Public Sector Performance

The New Zealand Experience

Fergus Welsh
Chief Financial Officer
Chief Accountant
New Zealand Treasury
Canterbury Earthquakes

- Two big quakes: Sept 2010 and Feb 2011
- Thanks to Australia for immediate help
- Canterbury region is 15% of NZ economy
- NZ$15b estimated damage and NZ$15b estimated impact on GDP growth over 5 years
- Highlights importance of resilient public sector
NZ Public Sector History

- Devolved management structure
- Need clear strategy & leadership
- Treasury has lead role on fiscal matters
- Treasury Chief Accountant role is to develop and implement strategies for improved management of Govt financial resources
History of Public Sector Finances

- Political decisions dominated financial management until early 1980s
- Radical changes from 1986 to 1994
  - More transparent accounting
  - Fiscal policy based on 5 principals
  - Central Bank independence
Current Situation

• New Zealand hit by recession before late 2008

• Sluggish, un-balanced growth
  – Tradeable sector shrinking
  – Non-tradeable sector expanding
  – Govt spending growth twice GDP growth
Government Spending Growth

General govt expenditure (all government levels), 1996 – 2008 and forecasts

% of GDP

Source: OECD Economic Outlook

Australia
New Zealand
Average OECD 21

Forecast

©The Treasury
Why Performance Matters

• Quality public sector is vital for society
• Economic performance affected by public sector performance
• Current government very keen to increase public sector performance
The Treasury’s Response

• Drive for public sector efficiency seen as less necessary over the last decade

• Some of the old approaches won’t work in the new environment

• Need to demonstrate we have learnt from past

• Big changes must be worth the disruption they cause
Investment Statement

- Focus traditionally has been on new revenue and cash flows
- Crown balance sheet totals NZ$223 billion
- Capital needs to be used efficiently and placed in priority areas
Government’s Investment Intentions

- Rebuild buffer against future shocks
- Reduce risk exposures
- Sharpen incentives to use capital well
- Introduce private sector capital and disciplines, where appropriate, to lift performance
- Prioritise capital to its highest value use
Incremental Change

- Sum-of-the-parts may be bigger than expected if many small changes done

- Back-office costs & efficiency being measured
  - Savings identified
  - Best-practice techniques uncovered
  - Targets can now be established
Performance Improvement Framework

- Focus on core functions – the factory floor
  - Organisational management
  - Delivery of outcomes being sought
- Information from PIF can help CFOs direct resources where needed
Measurement Ties It All Together

• Can’t manage what you don’t measure
• NZ public sector now better measured
• Can improve reporting on what we measure
The Challenges We Face

• Be clear on how we achieve outcomes but don’t hide behind them
• Be clear about how much each output costs
• Use measurement for performance improvement, not just accountability
• Price, quality, standard