PERFORMANCE IMPROVEMENT FRAMEWORK

Review of The Treasury

JULY 2014

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

newzealand.govt.nz

Lead Reviewers' Acknowledgement

As Lead Reviewers for this second Performance Improvement Framework (PIF) Review for the Treasury we wish to thank the Secretary to the Treasury and Treasury staff for sharing their views about the Treasury's work and its challenges. We also appreciated the administrative and technical support of Treasury staff during the PIF Review.

We welcomed the willing contribution of a varied range of the Treasury's external stakeholders who were clear about the importance of the Treasury's role in the New Zealand economy. They acknowledged the calibre of its staff and the complexity of the issues they face.

We also benefitted from thoughtful input of officials from the State Services Commission and the Department of the Prime Minister and Cabinet.

The Treasury undertook this PIF Review to test its progress in 'lifting its game'. We commend the progress achieved and the Treasury's commitment to performance improvement.

Performance Improvement Framework
Review: The Treasury

State Services Commission, The Treasury, and the Department of the Prime Minister and Cabinet
Wellington, New Zealand

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AGENCY'S RESPONSE

We would like to thank the reviewers for this Performance Improvement Framework (PIF) Review of the Treasury. We have found it a valuable exercise and would also like to thank our staff and stakeholders for the important role they have played by engaging openly and constructively with the reviewers.

The PIF Review has provided an opportunity for us to reflect on our performance, and how we can do things better. Importantly, it has also confirmed that the direction the Treasury has taken to become a more effective organisation, both in terms of the substance of our work – what we do – and how we go about it, is the right one.

We are pleased that the PIF Review recognises the good work the Treasury has done to help deliver many of the Government's priorities, such as housing and social welfare reform. We have also delivered core functions effectively, such as advising the Government on creating a stable macroeconomic environment and improving economic performance, as well as supporting the Minister of Finance to develop and deliver his fiscal strategy. We are also pleased the PIF Review recognises the Treasury's leadership role in developing the Living Standards Framework.

But we need to do more. Our ambition for the Treasury is high, and we agree with the reviewers that we need to be at the top of our game if we are to achieve our vision to raise living standards for all New Zealanders.

In our core role of advising the Government, success for the Treasury means being best-placed to support Ministers, both current and future. We see this as being at the heart of our stewardship responsibilities.

To provide the best possible advice, we need to make the most of our economic policy leadership role and unique position at the heart of government. The Treasury's strength is in its ability to take a whole-of-economy and whole-of-government perspective. Our role is to take a long-view of the issues, join up the dots, and support effective delivery of policy solutions. A successful Treasury will be influential because its advice has been subjected to robust analysis and is very well grounded in the day-to-day reality of those affected by it. In practice, this means taking an active and engaged approach to framing issues, having credibility with a wide range of stakeholders, and identifying practical solutions to help government meet the challenges facing New Zealand.

This collaborative approach has already been central to importance pieces of work delivered since our last PIF Review, such as the Long-Term Fiscal Statement, the Investment Statement and our strategic economic story. Now we need to make it 'the norm' for how we do our work.

Economic policy leadership

Leadership in economic policy requires us to be outward-facing and open to the ideas of others. We need to ensure our advice continues to be at the leading edge of global economic policy development and that it continues to be focused on improving the living standards of New Zealanders. As outlined in the PIF Review, we are currently using the Treasury's strategic economic story as the basis for our engagement with key stakeholders across the economy and across the state sector. This is to help us identify policy priorities to enhance New Zealand's prospects over the medium term and develop the best advice to the Government on practical ways forward to address the challenges New Zealand faces.

State sector performance leadership

In the area of State sector performance, we need to take an approach that makes best use of our resources and the complementary strengths of our partners. Together with our central agency colleagues – the State Services Commission and the Department of the Prime Minister and Cabinet – and the leaders across the State sector who have been appointed to build capability within key professional disciplines, we have an important leadership role to lift the performance of the sector as a whole. By the end of 2014, we will have completed a review of the effectiveness of our resource use on State sector issues and be delivering on new areas of our work such as Government Investment and Asset Performance and leadership of the Government Finance Profession.

As a small agency working across the whole of government we cannot do everything and choices must be made about where to focus our effort. We acknowledge that this is not about an 'all or nothing' relationship management approach. The focus of our State sector engagement strategy is on building partnerships with key agencies to maximise our collective impact. At the same time we are considering ways to improve our relationship management by including a broader range of State sector agencies in our outreach activities, and ensuring the Treasury's leadership is accessible when needed. As a first step we are pulling together the various strands of our external engagement and confirming our relationship management strategy, which will be completed by the end of 2014.

Delivering on this strategy will be an ongoing process which we will discuss with State sector partners. It will include feedback loops so we understand from our partners' perspective whether our outreach is working. The test we hold ourselves to is that our operating, engagement and relationship management models reinforce the Government's results approach, which places emphasis on government agencies working differently together to solve big problems.

Positioning ourselves for the future

Developing our people, our culture, and our operating systems is critical to our ability to achieve our aspirations.

We believe that the Treasury's operating model – characterised by a flat structure and a high level of devolution of responsibility to staff – is an important strength. But we also acknowledge it has not always supported relationships with State sector agencies well. To maintain a strong operating model we need to strengthen the quality of engagement with our partner agencies. Engagement and relationship management skills will be a core component of our recently re-designed manager development pathway, which will be rolled out from July 2014.

Across the Treasury we are continuing to focus on developing an organisational culture that puts a premium on diversity of thinking and experience. Our work relies on the strength of people, and their thinking and ideas. We recognise we need to challenge ourselves, actively seek out and fully consider diverse perspectives. Success will mean all our staff are regarded as good listeners, intellectually curious and ambitious, with a passion for discovering great ideas that can raise living standards for New Zealanders. We will challenge thinking, but at the same time look for opportunities to collaborate and supplement our knowledge and skills with others.

But this is about more than simply how we hire and manage our people. It is also about how quickly we recognise and understand changes to the world around us, how we welcome new perspectives and challenges to our thinking, and how we learn from experience. A more inclusive culture will enable us to build better relationships with others, and together will enable us to achieve significant shifts in some of the biggest, long-term issues for New Zealanders.

In this context, this PIF Review will inform the refresh of our workforce strategy, which commenced in May 2014, alongside processes we have underway to develop a diverse and inclusive organisational culture. It will play an important role in the development of a new Four-year Plan (to be completed in November 2014), which will set out an ambitious and sustainable operating model for the Treasury.

We will also continue to look carefully at the efficiency of our day-to-day work processes. The PIF Review points to a need for the Treasury to better track and improve efficiency across our core business. A programme of continuous improvement and rolling reviews has been implemented using tools such as Lean Six Sigma[1]. We have realised some savings already and will continue to identify projects targeted toward greater efficiency and effectiveness. We are revising the Treasury's workforce strategy and developing an implementation plan that focuses, amongst other things, on establishing development pathways that allow for skills development and career progression. This will be completed and have actions underway to deliver on it by the end of 2014.

Final word

This PIF Review, together with our own reviews, helps us understand how we can continue to create 'a world class Treasury working towards higher living standards for New Zealanders'.

We see the PIF Review as an important input into our journey of continuous improvement. It will be used alongside other assessments of the Treasury as an organisation to ensure we continue to stay on track, and where possible, that we pick up the pace of change. This includes our regular staff and stakeholder engagement surveys, and the close look we have taken at our organisational culture. Processes have been initiated with staff to identify the common themes from the reviews and from this an agreed action plan will be developed to strengthen our performance. The action plan will have a particular focus on building a more open and inclusive culture, as well as a more diverse range of external engagement and partnering skills. This process will be completed, with a clear plan of action, by October 2014.

We are pleased the PIF Review helps confirm the direction of change needed and look forward to the journey ahead.

The Treasury's Executive Leadership Team:

Gabriel Makhlouf, Secretary to the Treasury and Chief Executive

Vicky Robertson, Deputy Chief Executive and Chief Operating Officer

Cath Atkins, Deputy Secretary, Growth & Public Services

Brendon Doyle, Deputy Secretary, Financial Operations

Dr Girol Karacaoglu, Deputy Secretary, Macroeconomic, International and Economic Research and Chief Economist

Bill Moran, Deputy Secretary, Strategy, Change & Performance

Fiona Ross, Deputy Secretary, Budget & Public Services

1 A process improvement programme

THE FOUR-YEAR EXCELLENCE HORIZON

In undertaking this PIF Review the Lead Reviewers considered: *"What is the contribution that New Zealand needs from the Treasury and, therefore, what is the performance challenge?"*

Environment

Prospects and opportunities for the New Zealand economy are currently better than they have been for some years. As the world's economic weight shifts to the Asia-Pacific region, demand for goods and services will continue to increase in areas that play to New Zealand's comparative advantage. Rapidly growing markets for New Zealand's exports are closer than its more traditional markets, and technological developments can mitigate some of the problems of distance that have constrained New Zealand's economic performance in the past.

However, New Zealand still faces deep economic, social and fiscal challenges in the medium to long-term. There remains a difficult international environment, which means New Zealand's medium and long-term economic prospects will face significant headwinds. Domestically, there are a number of long-term issues that will be challenging to manage, such as:

- rebuilding the fiscal buffers once a surplus is achieved
- the aging population – the over-65 years population is set to double over the next 30 years
- the changing demographics of New Zealand – the make-up of our population in future will look very different to today.

The Government has ambitious targets for its Business Growth Agenda (BGA), such as moving export values from 30% to 40% of total Gross Domestic Product (GDP). These must be delivered by 2025 and will require some transformative approaches to the application of macroeconomic and regulatory levers.

Given this environment, the Treasury has a key role to ensure New Zealand is:

- well integrated into the world economy
- improving productivity despite the narrowness of its domestic markets
- meeting the challenges of an ageing population and changing workforce
- growing, attracting and retaining people of diverse talent who contribute to a vibrant, innovative and tolerant society
- striving for sustainable economic outcomes that enable social participation to be broadly shared.

There are three main aspects to the Treasury's role, namely:

a) The Government's lead advisor on economic, financial and regulatory policy

As the Government's lead advisor on economic, fiscal and regulatory matters, the Treasury must bring a whole-of-economy and all-of-government perspective to its policy analysis and advice.

There is a big gap between current economic performance and what will be needed to achieve the Government's BGA targets. The targets cannot be achieved through a business-as-usual approach. They will require innovative approaches, careful management of the policy settings surrounding new initiatives and robust partnerships across the State sector and between the public and private sectors. Providing insightful, proactive, joined-up advice and leadership to close this gap in economic performance will be a key feature of the Treasury's future work.

The Treasury also needs a clear perspective on the effectiveness of institutions, infrastructure, regulations and frameworks that underpin a modern, advanced country like New Zealand. The Treasury must have a sophisticated systems view of what is working well and what needs to change to support the achievement of enhanced economic outcomes.

b) The Government's lead financial advisor

The second aspect of the Treasury's role requires it to go beyond its traditional government accounting and financing roles to become a strategic financial advisor to the Government.

The Treasury has recognised the need to focus on the active management of the Crown's balance sheet to gain greater value from it. The Treasury needs to lead the use of enhanced performance data to better inform investment and value decisions and to identify and manage risks. This has commenced with publication of the *2014 Investment Statement* but, as noted in that document, there are many areas where further improvement is needed.

c) Lifting overall performance of the State sector

The third aspect of the Treasury's role involves working with the Corporate Centre - State Services Commission (SSC), the Department of the Prime Minister and Cabinet (DPMC) and functional leaders - to lift the performance of the State sector as a whole. This includes delivery of the Better Public Services (BPS) outcomes and broader reform of the way the State sector operates to deliver services to New Zealanders.

Performance challenge – outcomes

The Treasury's vision is to be: "A world class Treasury working towards higher living standards for New Zealanders". To help shape its analysis and policy advice it has developed a Living Standards Framework, identifying five dimensions that contribute to overall living standards of New Zealanders. These are:

- Economic growth
- Managing risks
- Future sustainability
- Social infrastructure
- Increasing equity.

The Treasury deserves credit for understanding the challenges faced by New Zealand during recent years and delivering on its responsibilities to advise Ministers about the steps needed to improve economic performance when choices were limited. It has also worked effectively to ensure there is a stable and sustainable macroeconomic environment and in helping to return the fiscal position to a sustainable footing.

However, the Treasury's recent performance has been variable. It has sometimes been slow to engage with key stakeholders over issues such as social and affordable housing, the Māori economic debate and microeconomic growth. The Treasury's contribution to welfare reform to date has been effective but the next suite of ideas and options are now needed. Expansion of the forward liability concept to other parts of the State sector now needs to be considered. Active management of the Crown's balance sheet is slowly moving forward but the Treasury must significantly lift its capability to achieve real performance improvement in this area. State sector reform offers great promise but progress has been patchy and, until relatively recently, the Treasury has not been fully engaged in leading it.

Working closely with other government agencies, the Treasury must drive the thinking and support the intervention design needed to deliver on a significant lift in overall economic performance. Close collaboration is critical to success. There are now good examples of the Treasury working more effectively on cross-agency projects to achieve specific Government priorities. On these projects the Treasury has used its unique role, skills and resources to strengthen other State sector agencies. Its challenge is to replicate this preferred collaborative and challenging way of operating across all of its sector and cross-agency relationships.

The Treasury needs to be the 'financial strategist' for New Zealand. To do this it must be a stronger and more active participant in the debate about the economy and more frequently promote the big and bright ideas, not just in Wellington but throughout the country. Currently, the Treasury's voice in the economic policy debate is not as strong as it needs to be and this must be addressed urgently. This will require the Treasury to plan carefully how it engages with others to develop the best ideas and to gain the greatest traction for its ideas, while maintaining its political neutrality and acting within bounds acceptable to the government of the day.

The required improvement in New Zealand's economic performance will not be achieved by doing more of the same. Traditional policy approaches and beliefs need to be challenged and sometimes experimental and high-risk approaches applied. The Treasury needs to improve its understanding of and win support from business, Māori, iwi, social partners, non-government organisations and the wider community for the sorts of economic opportunities that may be available in the future. Liberating and developing new ideas through strong engagement with the community must be the norm for the Treasury.

To drive improvements in the State sector the Treasury must also be excellent in its role as chief financial officer for the Crown, in particular: managing the budget, providing strategic advice on the allocation of available funds, better leveraging assets, assessing new expenditure proposals and monitoring government agencies' performance. The Government expects a step-change in State sector performance. This is a significant pre-requisite for fulfilling the Government's goal of building a more productive and competitive economy. The State sector forms a large part of the economy and the Government has a long-term objective to reduce core Crown expenditure to below 30% of GDP by 2017. To achieve this goal the State sector needs to be much more agile in improving its performance and productivity, including in achieving the BPS results.

The Treasury holds a number of the levers needed to achieve these reforms and needs to help and empower the State sector to deliver improved performance rather than follow a more traditional approach where the Treasury may set parameters and boundaries to control activity. The thinking, ideas generation and implementation must not be centralised, as this will produce burdensome dependencies on the Treasury. While the Treasury, together with the other central agencies, needs to establish the frameworks, engage early, drive the pace of change and hold agencies to account, it must also know when to collaborate for results and when to step back and provide enablement and support.

Performance challenge – agency

The Treasury is a respected and often admired agency. It is a good place to work and its staff are capable and highly intelligent. The current operating model provides staff with the opportunity to develop their skills, and internal debate and scrutiny is encouraged.

However, success in the future will require the Treasury to make some changes to this model. Some of the foundations that have enabled it to be successful will need to be changed. What the Treasury does and the way it works will have to adapt to drive a step-change in State sector performance.

A whole-of-economy and all-of-government approach to policy development requires different thinking and analysis. Population-focused solutions and analysis by sector, not by agency, are needed. Policy will increasingly be judged by its results and ability to implement changes. These changes will require the people in the Treasury to think and work differently and to model and lead this new way of working across the State sector.

This is the agency performance challenge for the Treasury.

a) Purpose, targets and business strategy

The Treasury has clear high-level outcomes and specific targets for each, such as improved economic performance. Its short- and medium-term priorities are reflected in a new set of Intermediate Outcomes:

- An internationally connected and competitive business environment
- People have the skills and support to contribute to society and the economy
- Improved outcomes for Māori
- The State sector delivers results for New Zealanders
- The Crown balance sheet is managed effectively and efficiently
- The economic cycle is managed so that pressures on interest rates and the exchange rate are minimised.

The Treasury's business strategy to deliver on these diverse priorities is not clear. Some good progress has been made in identifying the issues, and this is reflected in the Treasury's strategic economic story, the latest *Statement on the Long Term Fiscal Position* (July 2013) and the recently published *Investment Statement* that highlights key issues for management of the Crown's balance sheet. However, the Treasury needs to develop a portfolio of core initiatives to deliver on these priorities, with specific milestones and targets to measure its progress.

b) Operating model

The Treasury has a broad and complex role, including the responsibilities of a central agency charged to lift the performance of the State sector. For a relatively small agency it has a very wide reach.

Treasury staff have a strong sense of purpose. The Treasury has compelling values that challenge its people to be "bold and innovative", "passionate and ambitious", "collaborative and challenging" and "adaptable and focused".

Bedding in approaches, such as "collaborative [yet] challenging" in an organisation used to debate and scrutiny, where people have been encouraged to have strong views, will be difficult. The Treasury needs to have its own view on complex policy issues but also work collaboratively with other agencies through policy development processes.

The Treasury cannot do everything itself and choices need to be made. It needs to focus on its core policy work and operations and on working closely with the few agencies that are responsible for policy and delivery on key government priorities. However, for its Corporate Centre leadership role it also needs to exert greater influence across the State sector to achieve higher performance.

One of the strengths of the Treasury's current operating model is its flat structure and devolution of responsibility to staff. It recruits highly intelligent people, develops them quickly and devolves responsibility to them to manage relationships with other government departments. There are risks with this approach:

- many agency relationships are at an operational level and sometimes across multiple teams within the Treasury. There may be little or no senior oversight of these relationships
- sometimes Treasury staff appear unwilling to listen or do not have the breadth of experience to take on board different points of view
- senior Treasury staff may appear inaccessible to their peers in other agencies.

This way of operating can sometimes be seen as arrogance, leading to frustration with the Treasury. One likely result is poorer support by senior officials for initiatives developed by the Treasury, such as Four-year Plans.

Relationships with State sector agencies need to be considered on a whole-of-system basis where the current good work relating to high priority policy issues is retained and new ways of engaging with other agencies are developed.

ELT is aligned about what it needs to do as a team, how the Treasury needs to work and what needs to be different. This has to be taken through the rest of the organisation. ELT needs to determine what support it and other senior people need to deliver these changes, as well as meeting the heavy demands of its roles.

Through its Vote and State sector work, the Treasury necessarily challenges other agencies about the value and efficiency of their work. The Treasury has undertaken some good work to scrutinise the efficiency and effectiveness of its own administrative processes through the use of Lean Six Sigma and in challenging itself to lift its performance as the Government's strategic financial advisor. However, it needs to demonstrate leadership in performance improvement in its core business, showing how it tracks and improves its efficiency and effectiveness.

In its policy advisory role, there is a perception the Treasury considers it has achieved results once a policy or report is published. There must be follow-through to ensure policy decisions are effectively implemented and outcomes are delivered. Strategies to enable State sector agencies to learn from the Treasury's research and policy work need to be developed. The Treasury also needs to continue to be open to feedback and learnings from others and to test this happens across the agency, in response to its publications.

Implementation (including change capability)

The Treasury has been and remains a successful government agency but the way it operates needs to change:

- A new culture needs to be developed that is more aligned to its values. Greater sophistication is needed to collaborate yet challenge. The Treasury acknowledges that to be able to provide balanced and well informed advice to Ministers it must understand and reflect the diversity of New Zealand society.
- The Treasury needs to develop a Strategic Stakeholder Management Strategy to build enhanced relationships and stronger networking. There has to be a clear understanding of how it can influence and balance stewardship of the economy, while supporting the government of the day.
- A relationship plan for each agency is needed, with clear accountability for the effectiveness of each relationship. All staff must understand what is expected in their external engagements. New feedback loops are necessary to monitor how these engagements are working. This is important as each interaction is an opportunity to enhance or damage the Treasury's brand and therefore to maximise or reduce its influence.

- Developing its performance as a strategic financial advisor will require the Treasury to invest in different skillsets, analytical tools and datasets.
- The Treasury needs to maximise the return on investment of its resources, minimise the costs to others of its initiatives and demonstrate improving effectiveness and efficiency of its core business.

Successfully implementing changes of this magnitude, while also delivering on its important core responsibilities, may require changes to the way ELT operates to help embed new ways of working.

The Chief Executive and ELT are strongly committed to the changes needed and recent alterations to the roles and responsibilities of some ELT members will help streamline aspects of its activity. They all have demanding roles but are as one about what they want to achieve. There is good momentum and some clear successes but strong effort will need to be sustained over a period of time, which will require ELT to show enduring resilience and continual drive.

The concepts and ideas ELT has developed are good but clearer articulation of the strategies and work programmes to deliver on these is required. For example, to achieve real diversity of thought and experience the Treasury will need to rethink its recruitment practices. Specific skill development programmes will also be needed. Treasury staff need to excel in the nuances of open communication and effective influencing. Similarly, collaboration and relationship-building are important tools for the future and Treasury staff need to understand exactly how they should operate differently and be supported to learn how to do this effectively.

Given the scope of the Treasury's organisational development needs, ELT should test what specialist support it needs in strategic human resources (HR) and finance to enable the desired step-change in Treasury's own performance.

If clear strategies and work programmes are in place, this will increase the likelihood of success. Careful choices that focus on embedding a few key initiatives that will make a big difference are essential. Once progress has been achieved ELT should then shift focus to the next few key initiatives and similarly drive these home. Strong programme and project management will be needed.

The Treasury has had a Change Programme under way for some time. The Change Programme does not include all that needs to be done and ELT needs to decide how best to 'package up' an overall work programme. It may be time to move to 'change is what needs to happen all of the time in the Treasury' and shape the strategies and work programmes as ongoing, continual improvement in how the Treasury operates.

What will success look like?

The measures of success for the Treasury, in four years' time, will be:

- improved economic performance, with specific targets being achieved
- a strengthened, stable and sustainable macroeconomic environment
- evidence of a more efficient State sector. The BPS targets will have been met and new targets will have been set
- overall evidence of improvement in the living standards of New Zealanders.

The Treasury will, with SSC and DPMC, be acting as the Head Office of the State system. The Treasury will be fulfilling the role of the Chief Financial Officer and Financial Strategist for the Government, managing investment flows and ensuring the system provides value for money. To achieve this, the

Treasury will have excelled in its core business by:

- enhancing its ability to contribute to the economic debate
- as far as possible, anticipating any economic shocks and providing clear advice to Ministers to deal with any shocks
- creating greater value from the Crown balance sheet
- improving its own strategic financial management and leading a step-change in this capability across the State sector.

It will be influential. Influence will be delivered through effective engagement with key stakeholders in the State sector, the business sector and with all parts of New Zealand's society. When The Treasury speaks, people will listen. Not just because of its role but because the views it expresses have been developed by:

- working closely with SSC and DPMC to provide leadership of the State sector
- developing strong and enduring connections with individuals and organisations throughout New Zealand, including businesses, local government, Māori and iwi, academics, and NGOs
- building productive, trusted relationships across the State sector
- maintaining strategic relationships offshore and a respected international profile.

The traditional strengths of the Treasury in strong analysis, attention to detail, providing frank and credible advice will have been maintained. The Treasury will have the confidence of Ministers because of the authority of its voice and its deep understanding of what matters to New Zealanders and because it will have anticipated and responded well to the issues of the day.

Treasury staff will reflect the diversity of thought and experience needed to understand the environment and real-world challenges that affect all New Zealanders. They will be good listeners, intellectually curious and ambitious, challenge but know how to collaborate. They will know how to build partnerships with others to develop solutions for a prosperous and inclusive 21st century New Zealand economy.

We believe the Treasury is heading in the right direction and the senior leaders understand what they need to do. They are committed to the journey ahead. However, improvements are required in some areas and the pace of change should be lifted in others. The BGA agenda for New Zealand is ambitious and the Treasury must be, too.

There are good immediate prospects for New Zealand but there are still deep economic, social and fiscal challenges. Therefore, all New Zealanders need the Treasury to succeed.

Patsy Reddy
Lead Reviewer

David Butler
Lead Reviewer

CENTRAL AGENCIES' OVERVIEW

This is the Treasury's second full PIF Review. It confirms the Treasury is a high-performing, intellectually adept agency. Its ambitious vision for New Zealanders and itself is succinctly described as: "create a world-class Treasury, working towards higher living standards for New Zealanders". The breadth of this vision underscores the Treasury's all-of-Government and whole-of-economy perspective, its unique policy contribution and its leadership role within the State sector.

The Treasury's performance will be pivotal to lifting New Zealand's economic performance and embedding recent State sector reforms. The Report identifies critical areas where the Treasury will need to continue to lift its capability and performance. These are:

- Enhancing its ability to contribute to the economic debate consistent with its role as the Government's lead advisor on economic, financial and regulatory policy
- As far as possible, anticipating and providing clear advice to Ministers on economic risks and long-term trends. This will necessarily involve strong collaboration with State sector counterparts
- Creating greater value from the Crown balance sheet
- Improving its own strategic financial management and leading a step-change in this capability across the State sector.

The Treasury's response to this Report sets out a clear intent to strengthen its operating model to respond to these challenges. This involves investing in the Treasury's people, organisational culture and engagement with relevant stakeholders - building the capability and diversity of its workforce so that the Treasury has a broad-based view of the issues facing New Zealanders now and in the future. Importantly, it also prioritises continuous improvement across all areas of the Treasury's work, including the effectiveness of its resource use on State sector issues.

We are ambitious for significant performance improvements across the State sector. In this context the Treasury, as a highly effective agency within the system, will face continued and increasing demands for its capability to be applied to a diverse range of issues. We consider it will be crucial for Treasury to prioritise carefully. It will add best value to system performance by striking the right balance between building and applying its own areas of relative strength, for example to capitalise on the opportunities signalled in the recent Investment Statement work, and working with other agencies on important areas of policy reform. We will be looking to support the Treasury to operate collaborative approaches with other policy lead agencies so that these partnerships strengthen capability for collective impact, and its own resources are not too thinly spread.

As Corporate Centre partners, the State Services Commission (SSC) and the Department of the Prime Minister and Cabinet (DPMC) will also support the Treasury as it evolves and builds its capability, including through:

- providing system level advice on leadership and talent development
- supporting the establishment and effective operation of the Office of the Government Accountant and the Government Investment and Asset Performance Team within the Treasury. SSC and DPMC will specifically assist the Treasury by ensuring the work of these teams is closely connected to wider system assurance roles of SSC and functional leaders and they have the tools to achieve cut-through at a system level

- ensuring Treasury products are well integrated with other system levers, for instance through using the strategic and financial targets set in Four-year Plans to help inform Chief Executive performance management and ensuring the central agencies' role in New Zealand's regulatory system is clear and well communicated.

Iain Rennie State Services Commissioner	**Andrew Kibblewhite** Chief Executive, Department of the Prime Minister and Cabinet	**Geoff Dangerfield** Chief Executive, New Zealand Transport Agency

SUMMARY OF RATINGS

Results

GOVERNMENT PRIORITIES	RATING
Housing	
Welfare reform	
State sector reform	
More active management of the Balance Sheet	
Medium-term economic strategy	

CORE BUSINESS	RATING (EFFECTIVENESS)	RATING (EFFICIENCY)
Improved economic performance		
A higher performing State sector		
A stable and sustainable macroeconomic environment		

Rating System

Strong	Well placed	Needing development	Weak	Unable to rate/not rated

Organisational Management

LEADERSHIP, DIRECTION AND DELIVERY	RATING
Purpose, Vision and Strategy	Well placed
Leadership and Governance	Well placed
Values, Behaviour and Culture	Well placed
Structure, Roles and Responsibilities	Needing development
Review	Well placed

EXTERNAL RELATIONSHIPS	RATING
Engagement with Ministers	Strong
Sector Contribution	Needing development
Collaboration and Partnerships with Stakeholders	Needing development
Experiences of the Public	Well placed

PEOPLE DEVELOPMENT	RATING
Leadership and Workforce Development	Needing development
Management of People Performance	Needing development
Engagement with Staff	Well placed

FINANCIAL AND RESOURCE MANAGEMENT	RATING
Asset Management	Well placed
Information Management	Needing development
Improving Efficiency and Effectiveness	Needing development
Financial Management	Well placed
Risk Management	Needing development

Rating System

Strong	Well placed	Needing development	Weak	Unable to rate/not rated

Note: There have been three significant upgrades to the PIF Agency Model since it was implemented in 2009. The first was the inclusion of the Four-year Excellence Horizon in October 2011. The second was the Strategic Financial Management upgrade in December 2012. The most recent is the Better Public Services upgrade in January 2014. These upgrades affect comparability with previous PIF reports. For more information on the upgrades see: http://www.ssc.govt.nz/pif-core-guide-1.

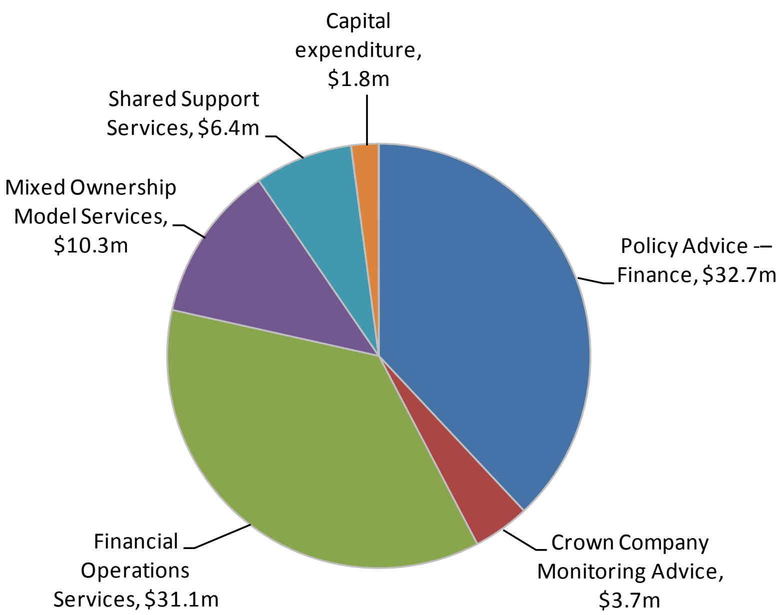
AGENCY CONTEXT

The Treasury is the Government's lead advisor on economic, financial and regulatory policy. Its vision is to be a world-class Treasury working towards higher living standards for New Zealanders. It focuses on three outcomes: improved economic performance; macroeconomic stability and a higher performing State sector.

The Treasury provides strategic policy advice on the New Zealand economy, manages the financial affairs of the Government, including compilation of the Crown's financial accounts and Annual Budget, and provides advice to the Government on State sector proposals that have financial and economic implications. It also delivers a number of services through the New Zealand Debt Management Office (NZDMO), New Zealand Export Credit Office (NZECO) and Commercial Operations portfolio.

It is one of three central agencies, with State Services Commission and the Department of the Prime Minister and Cabinet, which are jointly responsible for leadership, coordination and performance monitoring and improvement across the State sector. The Treasury has a particular responsibility for monitoring the performance of State Owned Enterprises (SOEs), Crown Financial Institutions and the Crown's remaining shares in the Mixed Ownership Model (MOM) companies and to work with them to improve performance.

The Treasury has around 400 staff based in its offices in Wellington. It is funded through Vote Finance (for 2013/14 – $97.4 million in departmental appropriation and $4.4 billion in non-departmental appropriation). The allocation of departmental expenditure of $86 million in the year to 30 June 2013 is shown in the chart below:



A significant, temporary increase in departmental output expenses between 2010/11 and 2015/16 is largely owing to implementation and direct costs of the Government Share Offer (GSO) programme for MOM companies. Vote Finance has also included the full cost of the Central Agencies Shared Services (CASS) unit since April 2012.

Performance improvement story so far

The Treasury was one of the first agencies to participate in the PIF Review programme in 2010, with its first PIF Review Report published in 2011. At the time the Report was published, the Chief Executive and Secretary to the Treasury (Secretary) at that time was due to retire. There had been a recent significant restructure of ELT and the new (and current) Secretary had been appointed. The impacts of the Global Financial Crisis were adversely affecting the New Zealand economy. The Treasury had taken on new roles to limit or slow the adverse impacts, working closely with the Reserve Bank of New Zealand and other partners in New Zealand and offshore.

First PIF Review 2010

The PIF Review findings, published in 2011, included:

- The ELT needed to reinforce how to use different leadership approaches when working with agencies to ensure the Treasury maintained good practice
- The Treasury performed well in a number of specific areas in regard to its Economic and Public Sector Management Strategy but needed to further develop its strategic thinking and long-term direction
- Economic conditions had changed dramatically forcing the Treasury to quickly upgrade its capability. This occurred at the time of the PIF Review and was not assessed
- The Treasury was seeking to be more effective in engaging with, and influencing others, but needed to be more receptive to views that challenged its stance. Visibility had improved but there was an occasional lack of alignment between senior managers and analysts
- Changes to the Treasury’s organisational strategy were taking place during the PIF Review. There was a need to ensure standards set by ELT were embedded into teams
- The Treasury needed performance standards articulating how it advances New Zealand’s economic performance
- The Treasury had embarked on an ambitious change agenda that aimed to provide increased leadership and greater responsiveness. ELT needed to manage the implementation carefully.

Follow-up Review in 2012

The Follow-up Review, published at the end of 2012, found:

- The significant change in leadership and direction of the organisation had caused a loss of institutional knowledge but also presented new opportunities. The reviewer felt the change was heading in the right direction
- There was a strong disconnect between frontline operations and ELT’s vision, signalling greater work was needed to implement the change programme and align the Treasury’s engagement with new expectations
- The Treasury had made significant progress on developing and articulating its medium-term economic strategy. The Living Standards Framework (released in 2011) was considered a powerful lens and needed to be embedded in organisational culture
- Operational disciplines, such as risk management and performance management, had been enhanced

- The Treasury had taken on responsibility for CASS. It was a strong commitment to driving efficiencies and effectiveness for the central agencies, however, these needed to be realised
- Within the new State sector paradigm, the Treasury needed to work out its own responsibilities and accountabilities as part of the Corporate Centre.

RESULTS SECTION

Part One: Delivery of Government Priorities

This section reviews the Treasury's ability to deliver on its strategic priorities. While the questions guide Lead Reviewers to retrospective and current performance the final judgements and ratings are necessarily informed by scope and scale of the performance challenge.

Government priority 1: Housing
Performance rating: **Well placed**

Housing affordability and social housing have become priority focus areas for the Government and, consequently, for the Treasury. In collaboration with the Ministry of Business, Innovation and Employment (MBIE), the Treasury has devoted significant resources to providing advice on these issues.

Housing Affordability

In April 2012 the Productivity Commission released its report on housing affordability. The Treasury was responsible for commissioning the report and coordinating the Government's response to the Commission's recommendations. It also had a high level of involvement in the initial work phase following the report.

Several other factors contributed to the need for the Treasury's leadership on this issue:

- a high level of interest in the topic from the Minister of Finance
- no clear leadership at departmental level, partly owing to the wide range of drivers affecting housing affordability
- the need to develop policy to inform the Government's response.

This required further analysis and the development of advice across a range of complex issues requiring significant stakeholder engagement, as well as coordination with other government departments and Ministers. The Treasury established a 'virtual team' across the organisation to develop and deliver this advice in collaboration with other government departments.

Following delivery of the Government's response to the Productivity Commission's report the Treasury and MBIE were tasked with jointly coordinating a comprehensive programme to improve housing affordability. This work helped to shape the content of the Housing Accords and Special Housing Areas legislation and the two agencies worked with Auckland City to develop the Auckland Housing Accord.

The Treasury worked with MBIE to prepare a comprehensive Cabinet paper on the proposed initiatives. Ministerial interest continues, demand for action remains high and the Treasury has put considerable resource into the area to ensure its work programme remains on track.

Social Housing

Cabinet has agreed on a social housing reform programme that moves towards greater alternative provision of social housing (the third sector), reform of financial assistance, focusing Housing New Zealand on high needs tenants and changes to institutional arrangements to support the direction of change.

At the end of 2012 the Treasury assumed responsibility for monitoring the Crown's ownership interest in Housing New Zealand, while MBIE assumed responsibility for social housing policy and monitoring of Housing New Zealand's operations when the Department of Building and Housing was merged with MBIE.

This is a complex policy area. The transition of respective responsibilities to MBIE and to the Treasury in 2012 made it challenging for all in the initial stages. There were some complicated issues that needed to be addressed and varying views on priorities. Initial progress was slow as MBIE and the Treasury took some time to respond effectively as a team to lead the project.

However, recent collaboration on policy advice in this area has been much more effective. The advice has reviewed the growth of the third sector housing providers, Budget and legislative changes to enable Income Related Rent Subsidies to be paid to tenants of community housing providers, the introduction of reviewable tenancies and the transfer of social housing waiting list management to the Ministry of Social Development (MSD).

This collaborative effort has led to significant policy proposals being developed by a cross-agency team led by the Treasury and MBIE. We consider the Treasury is now much better placed to advance this Government priority.

This is now a strong example of a cross-agency project that is working well to advise the Government on reform options. We note that this has been assisted by the development of strong relationships between the particular individuals leading the teams.

The Treasury's challenge is to replicate this preferred new collaborative way of operating across all of its sector and cross-agency relationships. It is essential to build strong relationships to be truly collaborative and efficient in delivering on a Government Priority where two or more agencies are involved. While the Treasury must retain objectivity to deliver its best view to the Government, this should not prevent Treasury staff from engaging in an open and collaborative way as policy proposals are developed. They need to be clear about what they are doing and give reasons why. That collaborative approach should help the development of more robust policy advice and may avoid wasted effort and conflict.

Government priority 2: Welfare reform

Performance rating: **Well placed**

In recent years there has been a sea change in respect of welfare reform in New Zealand. The Treasury and MSD have worked closely as joint leads on a reform programme intended to re-focus the entire welfare system.

The goal of welfare reform is to clarify entitlement categories, simplify the system overall and reduce the number of people who remain on a benefit for more than 12 months. A reduction in the long-term liability of the benefit system and increased labour force participation is desired, thereby ultimately lifting economic performance.

Initially, the Treasury worked with MSD to complete necessary policy and legislation changes. Following this, the Treasury was heavily involved in establishing an investment approach for the benefit system.

The investment approach shifts the focus of the benefit system to identify and give a higher priority and targeted support to cases where the long-term costs of welfare are likely to be high. A key objective of this approach is to actively manage those cases with the aim of improving the employment prospects of clients who have the greatest risk of long-term benefit receipt.

Progress has been made on implementing the accountability and outcome aspects of this approach and the Treasury has worked well with MSD on development of a model for managing resources and funding.

A number of key components of welfare reform have been implemented, with some reduction in long-term benefit receipt. It is pleasing to note in January 2014 the Minister of Social Development advised the latest valuation of the welfare system showed a significant reduction in the liability.

The Treasury has also taken on responsibility of external monitor for Work and Income to provide formal monitoring of the implementation of these initiatives, including the investment approach. Treasury advice is required to provide assurance to Ministers on the performance of MSD. This will be important as, although there are clear early benefits, a determined approach will be needed to recognise and mitigate any risks to successful delivery of these changes and to work closely with MSD.

In future, a key challenge for the Treasury will be to ensure the next suite of ideas and options to continue to refine and improve performance of the welfare system are being considered and further developed. Effective use of advanced analytics and insights will assist in policy development.

Government priority 3: State sector reform

Performance rating: **Needing development**

A key priority of the Government has been to implement changes to the way the State sector operates. The Treasury, with the other central agencies, must lead the State sector to implement reforms to improve performance.

The Government has a long-term objective to reduce core Crown expenditure to below 30% of GDP. To achieve this goal by 2017, while also delivering BPS results to New Zealanders, the State sector needs to be much more agile in improving its performance and productivity. The Treasury's role is to lead the State sector reforms jointly with the other two central agencies – SSC and DPMC – so that the State sector is fit-for-purpose and continues delivering the services New Zealanders are entitled to expect.

The BPS programme is focused on getting the State sector working to deliver better results and improve services through enhanced collaboration, innovation and continuous improvement. The aim is to encourage population-focused solutions, analysis by sector not by agency and to focus on measurable results.

The Treasury has supported major reform in key State sector areas, including housing, education and health and has also assisted in progressing the legislation to implement reforms, including the Public Finance Reform Bill and the State Sector Bill. These Bills were enacted in July 2013. The legislative changes were designed to remove perceived and actual barriers to agencies working together and to provide a framework for long-term stewardship, greater collaboration, system leadership and strategic financial management.

The legislative changes also enable greater flexibility in managing appropriations across agencies and sectors and support more meaningful performance reporting to Parliament. The intention is to facilitate changes in agency behaviour so sustainable improvements in State sector performance and better outcomes are achieved.

The BPS Report, delivered in 2011, has been widely accepted, not only by the Government but by State sector agencies. But notwithstanding the strong Government mandate, implementation has proved challenging. The Report itself was more of a 'call to action' than a diagnosis and so more work has been undertaken to understand just what changes are needed to the system. These include horizontal changes across the State sector, with individual agencies required to take joint responsibility and/or cede resources and responsibilities to others. Some progress has been made but it has been slower than hoped.

In particular, the implementation of effective system leadership by the three central agencies through the Corporate Centre has been too slow. The ability of the Corporate Centre to bring about the proposed degree of system change is still viewed by other agencies with a degree of cynicism. Some stakeholders indicated it was difficult to see just what had changed, beyond the legislative changes.

However, there have been some encouraging developments. Examples include:

- The Performance Hub was established as a joint SSC/Treasury team in February 2013, with a mandate to produce an overview of how the State services are performing and what needs to be done to improve it. The Performance Hub's initial focus was on assisting the implementation of State sector reforms. It now has an ambitious work plan to develop advice on how well the State sector is working and what should be done to improve it. However it is still developing a results monitoring framework to apply across the State sector and so the benefits cannot be assessed.
- In 2013 the Treasury established the Analytics and Insights team alongside the Performance Hub to provide system-level data analysis to identify significant opportunities for change and targeted interventions to provide better outcomes.
- The Treasury played an active role in the establishment of the role and function of Government Chief Information Officer as functional lead for State sector information and communications technology (ICT) services. However, it has taken too long to get necessary traction because of the complexity of the role and the need for adequate funding. Although the Treasury created a seed fund to speed up the development and implementation of initiatives to support Results 9 and 10, longer-term funding solutions are critical for this all-of-government work.
- Work done to lead the development of a more centralised model for delivering stronger financial management capability in the State sector has not yet been implemented. A cross-agency finance transactional improvement programme, known as Optimise Finance, was initiated by the Treasury in 2012 but did not achieve sufficient engagement or acceptance by other agencies and so the Treasury is now reviewing this programme.
- The Treasury is establishing the Office of the Government Accountant as a new unit within the Treasury, which, amongst other roles, will lead an effort to lift strategic financial management across the State sector. Treasury's work on lifting strategic financial management is aided by an Advisory Board comprising subject matter experts, including some private sector chief financial officers (CFOs).

- The Executive Board of the Corporate Centre, which comprised the three central agency chief executives, has been disbanded and reconstituted to form a broader State Sector Reform Leadership Group of ten chief executives together with the Government Chief Information Officer and the functional leaders for procurement and property.
- A State Sector Reform Advisory Group of relevant central agency Tier 2 managers and the Government Chief Technology Officer has been established to provide assurance to State Sector Reform Leadership Group of successful delivery of system reform.

These programmes and restructurings should facilitate reform but the Treasury must provide strong sector leadership in implementing all of these initiatives to ensure these reforms are effective in improving State sector performance.

Government priority 4: More active management of the Crown's balance sheet

Performance rating: **Needing development**

The Minister of Finance regards active management of the Crown's balance sheet as essential to real growth in a sustainable economy for New Zealand and in living standards for New Zealanders. He compares it to the balance sheet of a high- performing business and asks whether the Treasury has the sense of ownership and belief needed to drive capital efficiency in the same way that a high-performing business does.

In response to this challenge, the Treasury has made big strides in developing the *Investment Statement*, drawing together analysis on the Crown's assets and liabilities. This is important as the Crown currently owns around $240 billion worth of assets funded by $170 billion in liabilities. As well as improving the ability to manage risk, the effective and efficient use of these resources plays a critical role in the economy's performance. The Government wants to be able to align the composition and shape of the Crown's assets and liabilities with its value, performance and risk objectives (e.g., by making informed choices about the scale of new investment in social infrastructure assets compared with reducing Crown debt).

Investment Statement

When Parliament amended the Public Finance Act in 2013 it reinforced the importance of the Crown's balance sheet by requiring the Treasury to report to Parliament with an Investment Statement at least once every four years. The Treasury has recently fulfilled this requirement by publishing the *2014 Investment Statement*, which provides information on the shape and health of the Crown's portfolio of assets and liabilities at the end of the last financial year.

This is a substantial piece of work that has been well received. It provides detailed analysis and recommendations on a wide range of topics, such as:

- how the balance sheet has evolved and how it is expected to change in the future
- the performance of the Crown's major asset and liability classes
- risk management issues, what risk management means, what the Crown does now and where the main risks and weaknesses are

- The Treasury's assessment around key frameworks, including frameworks to guide the Crown's decisions on:
    - funding mechanisms for public goods and services
    - financial risk management
    - balance sheet composition for assets and liabilities and a fiscal buffer
    - owning assets, relative to other means of delivering public goods and services
    - potential new directions for the balance sheet.

Prior to release of the *Investment Statement*, the Treasury held a series of seminars aimed at generating interest and informed discussion on balance sheet issues, including agency performance, capital and risk management. These were well received by stakeholders.

This is a bold and innovative publication but there is a view among Ministers that the Treasury should have devoted more energy and resources to managing the balance sheet earlier. To deliver value for money, now this base resource has been completed, the Treasury will have to work differently. It needs to minimise the risk that its advice is seen as too theoretical or remote from the real world. It must work with pace to implement real change in balance sheet management, engaging effectively with other agencies and stakeholders in the wider community.

The Treasury's challenge now is to drive acceptance and implement improvements identified as a result of development of the *Investment Statement* and to provide strong leadership for active management of the Crown's assets and liabilities through effective management of the Crown's consolidated balance sheet.

Liabilities

NZDMO is effectively the corporate treasury for the Government. It provides a key operational function in managing the debt side of the balance sheet by efficient raising of, and investing, funds to meet the financing needs of government. Risk is managed prudently and tight controls are in operation to ensure that the performance of NZDMO is highly regarded by investors and rating agencies. NZDMO also provides financial derivative services and administers loans for other parts of the State sector, according to government policy. These services provide net cost savings to the Crown as NZDMO is the lowest cost borrower in New Zealand.

Our observation is these services and operations are carried out efficiently and effectively and are highly regarded by stakeholders. NZDMO has a good working relationship with the Reserve Bank and is working closely with the five Crown financial institutions around balance sheet management.[2]

Later in this report we refer to the current work to upgrade of NZDMO's information technology (IT) systems. These are critical systems upgrades to modernise functionality, enhance resilience and manage the risks inherent in this function.

2 The five Crown Financial Institutions are: Earthquake Commission, New Zealand Superannuation Fund, National Provident Fund, Government Superannuation Fund and Accident Compensation Corporation.

Assets

The Treasury's expertise in managing the assets side of the Crown's balance sheet is not as well developed. While there have been improvements in recent years, these skills are not as entrenched and consistently applied across the State sector. We commend the Treasury's ambition to provide stronger leadership here.

It is the Treasury's responsibility to ensure there are incentives to use existing capital well, introduce the best and most appropriate of the private sector capital and commercial disciplines and advise on the allocation of capital to its highest value use. These activities and interventions should be focused on increasing State sector productivity and on the ability of the Crown to deliver more for less. The Treasury plays a lead role in influencing the quality of investment analysis, accountability and performance of other agencies in managing their capital through Budget, monitoring and guidance processes.

The Treasury is also preparing to take a stronger role in overseeing and providing assurance on the effective management of the Crown's risk in relation to capital- intensive projects undertaken by State sector agencies. More detail about the portfolio performance management function is noted in Core Business 2.

Government Share Offer (GSO)

The sell-down of the Government's stakes in selected SOEs by extending the mixed ownership model (MOM) was a Government priority following the 2011 Election. The Treasury established a Commercial Transactions Group (CTG) to handle the process, drawing on internal staff as well as external expertise. CTG undertook a wide range of activity, from advising the Government on the process, developing legislation, which was enacted by Parliament and then completing the sell-downs. Three of these GSOs have been undertaken by way of initial public offering, which creates an enormous burden of work on the vendor.

The Treasury's work on the GSO programme has been thorough and effective, notwithstanding some significant legal and political hurdles. Although there was some criticism about the early cautious approach, Ministers were very satisfied with the Treasury's work and valued its robust and timely advice.

Commercial Operations – strategic ownership perspective

Now these sell-downs have been completed and the Government has announced there will be no further sales, the Treasury acknowledges it needs to act more as an active, engaged and informed shareholder in the Crown's commercial interests. CTG and COMU[3] have been restructured recently to create a Commercial Operations team. The aim is to entrench a more strategic ownership perspective and utilise the considerable commercial expertise gained from the recent GSO programme.

To deliver real, sustainable added value from the Crown's assets, the Treasury will need to engage earlier and more effectively with other monitoring agencies and those that own these assets and/or are responsible for delivering specific services. It requires active collaboration beyond providing information and advice.

3 Crown Ownership Monitoring Unit in the Treasury was responsible for monitoring State Owned Enterprises, some other crown entities and Crown shareholdings and providing advice, where required, on Board appointments.

Treasury staff also need deeper engagement with communities beyond central Government to ensure they understand the communities' needs and expectations of those businesses and services. We suggest this requires a greater diversity of thought, experience and expertise and using State sector partners to facilitate engagement. We discuss these points elsewhere in this Report.

Getting better value from the Crown's commercial assets is a priority for the Government. The current approach to monitoring these assets has not always delivered the sustained performance Ministers expect. In some instances early intervention by the Treasury, with carefully developed intervention logic, may prevent or limit loss of value for the Crown.

As part of the commercial operations restructure, a Commercial Advisory Board is being established to review high-level strategic advice and provide guidance on the strategic approach and work programme priorities. At least half of the members of the Board will be independent of the Treasury and will have substantial governance experience and commercial credibility.

We suggest this Board should operate as if it were a holding company Board. We commend this Framework as it should drive use of effective commercial disciplines. We note the Treasury will also need to ensure it maintains strong commercial experience and capability within its own commercial team. This team should be capable of managing the commercial portfolio assets. It should also contribute to functions across the Treasury and the State sector to support the development of high-level commercial capabilities and approaches to all aspects of management of the Crown's balance sheet. This is further discussed in the Crown Entity Monitoring section.

Government priority 5: Medium-term economic strategy

Performance rating: **Well placed**

Developing, testing and refreshing New Zealand's medium-term economic strategy is part of the Treasury's stewardship role and underpins work to deliver its three outcomes, including by helping it to prioritise areas for further research and development of strategic policy advice to the Government on economic and regulatory matters.

Since 2011 the Treasury's thinking on the goal of achieving higher living standards for New Zealanders has been guided by a Living Standards Framework. This Framework influences the Treasury's work and helps shape thinking on policy advice to Ministers.

More recently, the Treasury has been working on a narrative to refresh New Zealand's economic story. In developing this strategic economic story it has adopted a deliberate collaborative approach, engaging with other government agencies, along with the private sector and NGOs. Finalising this story has enabled the Treasury to:

- update its thinking on economic policy priorities, particularly across the five priority policy areas: the macroeconomic environment; business environment; human capital and labour supply; international connections; and State sector
- deepen its understanding of some key interrelationship issues at the centre of debates about the New Zealand economy, including: recent economic performance; savings and economic growth; competitiveness and export performance; the State sector; and inclusive growth
- test its thinking while engaging other stakeholders in support of its strategic economic story.

As a result of this work the Treasury has revised its Intermediate Outcomes Framework[4] and is using this to set priorities, plan its medium-term investment work programme and develop an integrated fiscal strategy bringing together macroeconomic, State sector and economic growth perspectives.

It is important for the Treasury to use its strategic economic story to further enhance the discussions it has with its various stakeholders both within and outside of the State sector. The Treasury has used the strategic economic story with the economic agency chief executives to develop a shared vision for achieving economic growth.

The Treasury needs to be deliberate and structured in planning how it gains the greatest traction for its ideas, while ensuring it maintains its political neutrality and acts within bounds acceptable to the government of the day. The completion of a publication is sometimes seen as the end of that work but in reality there will be greater benefits achieved if the published document is used as part of a communication and discussion programme. This should be embedded as part of a strategic stakeholder management plan. In some cases commentators believe there have been lost opportunities with previous publications.

4 New key Intermediate Outcomes will be reported in the Treasury's Statement of Intent to be published in June 2014.

RESULTS SECTION

Part Two: Delivery of Core Business

This section reviews the agency's effectiveness and efficiency in delivering its core business. While the questions are ex-post and guide Lead Reviewers to retrospective and current performance, the final judgements and ratings are necessarily informed by the scope and scale of the performance challenge.

Core business 1: Improved economic performance
Performance rating (Effectiveness): **Well placed**
Performance rating (Efficiency): **Needing development**

There is now increasing recognition the New Zealand economy is performing well compared with other member countries in the Organisation for Economic Co-operation and Development (OECD). There is an external environment that is very favourable and there are many positive signs of further recovery. For example, New Zealand's GDP per capita recovered to its pre-recession level in March 2013 and economic growth appears to be gathering momentum, strengthening from 2.7% in the year to December 2013 to a forecast 4% in the year to March 2015.

However, this growth needs to be broadened, as to a large degree current growth is based on strong commodity prices, improving terms of trade, consumption spending and expenditure related to rebuilding following the Christchurch earthquakes.

The Treasury's *2013 Statement of Intent* notes: "…to maintain New Zealand's living standards it will be necessary to materially narrow the income gap between New Zealand and other OECD members". Clearly, there is still a long way to go to narrow that income gap as in 2011 New Zealand's GDP per capita was ranked 22nd out of 34 OECD countries.

The Treasury has a critical role in understanding the economic opportunities available, working with influence across all parts of the economy, engaging actively with other parts of the State sector and positioning New Zealand internationally so all opportunities are understood and followed up.

The Treasury can point to where it has worked with MBIE and other agencies to bring about changes that have or will aid improved economic performance. This includes the following areas:

- Reforms to the Resource Management Act 1991. These enable improved economic outcomes in the medium to long-term, leading to increased value derived from natural and physical resources
- Freshwater reforms. This will have a positive impact on the effectiveness of water management and is a first step towards further reform
- Housing Accords process. It will bring forward land supply and other developments thus helping to address some of the current supply issues
- Education. The Treasury has provided advice on medium-term schooling policy directions and cost drivers.
- Infrastructure. The Treasury contributed to the Infrastructure chapter of the *Business Growth Agenda* report. This work identifies key infrastructure projects to enable the movement of people, goods and information around the country and around the world.

Continuing, sustainable economic growth based on strong export performance will be needed. Measures of growth in real GDP per capita and in the tradable sector will be used by the Treasury to assess whether improved economic performance is being achieved.[5] Specific targets have been set that will demonstrate improved economic outcomes for New Zealanders.

The Treasury's strategic economic story is expected to be used as a key document for advising Ministers on the best options to promote economic growth. The Treasury has already used it to shift its resources to focus on policy areas with the biggest impact for growth and expects the refresh of the strategic economic story to deliver advice with a stronger focus on economic performance during 2013/14 and in subsequent years.

The Treasury also plans to continue work on its Living Standards Framework to do more to turn it into usable advice and embed the tool developed for the Framework in its work generally.

The Treasury's greater openness to external thinking, increasing collaboration with other agencies and targeting support to the most important policy areas, will enable it to be better placed to provide robust advice to Ministers. This advice will be directed at improving economic performance and will also take into account other focus areas of the Living Standards Framework.

The Treasury's PIF Self-review did not provide any specific comment on its efficiency in this core business area though we expect a benefit of using the Treasury's strategic economic story and Living Standards Framework are the likely efficiency gains to the Treasury. These include shifting resources early to the key policy areas of greatest impact for growth. There may also be earlier acceptance (and less re-work) of economic policy advice that has explicitly considered social and environmental factors that contribute to higher living standards.

Overall, the Treasury has achieved good success in advising Ministers on choices and options enabling improved economic performance but these improvements need to be broadened across the economy. This is an enduring and critical advisory role for the Treasury.

To improve its performance, the Treasury needs to provide strong leadership in collaboration with the other economic agencies to deliver advice and reform that will address the significant income gap between New Zealand and other OECD countries. It has a critical role to oversee, scrutinise and challenge the bold initiatives adopted and implemented by economic agencies to accelerate economic growth. It also needs to demonstrate how it tracks and improves its efficiency in this core business area and in other policy development areas.

Core business 2: A higher performing State sector

Performance rating (Effectiveness): **Needing development**

Performance rating (Efficiency): **Needing development**

'State sector reform' and 'more active management of the balance sheet' are part of the Government Priorities section. These are both subsets of one of the Treasury's key outcomes: a higher performing State sector. Improving State sector performance and productivity is fundamental to improving the living standards for New Zealanders, as it represents over 25% of the real economy. Also, through regulatory levers and leadership influence, the State sector can positively impact results for individuals and the private sector.

5 See Treasury's *2013 Statement of Intent*.

We refer in the Government Priorities section on State sector reform to the major change and improvement programme launched following the *Better Public Services Report 2011*. The Treasury is a leader of this programme, with its central agency colleagues, and all its business functions can be seen as contributing to the vision to achieve "'a higher performing State sector that New Zealanders trust, delivering outstanding results and value for money"..

Some significant changes have been identified and progress has been made. However, in some areas this progress has been too slow and in others it is too early for effective measurement of success. These include:

a) Christchurch rebuild

The Treasury has established a dedicated team to deal with issues arising from the Christchurch earthquake recovery programme. This has been an effective collaboration with the Canterbury Earthquake Recovery Authority, MBIE and the other central agencies, responding to the Government's priority to rebuild Christchurch. The Treasury assumed a leadership and coordination role to ensure sound fiscal management and scheduling across the large-scale projects being undertaken. Its engagement has been valuable and supportive but we wonder whether it has been too process- or transaction-focused. The Treasury needs to be looking ahead at the long-term impacts, risks and opportunities for the New Zealand economy of the city rebuild. The consequences and aftermath of the earthquakes will impact for many more years. The Treasury needs to take a lead on strategic policy development here.

b) Collaborative work to progress Government Priorities

The Treasury has performed a continuing role with the other central agencies in supporting specific reforms in priority areas, such as housing, social welfare and education. These have encouraged population-focused solutions, sector analysis and a focus on measurable results. The Housing and Welfare reforms are dealt with in the Government Priorities section. The Treasury's work collaborating with the Ministry of Education on education initiatives has been well regarded by the Ministry and Ministers.

c) Better Public Services (BPS)

In 2012, as part of the BPS Programme, the Government set 10 Results for New Zealanders, with challenging targets for achievement by 2017. The Corporate Centre assumed responsibility to provide assurance on delivery to Ministers through a six monthly report, which is publicly available. At February 2014, seven were reported as 'on track' and three were showing progress but with 'some issues to resolve'.

Establishing the role and function of Government Chief Information Officer as functional lead for ICT services has been slow. It has taken too long to get traction because of the complexity of the role and the need for adequate funding. The Treasury has created a seed fund that will assist BPS initiatives, such as those led by GCIO and has started work – albeit late – on longer-term funding solutions critical for this all-of-government work.

The Performance Hub was established as a joint SSC/Treasury team in February 2013, with a mandate to produce an overview of how the State services are performing and what needs to be done to improve it. The Performance Hub's early focus was on assisting the implementation of State sector reforms, such as supporting the implementation of amendments to State sector legislation and functional leadership. It has an ambitious work plan. As yet the expected benefits are not able to be assessed.

In 2013 the Treasury established the Analytics and Insights team, alongside the Performance Hub to provide system-level data analysis to identify significant opportunities for change and targeted interventions to provide better outcomes. The early indications for these analyses are very promising but results are not yet measurable.

d) Lifting strategic and financial management in the State sector

Four-year Plans were introduced in 2012 to provide a more consistent and integrated view of each agency's ability to deliver on the Government's Priorities within tight financial constraints. The model was substantially improved in 2013 and Four-year Plans in the current year are regarded as largely more robust. There have been implementation challenges, cost increases for agencies where expected savings in producing other accountability documents has not eventuated and debate on whether some agencies have delivered credible multi-year plans. Some major spending agencies seem to regard the preparation of the Four-year Plan as a compliance exercise and question whether the Treasury engaged with them at a high enough level and sufficiently early in the development process to get effective buy-in.

The Treasury has recognised there is a need for improved financial management capability across the State sector and opportunities to drive efficiencies. In 2012 a cross-agency transactional finance improvement programme, known as Optimise Finance, was initiated. However, this initiative did not achieve sufficient engagement or acceptance by other agencies and the Treasury is now reviewing this programme. The Treasury has also led efforts to lift strategic financial management across the State sector, initially by encouraging development of a network of State sector CFOs to discuss topics of mutual interest. Depending on their needs, CFOs have found this forum valuable. The Treasury is now establishing the Office of the Government Accountant; a new unit within the Treasury which, amongst other roles, will lead the effort to lift strategic financial management across the State sector. This work is aided by an Advisory Board that comprises subject matter experts, including some private sector CFOs.

This is an area where the Treasury should work more closely with SSC to ensure chief executive performance management reflects strategic and financial targets set through the Four-year Plans.

e) Corporate centre – monitoring for performance and risk assurance

Another major challenge for the Treasury has been to develop and strengthen its own financial analysis and accounting capability to enable effective performance as the Chief Financial Officer for the Crown. This is described by the Treasury as its 'Ministry of Finance' role. It has established a programme to strengthen its performance. This involves developing its internal capabilities for understanding value creation and cost drivers to ensure meaningful reporting on, and analysis of, Government expenditure. The aim is to embed these skills across the different functions in the organisation.

With these skills the Treasury intends to improve its ability to work with the Corporate Centre to monitor the performance of the State sector and to know when and how to intervene where risks or potential problems are identified. It will improve its ability to advise the Government on investment decisions and will enable the Treasury to be more authoritative in aligning policy advice, fiscal management and performance monitoring.

ELT recognises this capability is not yet strong enough and is allocating additional resource to strengthen its capability through 2013/2014. It requires the timely collation of relevant data and information, together with sophisticated analytic capability and experience. This role also requires an understanding of what is valued by New Zealanders, applying the Living Standards Framework, and then being able to advise both agencies and the Government confidently and persuasively on what should be prioritised and how value will be added. This level of sophisticated analysis will be assisted by the work of the Analytics and Insights team and the Performance Hub but it also needs a depth of maturity and experience that analysts may not possess.

Sector game plans have been introduced by the central agency teams as a Corporate Centre tool to cut through bureaucracy and streamline measurement of progress against sector objectives. These seem to be working well in the Health, Social and Justice sectors in particular.

A Government Investment and Asset Performance function has been established within the Treasury. This will allow it and others in the Corporate Centre, to monitor large capital investments by government agencies and undertake interventions as needed. The aim is to improve the quality of decision-making, risk management and likelihood of benefits realisation for such projects. This is a high-risk, complex and very important function. At the time of this PIF Review the relevant teams from SSC and the Treasury had been brought together under Treasury management. The Treasury had started scoping, planning and determining resourcing and staged implementation. It will be important to maintain the strengths of existing monitoring programmes to minimise downside risk, while managing the transition to an enhanced, well coordinated and more cost-effective investment monitoring and assurance service.

The development of skills and tools through the Ministry of Finance project, introduction of sector game plans, establishment of the Government Investment and Asset Performance function and other initiatives will lead to greater effectiveness and, potentially, greater efficiencies in the Treasury's practices.

To improve its performance in this core business area, the Treasury needs to be able to show the effectiveness and value for money of interventions and initiatives, such as Four-year Plans, the Performance Hub and , as well as to track and measure its efficiency gains in the work to support this outcome.

f) Crown entities monitoring

The Treasury is responsible for monitoring the performance of the Crown's portfolio of commercial interests and provides advice in respect of Crown Research Institutes. It is also responsible for advising Ministers on governance of these entities including on the appointment of Board members. These portfolio responsibilities cover 38 wholly-owned Crown entities, including the SOEs and Crown Financial Institutions, four majority-owned listed companies and seven Crown Research Institutes. As at 30 June 2013 the aggregate value of this portfolio exceeded $30.1 billion (net worth) and the Crown Financial Institutes had $51.9 billion of funds under management.

This Crown entity monitoring role had been carried out by COMU. A review of CTG and COMU was undertaken in late 2013. The Treasury had recognised the portfolio needed more active management rather than monitoring. It needed to concentrate on adding value to, and extracting value from, these Crown assets in line with the Treasury's role to actively manage the Crown's balance sheet.

The Treasury's desire is to accelerate the shift towards more actively managing value – a key focus for COMU since 2011 because its monitoring has not been sufficiently pro-active to deliver on its and the Minister's expectations for sustained performance from the Crown's assets, including identifying potential business risks and failures.

The review was also driven by the planned completion of the sale of shares in the GSO programme and by the increasing size and significance of the Crown Financial Institutions. The Treasury expected it would be able to apply the same focus and expertise it gained through the successful management of the GSO programme to the wider commercial portfolio.

The review has resulted in a major restructuring of the way in which the Treasury carries out its Crown entity monitoring role. The business unit has been renamed Commercial Operations and is headed by a Director who reports to the Deputy Chief Executive. There are three teams covering governance and performance, commercial advice and strategy and policy. More resources and expertise are being provided in the commercial advice team, recognising their increasingly important role in advising Crown entities and Ministers on public private partnership models.

An Advisory Board of up to six members, with substantial governance and commercial expertise, is being established to support the Deputy Chief Executive in leading the Commercial Operations portfolio. At least half of the Advisory Board members will be independent of the Treasury and will have a level of experience and seniority difficult for the Treasury to obtain in its staff. The Board's mandate will be to advise on strategy for managing value in the portfolio, review progress against key outcomes and ensure the Treasury's advice to the Government is of a high standard.

A major objective of this reorganisation is to accelerate the shift towards more active portfolio management, and to provide stronger support to the Crown entities, with more effective engagement on strategy. Significantly, the roles of governance – covering advice on Board appointments – and performance monitoring are being integrated into one team. Board appointments are a key lever for influencing performance and thus enhancing value.

This reorganisation had only just occurred at the time of the PIF Review and it is too early to comment on its effectiveness or efficiency. Nonetheless, we agree with the principles underpinning it and support the direction the Treasury is taking to bolster its delivery.

The proposed operating model is one of account management, whereby an account manager will be appointed for each entity. The account manager will be the point of contact for all issues relating to that entity and will lead the relationship. We think this is a good model to use as it provides a clear point of contact and enables the account manager to build up a valuable understanding of the business. For this model to be effective it will be important to ensure the officials who fulfil these roles have adequate experience.

To give greater clarity to the role it would also be useful to agree a policy framework for the performance monitoring of each entity. This would set the basis for any intervention and could establish the longer-term strategic goals and Government expectations of that entity. This may be helpful to distinguish the role of the Treasury as the monitoring agency from that of the Crown entity's own governance Board. It would also make it clearer for the Treasury to identify when, why and how to intervene.

There will need to be similar clarity around the role of the commercial Advisory Board so that it is not seen to stray into 'second-guessing' the Crown entities' own Boards. Rather, it is expected to advise on the role of the Treasury team in maximising the value of the Crown's commercial portfolio and the way in which the Treasury can improve its efficiency and effectiveness in fulfilling its function as the manager of the Crown's portfolio interests. The Treasury describes this as a holding company approach. We think this is a good model to adopt.

g) Regulatory impact

The Treasury's influencing role in New Zealand's regulatory system is significant at a system level. Regulation is a key intervention government uses to achieve its goals. An effective and efficient regulatory system will be an important component of a higher performing State sector.

The Productivity Commission was asked to develop guidance on how to improve the design of new regulatory regimes and make system-wide recommendations to improve the operation of existing regimes in New Zealand. The aim is to improve the performance of New Zealand's regulatory system, leading to better regulatory outcomes. A draft report has been published and is currently in consultation.

In view of the extensive recommendations directed at both SSC and the Treasury by the Productivity Commission, we chose not to separately assess the Treasury's regulatory impact during this PIF Review.

We recommend the Treasury and SSC reconsider, and provide advice, on the role central agencies should occupy in New Zealand's regulatory system in light of the final recommendations from the Productivity Commission.

Core business 3: A stable and sustainable macroeconomic environment
Performance rating (Effectiveness): **Strong**
Performance rating (Efficiency): **Needing development**

To deliver on this part of its core business, the Treasury needs to take steps to ensure there is a stable macroeconomic environment and work towards achieving a predictable and sustainable fiscal position.

a) Stable macroeconomic environment

New Zealand needs a stable macroeconomic environment to achieve strong, sustained economic growth and higher living standards. A stable macroeconomic environment provides a degree of predictability and certainty for business, investors and households.

The Treasury's work is aimed at keeping economic activity close to full employment levels, keeping economic variability to a minimum and avoiding abrupt negative economic adjustments when hit by shocks. Recent work by the Treasury in this core business area includes:

- providing advice on macroeconomic policy settings and frameworks; fiscal policy and strategy; and joint advice with the Reserve Bank of New Zealand on financial stability
- research and advice on savings policy
- economic and fiscal monitoring, reporting and forecasting
- providing advice on proposals by other agencies that impact the macroeconomic environment.

As noted in the Treasury's *2012/13 Annual Report*, the International Monetary Fund Article IV report and the OECD Survey of New Zealand endorsed the key elements of New Zealand's macroeconomic framework and current policy settings.

b) Predictable and sustainable fiscal position

A key objective of the Treasury's work related to fiscal policy has been directed at returning the fiscal balance to surplus and reducing government net debt to prudent levels. A predictable and sustainable fiscal position is essential for government budgeting, investor confidence and overall macroeconomic stability. At the same time, managing current and future spending pressures is important for growth, intergenerational fairness and realising a fiscal buffer that will provide options and flexibility to deal with any adverse shocks.

The key work areas related to New Zealand's fiscal position have been:

- advising 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
- publishing the four-yearly Long-term Fiscal Statement
- monitoring and advising on the performance of key expenditure areas
- managing production of the Budget, including to allow for a modest amount of new operating spending
- establishing the Future Investment Fund
- providing guidance and support to agencies to enable them to fulfil their Public Finance Act 1989 and Cabinet requirements
- managing New Zealand's debt within agreed parameters.

The fiscal position has improved and new core borrowing is less than 25 basis points over the benchmark. There has been increased rigour and challenge built into the way the Treasury operates. It is common for advice to a Minister to go through various stages of debate to ensure sound and well reasoned conclusions. This approach to development of fiscal policy, as well as budget and balance sheet management, has assisted the Government to achieve its fiscal objectives.

The Minister of Finance has given the Treasury feedback that its fiscal and macroeconomic policy advice has tended to be too high level and academic, though he has acknowledged there has been an improvement in this area. Further, the Minister has informed the Treasury its advice could be timelier and more innovative and it was too slow coming to grips with issues such as housing affordability. More recently, the Minister has confirmed some of the Treasury's policy advice is improving to get ahead of the Budget cycle. This suggests the Treasury may be improving its efficiency in some areas of this core business through providing more timely and practical advice, i.e., potentially anticipating the Government's needs more acutely and delivering more usable advice in the first instance. However, the Treasury needs to demonstrate how it is monitoring and improving its efficiency.

The Treasury is very open in sharing macroeconomic information and analysis, with periodic and ad hoc publication on its website. Already mentioned is the new Investment Statement entitled: *Managing the Crown's Balance Sheet*, which was published during this PIF Review.

It was common for interviewees to refer to the Treasury's work on a stable and sustainable macroeconomic environment in a positive way. One commentator went so far as to suggest this work is now "pretty slick" and the best it has been for some time.

In conclusion, the Treasury has been successful in achieving improvements towards a more stable and sustainable macroeconomic environment and this work deserves recognition. A further lift in economic and fiscal performance is needed, as well as a broadening of the base that drives growth. That is the challenge for the future. To meet this challenge, the Treasury needs to continue to be at the leading edge of thinking about global economic developments and how they affect New Zealand and what that means for future strategic policy advice

To further improve its performance, the Treasury needs to lead and drive the adoption of frameworks, work practices and regulatory regimes that will best contribute to maintaining and enhancing a stable and sustainable macroeconomic environment.

ORGANISATIONAL MANAGEMENT SECTION

This section reviews the Treasury's organisational management. The questions guide Lead Reviewers to current and future performance. Final judgements and ratings are informed by the scope and scale of the performance challenge.

Part One: Leadership, Direction and Delivery

Purpose, Vision and Strategy

How well has the agency defined and articulated its purpose, vision and strategy to its staff and stakeholders?

How well does the agency consider and plan for possible changes in its purpose or role in the foreseeable future?

Performance rating: **Well placed**

Leadership and Governance

How well does the senior team provide collective leadership and direction to the agency?

Performance rating: **Well placed**

Values, Behaviour and Culture

How well does the agency develop and promote the organisational values, behaviours and culture it needs to support its strategic direction?

Performance rating: **Well placed**

Structure, Roles and Responsibilities

How well does the agency ensure that its organisational planning, systems, structures and practices support delivery of Government priorities and core business?

How well does the agency ensure that it has clear roles, responsibilities and accountabilities throughout the agency and sector?

Performance rating: **Needing development**

Review

How well does the agency encourage and use evaluative activity?

Performance rating: **Well placed**

The Treasury is the Government's lead advisor on economic, financial and regulatory policy and therefore holds a unique position of responsibility and influence in the New Zealand State sector.

The Treasury's vision is to be: "A world-class Treasury working towards higher living standards for New Zealanders". This vision has remained constant for an extended period. The Treasury is also conscious of its stewardship responsibilities requiring it to be well equipped to look after the Crown's medium- and longer-term interests in a sustainable way.

Like many organisations the Treasury's greatest asset is its people. We were impressed with the many dedicated, capable and professional people we met during the PIF Review. Most of the stakeholders we spoke to commented positively about the people they deal with in the Treasury and said the Treasury is a smart organisation.

It was clear to us the Treasury's sense of purpose resonates well with staff and the staff we spoke to commonly said they enjoy their job, largely because they can make a difference for New Zealand.

Recently, the Treasury has bolstered its messages and documentation supporting the cascade from the vision to a strategy, to output measurement frameworks and establishment of a core set of behavioural values. The Treasury values below are visibly on display in the organisation and people relate well to them.

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 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

As noted already, the Living Standards Framework is at the heart of the Treasury's policy thinking. In addition to achieving economic growth, a number of other factors are consciously considered in the development of policy ideas and options. The Treasury's strategic economic story will add to the tools available to staff for developing and considering policy advice.

In its 2013 staff Engagement Survey, 62.9% of respondents agreed the Treasury had a clear vision and 59.4% agreed 'there is a sense of common purpose' (its vision, common purpose and leadership). This was a surprise to us, as we believe the commitment of the people we met to the Treasury's purpose and goals was higher than the Engagement Survey results suggest. We noted the Engagement Survey results are variable across the various teams in the Treasury, with some teams achieving reasonably high engagement scores. It will be important for ELT to show leadership in owning and addressing the blocks to engagement and in helping managers and teams to lift engagement.

Many stakeholders consider the Treasury has been successful in describing its purpose and goals. A December 2013 Stakeholder Survey indicated around half of the Treasury's stakeholders think it clearly communicates New Zealand's wider economic story and issues that matter for higher living standards.

As a critically important institution for New Zealand, the Treasury needs to be continually looking forward, internationally engaged and purposeful in what it does. Like other countries, New Zealand will continue to face many different challenges, which will require the Treasury to be adaptive and responsive. The Treasury is aware of the need for it to have the capability and drive to respond to demands and challenges. As one of its values prescribes, the Treasury needs to "…be bold and innovative" in how it anticipates and responds to challenges and shocks.

ELT has recently been focused on defining its role and the value ELT adds individually and as a group. Recent changes have reduced the size of ELT, which will allow for easier engagement and communications. ELT members have been innovative in changing the way they work together and now have a very different way of meeting, recording and progressing issues. They use a visual board at their weekly meeting to track strategic initiatives, highlight where there are barriers to achieving key work programmes and assign responsibility for actions to address these barriers. We were impressed with what we saw. We add that it will be important for ELT to keep its sights high, dealing with strategic issues and those that have a material effect on outcome, function or reputation of the organisation.

There was very strong alignment among ELT members to the key objectives and responsibilities of the Treasury and they spoke as one on system-wide issues. Members of ELT are aware of the pressures they each face and pay particular attention to helping new members. ELT also focuses on its own performance and behaviours and they are aware of the need to role model the Treasury's values.

There is a Treasury Board comprised of senior independent business and academic leaders, the Secretary and the Deputy Chief Executive. There has been some confusion as to its role and the contribution the members should make. The Secretary, who is the Chair, is clear the Treasury Board is there to provide free and frank advice to him on key issues. The Treasury Board's role has changed over time from a quasi-governance role to an advisory one and members we spoke to said they valued the opportunity to contribute and believed the role was worthwhile.

Aligning the Treasury's values, behaviour and culture is the driver for its Change Programme. The Treasury refreshed and re-launched the Change Programme in July last year. Although there has been some good progress, the pace of implementation of the desired changes needs to be pushed harder so the ideas do not go stale and the objectives are achieved. Although there are new and innovative ways of communicating about the progress of the Change Programme, we did not see a clear plan with key milestones and a corresponding strong commitment to drive this to conclusion. There would be value in refining and focusing the Change Programme and establishing a plan with clear objectives, milestones and accountabilities. An overall objective should be to embed a culture of continuous improvement within the Treasury.

Given the issues faced by the Treasury it would be worthwhile for ELT to continue to challenge itself that it is focused on current key priorities related to change and improvement. Stronger programme and project management of initiatives is also warranted to gain the greatest benefit for the required investment.

More recently, the Treasury has considered how it could be more influential and has determined it needs to be:

- more collaborative
- more outward facing
- better at its core business
- more productive so it can achieve more for less.

The overall structure and organisational arrangements in the Treasury are not easy to understand and this is in part owing to the broad nature of the Treasury's role and the many competing issues with which it deals. Given the overarching aspiration of working towards higher living standards and achieving specific targets towards that outcome, and given the various roles the Treasury plays, we consider it should review its organisational strategy and operating model. ELT should test whether it provides the structure, roles and responsibilities needed to deliver these goals and behaviours. This should include consideration of adopting the account management model proposed for the Commercial Operations portfolio, across all of the Treasury. This would enable the Treasury to be more effective and efficient in managing relationships, building partnerships and influencing for change across the sector.

The Treasury uses a number of ELT sub-committees, including an Outcome Leaders Action Group (OLAG) to drive its organisational planning and practices. OLAG monitors achievement against the three external outcomes, as well as the fourth outcome covering organisational development: Higher Performing Treasury.

A People and Resources Committee (PRC) provides advice to ELT on the implementation of the Treasury's Four-year Plan, with particular focus on the Workforce Strategy and the efficiency and effectiveness elements. There is a comprehensive quarterly review process for key initiatives, both internally and through quarterly discussions with the Minister of Finance.

The Treasury is continually trying to find out what it does not yet understand. This is part of its DNA and its future success will, in part, depend upon deepening its understanding of the economy, how to improve living standards and the options and choices available. It is an organisation keen to learn more and improve. This approach to considering issues will be contentious at times but will lead to a supportive environment where healthy debate will result in better decisions.

There is a lot of rigour and challenge built into the way the Treasury operates on a day-to-day basis. For example, it is common for advice to a Minister to go through various stages of debate where people expect to be scrutinised about the basis for their conclusions. The objective is to have sound and well reasoned conclusions supported by strong analysis.

In addition to having a disposition to challenge itself to continuously improve, the Treasury uses evaluation and formal internal and external reviews as tools to enhance its practices. The Government Share Offers is a good example, where the Treasury's performance in respect of the earlier offers was evaluated and learnings actioned.

ORGANISATIONAL MANAGEMENT SECTION

Part Two: External Relationships

Engagement with Ministers

How well does the agency provide advice and services to Ministers?

Performance rating (Effectiveness): **Strong**

Sector Contribution

How effectively does the agency work across the sector?

Performance rating: **Needing development**

Collaboration and Partnerships with Stakeholders

How well does the agency generate common ownership and genuine collaboration on strategy and service delivery with stakeholders and the public?

Performance rating: **Needing development**

Experiences of the Public

How well does the agency understand customers and citizens' satisfaction?

Performance rating: **Well placed**

The Treasury's principal accountability is to the Minister of Finance, with whom it enjoys a trusted relationship. It also has accountability to other Ministers, such as the Minister for State Owned Enterprises and, as a part of the Corporate Centre, to the four Ministers responsible for State Services Reform.[6] In addition, the Treasury deals with all Ministers in carrying out its financial advisory and budget responsibilities.

There is robust and frequent exchange and debate between the Minister of Finance and Treasury staff and the engagement by the central agencies with the State Sector Reform Ministers has also been strong. The Treasury's advice is respected and valued by the Government generally and all Ministers pay attention to what the Treasury may think about a particular issue. Given this, there may be opportunity for the Treasury to add further value by working to ensure other Ministers understand the value and rationale of the Treasury's advice, which affects their own portfolios and assist to secure alignment between Ministers and other agencies.

The Treasury is an active member of the group of economic government agencies but also works well with a number of other agencies on areas of government priority. ELT recognises the importance of its contribution and leadership. The Treasury's brand and reputation is strong and so it is able to

6 The Prime Minister, Minister of Finance, Minister for Economic Development and Minister of State Services.

have rapid and effective impact. There is evidence that in areas where it has devoted priority and additional resources to working with other agencies and organisations, such as the rebuild of Christchurch, social welfare reform, education and water reforms, the impacts have been positive and are valued by other stakeholders.

In other areas, where the Treasury does not afford priority or particular focus, the experience of stakeholders is not always as positive. There is some frustration at the lack of engagement by senior managers and ELT with their peers in other agencies and there are complaints of a lack of transparency and accessibility.

We recognise it is difficult for the Treasury, as a relatively small agency but a leader of the entire State sector, to maintain contacts at senior levels with all other agencies. This frustration is partly owing to the flat organisational structure in the Treasury's operating model, which results in analysts engaging at relatively senior management levels in other agencies. We discuss this further in other sections of this Report.

The rotation of analysts in the Treasury can exacerbate this problem as no sooner do they develop a rapport and expertise in dealing with a particular agency than they are rotated into a different section. On the other hand, the rotation system does assist in the training and development of analysts and we suggest it should be able to be managed by the involvement of a team leader or manager to oversee the transition to help ensure a seamless experience for the affected agency.

Over the past two years the Treasury's collaboration and partnerships with other stakeholders has improved markedly. In the 2013 Stakeholder Survey 70% of respondents recognised that the Treasury had increased the range of stakeholders it works with. This has been the result of conscious effort on the part of the Secretary of the Treasury and members of ELT to make the agency more outward facing. Senior leaders have attended conferences, engaged in dialogue and made presentations to a wide range of community groups, private sector organisations and particular efforts to develop relationships with Māori and iwi. These efforts are noted and appreciated by stakeholders.

There are some areas where more attention could be applied. The Treasury should develop a strategic stakeholder management plan. For example, this would include more meaningful engagement with local government for the Treasury to understand the importance of urban issues, their impact on the economy and the risks if urban issues are not well understood. The Treasury's focus and attention to the complex issues arising from the rebuild of Christchurch has involved frequent engagement with local government officials over a range of issues. The Treasury's engagement with Auckland City is seen as having been focused principally on housing and transport infrastructure.

More frequent contact with key stakeholders is valuable in enabling productive relationships to develop. It enables a better understanding and flow of information, which is a prerequisite for effective collaboration and partnering. But this generally takes time and focus from senior managers. For collaboration to be effective at levels below ELT, the engagement capability and skills of managers and analysts should be developed further.

To improve its performance in external relationships, the Treasury should focus on developing these relationships so they are productive for all parties. Creating enduring partnerships will require concentrated and continuing effort. This might include the placement or secondment of Treasury staff with other organisations to facilitate the interchange of knowledge. It should also include the Treasury providing training or intern opportunities for staff of other State sector organisations, and may in time extend to staff of organisations, such as iwi or local government, to develop critical skillsets across the State sector and wider economy, as well as deeper understandings and possibilities for future collaboration.

The Treasury has made greater efforts to take its messages to wider public audiences, by encouraging staff to attend and present at various conferences and in forums on a wide range of issues. An example is its work developing the Living Standards Framework encapsulating five key aspects that the Treasury sees as important for improving living standards for New Zealanders – economic growth, sustainability for the future, increasing equity, managing risk, and social infrastructure. To support this work, as well at discussing the Framework with a range of interested parties and stakeholders, the Treasury has published tools and resources to encourage others to analyse and debate the underlying issues and to stimulate fresh thinking about raising living standards.

We are impressed at the leadership role the Treasury has taken in promulgating a Living Standards Framework to assess the impact of policy advice. It recognises that while economic performance is a core contributor to raising living standards, there are other factors that New Zealanders value such as education, the environment, health and safety and personal and social wellbeing. We suggest this Framework needs to be a dynamic one and interaction with the public should be seen as an important tool in developing it. In this way the Treasury can be more confident the Framework represents the values and expectations of all New Zealanders and this will give it more authority.

The Treasury has recently published some substantial reports as part of its important stewardship role. It has a responsibility to inform and engage the public about the long-term issues facing New Zealand. These include the *Long Term Fiscal Statement* and the *Investment Statement*. In compiling these reports the Treasury sought much wider public involvement than previously, including, in the case of the *Long Term Fiscal Statement*, establishing a cross-disciplinary panel of experts, commissioning external research, publishing research papers and organising a conference to discuss the draft.

The Treasury's website provides a wealth of information about its work, including access to all Working Papers and a wide range of background information relating to the Budget and other key policy areas. The Treasury also uses Facebook and Twitter to disseminate information to a generally younger audience and has provided a Budget app for the past two Budgets. High levels of satisfaction were reported in the 2013 Stakeholder Survey by those who interact with the Treasury through its websites or Twitter and 75% of all stakeholders reported satisfaction with their recent interactions.

ORGANISATIONAL MANAGEMENT SECTION

Part Three: People Development

Leadership and Workforce Development

How well does the agency develop its workforce (including its leadership)?

How well does the agency anticipate and respond to future capability requirements?

Performance rating: **Needing development**

Management of People Performance

How well does the agency encourage high performance and continuous improvement among its workforce?

How well does the agency deal with poor or inadequate performance?

Performance rating: **Needing development**

Engagement with Staff

How well does the agency manage its employee relations?

How well does the agency develop and maintain a diverse, highly committed and engaged workforce?

Performance rating: **Well placed**

The Treasury's workforce strategy was developed in 2011 and was updated in its 2013 Four-year Plan. It sets out six themes representing the capability, capacity and culture shifts that the Treasury plans to make. However, it is not clear how much progress has actually been made as, at the time of the PIF Review, no plan had been implemented to give effect to this strategy. The People and Resources Committee (PRC) of ELT has scheduled a planning session to review a draft plan and we encourage its implementation as soon as possible.

The lack of a strategic HR function within the Treasury since the restructure and introduction of CASS has meant the strategic organisation-level planning and implementation has languished. As a result, workforce development and training is not systematic but tends to be opportunistic or driven by particular needs. It seems that the design and capacity of CASS was not sufficiently worked through when it was set up and ELT has now recognised it needs to have a more systematic approach to staff and organisational development to drive effective implementation of its workforce strategy and development plans.

There are some training programmes in the Treasury that are operating very effectively, these include graduate induction and training and regular in-house technical and skills training and coaching seminars, which are available to all staff. These are well regarded by new employees and analysts, in particular.

Leadership training for managers is recognised by ELT as an area that is currently underdeveloped. The Treasury's flat structure and devolved responsibility adds to the importance of ensuring that not only managers but senior and principal analysts are trained and given more support to ensure they have a full understanding of their public sector management and leadership responsibilities. Current training and career development opportunities for staff at senior analyst level and above are not systematic and appear to be too dependent upon particular managers to initiate.

The Treasury has identified some gaps in the capability of its teams and has established projects to address them. The Ministry of Finance project (discussed elsewhere) addresses insufficient skills in financial management capability and the recent review of the COMU portfolio revealed a lack of senior commercial analytical and business expertise, which is essential to provide effective monitoring and oversight of the significant commercial assets owned by the Crown.

A recent review of the core macroeconomic advisory function and concerns about some recent errors in handling data between agencies have caused a rethink of the processes and resourcing needed in this area.

Some additional levels of seniority have recently been added in some of the functional teams to bridge some gaps in skills and experience between Deputy Secretaries and managers and managers and senior analysts.

The Treasury recognises it needs to invest more in developing its leadership group, to ensure managers are properly equipped to manage their teams and develop their own skills. A new competency-based management development programme was being finalised during the PIF Review, for consideration by the People and Resources Committee in May 2014.

Secondments to other agencies and to international organisations, such as the OECD, are encouraged as a way to provide opportunities for staff development and a new secondment programme has recently been established with the Australian Treasury, which will enable trans-Tasman secondments.

Another recent initiative has been to address the challenges of diversity and inclusiveness. The Treasury recognises, to be more influential and valuable as an organisation, it must reflect and understand the legitimate needs and aspirations of all New Zealanders. The Living Standards Framework is a good start to frame up the Treasury's approach to policy advice but it must be sure it is being sufficiently aspirational and inclusive in framing its priorities.

To be truly effective the Treasury must represent New Zealand and New Zealanders in the 21st century. As well as gender equality at all levels of the organisation it needs to have a much more representative cultural and ethnic mix that better reflects the diversity of New Zealand society.

The Treasury launched a diversity strategy in 2012 with a focus on:

- diversity of thinking
- ethnic diversity to reflect the views of the broader society
- increasing the proportion of women in senior roles.

ELT now includes three women, including the Deputy Chief Executive, out of seven members – a notable change from 2011 when there were only two females in the top three tiers. As at June 2013[7] the percentage of female managers (35%) across the top three tiers was below the public service average of 42%. The Treasury reported 42% of its top three tiers were females as at the time of this

7 Human Resources Capability Survey 30 June 2013.

PIF Review and it intends to continue to improve gender equality in its workforce. Over 88% of the total staff identify as European. A new intern recruitment programme has a special emphasis on extending diversity but it is too early to assess whether this will have any lasting impact.

The Treasury has recently carried out an assessment of its culture and behaviours. The results were not available at the time of writing this Report but it is fairly clear from the most recent Staff and Stakeholder Surveys that this is an area that will need more conscious effort. For example, in the stakeholder survey only 37% of staff agreed with the proposition that 'diversity objectives are integrated into decision-making'. As soon as it has this base data and recommendations, it will be important for ELT to implement strategies that will give effect to the desired goals of diversity and inclusiveness within the organisation.

We have noted elsewhere in this Report that the Treasury's operating model has a relatively flat structure, with significant autonomy and devolved responsibility given to managers and analysts who are subject matter specialists within functional teams. We heard numerous comments – both positive and negative – about the comparatively junior staff who are able to engage at much higher levels with other agencies and frequently represent the Treasury in meetings, including meetings with Ministers.

Some agencies and external stakeholders find this frustrating and at times counterproductive. By contrast, many employees consider it to be an important and positive aspect of the culture. The Treasury is seen to trust its subject matter experts to represent the organisation effectively and employees feel empowered by this. This is reflected in the relatively high scores achieved for engagement questions, such as, 'I feel my contribution is valued in the organisation'.

A high level of devolved power and responsibility is only possible because of the strong confidence the Treasury has in the power of the analysis and rigorous internal processes in which staff engage to determine 'The Treasury View'. A downside of this is that individuals can come across as unwilling to listen and possibly arrogant or non-collaborative. This may come about because of a relative lack of experience, despite the intellectual capability of the individual. The shadow of this strength is a weakness and this needs to be addressed through training and skills development.

The Treasury has had a reputation as an organisation that is not facilitative and tends to emerge at the end of a planning or decision-making process to stop things happening. The Change Programme, which was refreshed and reinvigorated in 2013, was designed to develop and embed a different way of being influential and thus effective, by being more collaborative and outward facing.

This will not be effective unless appropriate behaviour is embedded in the Treasury's own culture and this needs to continue to be modelled by the Secretary and senior managers. Further, it is important to use performance management techniques that penalise uncollaborative attitudes and behaviour and reward effective collaboration and co-production practices.

As noted elsewhere, our observation was that more effort needed to be put into developing trusted relationships with stakeholders. Where this has happened, e.g., with the Ministry of Health and on projects that the Treasury has prioritised, such as social welfare reform, engagement is strong and productive at all levels.

Performance management in the Treasury is not consistently effective, as it appears to be dependent upon the personal aptitudes and abilities of individual managers. Only 55% of staff said they understood how their performance was measured in the 2013 Engagement Survey and the percentage of respondents who agreed that 'the Treasury rewards outstanding performance' was similarly low. Some individual managers score very highly in this area but across the organisation only 44% of staff responded that poor performance was dealt with effectively, which was the lowest score of any question in the survey.

We were surprised by these low scores as our focus group interviews did not reveal this level of dissatisfaction among staff. While our interviews are necessarily a small and random snapshot of the organisation, we got a fairly consistent expression of satisfaction with the employment review process, which includes peer and external views as a part of the review process for each staff member.

However, there is evidence not all managers are effective at managing performance in their teams and, in particular, there seems to be a group of longer-serving employees who are more resistant to change and particularly to embracing the new values that the Treasury seeks. The lowest responses in the Engagement Survey were to questions about the way in which poor performance is dealt with and performance measurement.

If employees do not see effective responses to poor behaviour and performance they tend to view change and diversity programmes as rhetoric and therefore unimportant. This undermines the values and discourages those who seek to apply them. ELT agrees this is an area that needs more attention.

Overall, staff engagement has improved over the past three years. The response rate for the 2013 Engagement Survey was high at 92.3%. Comparisons with previous years are not straightforward as the Treasury has changed its survey provider from Gallup to Kenexa. However, the 2013 results reveal engagement above the State Sector benchmark (comprising 32 State sector organisations[8]); of the ten areas that matter most to employees, the Treasury's results were on par with six and significantly ahead on four.

There are good internal communications and fortnightly staff meetings. The Secretary and deputy secretaries are accessible and regularly engage with employees in the organisation. We heard they are visible throughout the Treasury's offices.

A possible sign of employee dissatisfaction is a high level of unplanned turnover. Over the past six months this has risen to around 17.5% pa, which is significantly above the State sector average of 10.5% pa and the policy group comparator of 15% pa. It appears to be highest among senior analysts and managers. The reasons for this are not easy to assess as the Treasury does not conduct exit interviews in a systematic way. We recommend these be introduced for all departing employees.

We encourage the Treasury to benchmark its employee engagement against a wider range of comparators in future and not solely those in the State sector. If it wishes to be a world-class organisation it needs to measure itself against international best practice benchmarks.

8 The comparison would be more useful if it was clear what type and size of State sector organisations were represented in the benchmark out of the almost 200 organisations that exist.

ORGANISATIONAL MANAGEMENT SECTION

Part Four: Financial and Resource Management

Asset Management

How does the agency manage agency and Crown assets, and the agency balance sheet, to support delivery and drive performance improvement over time?

Performance rating: **Well placed**

Information Management

How well does the agency manage information as a strategic asset?

Performance rating: **Needing development**

Improving Efficiency and Effectiveness

How robust are the processes in place to identify and make efficiency improvements?

How well does the agency evaluate service delivery options?

Performance rating: **Needing development**

Financial Management

How well does the agency plan, direct and control financial resources to drive efficient and effective output delivery?

Performance rating: **Well placed**

Risk Management

How well does the agency identify and manage agency and Crown risk?

Performance rating: **Needing development**

In this section, our comments on the Treasury's asset management are focused on departmental assets as we have addressed the Treasury's management of the Crown's assets in the Government Priority of 'More Active Management of the Balance Sheet'.

The Treasury's business is relatively simple in both financial and asset management terms and it has processes and control systems in place, either internally or through Central Agencies Shared Services (CASS), to ensure planning and forecasting are well managed and understood.

At 30 June 2013, the Treasury had $8 million of non-current assets, with over half related to computer hardware and other office equipment, with the rest being leasehold improvements and furniture and fittings. There were $1.6 million of software assets (acquired and internally generated) at the same date. There is a formal Asset Management Policy and a Fixed Asset Register maintained by the Chief Financial Officer and an annual verification process led by CASS.

CASS was established by the three central agencies to deliver IT, HR and financial management services in 2012. Its initial focus was on reducing risk, increasing resilience and laying the foundation for a standard operating environment. The most recent BASS measures (2011/12) show the Treasury's costs of Finance, ICT procurement, administration and support functions have reduced and are below the median for the small agency peer group.

CASS has also delivered a number of system improvements (a single payroll system, monthly financial forecasting) and has improved resilience and security of the ICT systems. Substantial progress has been made on moving the three agencies to a standard operating environment, which will provide some significant cost benefits while increasing resilience and reducing risk.

It is important to ensure Treasury managers continue to carry out their responsibilities for managing assets and finances and do not assume these have been delegated entirely to CASS. It is also important Treasury managers understand and use the systems to improve operational efficiency and anticipate risks.

Several of the Treasury's main business systems are under review, some through processes led by CASS, e.g., document management and websites, and others through the relevant business owner. NZDMO's in-house developed systems support the operation of the Crown's debt programme; these need modernisation and improved resilience. The systems are being replaced in a staged way, through a project being run within NZDMO.

CFISnet, also an in-house-developed system, provides a secure repository of financial and other performance information across the State sector for the annual Budget processes, production of Crown accounts and other responsibilities under the Public Finance Act. The Treasury's PIF Self-review noted there are deficiencies with its current approach to management of information about State sector performance and risk and there is pressure on CFISnet to provide ever-increasing functionality. Current processes are inefficient, result in gaps in information, increase the potential for data errors and duplicate effort within the Treasury and in agencies. The Treasury has established a steering committee to develop a strategy for the future role and requirements of CFISnet.

In the meantime, a significant component of the 'Ministry of Finance' project includes the development of information terminals, currently being rolled out across the Treasury. The terminals contain core information for each team, whether on an agency, sector, issue or Vote basis, from CFISnet and other sources. The information is accessed by links to other information management systems where possible. This should lead to more consistency of approach and better knowledge management where individuals change teams through rotation or transfer.

Information is core to the business of the Corporate Centre and its work to drive improvements in the State sector. The information terminals may be usefully extended to include relevant information from other central agency databases, allowing the central agencies to streamline Corporate Centre work. The Treasury's new Analytics and Insights team aims to gather unit-level data about the impact of government services and interventions from a person-centred perspective. This will be a substantial and significantly different database than other information databases held by the Treasury.

The Treasury recognises that information is a strategic asset that must be well managed and easy to access, within appropriate security and privacy policy guidelines. This applies to information collected for transactional purposes, e.g., NZDMO and GSO registry functions and for Crown reporting purposes such as the strict management of Budget processes. It has a commendable, proactive approach to publishing government information that is of interest and value to the public, such as post-Budget release of papers and publication of working papers. However, the Treasury could improve its performance in information management by establishing an overarching strategy to ensure it maximises the return on its substantial ongoing investment in knowledge, people, processes and intellectual capital, and streamlines the collection and storage of, and access to, data and information. We note the Corporate Centre Information Strategy project proposes to look at better management of a significant subset of all information resources of the Treasury. Its focus is on how the agencies "can move to a more structured environment for the identification, collection, storage, analysis and reporting of all financial, non-financial performance and risk-based information".

To improve its efficiency and effectiveness, the Treasury has undertaken a number of organisational reviews and restructures over the last few months, including of ELT, Commercial Operations, Business Support and Communications.

In the last year the Treasury has also introduced a continuous improvement programme, including using Lean Six Sigma techniques, with the aim to grow a high-performing continuous improvement culture across processes, people and systems. Staff report this has already had some identified gains in streamlining processes and administration and modest cash and capability savings. It is not yet embedded across the organisation, though almost half the staff have now been trained in Lean techniques.

The Treasury applies a continuous improvement focus to the quality of its policy advice through the use of an internal review panel which in 2012/2013 included staff from SSC. It reports the results in its Annual Report, identifies exemplars and provides feedback to individual managers about the documents reviewed for their portfolios. In 2013 the Treasury commissioned an independent external review of its fiscal policy advice over the last ten years. This was conducted by a leading international specialist on fiscal issues and is expected to be published in due course. The goal of this external review is to ensure the fiscal policy framework and the Treasury's fiscal policy advice within that framework are appropriate to the characteristics of the New Zealand economy and consistent with best international practice.

For proposed new work areas, such as the Government Investment and Asset Performance function or Four-year Plans, it is not clear whether ELT receives adequate strategic financial advice on its decisions, prioritisation and investments. Nor is it clear how the Treasury determines implementation and ongoing costs, benefits and trade-offs not just for itself but for other agencies affected by these decisions.

Following the establishment of CASS, ELT has found it needs to improve the level of strategic financial advice it receives. One area for attention is the repeated underspends by the Treasury. It has not maximised its use of the full resources available to improve its performance or speed its delivery and there is an opportunity cost associated with that position.

The Treasury reviewed its risk management practices at the end of 2013, after introduction of a new Risk Management Framework in 2011. The review found, among other things, variable risk management practice at the operational level, some lack of clarity about what criteria managers were using to assess and evaluate risks and about what level of residual risk is acceptable. Revisions to the Risk Management Framework have been developed and tested and were being considered by the Treasury's Risk and Audit Committee and ELT at the time of this PIF Review. The Treasury is also planning to reorganise its Risk and Audit Committee functions, with stronger, separate committees focused on the Financial Statements of the Government and on the Treasury's own operations. It was not possible to assess implementation of the revisions to risk management practices though the proposals seemed sound.

We were also unable to assess the proposed reorganisation of the Risk and Audit Committee; however, we make the following observations. To ensure the new Risk and Audit Committees are fully effective at an acceptable cost:

- The Treasury needs to be clear about the role and composition of the Risk and Audit Committees relative to each other and to other governance and Advisory Board structures in place or planned. There should be no significant overlaps and gaps in the respective responsibilities but some common membership. This will reduce the risk of duplication and of overlooking performance improvement opportunities and emerging risks

- In Treasury's market facing functions, NZDMO and NZECO, it reports a strongly embedded culture of minimising operational risk. We noted the Risk and Audit Committee reviews NZDMO's monthly reports at its quarterly meeting. This is an area of considerable transactional and reputational risk for Treasury and the Crown, and will need careful consideration when determining the respective responsibilities of the new Risk and Audit Committees

- The Terms of Reference for the current Risk and Audit Committee lists the Secretary (or his/her designate) as a required attendee. We recommend the Secretary attends Risk and Audit Committee meetings, except where 'committee-only' time is scheduled. This follows best practice guidance for private sector organisations and is encouraged by the Office of the Auditor-General for all State sector organisations

- The Treasury needs to consider the management, reporting and administrative costs of servicing governance and advisory groups. The organisational effort required to get best value from such groups can be underestimated. ELT needs to ensure this work adds value to the organisation rather than simply adding a compliance burden.

We consider the IT development work being undertaken for NZDMO is a significant operational risk. This must be closely monitored by ELT, given NZDMO's operations underpin the financial operations of the State sector. We would have expected to see this risk identified and tracked on the Risk Register supplied to ELT (dated November 2013).

Another area of operational risk, health and safety in the workplace, has been the subject of heightened awareness in recent years and legislative reform this year. The Treasury's health and safety policy and programme were comprehensively reviewed in 2012. Its employee participation scheme (Health and Safety Committee) was refreshed at that time and the Treasury advises it now has a more active hazard management programme. The policy requires proactive hazard reporting/assessment and quarterly hazard identification checks. The Health and Safety Committee was actively involved in hazard assessment following the earthquakes that caused damage in Wellington last year. The Treasury works with an external consultant on its policy and procedures and the consultant has been contracted to help review the policy in the next two months in light of current legislative changes.

The Treasury updated its privacy policy in November 2013 and a new security policy for the three central agencies has been in place since May 2013. The three central agency chief executives have agreed a new system for mandatory classification of emails going outside the central agencies. CASS has developed a security assurance framework across the three central agencies in response to directions from the Government Chief Information Officer.

APPENDIX A

Overview of the Model

Delivery of Government Priorities

How well is the agency responding to government priorities?

Delivery of Core Business

How effectively is the agency delivering each core business area?

How efficiently is the agency delivering each core business area?

How well does the agency exercise its stewardship role over regulation?

Organisational Management

How well is the agency positioned to deliver now and in the future?

Leadership, Direction and Delivery

- Purpose, Vision and Strategy
- Leadership and Governance
- Values, Behaviour and Culture
- Structure, Roles and Responsibilities
- Review

External Relationships

- Engagement with Ministers
- Sector Contribution
- Collaboration and Partnership with Stakeholders
- Experiences of the Public

People Development

- Leadership and Workforce Development
- Management of People Performance
- Engagement with Staff

Financial and Resource Management

- Asset Management
- Information Management
- Improving Efficiency and Effectiveness
- Financial Management
- Risk Management

Lead Questions

Results

Critical Area	Lead Questions
Government Priorities	1. How well is the agency responding to government priorities?
Core Business	2. How effectively is the agency delivering each core business area? 3. How efficiently is the agency delivering each core business area? 4. How well does the agency exercise its stewardship role over regulation?

Organisational Management

Critical Area	Element	Lead Questions
Leadership, Direction and Delivery	Purpose, Vision and Strategy	5. How well has the agency articulated its purpose, vision and strategy to its staff and stakeholders? 6. How well does the agency consider and plan for possible changes in its purpose or role in the foreseeable future?
	Leadership and Governance	7. How well does the senior team provide collective leadership and direction to the agency? 8. How well does the Board lead the Crown entity? (For Crown entities only)
	Values, Behaviour and Culture	9. How well does the agency develop and promote the organisational values, behaviours and culture it needs to support its strategic direction?
	Structure, Roles and Responsibilities	10. How well does the agency ensure that its organisational planning, systems, structures and practices support delivery of government priorities and core business? 11. How well does the agency ensure that it has clear roles, responsibilities and accountabilities throughout the agency and sector?
	Review	12. How well does the agency encourage and use evaluative activity?
External Relationships	Engagement with Ministers	13. How well does the agency provide advice and services to Ministers?
	Sector Contribution	14. How effectively does the agency work across the sector?
	Collaboration and Partnerships with Stakeholders	15. How well does the agency generate common ownership and genuine collaboration on strategy and service delivery with stakeholders and the public?
	Experiences of the Public	16. How well does the agency understand customers and citizens' satisfaction?
People Development	Leadership and Workforce Development	17. How well does the agency develop its workforce (including its leadership)? 18. How well does the agency anticipate and respond to future capability requirements?
	Management of People Performance	19. How well does the agency encourage high performance and continuous improvement among its workforce? 20. How well does the agency deal with poor or inadequate performance?
	Engagement with Staff	21. How well does the agency manage its employee relations? 22. How well does the agency develop and maintain a diverse, highly committed and engaged workforce?
Financial and Resource Management	Asset Management	23. How well does the agency manage agency and Crown assets, and the agency balance sheet, to support delivery and drive performance improvement over time?
	Information Management	24. How well does the agency manage and use information as a strategic asset?
	Improving Efficiency and Effectiveness	25. How robust are the processes in place to identify and make efficiency improvements? 26. How well does the agency evaluate service delivery options?
	Financial Management	27. How well does the agency plan, direct and control financial resources to drive efficient and effective output delivery?
	Risk Management	28. How well does the agency identify and manage agency and Crown risk?

APPENDIX B

List of Interviews

This review was informed by input provided by a number of Treasury staff, relevant Ministers and by representatives from the following businesses, organisations and agencies.

Agency/Organisation
Accident Compensation Corporation
Acemark Holdings Limited
Auckland City Council
Brian Easton
Christchurch Earthquake Recovery Authority
Colin James
Como Corp Limited
Department of Internal Affairs
Department of the Prime Minister and Cabinet
Department of the Treasury, Australia
Federation of Māori Authorities
Housing New Zealand
Infratil Limited
Inland Revenue Department
Meridian Energy Limited
Mighty River Power
Ministry of Business, Innovation and Employment
Ministry of Education
Ministry of Foreign Affairs and Trade
Ministry of Health
Ministry for Primary Industries
Ministry of Transport
Motu Economic and Public Policy Research
Office of the Auditor-General
Office of Treaty Settlements
Post Primary Teachers Association
PriceWaterhouseCoopers
Reserve Bank of New Zealand
State Services Commission
Statistics New Zealand
Treasury Board
University of Auckland
Xero

APPENDIX C

Glossary

BASS	Benchmarking Administrative and Support Services
BPS	Better Public Services
CASS	Central Agencies Shared Services
CFO	Chief Financial Officer
COMU	Crown Ownership Monitoring Unit
CTG	Commercial Transactions Group
DPMC	Department of the Prime Minister and Cabinet
ELT	Executive Leadership Team (within the Treasury)
FOUR-YEAR PLAN	Document prepared by each government agency for the annual Budget process to give a clear, integrated view of an agency's/sector's medium-term direction on strategy, financial performance and workforce
GDP	Gross Domestic Product
GSO	Government Share Offer
IRD	Inland Revenue Department
MBIE	Ministry of Business, Innovation and Employment
MFAT	Ministry of Foreign Affairs and Trade
MOM	Mixed Ownership Model
MPI	Ministry for Primary Industries
MSD	Ministry of Social Development
NZDMO	New Zealand Debt Management Office
NZECO	New Zealand Export Credit Office
OECD	Organisation for Economic Co-operation and Development
OLAG	Outcomes Leaders Action Group (within the Treasury)
PRC	People and Resources Committee (within the Treasury)
RAC	Risk and Audit Committee
SOE	State Owned Enterprise
SSC	State Services Commission