B.27 SOI (2013)

THE TREASURY
Kaitohutohu Kaupapa Rawa

The Treasury Statement of Intent

2013–2018

New Zealand Government

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Higher living standards for New Zealanders

Our goals:

- Improved economic performance
- A higher performing 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
- 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

Contents

Foreword: Minister of Finance

Now that New Zealand's economy has returned to growth, we will continue to rebuild from the shocks that have buffeted us in recent years. The Government will press on with an economic programme that reduces our vulnerability to international events, gets the Government's finances in order and builds a faster growing economy tilted towards exports and savings and investment and tilted away from over-reliance on overseas debt-funded consumption.

The Government's programme to rebuild and strengthen the economy is built upon our four 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, and
- rebuilding Christchurch.

The Government is on track to return the Crown's accounts to surplus in 2014/15, and maintain that surplus in following years so that we can start reducing public debt and help unwind the long-term imbalances that have held back our economy and society.

Our ongoing challenge is achieving sustainable economic growth so New Zealanders can enjoy opportunities, jobs and higher incomes in this country. The Government expects the Treasury to help it create and cement in place policies that support ongoing recovery and rebalancing.

The State sector has embarked on a significant change programme that is necessary to achieve the Government's priorities and results. The change programme addresses the challenges that agencies face in maintaining and improving services at a time of fiscal consolidation and ongoing restraint. I expect the Treasury to be at the forefront of supporting and delivering on State sector changes.

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, along with its ambitions for building a better public service. 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 our five-year strategy set out in this *Statement of Intent* is delivery of the Treasury's vision to be a world class organisation working towards higher living standards for New Zealanders. Through our Living Standards Framework we recognise that there are a number of factors, both material and non-material, underpinning living standards for every individual.

This *Statement of Intent* sets out the Treasury's three interconnected and mutually reinforcing outcomes and the actions the Treasury is taking to achieve these:

- Improved Economic Performance
- A Higher Performing State Sector that New Zealanders Trust, Delivering Outstanding Results and Value for Money, and
- A Stable and Sustainable Macroeconomic Environment.

To achieve our vision and outcomes, we need to be a high-performing organisation driven by a strong set of values and culture, with the right capability and capacity now and into the future. We need to remain fit for purpose and adapt our focus as government priorities evolve and change over time. In addition, we need to be able to manage in a rapidly changing world which is characterised by uncertainty, fragility and volatility. But it is also a world which offers opportunities for New Zealand. For us to take advantage of these opportunities and manage in a rapidly changing world, Treasury staff need to be bold in their thinking and behaviour, and innovative in how they work with each other and other agencies. They need to be passionate about making a difference, and ambitious for New Zealanders.

The Treasury is not and cannot be an expert in every field, so we need to focus on where we can add the most value, and collaborate with other agencies and broader stakeholders from all sectors to integrate their expertise with our own strengths when offering advice to Ministers. We need to acknowledge and encourage others to step up to the task where our expertise is limited, while continuing to provide challenge to ensure the advice given is robust.

New Zealand's State sector accounts for about a third of all economic activity and improved State sector performance is an essential part of achieving higher living standards. We're working with the State Services Commission (SSC) and Department of the Prime Minister and Cabinet (DPMC) to provide corporate centre leadership to drive reform in the State sector as it responds to higher expectations from both the Government and public while working within the realities of fiscal constraints.

A broad view and an enquiring mind are essential for us to be a world class Treasury. The environment in which we work has rarely been more challenging, and we need to adjust to the reality that the "rules of the game" are different from what we may have become used to. Rapid changes in economic power underway now will mean that the structure of the global economy is likely to be very different in 10 years' time. The Treasury needs to be challenging its historical assumptions and frameworks and coming up with fresh ideas on how we think about and achieve higher living standards.

Improving our performance as an agency relies on the efforts of each individual staff member. I have no doubt that the Treasury staff will rise to the challenge. We will play a key role in helping the Government to capitalise on opportunities while managing risks and meeting challenges. I'm confident the Treasury will help the Government and government agencies in their own work to improve 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 (2013/14 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 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 and provide advice on fiscal strategy, policy and performance.
- Corporate Centre: with DPMC and SSC, we collectively lead the State sector with the aim of delivering outstanding results for New Zealanders. We assist the Government to develop its overall strategy for the State services, provide advice on how to improve the system and manage significant issues.
- Performance monitoring: we monitor the performance of State sector agencies, including State-Owned Enterprises (SOEs) and the Crown's remaining shares in the Mixed Ownership Model (MOM) companies, 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). We manage the partial sale of certain SOEs.

These outputs are funded through 11 specific departmental output appropriations. These are detailed in the *Estimates of Appropriations 2013/14*.

Legislation we Administer

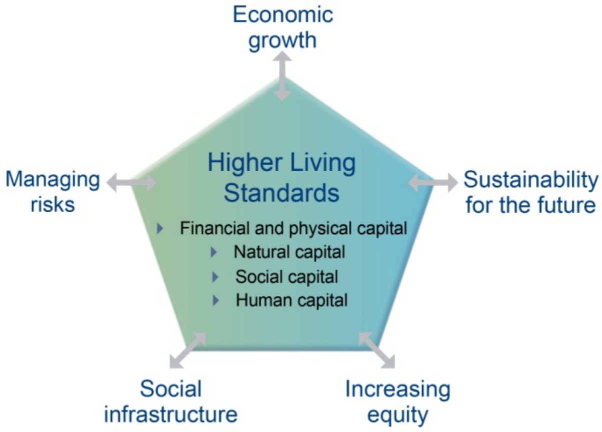
The Treasury currently administers 41 statutes and 100 secondary regulations. The most significant of these are the Public Finance Act 1989 and the State-Owned Enterprises Act 1986. The Public Finance Act 1989 provides the platform for the advisory roles expected of us by the Government.

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*.

While the Treasury recognises that there is a wide range of dimensions of economic and social life that affect living standards,[1] we have identified five key dimensions that are particularly important in the current environment.



Economic growth is at the top of the diagram both because of its importance for wellbeing and because, as the Government's lead economic and financial advisor, the Treasury has a particular focus on it. This is reflected in our outcome *Improved Economic Performance*.

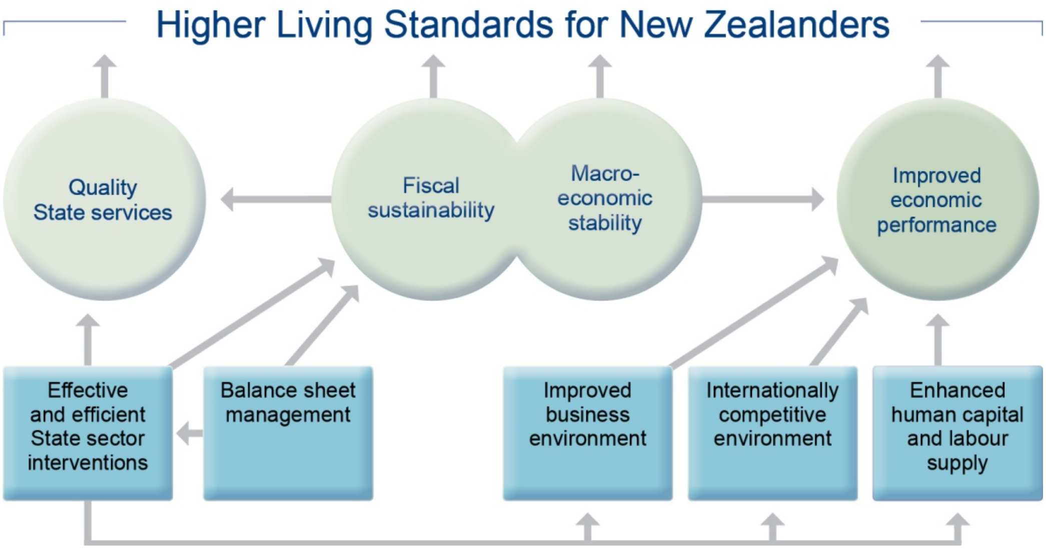
However, for economic growth to be sustainable in the long term, without adverse side effects for society and the environment, New Zealand also needs to manage the wide range of risks it faces, such as natural hazards, climate change and resource shortages, and to consider the impact of today's choices on future living standards. The Treasury focuses in particular on risks to the stability and sustainability of the macroeconomic environment as reflected in our outcome *A Stable and Sustainable Macroeconomic Environment*.

While the Treasury has a particular role to play in advising the Government on the economic dimensions of living standards, we are committed to ensuring we understand the implications on the other Living Standards dimensions in achieving our *Improved Economic Performance* and *A Stable and Sustainable Macroeconomic Environment* outcomes. We wish to pursue policies that promote equitable and sustainable economic growth – what we refer to as "good growth" policies.

Finally, living standards are underpinned by social infrastructure. The level of trust in key institutions (such as government, the law), the degree of connectedness between people (such as social support, sense of community) and the equity with which opportunities are spread across society, all have an impact on wellbeing. Many State sector agencies materially affect the social infrastructure and equity of our society, and the Treasury sees the performance of the State sector (its efficiency, effectiveness and affordability) and its impact on people 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), as important for lifting living standards. This is reflected in our outcome *A Higher Performing State Sector that New Zealanders Trust, Delivering Outstanding Results and Value for Money*.

1 www.treasury.govt.nz/abouttreasury/higherlivingstandards

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



Opportunities and Challenges

External factors

A fundamental driver of the Treasury's operating environment is the need to ensure that it has the immediate capability and capacity to respond to the needs and priorities of the government of the day while maintaining its medium- and long-term capability to respond to the needs and priorities of the government of the future. Over the next two years the Government is demanding a shift in performance from the public service in delivering government priorities and results. The Treasury has a leadership role in supporting the Government to achieve this.

As the Government's lead economic advisor, the Treasury is impacted by the state of both the local and global economies. The world is in the midst of what will be a prolonged state of instability and risk. Existing global rules, standards and norms are under severe stress, and countries everywhere are trying to understand the new world and adapt to it. Economics is at the heart of this debate. People are re-examining economic assumptions that used to be taken for granted, or asking what the objective of economic policy should be, or even whether the economic growth that has occurred in the past 250 years was an historical anomaly that is now over. Factors such as these are putting new and significant pressure on policy advisors and on decision-makers.

As part of the Corporate Centre, the Treasury is impacted by the performance of the State sector at both a system and sector level. The performance of the system and government agencies has a direct impact on where the Treasury focuses its resources and what actions it takes. The Treasury needs to understand how the State sector is performing on the different dimensions of living standards and how New Zealanders value these different dimensions. It needs to understand any emerging social pressures and preferences and how they might impact on the performance of and expectations on the State sector. For example, technology is changing both how we work and how the public demands the State sector should work. However, it is not sufficient for the Treasury to simply understand how the State sector is performing. If the State sector or particular agencies within it are underperforming or not on track to deliver results then the Treasury needs to take action to address this.

Finally, with all the foresight in the world there will be external factors that cannot be foreseen but could have a significant impact on the Treasury as an organisation. The Treasury needs to ensure it has adequate flexibility and agility to be able to respond to these unknowns as and when they arise. How we manage in a changeable operating environment is outlined further in our *Enabling and Supporting a Higher Performing Treasury* and *Managing Risk* sections.

Strategic opportunities

Key strategic opportunities include:

- The Government is committed to transforming the State sector to deliver better public services for New Zealanders within tighter fiscal constraints. The Corporate Centre will lead and support this transformation.
- The Treasury is becoming more effective in its financial management role – as part of an influential Corporate Centre – so that it can more systematically and rigorously measure and advise on lifting performance across the State sector.
- The Treasury has begun to use the Living Standards Framework as a practical tool to assess the choices arising from its policy advice. The Treasury now needs to embed this tool throughout the organisation.
- The Treasury has defined a shared set of values that underpin the way it works. It strives to be bold and innovative, passionate and ambitious, collaborative and challenging, and adaptable and focused. The Treasury needs to ensure that its people's behaviour is consistently aligned with these values.

In addition to these opportunities the Treasury also faces the challenge of reducing baselines and increasing costs. Its challenge is to improve efficiency and productivity so that it can live within baselines while improving its level of service.

How we ensure we are an organisation that is responding to these opportunities and challenges is outlined in the *Enabling and Supporting a Higher Performing Treasury* section of this document.

Supporting the Government's Priorities

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 our Corporate Centre and performance monitoring roles we will provide advice on how to deliver better public services to New Zealanders (*A Higher Performing State Sector that New Zealanders Trust, Delivering Outstanding Results and Value for Money*) 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 form the Corporate Centre. Our shared vision is to collectively lead the State sector to deliver outstanding results for New Zealanders. This recognises that the Central Agencies are jointly responsible for enabling performance improvements in the State sector, albeit with distinctive roles and perspectives. How we achieve this is outlined under our shared outcome *A Higher Performing State Sector that New Zealanders Trust, Delivering Outstanding Results and Value for Money.*

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 advice on the economic and financial implications of government interventions.

We provide advice alongside a number of other agencies, including the Ministry of Business, Innovation and Employment (MBIE), 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. 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 has monitoring responsibility for 16 SOEs, the Crown's share of MOM companies and three airports (constituted as Council-Controlled Trading Organisations). The Treasury also monitors Crown-entity companies (Television New Zealand [TVNZ], Radio NZ), the Crown financial institutions (CFIs), Crown Fibre Holdings, Public Trust and the Lotteries Commission. The Treasury now has monitoring responsibility for the Housing New Zealand Corporation (HNZC), the Accident Compensation Corporation (ACC) and the Tamaki Redevelopment Company.

We also assist other agencies with monitoring 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).

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% to 3% pa over 2013-2018, ultimately reaching 4% pa
- Tradable sector growth of 2.5% to 3.5% pa over 2013-2018 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 2017
- 55% of 25–34-year-olds will have a qualification at Level 4 or above in 2017
- Reduce the number of people continuously receiving working-age benefits for more than 12 months by 30%

A Higher Performing State Sector that New Zealanders Trust, Delivering Outstanding Results and Value for Money

- 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 Plans)
- The 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 overall level and performance of assets in the Crown's social, financial and commercial portfolios are consistent with the Government's medium-term directions
- The composition and shape of the Crown's assets and liabilities is aligned with Government's value, performance and risk objectives
- 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% to 3%
- A lift in both government and private sector saving rates contributes to higher national saving over time
- Indicators of long-term fiscal sustainability show improvement

Fiscal Position Returned to a Sustainable Footing

- By 2015/16 at the latest the operating balance has moved into surplus
- 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 • Significant Regulatory Impact Statements meet most or all of Regulatory Impact Analysis requirements: 90% by the end of 2013/14 • The tax policy work programme 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	• Policy advice on tax policy, the regulatory quality system, infrastructure frameworks, medium-term economic growth strategy • 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 Regulatory Impact Statement 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	• Policy advice on medium-term economic growth strategy, international financial institutions and investment • Policy advice relating to exports and trade • Provision of export credit
Enhanced Human Capital and Labour Supply • The welfare system operates further in line with the investment approach, based on the external valuation • The operating and capital funding models used within the schooling sector are sustainable and consistent with the Government's fiscal objectives	• Monitoring the implementation of the welfare reform programme • Policy advice on education, schooling, youth achievement
State Institutions Deliver Sustained Performance Improvement in Results and Capability • Improvements in PIF dimensions of working with others, strategy and role, and results • Health, education and income support spending is well targeted, shifting towards low-income households • Improved cross- and within-sector prioritisation and risk management • Four-year Plans submitted by agencies demonstrate credible intentions around the operating models, organisational capability, and financial and workforce strategies required to deliver on Government priorities and organisational strategy • All new significant operating expenditure proposals are subject to cost benefit analysis • Efficiency indicators (eg, Better Administrative and Support Services [BASS], policy advice measures) show improvements over time • More effective Treasury contribution to improved financial capability of other agencies	• Policy advice on institutional settings and the public management system • Implementation of the Better Public Services reforms • Monitoring, assessing and providing advice on the performance of agencies, sectors and the overall State sector system • Capability building and performance improvement initiatives • Guidance and support to agencies to enable them to fulfil their Public Finance Act 1989 and Cabinet requirements and to lift performance • Policy advice on agency interventions
The Crown Balance Sheet Is Managed Efficiently and Effectively • All significant capital expenditure decisions are based on rigorous analysis that meet Government's value, performance and risk objectives • The Government's Mixed Ownership Model objectives are met • Financial performance of the Crown's companies is comparable to private sector benchmarks • Long-term returns of the Crown's CFIs meet or exceed their fund objectives • New core borrowing is less than 25 basis points over the benchmark	• 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 • New core borrowing is less than 25 basis points over the benchmark	• 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 • Fiscal policy that is not excessively pro-cyclical, especially during the upswing in the business cycle, and does not contribute to build-up and continuation of imbalances • New Zealand has a high-quality fiscal framework as recognised by informed commentators • The financial stability regime (regulatory, supervisory and resolution) appropriately balances managing the risks of financial crisis and supporting economic growth	• 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 • Advice on proposals 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 Organisation for Economic Cooperation and Development (OECD) countries. New Zealand's gross domestic product (GDP) per capita ranked third among OECD countries in 1950 and 22nd in 2011 (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 2011 *Statement of Intent* we indicated that to close the gap with Australia within 15 years would require average GDP per capita 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:

- 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, including the regulatory 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 (see below)
- improving international competitiveness and connections to overcome the disadvantages of size and remoteness and to increase incentives to invest and conduct business in New Zealand (see below)
- enhancing our human capital and labour supply to improve our labour productivity and utilisation (see below)
- improving the way the core public service works to improve overall economic and social outcomes (the Treasury's role and focus in achieving this are outlined in *A Higher Performing State Sector that New Zealanders Trust, Delivering Outstanding Results and Value for Money* outcome as well as below)
- 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), and
- avoiding macroeconomic instability (expanded under the *A Stable and Sustainable Macroeconomic Environment* outcome).

While the Treasury has a particular role to play in advising the Government on the economic dimensions of living standards we are committed to ensuring we understand the implications on the other Living Standards dimensions in achieving improved economic performance. We wish to pursue policies that promote equitable and sustainable economic growth – what we refer to as "good growth" policies.

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 1.7% lower in the year ending December 2012 than in the year ending December 2007. 2011 was the first year we have had GDP per capita growth greater than 1% since 2007. New Zealand's GDP per capita would need to increase 40% to reach Australia's GDP per capita level, 14% to reach the UK's, 54% to reach the USA's and 13% 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. Real GDP per capita growth of between 2% and 3% per annum over 2013–18.
Tradable sector growth.	Tradable sector output was 2.2% lower in the year ending December 2012 than in the year ending December 2007.	2.5% to 3.5% per annum over 2013–18 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 is responsible for providing policy advice on tax (with IR), regulatory quality, savings and infrastructure. We also work with the responsible agencies to provide 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 provide 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, communication and policy advice on a wide range of actions supporting this agenda. The Treasury is working with MBIE to provide advice to Ministers 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.

The Government has announced a comprehensive programme to improve housing affordability which is jointly led by the Treasury and MBIE. This programme focuses on four areas that are aimed at increasing the supply of housing: increasing land supply; reducing delays and costs associated with Resource Management Act processes; improving the timely provision of infrastructure to support housing; and improving the productivity of the construction sector. The Treasury will continue to work with MBIE to deliver this programme.

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 advice on insurance market issues that impact 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. At the same time, a changing global environment offers new opportunities to be part of international supply and value chains. To overcome these difficulties and take these opportunities, 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 that will improve New Zealand's economic performance. 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 New Zealand's policy settings but is also influenced by the policy settings in other countries, policy-making by international institutions (such as the G20) and the economic integration of our region. 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.

To ensure flows of capital and trade benefit New Zealand, the Treasury will provide advice to improve international connections, including advice on the Overseas Investment Act 2005 and foreign investment and the costs and benefits of international trade and regional integration. We will also provide 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, though there are some areas of poor performance. Over the short to medium term we will continue to monitor the labour market for signs of weakness in jobs growth and provide advice, as and when required. Over the longer term, population ageing and the “skill-bias” of technological change present increasing challenges, as would the demands of a strongly growing economy.

The Treasury has a formal role in monitoring the implementation and effectiveness of the Government’s welfare reforms, in which greater efforts and resources are focused on assisting people at greatest risk of long-term benefit dependency to move into employment. The reforms support the achievement of the Government’s target of reducing the number of people continuously receiving working-age benefits for more than 12 months by 30%.

The Treasury will work with those agencies involved in providing advice to government on policies aimed at improving the supply of skills in the economy to ensure the reform agenda across schooling, youth achievement, industry training and tertiary education is integrated, evidence-based and cost-effective. The objectives of reforms in the education sector are to boost skills and employment by focusing on the Better Public Services targets of 85% of 18-year-olds with a National Certificate of Educational Achievement (NCEA) Level 2 or equivalent qualification, and 55% of 25–34-year-olds with a qualification at Level 4 or above. In addition, the Treasury will work to ensure the operating and capital funding models used within the schooling sector are sustainable and consistent with the Government’s fiscal objectives.

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 five ranking in the World Bank's Ease of Doing Business index.	New Zealand was 26th in 2008 on the OECD Product Market Regulation Barriers to Entrepreneurship indicator. New Zealand was 3rd out of 185 countries in the World Bank's Ease of Doing Business 2013 rankings.	Significant Regulatory Impact Statements meet most or all of Regulatory Impact Analysis requirements: 90% by the end of 2013/14. The tax policy work programme 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.	Provide advice on tax policy (with IR), the regulatory quality system, infrastructure frameworks and medium-term economic growth strategy. Provide policy advice on key regulatory sectors, including better devolved management of our natural resources. Provide guidance and support to agencies to enable them to fulfil their Public Finance Act 1989 and Cabinet requirements, including assessing Regulatory Impact Statements. Monitor, assess and provide 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, and • a relatively high share of taxes collected from capital income compared with other OECD countries.		
The perceived quality of New Zealand's infrastructure, as measured in its ranking from World Economic Forum Global Competitiveness report, increases.	New Zealand ranked 47th out of 144 countries in the 2012/13 World Economic Forum Global Competitiveness report on its perceived infrastructure quality, a small improvement on our 2011/12 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 33% 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.	Provide policy advice on medium-term economic growth strategy, international financial institutions and investment. Provide policy advice relating to exports and trade, in particular the economic benefits of Free Trade Agreements (FTAs) and any policy areas owned by the Treasury. Provide export credit.
GDP per hour worked grows substantially faster than the OECD average.	GDP per hour worked increased by 0.7% per year in New Zealand between 2000 and 2011, compared to an OECD-wide increase of 1.5% per year over the period.		
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 13.9% compared to the OECD average of 10.4%.		
Enhanced human capital and employment			
85% of 18-year-olds will have achieved NCEA Level 2 or an equivalent qualification in 2017.	In 2011, 74.3% of 18-year-olds had achieved NCEA Level 2 or an equivalent qualification.	The welfare system operates further in line with the investment approach, based on the external valuation. The operating and capital funding models used within the schooling sector are sustainable and consistent with the Government's fiscal objectives.	Monitor the implementation of the welfare reform programme. Provide policy advice on education, schooling and youth achievement.
55% of 25–34-year-olds will have a qualification at Level 4 or above in 2017.	In 2011, 52% of 25–34-year-olds had an NZQA Level 4 qualification or above.		
Reduce the number of people continuously receiving working-age benefits, which will become the new Job Seeker Support (JSS), for more than 12 months by 30%, from 78,000 in April 2012 to 55,000 by 2017.	As at December 2012, 79,054 people had been receiving the benefits that will make up JSS for more than 12 months.[2]		

[2] The December quarter increase is largely seasonal, and reflects a short-term increase in Sickness Benefit and Unemployment Benefit clients that occurs between September and December every year. Compared with a year ago, the target group has reduced in size (a reduction of 1,004 since December 2011).

Outcome: A Higher Performing State Sector that New Zealanders Trust, Delivering Outstanding Results and Value for Money

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 State sector needs to have a clear focus on achieving outstanding results for New Zealanders. Given the limited resources available, the State sector needs to be aligned and organised to achieve a core set of critical, measurable priorities (currently the *Better Public Services results*). This requires agencies and sectors to proactively work together and collaborate around these priorities. As results do not cover everything an agency needs to achieve, agencies and sectors also need to understand their purpose, what they need to do and be able to demonstrate whether they are achieving their goals in an effective and efficient way.

A key element of achieving a higher performing State sector is leadership; in particular stronger cross-agency leadership of key aspects of the system is required. Leadership is also required to ensure that the State sector continues to deliver services with high levels of integrity and improved levels of trust. Leadership is required to improve the stewardship of agencies and resources. Performance Information Framework (PIF) results have indicated that there is real scope for improvement in leadership and strategic capability.

Services need to be designed with and for those who use them, and organised around their needs and expectations. The *Kiwis Count quality score* is a high-level indicator of whether the public service is delivering quality services.

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 deliver better services within available resources. This will require changes to the way agencies have historically delivered services. It will require continuous improvement and innovation. It will require a different attitude to risk; agencies should seek to manage risk rather than avoid it.

How we will assess whether we are achieving A Higher Performing State Sector		
Measure	Current performance	Target
Kiwis Count quality score.	The overall satisfaction score for the December 2012 quarter was 72 dropping back to the June 2012 quarter score after a 2-point increase in the September 2012 quarter. The June, September and December scores are the first quarterly results and follow two point-in-time surveys with results of 68 in 2007 and 69 in 2009.	Further improvement in the community experience of the service quality of public services.
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 www.ssc.govt.nz/better-public-services	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.

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. In conjunction with our Corporate Centre colleagues (SSC and DPMC), the Treasury has an important role to play in assisting State sector agencies to meet New Zealanders' expectations of better services, delivered in more immediate and flexible ways; gaining better traction on the results that matter most; and increasing the efficiency and effectiveness of the State sector.

The Treasury, in particular, provides advice to the Government on the economic and financial implications of proposed and existing government interventions. We will provide Ministers with advice on the benefits and costs of policy options, including on targeting resources to where there is greatest return on investment. Achieving the Government's better public services ambitions in constrained times means making every dollar count and requires the public service to address the "long tail" of underachievement and poverty in New Zealand society. We aim to improve value for money, and support agencies to deliver high-quality policy advice and regulatory assessments.

The Corporate Centre provides advice on the performance and design of State institutions (the systems and structures of the State sector) and supports, and sometimes leads, 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. The Treasury and SSC have established a joint venture called the "State Sector Policy and Performance Hub" which will undertake performance monitoring of the system and provide advice on improving its performance.

The Better Public Services programme sets out the next phase of public sector reforms. It is focused on getting the system working to deliver better results and improved services for New Zealanders; delivering better value for money through greater collaboration, innovation and continuous improvement; and strengthening system leadership. The focus has shifted from identifying what change is required to delivering on those changes. The Corporate Centre will lead the implementation of these changes. In particular, the Treasury has responsibility for the legislative changes to the Public Finance Act 1989[3] required to enable greater collaboration around results and system leadership.

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 and supporting 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 both in its vote role and as the external monitor of Work and Income. We are also focusing on improving the effectiveness and efficiency of expenditure on social housing.

As the Government's lead financial advisor and the financial manager of the Crown's accounts, the Treasury has a particular focus on improving the performance and financial management capability of the State sector (including our own). The Treasury is leading a cross-agency finance improvement programme, known as Optimise Finance, which aims to improve processes and enhance people capability. In addition, the Treasury is seeking to establish stronger demand for better financial management. The Treasury will continue to provide guidance and support to agencies to ensure activities comply with the Public Finance Act 1989 and Cabinet directions.

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

A crucial element of high-quality performance and financial management is the use of robust performance and value measurement that supports effectiveness and efficiency in resource use. 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 and policy advice benchmarking exercises that the Treasury is now running annually.

Alongside working with agencies to improve their performance, the Corporate Centre will 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.

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 just over $240 billion worth of assets across three portfolios: social assets (such as roads and schools); commercial assets; and financial assets and liabilities. These assets are forecast to grow by more than $30 billion over the next five years. The Government is committed to more active management of the Crown's ownership interest in order to enhance performance and better manage risk. This involves reducing risk exposures, sharpening incentives on the use of capital, introducing private sector capital and disciplines, and actively reprioritising capital to its highest value use.

The Treasury will 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. Over time, we will provide advice on how 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 will ensure there are incentives to use existing capital well, introduce private sector capital and commercial disciplines where this is appropriate and advise on the allocation of capital to its highest value use.

Financial assets and liabilities

Financial assets and liabilities form a significant portion of the Crown's balance sheet and can give rise to financial risk. It is important to maximise performance of the Crown's financial assets, whilst higher levels of sovereign issued debt mean minimising finance costs is of high importance. Overall management of financial assets and liabilities on the balance sheet in a portfolio context should also reduce volatility and risk. Achieving these goals will improve the Crown's net worth, maximise the Government's ability to pursue worthwhile initiatives and improve outcomes for New Zealanders. To achieve these goals the Treasury is implementing a more operational approach to managing the Crown's balance sheet, including more closely aligning asset and liability management responsibilities within the Treasury.

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 Budget and monitoring processes. We will work with agencies to adopt and apply good practice guidance and advice (eg, 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 commercial entities, through high-quality governance, transparency of performance information and entity business strategies maximising long-term value for the Crown. The Treasury is introducing more active ownership monitoring of these assets which will include increased use of specialist external expertise to supplement in-house capability when advising Ministers on the strategic choices facing commercial entities and more consistent use of financial and market information to assess commercial entities' performance, capital structure and dividend policies. In addition, a priority is the introduction of the MOM.

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 Plans). ‣ 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, and produce better information on the effectiveness and efficiency of expenditure. The current proportion of PIF ratings of "strong" or "well placed" is 58% for results, 49% for strategy and role and 49% for working with others. PIF results suggest that there is real scope for improvement in leadership, strategic capability and delivery. 71% are "strong" or "well placed" for financial management.	Improvements in PIF dimensions of working with others, strategy and role, and results. 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 Plans, PIF, ministerial feedback and reviewing external and independent assessments). Four-year Plans submitted by agencies demonstrate credible intentions around the operating models, organisational capability and financial and workforce strategies required to deliver on government priorities and organisational strategy. All new significant operating expenditure proposals are subject to cost benefit analysis (or similar). Efficiency indicators (eg, Better Administrative and Support Services [BASS], policy advice measures) show improvements over time. 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).	Provide policy advice (with SSC and DPMC) on institutional settings and the public management system. Implement the Better Public Services reforms. Monitor, assess and provide advice on the performance of agencies, sectors and the overall State sector system. Deliver capability building and performance improvement initiatives. Provide guidance and support to agencies to enable them to fulfil their Public Finance Act 1989 and Cabinet requirements and to lift performance. Provide advice on agency interventions.

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 overall level and performance of assets in the Crown's social, financial and commercial portfolios are consistent with the Government's medium-term directions. The composition and shape of the Crown's assets and liabilities are aligned with the Government's value, performance and risk objectives. 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. Social Asset performance benchmarks are under development. Eleven of 14 (79%) capital-intensive agencies surveyed are showing at least an intermediate level of asset management maturity. Commercial An economic profit analysis completed in 2011 suggested the Crown's portfolio of commercial entities has generally met its cost of invested capital. Financial The two largest CFIs (New Zealand Superannuation Fund [NZSF] and ACC) are ahead of their longer-term performance objectives (NZSF since September 2003 and ACC over the past 10 years).	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 timely information on key policy choices that can improve the cost effectiveness of social services over time. All significant capital expenditure decisions are based on rigorous analysis that meet the Government's value, performance and risk objectives. Commercial The Government's MOM objectives are met. Appropriate rates of return and dividends are achieved from the Crown's portfolio of commercial entities. Financial performance of the Crown's companies is comparable to private sector benchmarks. Financial Appropriate rates of return and dividends are achieved from the Crown's portfolio of financial assets. Long-term returns of the CFIs meet or exceed their respective fund objectives and benchmark reference portfolios. New core borrowing is less than 25 basis points over the benchmark.	Provide advice on key aspects of the balance sheet, based on the systematic use of risk management frameworks, and performance information. Provide advice on Crown ownership, SOE governance and policy settings, public private partnerships and capital asset management framework. Implement the MOM. Monitor and report on the performance of SOEs, CFIs, CRIs, ACC, HNZC. Recommend Board appointments to achieve high-quality governance of our assets. Manage New Zealand's debt within agreed parameters. Manage any residual issues arising from the expired Deposit Guarantee Scheme. Provide 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 rate New Zealand AAA with stable outlook.
Inflation and inflation expectations.	Annual Consumer Price Index (CPI) inflation was 0.9% in the year to March 2013, taking the five-year average to 2.6%. Two-year-ahead inflation expectations were 2.2% in the March 2013 quarter, the lowest since the June 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 was 14.8% and 15.5% in the year and five years to March 2012 respectively.	A lift in both government and private sector saving rates contributes to higher national saving over time.
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 5.5% of GDP in June 2008 to an estimated 27.1% in June 2013.	By 2015/16 at the latest the operating balance (OBEGAL) has moved into 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. 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 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. The Treasury will also advise the Minister of Finance, as required, on the monetary policy framework.

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.

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.

The Treasury will publish another *Long-term Fiscal Statement* in 2013. We will evaluate the extent to which spending is consistent with the long-term fiscal strategy. This includes evaluating key policy choices and trade-offs with particular focus on the sectors with the highest levels of government spending – health, education, welfare and justice – as well as changes in taxation settings. In an open process, our analysis was tested by an external panel of experts and we sought 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 2011 (14th out of 34 OECD economies), compared to 2.0 (12th out of 28) and 2.5 (21st 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.	Provide advice on macroeconomic strategy; fiscal policy, strategy and frameworks; and joint advice with RBNZ on financial stability. Undertake research and provide advice on savings policy. Economic and fiscal monitoring, reporting and forecasting. Provide 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 2013 *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 has since increased slightly and 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 2012 financial stability risks remained above their normal range. The indicators relating to financial market conditions and funding and liquidity improved between May and November 2012.		

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			
By 2015/16 at the latest the operating balance (OBEGAL) has moved into surplus.	The Budget 2013 fiscal forecasts show a small surplus in 2014/15, with net debt peaking below 29% of GDP and falling to under 20% early next decade.	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. New core borrowing is less than 25 basis points over the benchmark.	Provide 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. Implement the MOM. Publish the Long-term Fiscal Statement. Monitor and provide advice on the performance of key expenditure areas. Manage production of the Budget. Provide guidance and support to agencies to enable them to fulfil their Public Finance Act 1989 and Cabinet requirements. Manage New Zealand's debt within agreed parameters.
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 33.5% in 2012/13 to 30.3% 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 be performing well as an organisation. This will require an ongoing focus on lifting our performance to ensure we are a world class Treasury.

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.

We believe that our people have many great ideas and in holding true to an organisation focused on innovation, we are making a call to our people to be creative, share and build on great thinking.

Our Organisational Health and Capability

To be a *world class Treasury working towards higher living standards for New Zealanders* requires an ongoing programme to develop the capability of our staff and systems. We have four objectives that reinforce each other:

- Every member of staff, led by our Executive Leadership Team, *lives our values*.
- We work collaboratively with others to achieve our outcomes, informed by an understanding of what is happening in the real world (*working with others*).
- We are an adaptive and productive workforce (*growing our people*).
- We are a well-managed public sector organisation focused on continuous improvement.

The first three of these objectives form the priority areas for our Change Programme. This is an umbrella programme that coordinates a number of initiatives from across the business that aim to embed the Treasury's values and therefore improve its performance as an organisation.

Every member of staff, led by our Executive Leadership Team, lives our values

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.

Leadership is a significant factor in organisational culture and change. The relationship between leadership and culture is two-way: how leaders behave strongly influences the ways others behave, which affects culture overall, which in turn affects leadership. To encourage a culture where the values of the organisation are expressed every day, the Treasury has a number of leadership development initiatives. These initiatives are aligned and integrated, and both support and are supported by the values.

Right now, the Treasury is making progress in moving its culture towards this desired future state. A gap still exists between this desired future state and the current reality. This is to be expected, as culture change takes time, but it is vital that the Treasury does not let up on its change.

Our focus is identifying actions that will embed our values, and sharing stories of successful change in action. Over recent years our leadership team has been working on establishing a collaborative and challenging executive team dynamic. The focus is now on ensuring the leadership team operates more strategically as a team. Leadership development will focus on becoming more strategic and effective leaders and supporting our leaders to drive change. We are establishing in-house capability to enable us to continuously improve our activities, processes and functions.

We will demonstrate our progress by:

- The Treasury's assessment of leadership demonstrates a lift in constructive leadership styles.
- The PIF assessment indicates a view that our vision and values are better reflected in our day-to-day business, and are driven by a strong leadership team.
- Seeing more examples of values in action across the organisation.

We work collaboratively with others to achieve our outcomes, informed by an understanding of what is happening in the real world

We are seeking to improve the Treasury's external leadership role, in both the economic and State sector areas. We particularly want to lift our financial and performance management capability, as part of an effective Corporate Centre, and collectively lead the State sector to deliver outstanding results for New Zealanders. In doing so, we will work in partnership with other agencies and use our complementary skills to lift State sector performance.

We want to achieve greater depth and breadth of two-way engagement with external stakeholders in all areas of our work, with the aim of lifting the quality of our advice and being more influential by tapping into real-world external expertise. We want to engage with New Zealanders to better understand how we can make a difference.

Our focus is investing in the products, activities and operating model needed to enhance our capability to undertake our State sector performance and financial management, Corporate Centre and Crown asset performance management roles. We want to open up our external communications channels; for example, through high-quality and diverse external engagement and better use of social media.

We will demonstrate our progress by:

- The PIF assessment and the Treasury stakeholder survey reflect a view that there has been an improvement in the quality of our performance analysis and advice and the way we engage with State sector agencies and others to achieve results.

We are growing our people to ensure we have an adaptive 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 deliver the Government's economic and better public services agendas through effective, ongoing, two-way working relationships.

To be successful, we need to ensure our staff feel valued, passionate about the work they do and equipped with the right skills to do it. We need to be able to consistently attract and retain a talented and diverse workforce.

Our focus will be on embedding a number of significant initiatives that aim to lift the capability of our people and our ability to have an impact on our outcomes, including improving our ability to deliver our State sector performance and financial management role; enhancing our adaptive and leadership skills; developing a comprehensive development programme for our graduate recruits; updating our reward, recognition and recruitment practices to attract, retain and recognise talent; and delivering on our Workforce and Diversity Strategies.

We will demonstrate our progress by:

- Improvements in our employee engagement survey results.

We are a well-managed public sector organisation focused on continuous improvement

As part of the Corporate Centre, the Treasury has a leadership 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 human resources [HR]) of Central Agencies were integrated into the Central Agencies Shared Services (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.

To support wider cultural change across the organisation, the Treasury has established a Continuous Improvement programme of work designed to make a fundamental and sustainable change in the way we work, and to embed a culture of continuous improvement.

Our focus is to achieve the objectives from the establishment of CASS and develop a strategy for the future of CASS. 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 embedding more systematic approaches to project, process and risk management. We will work on improving our cross-Treasury prioritisation.

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.
- BASS: Costs of supplying administrative and support services as a proportion of the Treasury’s running costs decrease.
- BASS: The average of the Treasury’s management practices indicators improves.
- An 8% reduction in the overall running costs of CASS by the end of 2013/14.
- CASS will meet the agreed performance metrics outlined in the CASS service catalogue.

Valuing Diversity (Equal Employment Opportunities)

We want the Treasury to be respected for the relevance of our advice. 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. Fostering “diversity of thinking” is fundamental to our success. It enhances the credibility, value and relevance of our work and advice.

In addition to focusing on diversity of thinking more broadly, we are focusing on two important areas 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.

Over the coming year, we are focusing in particular on the development of tools for managers to use in recruitment processes, building a target group database and identifying opportunities for our senior leaders to participate more fully in our diversity programme.

Managing Risk

To be successful in its role, the Treasury is required to identify and manage the internal and external risks that can impact on delivering on its core outcomes and objectives (risk is defined as “the effect of uncertainty on objectives”). The Treasury’s ability to manage in an uncertain and changeable operating environment requires an effective risk management framework.

The Treasury operates a simplified risk management framework that is consistent with the Australia and New Zealand international standard[4] and meets its operating needs. Our Executive Leadership Team regularly identifies and evaluates our biggest strategic and emerging risks, and ensures we take appropriate actions to manage these. Line managers follow a similar approach for operational risks.

Set out below is a summary of the Treasury’s core organisational risks and the strategies in place to manage them.

Core organisational risk	Strategies in place to mitigate the risk
Fiscal and Economic Advisor Risk that the Treasury, as the Government’s lead economic and financial advisor, could fail to deliver high-quality policy advice that transforms and delivers on the Government’s fiscal, regulatory and economic policy agenda.	▸ Sound policy development systems and processes operating, including use of specialist expertise. ▸ Sound quality assurance procedures. ▸ Effective engagement and collaboration with other agencies.
Corporate Centre and State Sector Leadership Risk of loss of influence on, and support from, the State sector to deliver on the Government’s priorities.	▸ Oversight of the Corporate Centre by the Executive Board of the Central Agencies. ▸ Cross-agency work programme to deliver on the Government’s priorities.
Financial Management of the Crown’s Balance Sheet Risk of failure to effectively manage the Crown’s financial assets and liabilities.	▸ System approach for management of the Crown’s financial assets and liabilities. ▸ Sound financial monitoring and evaluative tools and procedures.
The Treasury’s Capability and Capacity The Treasury’s is reliant on having sufficient highly skilled and experienced staff to deliver on its work programme. There is a risk that the Treasury may not be able to attract, develop and retain sufficient numbers of people with the appropriate skills and experience.	▸ Initiatives to grow our people including providing training and development for staff and updating our reward, recognition and recruitment practices. ▸ Effective oversight and prioritisation of activities by the Executive Leadership Team to ensure resources are allocated to the right areas.
Central Agencies Shared Services CASS could fail to deliver the benefits expected within the agreed timeframe.	▸ Strong oversight by, and support from, the Executive Leadership Team. ▸ Effective governance arrangements in place involving all three agencies.

[4] Joint Australian New Zealand International Standard Risk Management – Principles and Guidelines – 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. This in-house system is expected to be replaced between 2013 and 2014.

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

Forecast capital expenditure	2012/13 Budget $000	2013/14 Forecast $000	2014/15 Forecast $000	2015/16 Forecast $000	2016/17 Forecast $000
Furniture and fittings	50	55	80	80	80
Leasehold improvements	1,142	530	334	10	10
Computer hardware	877	611	907	1,131	1,131
Office machinery	539	42	42	42	42
Total plant, property and equipment	2,608	1,238	1,363	1,263	1,263
Internally developed software	-	815	790	90	90
Other software	2,046	1,735	982	982	982
Total intangibles	2,046	2,550	1,772	1,072	1,072

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 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 full-time equivalent staff (FTE). In addition, to minimise the need for significant unforecast 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. Development of this plan is scheduled for completion before December 2013 and is expected to change the capital expenditure profile outlined in the above table. The plan will be constrained by the funding 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. 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. 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.