



# Public Sector Performance

John Whitehead, Secretary to the Treasury

Renouf Foyer  
Michael Fowler Centre  
Wellington

Monday 20 July 2009

## Introduction

Thanks for inviting me here. It's good to talk to colleagues about something exercising all of us at present: how to do our jobs better.

I'm proud to be a public servant in New Zealand. The people in it are really capable and hardworking. We are recognised world-wide for our integrity, and because of the size and structure of New Zealand and its government, we get to do things that make a difference for people and we get to see it. But there are some things we haven't done that well for some time. We are weaker than we could be on how we manage our organisations, report on ourselves and connect with our customers. And at times we've hidden behind the focus on outcomes to be less rigorous on our output performance than we should.

Those things were important a year ago. Now they are critical. Eight weeks ago, the government introduced its first budget against the backdrop of the worst economic shock the world has faced for 80 years. While the Budget involved some hard decisions, the more difficult ones lie ahead. We now have the much bigger task of improving New Zealand's long term economic performance in a different economic world and against a much more

challenging fiscal backdrop. In addressing these challenges, the Government is asking for “smarter, better public services for less.”

As I've said before, I believe that the financial and economic crisis presents extra opportunity as well as challenges. That's absolutely the case for us as public servants. If ever there was a time for us to up our game, it's now.

In the past the public service - and by that I mean all of us who work across government at all levels - has changed when governments have brought change to it. This is our chance to anticipate and adapt and think and push some boundaries and move ahead. We simply have to get out of our traditional comfort zones. In a sense the Government and people of New Zealand have given us time to take up that opportunity. Unless we act, that opportunity will be lost.

If we keep doing what we have done previously, we will fail. We will fail as public service leaders, as organisations, and we will fail the New Zealand public.

So we need to consider new ideas and approaches – as do private sector firms, the public and politicians. Public sector managers, along with the government, will have to take some tough decisions as part of that. But New Zealand can't afford for us to avoid those decisions.

And there is a stark alternative to mobilizing ourselves as public servants. The stakes are very high, and if we don't rise to the challenge and make real progress, change will occur - but it will be done to us rather than by us.

## **Economic and Fiscal Environment**

While we believe there are some signs of green shoots and that we'll get some tentative growth at the end of the year, New Zealand is probably in its 7<sup>th</sup> quarter of recession right now. Since the end of 2007, the economy will have shrunk for 21 months. In net terms, we will have lost four years of growth.

That presents significant fiscal challenges. New Zealand has to adjust to the first deficits in 15 years. They are large - \$7.7 billion this year and \$9 billion in 2010/11 - and on current policies, they are forecast to last for the following seven years.

These deficits mean mounting debt. The Government's decisions to postpone tax cuts and NZ Super Fund contributions and to lower the future operating allowance meant that unlike pre-Budget, debt now actually peaks. These steps have helped protect our cost of capital so far. But for a considerable period yet, debt is still getting worse. Our forecasts show net public debt reaching nearly \$40 billion in 2011, \$52 billion in 2012 and around \$63 billion in 2013. And international markets are already casting a wary eye over our levels of private debt.

So without a very firm focus on growing the economy and controlling government spending, New Zealanders will be looking at more public debt, more money on interest payments, less room for government to move - and higher taxes. That is no way to increase productivity and prosperity.

Instead, we need to drive economic growth and to keep looking at productivity improvements - in both the private and public sectors.

Over the past 5 years, output in the non-tradable sector, which includes government, grew by 15%, but the tradable sector – the part of the economy that really drives competition and national productivity – contracted by around 10%. To help New Zealand compete internationally and lower costs to exporters, we have to raise the quality of public spending and ensure the lion's share of increased national resources goes not to the public but to the private sectors. Every dollar that is spent by the public sector is a dollar that is not spent on business investment, or left in taxpayers' pockets, or saved.

In other words, the public sector has to raise its productivity - provide more for each dollar spent - and grow more slowly than the private and export sectors to rebalance the economy. Productivity improvements may mean adapting private sector ideas, techniques and experience.

## **Public Sector Performance**

There are five key reasons why we need a really high performing public sector.

1. It is a vital contributor to the economy and well being of New Zealanders. Quality public services are necessary for our society to function. But Core Crown expenses are 35% of GDP, and together, central and local government spending is equivalent to about 45% of GDP - so it is hugely important that it works as efficiently as possible in delivering the right services in the right way. Delivering top quality services and regulatory settings is the way the public sector contributes to private sector productivity.

The "state sector" consists of 41 departments, around 84 Statutory Crown entities (like ACC and DHBs), 11 Crown entity companies, 17 SOEs, various "Schedule 4 entities" (eg NZ Lottery Grants Board and the NZ Fish and Game Council), and 31 Tertiary Education Institutions. Cabinet has a sub-committee that considers government appointments to the boards of all significant government agencies – there are 420 of these boards. There are 247,500 state sector employees (FTEs) and the total public sector wage bill is over \$18 billion.

Now this in no way discounts the value of the public sector in areas like education, health, income support, justice, defence – even economic development. But these figures underline that we can't get improved productivity across the economy while ignoring the productivity of departments and state sector organisations.

2. The deficit track and mounting debt are a second and obvious reason we need a real focus on the level and quality of government spending. Simply, we need to provide our services in a way that does not undermine the economy by minimizing the negative impacts of fiscal deficits, higher interest rates, and higher taxes. Getting value for the money that the government spends – which is always desirable – has assumed particular importance.

What is important is that private sector models - and good public sector experience here and overseas - show that there isn't a simple trade-off between the quality of public services and the cost of providing them. By being smart, we really can do more for less.

3. Thirdly, from now on, the public sector needs to manage within a fixed level of government expenditure. In dollar terms, core Crown spending increased by nearly \$25 billion since 2002. There was a corresponding growth in personnel, with the number of core public sector employees going up 44% between 99/00 and 06/07. These figures dwarf the numbers involved in public sector restructurings announced in the current year. Redundancies attract headlines, creeping growth doesn't.

Clearly, in the current environment, we need to slow the rate of growth in spending and find savings and efficiencies. For the business as usual delivery of public services, it will be a matter of using what we've already got more effectively.

4. The fourth imperative to manage in this environment is that we really need to understand how to get the most out of our resources. Performance monitoring is important both at the centre for making big decisions and for managers in individual agencies to do a good job. Currently, we don't have good performance information. A weakness of our system is that we haven't put the effort needed into linking the resources we receive to the goods and services we deliver and the results we are trying to achieve. This means we haven't been very clear with Ministers and the public about what they're getting and what it costs. We need to be able to tell whether we are making an impact on the objectives government wants and whether we are doing our work efficiently.

We have also focussed too much on new spending and not enough on the huge base of existing spending. This year's total Budget is \$62 billion and it includes spending on policies introduced five, or 15 years ago, that may no longer be as effective or fit Government objectives. Across government, even if we exclude around \$20 billion that's about income support and \$2.5 billion interest, there is about \$40 billion of public money, more than 20% of GDP, that could be used differently and better.

5. Finally, to make real gains, we need to adopt best practice in delivering our activities - through trialling different approaches, introducing international and private sector lessons, and being ready to make some tough calls. Our public sector culture has become risk-averse and overly focused on analysis of policy rather than managing very complex and expensive operations. A lot of the decisions that will make a difference now relate to how we make government policies work - throughout the public sector, operational and management skills will be more important and we have to value these just as much as our ability to make policy.

We also have to be able to think more about the customer and delivery. I know that this is something the private sector says about us and that department branches say about 'head office'. And we will need the public to be more sympathetic to some public sector risk taking. Better performance requires innovation, and sometimes things don't work out – better to have tried and lost than never having tried at all.

## **What Needs to Change**

Again, I have a list of five.

**1. Focusing on doing things that help New Zealanders and the economy.** The BIG THING is refocusing the public service on providing the important services that make a difference. This isn't about building new layers on top of existing, sometimes creaky, foundations but instead requires a fundamental re-think about what we need to achieve, then how. Agencies have to ask two key questions:

1. What needs to be done – what things will make a difference to New Zealanders and the outcomes the Government wants and indeed, can we make an improvement? and;
2. Are we the right ones to do this or can someone else do better?

We will need to give Ministers some free and frank advice on the value of some existing policies and programmes. They may have some tough decisions to make.

Once we know we're in the right business, it's a matter of running our operations in the best way possible. That's how we can drive our productivity and reduce costs on the private sector and to taxpayers.

That may mean changing our structures, programmes, delivery, or processes, or buying more or less services from outside. It may be about stopping some things – and this can be difficult, particularly when it means making tough calls about staff. It might be about starting others. But nothing should be off the table: for example, contracting out delivery as we do with some social services and others, like Australia, do with private prisons, may be more effective. It also means we can compare the price and results of different ways of doing things and choose the best mix option.

Now, there was no 5% target for reprioritisation, savings or anything else this year. But I don't know if any departmental or agency CE would argue that they couldn't think hard about better utilising 5 or even 10% of their baseline. I know I have. Treasury has revised its goals for the year to meet the Government's priorities, we've capped senior management wages, and we're building new capability in areas like the infrastructure unit. It means bringing in new people and new approaches – and to do that we're looking pretty hard at our skills and capabilities and how we use them.

**2. Looking at customer needs and outcomes.** New Zealanders expect good service, whether it's in a shop, on-line, or from a government agency. So taking that customer perspective is critical in providing the right public sector products and services and spending money on the right things so that we achieve the results the government and the public want.

This will often require getting the price, quantity, and standards mix right to meet customer needs, not departmental preferences. So we can ask:

- Are we providing the right goods and services?
- Should we be buying some things from the private sector rather than doing them ourselves?
- Are we purchasing goods and services at the best price possible?
- Are we doing too much – or not enough?
- Is the standard we have set for the service or output the most effective way to achieve the desired outcome?

IRD, for example, have adopted a web-based approach to consulting with people on the future management of the student loans system. In the first four weeks, the forum has been open it had received more than 3,000 unique visitors from 29 countries. The website cost \$7,500, which is a fraction of that of traditional consultation procedures.

**3. Greater commitment to cost-effectiveness.** We need to stop the growth in spending and find savings and efficiencies - and find new and better ways of doing things from the entire budget and our huge asset base. In this year's Budget, the Government

reduced new initiative expenditure from a proposed \$1.75 billion to \$1.45 billion - and that compares to \$4.8 billion in new spending in 2008. In the next Budget, in fact for the next few Budgets, this reduces to \$1.1 billion. Without savings and reprioritisation, all new spending will come from within this amount. We have had “constraint” before – but, in general, these baselines will not be moving upwards. The deficit track makes them non-negotiable.

No government can do everything it, or the public wants. The new economic environment means we, as public sector managers, need to confront that issue more explicitly and be clear that we need to make judgements and trade-offs - and that we need support in doing this.

We also need to get our institutional arrangements and incentives right. For example not many private sector businesses would want to get rid of their profits by the end of the year; but as you know, the year-end spend up is a long-standing feature of the public sector. That may also mean looking at cross-government models of funding and structure to ensure we are organized in ways that minimize duplication and act on opportunities for economies of scale.

An example of this latter point is the initiative across three ministries in the cultural sector and agencies like Te Papa to address common issues relating to the storage of materials and digitisation. While at an early stage, by working together these agencies are aiming to reduce the level of duplication, contain costs, and look for synergies across their operations.

**4. More accountability and transparency of operations.** A challenge for central agencies is that we need to measure public sector performance in rigorous and transparent ways so that taxpayers understand what they are getting from the government and what it costs, and managers have the information needed to answer the sorts of questions I’ve posed earlier.

Better information allows us to deliver the services New Zealanders need. It also helps guide and manage public sector leaders to take these steps.

At the core of the UK’s reform of the public service is a set of published Public Service Agreements – performance contracts between ministries and the centre of government, linked to efficiency targets, following a review of each department’s policy objectives and budgets. And central agencies are about to pilot a new approach to performance information in the New Zealand public service.

**5. New thinking converted into action.** In a completely new environment - where we don’t have the luxury of a strong world economy and government surpluses - we urgently need to think very differently about what we do and change how we do it.

But crucially - and positively - the public sector has the most important elements required to achieve the required changes: in personnel and financially. Within the current government spend of \$62 billion we have the resources to both provide quality services to New Zealand and make the investments and system changes that can reduce our costs in the medium to long term. The benign environment of recent years has meant many areas of government have not tested their baselines or explored new ways of doing things.

Many of the required changes have already been done by public services around the world: during the period that New Zealand’s state sector was expanding, others, such as in the UK and Canada, were undertaking major initiatives to make government smaller, reduce costs, improve service quality, and enhance accountability and transparency. The UK’s Gershon

targets generated £26.5 billion a year in improved efficiencies. We have an opportunity to apply lessons learned to our own ways of working and undertake these initiatives at a lower risk than our counterparts elsewhere in the world.

Our system is small and adaptable - in part because of our system of government, in part because of the relatively small size of our departments and businesses, and in part because of the strong talent and dedication of New Zealand's public service.

I see the changes we are talking about as hugely positive for the public sector because it plays to our strengths: analytic ability and problem solving skills, our integrity and work ethic and the commitment of our people to doing good things and ultimately make a positive difference to the people of New Zealand.

While change can be daunting, we have a world of opportunity because the old constraints have been removed. Public servants are committed to providing better public service - that's why they work for the government. From branches through to head offices, they have great ideas for improvement, so capturing those and organising to make those changes is something I want to be part of. Professionally and personally, we all gain if we can achieve these results.

A good example of that rethink is what is underway at the Ministry for the Environment. It faced a number of issues, including the end of substantial sums of time-limited funding, as well as the baseline pressures we all have. Paul Reynolds' response has been to change the focus of the organisation so that it could play a more strategic role across government and better link to economic and social as well as environmental objectives, and then structure the business accordingly. Seven groups have merged into three, and the organisation is building new, more appropriate capability.

## **Actions Underway**

You've all been part of the process of exploring baselines and trying to find low-quality spending and savings. We saw the number of new Budget bids halve from last year, and about a quarter of these were "savings" bids. That's a significant and positive change in approach. But because of the Budget timetable and internal agency focus, this process necessarily identified the low-hanging fruit. From December 20, departments only had until February 5 to conduct their 'line-by-line' reviews.

Seeking these sorts of improvements is now part of business as usual - we've been given the chance to take a 3-5 year focus, and we should seize it. It is up to the public sector to make the necessary changes and manage more effectively. We are the ones who best know what we're doing, what could be stopped and what can be done better. For me, having a Senior Executives Group of public sector CEs looking across areas and giving advice to their colleagues and Treasury was a very useful addition to previous practice and one I want to build on.

It means a much more managerial approach to our jobs – something that should be part of our commitment to excellence in public service. By more managerial I mean: being clear about what we are trying to achieve; thinking about the customer and organising to deliver the right outcomes; getting the best price for the public; producing the right quantities and standards (rather than gold plating); and being explicit with the public about what we are doing and the trade-offs involved.

The new Performance Improvement Actions and Performance Improvement Framework will be important in assessing and benchmarking our drive for change. When the line-by-line reviews were commissioned in December, departments were also asked to identify the practical steps they were going to take to make improvements. These have now been formalised as Performance Improvement Actions, or PIAs.

PIAs are deliberately not prescribed but are individually negotiated between the Minister and department chief executive, so CEs have a big say in working out what needs to be done to improve performance and how it can be achieved. The aim is to identify the 'vital few' practical and innovative actions they will take to really make a difference to performance.

Along with PIAs we will make fundamental improvements in reporting and monitoring. The Minister wants to see us put effort in linking the resources Parliament gives us to what we do and the results we achieve. Treasury and SSC have been asked to pick up the monitoring role for government, but the aim is to give Ministers clear and useful information with which to actively make decisions on spending with their CEs and across the state sector as a whole. We are about to pilot the Performance Improvement Framework with three agencies. This should strengthen current practice by systematically highlighting areas of strengths, areas where performance can be improved, and how improvements can be made.

While we will all be taking agency-specific actions to improve performance, we should also look hard at the areas of our business that we have in common, look to learn from each other and, in particular, learn from overseas.

For example, in Ontario, Canada, savings of 30% were achieved across government on administrative and support services in finance, payroll and benefits administration, supply chain management and areas like print, mail, forms, and so on. At a country-wide level there have also been major changes to focus on the customer, with Service Canada created to merge together more than 70 services from a number of agencies into a single customer service organisation. In the process, it has saved more than CN\$400 million a year through increased efficiency.

These examples demonstrate what can be gained from thinking differently about how we organise and deliver services. Just as importantly, these types of change free up agencies to focus on their core business.

## **Conclusion**

A more focused, efficient and productive public service is a key element in the government's plan for growing the economy. New Zealanders will need one of the highest performing public services in the world if it is to be part of the solution to the current economic and fiscal situation.

A high performing public service is one that:

- Is committed to creating public value
- Is cost-effective
- Meets peoples' needs and is focused on results

- Measures itself against those results
- Builds efficient operations that deliver what the public and government want
- Seeks high levels of productivity
- Is led by people who are accountable, committed to public service, and make their operations and results transparent
- Is collaborative
- Responds to new challenges and opportunities
- Confines itself to what it can do best and lets individuals, families, businesses and the rest of society get on with the rest
- Looks to continually improve as part of doing business – and looks at world best practice

This isn't just about lifting our game, it's about changing it. We cannot deal with a new environment - a completely new and challenging economic environment and the demands of 21<sup>st</sup> century consumers- with old tools, approaches and mindsets.

It's about creating real value in the public sector and focusing on the right things - the things that make a difference for people - and finding new and better ways of delivering services. In the end, governments and the public sector are judged by results: how what we do works for people; how it makes their lives better or easier; how it helps students learn; how it puts money in people's pockets; how it makes children healthier.

How people get the service is generally less important than what they get.

We must take the opportunity to build a leaner, more productive public service and we need to get on with it now. The next 18 months is our chance to enhance our reputation for having one of the smartest and most ethical public services in the world. That's something I am excited and proud to be part of.

Thank you.