustainable well into the future.

Stewardship has to be shown at all levels. At an agency level, leaders need to ensure their organisations have the capability to work effectively for current and future governments and provide them with free, frank, expert advice. At a sector level it's imperative that we work towards the sector's broader goals, which can mean putting aside departmental interests for the greater good, or perhaps taking on accountabilities outside our normal ambit. And at a system level, we have to put our efforts into driving the capabilities, processes and actions that will lift performance across the state sector and maximise its collective impact.

The second key point I want to emphasise is that the state sector has to be committed to achieving results. While it's easy to get bogged down in day-to-day activity, we have to step back and ask ourselves some big questions: are we focusing on the right things for New Zealanders? Are we clear about the outcomes that the \$69 billion of core Crown expenditure is trying to achieve? Are we doing enough to shift the focus away from inputs and outputs, and towards the outcomes that will deliver better public services and make a difference to New Zealanders' living standards? And if our departments or the wider system aren't doing enough, what needs to change?

Another important role that public servants play is to help Ministers and the community in general to understand the options and choices they have. It is too easy, perhaps even negligent, to leave Ministers to make decisions with insufficient information, without the best possible evidence, and without learning from what has gone before. And the point here is that there is rarely something where the issues are clear-cut, or where choices don't have to be made. The facts are that funding has to be rationed and prioritised, regulations have an impact on individual choices, trade-offs have to be made between the national good and local preference – so it matters that the right decisions are taken.

The policy advice that informs these decisions must be built on a strong foundation. We have to make sure what looks like a good policy idea is backed up by solid evidence and quality analysis. For example, before we propose new regulation, we need to test whether the problem it's supposed to sort out couldn't be better solved by a non-regulatory arrangement. We need to know benefits will outweigh the costs, that

the regulatory solution will be proportionate to the problem, that it provides the right incentives, and that there won't be unintended consequences. It's also important that there's been an appropriate consultation process – not just for the sake of the quality of the advice, but for the sake of transparency and helping everyone understand what you're doing.

This good groundwork should come through in Regulatory Impact Statements, which are signed out by departments and effectively make named senior officials accountable for providing free and frank advice. In addition, these must be published, either when the Bill enters the House, or when the regulation is made. This makes the advice on which the decision has been made transparent.

Once a transfer, service, investment or regulation is put in place, our job isn't done. We must not take a 'set and forget' approach to regulation or to our policy settings or spend millions on programmes with no comprehensive follow-up evaluation. It's our duty to review how effective we're being. That means taking a hard look at whether a policy is having the impact we thought it would, whether a service is delivering value for money, or what the connections are between an area of regulation and economic, social and environmental outcomes. Maybe there's a new set of challenges and circumstances that current policy just isn't equipped to deal with. If the facts and evidence change, we need to be prepared to admit that and change tack too.

And it's important that policy evaluations are published so that they can be tested, understood and improved by the community as a whole. As public servants we can't pretend that we have all the answers to all the problems. But sharing our knowledge with the wider community and involving others in developing solutions should mean that we get closer to a better answer.

This could be described as policy stewardship. In the state sector we should understand the impact that policy is having over the medium and long term, and test spending in existing areas to see if it's delivering the results we need.

I'm not sure our policy stewardship is as good as it could be, in particular that our policy evaluations are as good as they could be or that we're sharing our analysis with as broad a constituency as we might. There are some very good examples of focusing on medium term outcomes – the latest welfare reforms are a great demonstration of this shift in thinking – but it's an approach we should be taking in other areas across the state sector.

Our stewardship role will soon be enshrined in law, and the law will make it clear that stewardship responsibilities are relevant not only to Crown assets – as opposed to departmental assets – but also to legislation administered by departments.

Context is critical to what we do – there is no free rein or open chequebook for the state sector either now or in the future. One of the big lessons from the last 5 years is that we have been able to see our way through the global financial crisis and Canterbury earthquakes because we had a strong balance sheet before they hit. The task ahead is to regain that strength. We know we have to achieve more with less, and that fiscal restraint is here to stay. The bottom line is that the state sector has to

prioritise, which reinforces the need to focus on the right outcomes for Kiwis and the New Zealand economy.

Great policy advice has to be part of that focus, but it doesn't end there. For the state sector, our role in serving the public involves action, implementation, using money wisely, and above all delivering results that count.

System-wide changes

Bearing all this in mind, what is the state sector doing right now to make it happen?

Over the last year there have been fundamental system-wide changes initiated in the state sector, largely to meet the government's priority to deliver better public services.

In essence, the changes are shifting the state sector from being like a holding company with subsidiaries that for the most part don't work together, to being like a conglomerate with shared vision and purpose.

As you'd expect, one of the big changes going on is the rallying of efforts across agencies to deliver results. The government has set out 10 measurable results where it wants action, covering the key areas of reducing long-term welfare dependence, boosting skills and employment, reducing crime, improving interaction with government for the public and business, and supporting vulnerable children.

These are tough long-term problems that don't fit neatly into any one portfolio or department, and Ministers have made it very clear that agencies need to step up to improve their collective impact. That's why the ministerial and chief executive accountabilities for the 10 results cut across departmental boundaries. A report on progress against all 10 results will be published later this year.

We are already seeing real change in how departments are working together, for example by preparing joint sector plans and looking to reprioritise resources across a sector in order to generate the best collective impact.

We're also driving performance and getting the right things done more efficiently through functional leadership. We now have functional leads spanning departmental operations in ICT, procurement and property management. Having individual departments doing their own thing with different levels of capability was resulting in duplicated effort, unnecessary costs, inefficiency, and patchy quality. Functional leads are turning this around for the state sector through setting policy and standards, improving investment management system-wide, establishing and managing more all-of-government services and contracts where this makes sense, sourcing and developing capability and tracking and assuring the delivery of the benefits we're after.

For example, by looking at the collective property needs of five large government departments, we've managed to achieve better economies of scale, accommodated departments with other agencies in the same sector, and delivered a 30 percent reduction in their office footprint. Working together the five departments have accomplished a much better outcome than what they would have achieved alone.

Functional leadership is about building capability and capacity in the state sector and we're now extending our focus from ICT, procurement and property to financial management and people management. We want to ensure our finance and HR functions are delivering efficient and effective services, building on the benchmarking data provided by our BASS survey, where we will be publishing the latest results on Tuesday 23 April.

More broadly, we have developed a set of planning and financial management tools to encourage a focus on results and emphasise stewardship in the state sector. Four Year Plans require agencies to specify their strategic objectives, how their resources will be applied to delivery of these, and key risks or opportunities that need to be managed. The process – combined with decisions on Budget allocations – is intended to provide agencies with greater certainty over the resources they will have over the coming four-year period, and Ministers with greater confidence over delivery of better quality services within those financial constraints.

Cabinet has recently agreed on regulatory stewardship expectations for departments, and these of course emphasise good regulatory design. Crucially, they also clearly express the need for good implementation, on-going monitoring and performance improvement. Departments must be able to clearly articulate what their regulatory regimes are trying to achieve, what types of costs and other impacts they may impose, and what factors pose the greatest risks to good regulatory performance. They will have to identify and evaluate, and where appropriate report or act on, problems, vulnerabilities and opportunities for improvement in the design and operation of those regimes. Sometimes this might mean the removal of regulation that is no longer warranted or fit for purpose.

In looking at these reforms to the state sector, I'm conscious that there will be some people who may dismiss their aim as simply being smaller government. These system-wide changes are not about smaller government, they are about different government – a state sector that is more efficient, effective, responsive and focused on results.

The role of the Treasury and the other central agencies

The Treasury and the other central agencies, the State Services Commission and the Department of the Prime Minister and Cabinet, are operating right at the heart of this transformation.

We see ourselves as a corporate centre, looking across the whole operation, working with agencies to deliver, identifying where things need to change, and what needs to happen to achieve a step-change in the quality of public services, and the outcomes we achieve for New Zealanders. The government expects us to ensure state sector leaders are supported, challenged and more effectively held to account for their performance.

Each of the three agencies has different strengths and areas of expertise – whether it's keeping an eye on the finances, managing the performance of chief executives or having oversight of issues that arise across the full range of government business –

and working and acting together means we can be more effective supporters of the system as a whole and of in government agencies.

We're collaborating in both formal and informal ways. Last year we set up a shared service for our HR, finance, IT, information management and publishing needs. This year, the Treasury and the SSC established a joint team of policy analysts who are responsible for producing and maintaining a big picture understanding of how the state sector is performing. The team is our 'architect' for the state sector, developing advice on how well the system is working and what we need to do to improve it.

To do this job well, we need to pull together and analyse different types of performance information and person-centred data. So this year we'll be putting in better arrangements to support the sharing of anonymised person-centred data across agencies. We'll also be building up our capability to carry out system-level analysis of this data. When you are trying to make a real impact on issues like vulnerable children, reducing crime or improving education outcomes, then having access to data that spans health, justice, education, social services and other sectors is incredibly valuable. It will help us get much better at targeting effort and resources into services and interventions that make a real difference for New Zealanders, and we can monitor these services to make sure they are good value for money.

Conclusion

All the changes we are making – both big and small – bring us closer to having a state sector that is fundamentally different and unquestionably better. We are creating a state sector that is clear about results and works collectively and effectively to achieve them; that runs the ruler over impact as well as spending; that has the tools to analyse what's happening across the system so we can take on big problems and take up big opportunities; and that demonstrates the stewardship needed to serve New Zealand's interests now and in the years ahead.

The scale and pace of change in the state sector has been an exciting challenge for the Treasury, and I'd like to conclude by setting down a few challenges of my own for you.

For those in the state sector, I want to emphasise the importance of outcomes, results and our stewardship role. New Zealanders are not particularly interested in how we're organised, what our accountability arrangements look like, what our four-year plans contain or what processes we're following. What they are very interested in are results, things that will make a difference to their lives and their children's lives. And I know that's what public servants come to work for: to make a difference. So all of us who have a leadership role in the public service need to have a relentless focus on results and have these results underpin how we design policy, implementation and incentives. We also need to evaluate the results and change our approaches if we need to, accepting that sometimes you have to fail if you are to learn and improve. It is part and parcel of stewardship.

Our state sector has proven its capacity for far-reaching change before. New Zealand is a small, flexible country that adapts to make things work. In the 1980s we went

through reforms that made the rest of the world sit up and take notice, and I believe we have the potential to be an exemplar for the world again.

To those not in the state sector, I want to emphasise that state sector reform is not solely a matter for the public service, it's a matter for all New Zealanders. The quality of our public service – whether it's health, education, welfare or something else – has a huge bearing on our communities, on the quality and capability of the people who work for you and will work for you in the future. It's in your interests to support the delivery of results in these and other areas, to take an interest in their quality and make your needs known.

Our vision is a service that is trusted, high-performing and improves the lives of New Zealanders by delivering outstanding results and value for money. We know that our collective impact will make the biggest difference to raising living standards for New Zealanders.