Good afternoon everyone, it’s a pleasure to be here.

I’d like to build on what you’ve just heard from the Minister of Finance by taking a closer look at the contribution that good stewardship of the public service can make to public sector productivity. By stewardship, I mean how we in the public service fulfil our responsibility to look after the Crown’s medium and long-term interests. At a system level, it entails putting our efforts into driving the capabilities, processes and actions that will lift performance across the state sector and deliver value for New Zealanders.

I’m not here today having come down from the mountain to deliver the Ten Commandments of Stewardship according to the Treasury. Quite simply, that’s because it’s each of us here – the CEs, the CFOs and others – who should be thinking about what impact good stewardship could have on productivity within our agency, across our sector, and throughout the public service ‘system’. Therefore, instead of offering answers I’ll be posing questions that I hope will stimulate thinking and motivate action.

In general, Governments can tax, spend and regulate. Tax is a specialist activity. The vast majority of agencies are in the business of supporting or executing Government decisions to spend or regulate.

Let me give you a few figures to provide a sense of the scale of what public servants are responsible for.
Over the last 20 years the amount of public money spent by government departments and agencies each year has more than doubled from $31.4 billion in 1997 to $73.9 billion in 2016. That’s a 60 percent increase after accounting for inflation. If you look at health as an example, over the same period expenditure tripled from just over $5 billion to $15.6 billion, or an increase of 113 percent after accounting for inflation. Of course while the spending increase is large, the economy has grown larger too. Core Crown expenditure in relation to the size of the economy has remained very similar – at around 30 percent of GDP in 1997 and 2016. The Crown’s assets were worth $100 billion in 2003; in 2016 they were worth $293 billion. Any way you look at it, the public are entrusting us with a large sum of money to use efficiently and effectively.

And what about the amount of legislation that we help to develop and implement? There are currently around 2000 Acts in total. Next add 2500 Legislative Instruments. Then throw in tertiary legislation. The amount of tertiary legislation is currently unknown though I’m told we hope to have that information in about 3 years’ time. Unfortunately that means I can’t give you an estimate of the quantity of paper using standard units of measurement like the length of rugby fields or number of Olympic-sized swimming pools filled. I think it’s safe to say that it’s a lot.

That brings me to a big question I’d like to put to you: when you consider the amount of legislation generated and the increasing sums of money the public sector spends, do you think New Zealanders have had value for money from the resources used?

The answer from some people will be ‘yes’ and from others it will be ‘no’. And that’s a relevant point: we probably don’t know but we should.

The same point applies when we look at matters at an agency level. So my follow-up question is this: do you understand what your organisation’s inputs have delivered, in terms of outputs and, in particular, outcomes?

In thinking about that question you might look at strategy, measurement, reporting, analysis and research. Public sector leaders – and Ministers and taxpayers too – will want to have confidence that the organisation is fulfilling the function it’s there for.

It’s a matter of accountability, but for most of us it’s also a matter of integrity. One of the reasons people choose to work in the public service is because they want to help make New Zealand a better place for all. The spirit of service matters to them. They take pride in a job where their individuality, insights, experience and actions can make a big difference. It’s important to them – as I’m sure it is for you – that they work in an organisation driving desired outcomes that New Zealanders want.

Unsurprisingly, one good way of knowing if you are delivering the outcomes New Zealanders want is to listen to them. Stakeholder feedback is a rich source of lessons. Engaging with the people whose lives we touch can help us to better understand what works in different circumstances, and what impact we are having on individuals now and over time.

Another dimension of the question from a stewardship perspective is knowing if your organisation is supporting New Zealand to be sustainable for its citizens in the long term. Decisions and initiatives taken today may lose their impact or have unintended consequences tomorrow. There may be intergenerational factors at play or new challenges and circumstances emerging.
My next question is one that CEs and CFOs work hand-in-hand on: **do you understand how effective, how efficient, how productive, your organisation is?**

We all want to know our agency is delivering the best value for our citizens from every dollar we use.

That’s why we are – or should be – scrutinising how we operate and considering alternative approaches to make sure that services are currently being delivered in the most effective and efficient way.

The next step to take is to understand how effective, efficient and productive your organisation **could be**. Again, this is about good stewardship, preparing for what’s on the horizon as well as dealing with the here-and-now.

In addressing this question I encourage you to take a close look at emerging practices and good evidence about what could work well in the context of your organisation. We can learn from each other’s experiences too.

For example, the Treasury leads on investment and asset management in the State sector. To get the most value from government's investments and assets, we need to make sure the system that manages them is working effectively. There are billions of dollars involved so it’s important that we know about investment management performance, particularly in our most investment-intensive agencies. So as many of you know we’ve developed an Investment Confidence Rating that assesses the performance of these agencies and gives an indication of the level of confidence that investors – Ministers – can have in an agency's ability to deliver investment results as promised. This helps inform decisions about where and how to invest public funds. There have been largely good results from the ratings we have done so far, including a couple of ‘A’ ratings. We can take lessons from the top performers and aspire to join them.

We can also cast our eyes overseas to see how similar organisations elsewhere are operating. Though circumstances vary from country to country, comparing ourselves against other nations can provide a useful yardstick.

New Zealand generally performs well on international comparisons for public sector productivity. To use health as an example again, our total public and private health spending is around the OECD average and our health outcomes are broadly in line with international norms. If we look at education, expenditure per primary student is below and per secondary student is above the OECD average, and our child-to-teacher ratio is the third lowest in the OECD for early childhood education. Our education performance on international measures puts us comfortably in the top half of the OECD though with a long tail of underachievement. Another measure is the cost of tax administration to net revenue ratio – again we’re in the top half of OECD with a ratio of 0.95. And one international measure that we certainly excel at is government effectiveness: World Bank Governance Indicators put New Zealand at the 99th percentile.

The World Bank assesses government effectiveness on the basis of the quality of services to the public, the quality and independence of the civil service, and the capacity of the government to effectively formulate and implement sound policies. At the heart of it, our effectiveness depends on how well the public sector works at the system level. So another question for you is: **are you making the most of the synergies that exist in the public sector system?**

Just consider regulation. Good regulatory design and practice requires considerable attention, skill, and collaboration. It must accommodate diversity in people and organisations. It may
also need to operate in complex environments in which values, social conditions, markets or technologies may be evolving rapidly, and the behavioural responses are difficult to predict in advance.

It’s not enough that our individual agencies get their own house in order. Organisations must work towards the system’s broader goals and deliver outcomes that support government’s wider priorities. This can mean putting aside departmental interests for the greater good, or perhaps taking on accountabilities outside our normal ambit. It requires a willingness to share our organisations’ areas of strength with other agencies, and being open to drawing on their strengths to help address your own areas of weakness.

We can see these things happening in the delivery of the Government’s Better Public Services results. Agencies are working together to successfully create outcomes that they could never achieve alone. Through taking a collaborative approach I believe the public sector has the potential to further lift the quality of New Zealanders’ lives across an even greater range of well-being indicators. And I think the Treasury’s Living Standards Framework can help here. It encourages us to assess how our policies and actions could affect the dimensions of economic growth, sustainability for the future, equity, social cohesion and managing risks. That involves taking a system view and considering system solutions.

The public sector has been taking a system view of its back office functions since 2011 by way of Administrative and Support Services Benchmarking reports. Covering twenty-six agencies, these reports give us information about the cost, effectiveness and efficiency of Human Resources, Finance, Information and Communications Technology, Procurement, and Corporate and Executive Services. The ambitious aim for public sector is to see it reach the upper quartile of performance against comparators by 2022, though it’s fair to say that we have seen progress towards that aim flatten out. Report findings show that there are opportunities for all agencies to improve their performance. And Functional Leads and Heads of Profession are capitalising on the synergies in the system — supporting cross-agency discussion and actions for improving performance and lifting capability.

The approach is proving its worth. For example, the Ministry of Business, Innovation and Employment is the Functional Lead for procurement and property, and its work has really ramped up efficiency. They estimate a savings of $740 million over the life of current all-of-government contracts, with $418 million already saved. Better coordination and use of office accommodation has also meant that since 2011, the public sector has avoided costs of $132 million that it would have otherwise had to pay.

There are important cross-agency efforts happening all through the public sector. For instance the Finance Development Programme, which has been co-created by the State Sector Finance profession, is a great example of what collaboration can achieve. I congratulate the CFOs and Senior Finance Leaders from across the sector who are working to create this valuable resource.

It’s this kind of innovation that needs to be maintained if we are to become even more effective and efficient in our service to the public. That leads to my final question today: are we offering value for money to the New Zealand taxpayer by continuously innovating and improving?

It’s everyone’s responsibility to look for ways to do better. And as leaders within our agencies and the public sector system, we also have the obligation – and I trust, motivation – to champion a culture of continuous improvement. So think about whether your agency is innovating enough to be the effective, productive, resilient and future-focused organisation it needs to be. If the answer is ‘no’, then think about what you are going to do about it.
Many agencies are already taking action, not least Inland Revenue’s Business Transformation programme which I suggest we should all look to learn lessons from.

Change isn’t easy. We know at times it can be uncomfortable. So use the help that’s already out there. There’s been an emergence of tools supporting agencies to innovate and improve such as the R9 Accelerator, the Auckland Co-design Lab, and the State Service Commission’s Continuous Improvement team. Take lessons from what your public sector colleagues are doing, what the private sector is doing, what the science, social services, technology and community sectors are doing. And, in particular, listen to your staff, because the source of the best innovations may be closer than you think.

To wrap-up, let me go back to my 5 questions:

- do you think New Zealanders have had value for money from the resources we’ve used?
- do you understand what your organisation’s inputs have delivered?
- do you understand how effective, how efficient, how productive, your organisation is?
- are you making the most of the synergies that exist in the public sector system?
- are we offering value for money to the New Zealand taxpayer?

Better productivity is in our hands. It’s going to be our leadership now and in the years to come that will help the public sector to keep delivering the effective services, high quality advice and successful implementation that the government requires and the public expects.