
PERFORMANCE IMPROVEMENT FRAMEWORK

Formal Review of the Treasury

MAY 2011

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

Lead Reviewers' Acknowledgement

As Lead Reviewers for this Performance Improvement Framework review for the Treasury we would like to acknowledge the thoughtful and generous input made by Treasury staff and their Executive Leadership Team. In addition, we had considerable input from a larger cross-section of the Department's external partners and stakeholders, who were equally committed to building stronger collaboration in the future. We also had the benefit of assistance from a team of officials from the Department of Prime Minister and Cabinet, and the State Services Commission, which proved to be both insightful and thorough.

The intensive review process was open and involved robust engagement from all parties and we noted that, even as we undertook the assessment, the Executive Leadership Team continued to respond to issues under active discussion within the PIF process.

**Performance Improvement Framework
Formal 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

All of the Treasury's work aims to improve the living standards of New Zealanders through our three outcomes: 'improved economic performance', 'a higher performing state sector that supports our international competitiveness' and 'a stable and sustainable macroeconomic environment'. To help realise this, the Treasury must be an organisation that actively leads the State sector and aspires for excellence. Our ambition is to lead by being:

- A Navigator – shaping debates and being looked to by the Government, public and private sectors, and the wider community to help New Zealand navigate through challenging times, creating and maximising opportunities
- An Expert – providing expert commentary and advice on economic, fiscal, public sector management and regulatory issues, as well as using and integrating the expertise of others
- A Problem-solver – working collaboratively with stakeholders and other government agencies to deliver innovative solutions to problems
- An Exemplar – leading with exemplary performance and exhibiting a culture of continually striving to improve in everything we do.

These are roles that cannot be claimed, they must be earned. We currently play these roles but not consistently and not as well as we could. In the past we have tried to improve our performance, but have not been clear enough about what success will look like. Clarifying the four roles we aspire to play is a way of being clear about where we're going as an organisation and what we're trying to become.

How the Treasury will continue to strive for excellence

As well as being clear about the roles we play, we also need to be clear about how we will perform them. In our 2009/10 Leadership Review, the Treasury outlined three behaviours it values as an organisation: influence, accountability, and one Treasury. These are central to where we want to go. We cannot become the organisation we want to be – navigator, expert, problem-solver and exemplar – without practicing those behaviours.

The Treasury has a number of initiatives underway to improve our influence, accountability, and the way we work as one. This is our Change Programme. It will help us prioritise where we want to improve, pace our efforts over time to avoid crowding out other work, and draw out lessons from successful initiatives that can be applied across the organisation. Overall, it allows us to take a more thorough, targeted, timely, and transparent approach to improving our performance.

The Change Programme will focus on delivering and landing projects that are underway before beginning new initiatives. When new initiatives begin, they will contribute to annual themes that help progress the three behaviours of influence, accountability and one Treasury. In 2011/12, the focus of our Change Programme will be on the following themes for improving our performance:

- **Influence – we have our finger on the pulse and make a difference where it counts**
 - Theme for improvement: ensuring external engagement is two-way and the role the Treasury will play in an issue is made clear to stakeholders. Often the Treasury may not have expertise in a particular area and will play a role integrating the advice or expertise of other parties. Improving how we engage with external stakeholders will improve the quality of our work and improve the impact it has on outcomes for New Zealand.

- **Accountability – we take personal responsibility for our impact**
 - Theme for improvement: demonstrating our effectiveness and efficiency through high quality performance measures. This will allow us to know with more certainty where our performance needs improving, target our efforts and lead the State sector by example.
- **One Treasury – we are at our most powerful when we work as one**
 - Theme for improvement: having a clear line of sight between our outcomes and individuals' work, and a common understanding of the contribution each team and discipline makes to the organisation and its outcomes. This will help us to coordinate our efforts, take advantage of different skills in the organisation and make links across our different areas of work.

The Treasury will also focus on completing and implementing work that began in 2010/11, in particular, work on our performance management system, leadership, and workforce planning.

Prioritising our efforts

The Treasury is not and cannot be an expert in every field, nor can we be a problem-solver for all of government. Often our role is listening to others' expertise and integrating their advice into our own. We must focus our efforts on where we can add the most value, and acknowledge and encourage others to problem-solve where our expertise is limited.

How we will know we have achieved our organisational vision

We will measure our success at becoming an organisation that is a navigator, expert, problem-solver and exemplar by:

- **Navigator** – our advice and operational work achieves our intermediate outcomes for New Zealand as identified in our 2011 Statement of Intent
- **Expert** – practical experience and feedback from stakeholder surveys indicate the Treasury is looked to for up-to-date, evidence-based advice in our areas of expertise, and that we are using and integrating the expertise of other stakeholders where appropriate
- **Problem-solver** – the solutions we deliver succeed in achieving their goals, and feedback from Ministers indicates the Treasury is trusted to provide solutions to difficult problems
- **Exemplar** – the Treasury rates strongly in key cross-government performance indicators (eg, PIF, BASS and policy advice measures).

We will measure how we are demonstrating the three behaviours of our Change Programme through improvements in our results in staff engagement surveys and stakeholder surveys.

What this means for us now

Ultimately, improving our performance as an agency relies on the efforts of each staff member. I have no doubt that the Treasury staff will rise to the challenge.

The coming year will be one filled with challenges and opportunities for New Zealand. The aftermath of the earthquakes in Canterbury will echo across the next few years, with economic and fiscal repercussions. The Treasury will play a key role in helping the Government meet this and other challenges and capitalise on upcoming opportunities. For these reasons and for our own integrity as an organisation, we must continue to plan and strive for excellence.

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LEAD REVIEWERS' SUMMARY

It is well recognised by ministers and others that the Treasury contains perhaps the strongest group of professionally trained experts in the New Zealand Government. The Treasury has a vital role in the effectiveness of government in New Zealand through enabling Parliament's appropriation process of giving the Executive Government of the time the legal authority for what it wishes to achieve, allocating resources to do so and bringing a longer-term fiscal and economic view to this process.

The Treasury has a rich reservoir of talented individuals. The fundamental quality of the organisation is well reflected in the way that ministers often choose to involve Treasury in resolving high priority issues in parts of the public sector outside Treasury's core functions. The leadership of New Zealand's response to the global financial crisis exemplified this resourcefulness and capability.

As with some other parts of Government, strategic planning for the Treasury can only span part of what it will eventually do, because critical to its effectiveness is a capacity to handle the unknown and uncertain that bring serious risk or unexpected opportunity, however complex.

The Treasury is working on an organisational development programme sponsored by its leadership team. In this review we have identified a range of actions which, if given a strong priority in the programme, would lead to more being made of the resources of the Treasury. We see these actions underpinning a significant improvement in the future performance of the Treasury, because of the energy and commitment to improvement that abounds in the organisation. We see the potential reach and impact of the Treasury's core business being extended and recognise its capacity to respond vigorously and thoughtfully to the challenge in our findings.

The organisation's responsiveness is reflected in the initiatives they already have underway in both policy and organisational development since the review.

Leadership

The Treasury plays a central leadership role supporting and influencing the Government and the State sector at several levels – not only in what is done but how, with whom and how well. The effectiveness of the Treasury's leadership role is determined, among other things, by its:

- institutional position – the constitutional and statutory basis for the actions of the Treasury, particularly the appropriations process, and administering the Public Finance Act 1989
- professional capability – the authority that the Treasury brings because of the long held recognition of its intellectual capability and institutional culture
- reputation – the confidence ministers have in the Treasury and the credibility it has with State sector, business and community stakeholders.

The Treasury's leadership is multi-faceted, embracing:

- strategic leadership to provide a coherent approach to economic and public sector management strategy
- process leadership, balancing ex ante capacity with ex post-effectiveness reviews, and using this information for future decision-making. This responsibility does not end with a Cabinet paper but extends to addressing delivery capacity, project management, common reference points for measuring achievement and review outcomes (ie, whole-of-cycle policy development)

- leadership for the State sector in the way that public servants provide free and frank advice coupled with meeting the needs of ministers, in a way that ensures decisions are well informed and resilient, given available information, and the need to respect political prerogative
- being an exemplar of State sector performance, effectiveness and efficiency, on activities of consequence.

Which forms of leadership are most appropriate will undoubtedly be a mix of thoughtful strategic positioning, and the priorities and opportunities at any point in time. It is not clear that strategic positioning is particularly strong, nor is there a reasoned articulation that would support other actions that bring consistency across the 30-odd analyst decision-making centres of the Treasury.

The reviewers believe more work is required organisation wide to reinforce the thinking of the Executive Leadership Team (ELT) on how influencing options have evolved and to ensure that current practices are strongly aligned to this thinking.

Ministers' acceptance of the Treasury's first best advice is not a pre-condition for it playing its other leadership roles.

Economic and Public Sector Management Strategy

Those interviewed judged that the Treasury has performed well in a number of specific areas. Tax reform was often raised as an example. However, the Treasury acknowledges it has done less well at the strategic level, including a comprehensive medium-term economic strategy and a consistent approach to public sector performance management. Some suggested Treasury needed to be more visible in outlining its thinking and direction, which had recently improved.

In the absence of a long-term direction and robust policy settings, a series of individual initiatives, no matter how well executed, is less likely to result in the step change in economic performance sought by the Government.

Moreover, the capacity to develop a compelling economic strategy is critical for the wider public sector's efficiency and effectiveness. Such a strategy would provide a framework for priority setting throughout the system and advance cohesion amongst public sector agencies and wider stakeholders.

Investment in longer-term capability

The appetite for the Treasury's first best policy advice by Government may well have been more difficult throughout a decade of large surpluses in Government accounts. As this position has dramatically reversed, the Treasury has found it has had to quickly upgrade its capability and systems, and thinking in budget review, debt management and economic strategy. Much is now being put in place that will not affect this PIF assessment because of the stage that it is at.

The need for such a capability reassessment was widely acknowledged throughout the Treasury and was in part a driver for its most recent reorganisation. The reason for such reinvigoration now is hardly surprising, given the need to effectively plan for the management of fiscal imbalances for a long time ahead. In achieving this, the capacity to stimulate innovation and retain standards of living, in the face of demographic, economic and environmental pressures, is essential.

Engagement and influence

The strong focus on influence and relationships by ELT is a major opportunity to rethink and systematise those that are critical to the organisation, including prioritising where and how its puts its effort to maximise impact and manage risk, and agreeing this with affected stakeholders.

The Treasury seems to bring good engagement on a day-to-day basis, but at a strategic level, there is not the same consistency.

The Treasury engages with a wide range of communities of interest, which is why its approach to engagement and communications is rich and extensive. The uncertainties of the times, the breadth of change that seems likely over the coming decades and the very spread of interests make the task a greater one now than is reflected in even the extended communications and engagement activities that are part of current leadership thinking.

Stakeholders have acknowledged that the Treasury's visibility has improved and its views/think pieces are reaching and being heard by a wider audience. However, on occasion, there appeared to be some lack of alignment in the policy positions of senior management and the analysts.

The point was also often made that the nature of engagement was not always perceived as a two-way process. Some interviewees suggested that the credibility of the Treasury's engagement and influence would be increased by being more receptive to other views and sources of information that challenge its beliefs.

There are opportunities to systematise the engagement process, some of which must involve reducing expectations, as much as meeting them. We therefore did not consider that the past thinking of external engagement had sufficiently challenged the Treasury to look deeply enough at the quality and effectiveness of stakeholder relationships. Because of its importance, this needs to be reflected in a more formal evaluation process.

Because of the significant mismatch between the potential areas of engagement of the Treasury, and its resource base, there are many components of Government activity and financial expenditure that are unlikely to be reviewed by the Treasury in any year. There are a variety of actions that usually trigger Treasury's involvement, such as expenditure approvals in the Budget process and second opinions in Cabinet papers. These traditional triggers will not always be sufficient if Treasury is to maximise its reach and effectiveness.

Reliance on these traditional mechanisms has placed considerable emphasis on the Treasury offering second opinion advice, which can result in significant but less visible costs to other agencies through decision-making uncertainty and delay. Where the Treasury has played a more significant role in the shared development of proposals, stakeholders have often welcomed the added value and found it constructive.

While it may be a difficult task, we see a strong need for a clearly articulated, systematic approach to determining when and how the Treasury should engage on issues and play a leadership role. It is just one of the many actions needed to ensure consistency in how the resources of the Treasury are applied, but it is among the most critical, and will bring some means by which similar situations would be met with similar responses. Without this, we expect that emerging best practice will be more difficult to embed across the organisation and that experience is less likely to provide the basis for organisation-wide learning that it potentially could.

Where the Treasury is engaged beyond pure fiscal control, it needs to recognise its own obligation to contribute to effective policy solutions.

Organisational alignment

A key role of the leadership team is the alignment of the strategies, standards, practices and culture. The Treasury is in the early stages of developing an organisational strategic plan and the implementation of the new structure is in its infancy and requires new planning and management systems to support it. While there is a strong commitment to a well determined pathway, a formal, coherent articulation of this is not yet in place. At the time of this Review, these changes were in their early stages. Some teething problems in operationalising new roles and the allocation of responsibilities and accountabilities in the new structure reduced over the course of this Review.

There are significant issues with how the priorities of the ELT, and the practices and standards it sets, are embedded consistently across the organisation from the ELT to the work teams. The lack of an agreed organisational strategy was one contribution to this. However, there is also a culture within the organisation that has long placed significant responsibility for direction and decision-making on the team involved in this execution. This has led to external organisations experiencing occasions when, even if they make contact with even the most senior managers regarding issues within teams, that those managers are reluctant to intervene.

The authority to enforce corporate standards appears weaker than that which assures the quality of analytical work in economic and financial analysis. This may explain in part why progress in achieving the goals of the organisational change programme has been judged too slow in past change programmes. There needs to be more clarity in what will influence the desired change in organisational behaviours.

Performance measures

There are insufficient measures in many areas of the Treasury's operations on how far the Treasury's advice and operations advance the economic and fiscal performance of New Zealand and the wellbeing of New Zealanders. More narrowly defined measures of performance are few and, consequently, provide little means for others to challenge the Treasury when assessing the impact it has on its results in any field of Government activity. Consequently, it is difficult to see the linkages between the inputs, outputs and outcomes framework of the Public Finance Act and the results framework the Treasury has developed for itself.

As the most significant centre of policy analysis in New Zealand, the opportunity cost of not knowing how its resources are aligned to activities where their potential impact may be high, will have consequences not only for public sector performance but also the future economic prospects and wellbeing of New Zealand.

It is recognised internationally that performance measures for policy agencies are difficult to develop but it is essential that the Treasury addresses this challenge. Some indirect measures of performance to date, give us some confidence, but how these examples reflect the organisation's performance as a whole is difficult to infer.

Managing change

The Treasury change programme is extensive and assumes a high level of visibility from the top leadership team who themselves have demanding roles with periods of immense pressure.

At the time of this Review, the Treasury was engaged in repositioning itself to be able to add greater value, provide increased leadership and be more responsive. It had embarked on an ambitious change agenda including:

- development of an organisational vision and strategy
- embedding a new structure
- implementing a new approach to engagement
- numerous organisational development projects and systems upgrades
- a shared services project with the two other central agencies (the Department of Prime Minister and Cabinet and the State Services Commission)

There is a risk that there will be periods when leadership could wane during the change process. The Treasury's change management challenges are also made more difficult by the current Chief Executive completing his term in May 2011. Because previous recent change management initiatives have not had the impact promised, the leadership team should select a subset from its overall goals that will aim to complete over a shorter time, such as six months. This will bring more regular visibility to achievement in change, and confidence across the organisation that progress towards the overall goals is being achieved. This will enable the leadership team to accelerate change where that is judged necessary, with fewer risks of crowding out the change agenda at any time.

Professional service organisations are continually evolving in how they balance corporate standards and capability with motivation and initiative of high added value individual levels. The way they have evolved suggests that the Treasury may contribute to such change, as well as learn from leading service organisations in legal, consulting and accounting fields. Rather than designing its own organisational systems and solutions to support change management initiatives, the Treasury could look to purchase the help it needs from suppliers with proven track records where the expertise lies outside its core strengths of economic and financial analysis. The Treasury does not fully exploit this opportunity.

Summary of performance improvement recommendations

1. Identify the key areas where excellence in the Treasury leadership is expected by stakeholders and develop explicit strategies for ensuring these are understood and practiced internally.
2. Develop a coherent and compelling approach to medium term economic strategy, as well as public sector performance management, which is capable of providing enduring value for money and innovation.
3. Ensure sufficient resources are in place to support longer-term policy development in a way that is robust and reflects the significance of likely change and the Treasury's unique integrating role across Government activity.
4. Extend and systemise the engagement processes of the Treasury.
5. Complete a robust multi-year organisational strategic plan (including identification of key focus areas, milestones and key performance indicators (KPIs)) linked to the agreed economic priorities, and implement and monitor progress.
6. Ensure greater internal alignment throughout the organisation's structure from Chief Executive through to analyst.

7. Develop stronger linkages between the Treasury's people development strategy, performance management system and the desired change in organisational behaviours. This will include robust, dynamic management of high performance and under- performance and clarity of consequences for both.
8. Develop a suite of robust direct and indirect measures of the efficiency and effectiveness of the Treasury, including its overall impact on the long run quality of Government based on the Public Finance Act's Output/Outcome framework.
9. Stage the Treasury change programme to achieve fewer milestones more frequently to ensure the desired pace of change is achieved, by demonstrating strong progress towards longer-term objectives while usual business continues.

In addition to the major action areas identified above the following items also need attention:

- developing efficiency measures including a robust time/cost allocation system once the new management information system is in place (potentially through the central agencies shared services initiative)
- developing individual service level understandings with agencies (differentiated on impact and risk) presented in the context of its priority setting
- extending the Treasury's modus operandi to better exploit external expertise to help achieve its change programme goals
- implementing new planning and management systems to support the new structure.

Len Cook
Lead Reviewer

Sue Suckling
Lead Reviewer

Murray Nash
Technical Expert

CENTRAL AGENCIES' OVERVIEW

This report is one of five comprising the 2nd tranche of Performance Improvement Framework reviews¹. In September last year we released the findings and responses to the Pilot and 1st tranche reviews². We want to thank the leaders, staff and stakeholders of the agencies that have been reviewed for being open to external review to provide both assurance and constructive criticism.

What is the Performance Improvement Framework and what are we trying to achieve?

The Performance Improvement Framework is a framework applied by a small group of respected organisational leaders to provide insights into agency performance, identifying where agencies are strong or performing well and where they are weak or need to improve. The framework covers both results (in terms of effectiveness and efficiency) and the organisational management factors that underpin sustainable superior performance.

Because a common framework is used, the reviews not only inform agency performance improvement plans, but also help us build a body of knowledge that provides us with a better picture of cross-system performance and identifies issues which we need to address at sector or system level.

The Performance Improvement Framework is an initiative developed by central agency and State services chief executives to respond to the need for improved effectiveness and efficiency in the State services. It is also important to acknowledge that the New Zealand State services operates from a position of strength and continues to be recognised internationally as among the top performers. However, we recognise that we must meet the ever-increasing and reasonable expectations of Ministers and the public generally, especially in these times of economic and fiscal stress.

What are we learning?

We now have 11 reviews completed.

In general, the reviews confirm that we have a 'can do' service, which is strong on delivering the results government wants now. We have a service that values probity and the systems and processes that support transparency and ensure accountability for the expenditure of taxpayers' funds. We have a service that recognises that its people, and their combined knowledge, experience and commitment, are our greatest assets. We are relatively good at putting in place the systems and processes (in particular human resources (HR) and financial management systems) that should support them to make their best contribution.

At the other end of the spectrum, we are not as good as we should be at working across internal and external silos, progressing the medium- to long-term work programmes that will position us to meet the future needs of governments and taxpayers and reviewing the ongoing need for, or methods of delivery of, the services we currently provide.

1. Ministry of Social Development, the Treasury, New Zealand Transport Agency (NZTA), New Zealand Trade and Enterprise (NZTE) and Inland Revenue.

2. Ministry of Agriculture and Forestry, Department of Internal Affairs, Department of Conservation, Ministry of Foreign Affairs and Trade, Te Puni Kōkiri and Land Information New Zealand.

We need to be better at measuring the results of what we do and comparing them to the results government was seeking to achieve. We need to bring together the information we have to make better decisions about what we do and how we do it. For example, we need to use our financial management systems to understand and manage the costs of the services we provide, rather than simply to develop and monitor budgets.

Different process for PIF reviews of central agencies

The fact that Treasury as a central agency has ownership of the PIF process needed to be managed in Treasury's own PIF review to prevent any potential conflict of interest. In its own PIF review, Treasury was consequently excluded from all elements of the review in which it would normally participate in its role as a central agency. In particular, Treasury was not involved in its own initial review, calibration, or moderation phase other than in its role as an agency being reviewed.

Next steps?

We have 11 agencies at various stages of implementation of their responses to their reviews. We will work with them to support and monitor their implementation of those responses and to evaluate whether their actions are having the improvement results anticipated.

As indicated above, we are looking across the Performance Improvement Framework review results to identify both the agencies that others can learn from and the areas of systemic weakness that we need to tackle as a service rather than on an agency by agency basis. Key to these will be our ability to monitor long-term effectiveness (are we actually achieving the outcomes as opposed to merely delivering the outputs?) and our ability to review the effectiveness and efficiency of what we do (are we providing services the best way we can or indeed can the services be better provided by someone else?).

Iain Rennie
State Services Commissioner

John Whitehead
Secretary to the Treasury

Maarten Wevers
Chief Executive
Department of the
Prime Minister and Cabinet

SUMMARY OF RATINGS

Results

| GOVERNMENT PRIORITIES | RATING |
|---|---|
| Investing in infrastructure |  |
| Improving regulation |  |
| Supporting business innovation and trade |  |
| Lifting skills |  |
| Lifting public sector productivity |  |
| Strengthening the tax system |  |
| Improving State-owned Enterprise and Crown Research Institute performance |  |

| CORE BUSINESS | RATING (EFFECTIVENESS) | RATING (EFFICIENCY) |
|---|---|---|
| Medium-term economic strategy |  |  |
| State sector performance |  |  |
| Management of Crown risks and balance sheet |  |  |
| National Infrastructure Unit |  |  |
| Macro-economic and fiscal advice |  |  |
| Effective and efficient management of financial operations: New Zealand Export Credit Office, Crown guarantee schemes, and New Zealand Debt Management Office |  |  |
| Crown entity monitoring | Not rated | Not rated |
| | RATING | |
| Regulatory impact |  | |

Rating System

| | | | | |
|--|---|---|---|------------------|
|  Strong |  Well placed |  Needing development |  Weak | ? Unable to Rate |
|--|---|---|---|------------------|

Organisational Management

| LEADERSHIP, DIRECTION AND DELIVERY | RATING |
|---------------------------------------|---|
| Vision, Strategy & Purpose |  |
| Leadership & Governance |  |
| Culture & Values |  |
| Structure, Roles and Responsibilities |  |
| Review |  |

| EXTERNAL RELATIONSHIPS | RATING |
|--|--|
| Engagement with the Minister(s) |  |
| Sector Contribution |  |
| Collaboration & Partnerships with Stakeholders |  |
| Experiences of the Public | Not rated |

| PEOPLE DEVELOPMENT | RATING |
|------------------------------------|---|
| Leadership & Workforce Development |  |
| Management of People Performance |  |
| Engagement with Staff |  |

| FINANCIAL AND RESOURCE MANAGEMENT | RATING |
|-----------------------------------|--|
| Asset Management |  |
| Information Management |  |
| Efficiency |  |
| Financial Management |  |
| Risk Management |  |

Rating System

| | | | | |
|--|---|---|---|------------------|
|  Strong |  Well placed |  Needing development |  Weak | ? Unable to Rate |
|--|---|---|---|------------------|

AGENCY CONTEXT

The Treasury has faced significant changes in recent years, notably the global financial crisis and its consequences, renewed challenges to public sector performance, the rigidity of fiscal imbalances and productivity, as well as just recently the Canterbury earthquake. In response to the major fiscal constraints arising from the global financial crisis, the current Government is seeking better public services for less and has invited the Treasury to bring challenge and new ideas to the table to drive the economic performance of New Zealand. Two internal leadership reviews have expected to raise the capability of the Treasury and build on the potential for it to work in a different way with ministers in this new fiscally constrained context.

The Treasury has a vital role in the effectiveness of constitutional government in New Zealand through its enabling of the appropriation by Parliament of moneys to meet the obligations placed on the Executive, and ensuring the continuing capacity to make informed, proper appropriations in the future. The roles of the Treasury give it many levers for bringing the coherence, direction and change needed for effective government and for a high performing public sector. The authority of the Treasury is recognised in the instruments, obligation to provide advice and facility to engage across all levels of Government, on its own initiative.

The Treasury is a relatively small, single site organisation, funded by the Crown (approximately \$74 million pa), employing 370 full-time equivalents (FTEs). From time to time the Treasury is asked to manage 'operational' functions, which it tends to do by separately resourcing and 'ring fencing' them from the knowledge services parts of the organisation. The Treasury services business model is not a complex business model, however, the issues it addresses are both complex and diverse.

At the time of this Review, the Treasury was actively engaged in repositioning itself to add greater value, provide increased leadership, and be even more responsive on behalf of "NZ Inc". It had embarked on an ambitious change agenda including:

- development of an organisational vision and strategy
- embedding a new structure
- implementing a new approach to engagement
- numerous organisational development projects and systems upgrades
- a shared services projected with the two other central agencies.

The Treasury acknowledged many of the performance areas that would be addressed in this Review needed further development as they were only at the early stages of improvement. This Review has generally confirmed the areas of deficiency the Treasury had already identified.

The Treasury ultimately wishes to be an exemplar in State sector performance and sees this Review as critical in helping it achieve this. As one of the three central agencies, the Treasury has been instrumental in developing the Performance Improvement Framework (PIF) as a tool to support performance improvement throughout the State sector.

An overview of the agency

The Treasury fulfils critical roles for the Government as both its leading adviser on economic, fiscal and regulatory matters and as one of the three central agencies. Treasury has designed its structures to support the work around three outcomes that reflect the Government's priorities:

1. Improved economic performance
2. A stable and sustainable macroeconomic environment
3. Improved State sector performance.

Advice and services are provided to three Vote ministers through Votes Finance (Mr English, who is also the Responsible Minister, Deputy Prime Minister and Minister for Infrastructure), Crown Research Institutes (Dr Mapp) and State-Owned Enterprises (Mr Power). Advice and services are also provided to the Minister for Regulatory Reform (Mr Hide), the Associate Minister of Finance and for Infrastructure (Mr Joyce) and a number of ministers responsible for Crown entities.

The Treasury's responsibilities include managing the Budget process and related fiscal reporting. It administers 35 pieces of legislation, notably the Public Finance Act 1989 and the State Owned Enterprises Act 1986, and the annual Appropriation and Imprest Supply Acts.

The Treasury's *Statement of Intent* links its outcomes and outputs through seven result areas:

1. Medium-term economic strategy
2. Financial Operations – Guarantee Schemes and New Zealand Export Credit Office (NZECO)
3. Financial Operations – Debt and Financial Asset Management
4. Macro and Fiscal Advice to achieve a Stable Macroeconomic Environment (includes Budget process and management)
5. Infrastructure
6. Management of Crown risks and balance sheet
7. State sector Performance – including working with State Services Commission (SSC) and Department of Prime Minister and Cabinet (DPMC) on a shared central agency work programme.

(Result Areas 2 & 3 were together as one core business for the purpose of this Review.)

The Treasury's 2010/11 operating budget is \$74 million (a 5% increase from the previous year; an 18% increase from 2008/09 – reflecting increased outputs). Personnel costs are approximately 60% of operating costs. Projected net assets for 2010/11 are \$5.7 million, down 10% from an estimated \$6.3 million in 2009/10.

In addition, the Treasury administers around \$30 billion of assets and \$58 billion of liabilities on behalf of the Crown. The assets include financial instruments, investments in SOEs, Crown Entities, Crown Research Institutes, and Crown shareholdings. The liabilities include borrowings, provisions (including for guarantee schemes) and unfunded liabilities for superannuation schemes (Government Superannuation Fund and National Provident Fund).

RESULTS SECTION

Part One: Delivery of Strategic Priorities

This section reviews the agency’s current ability to deliver on its strategic priorities agreed with the Government. It is based on the completeness of the agency’s plans, the stage at which the priority is at and the capability and capacity of the Treasury to deliver on the priority. The report is also informed by consideration of identified risks.

| | |
|---|---|
| <p>Investing in infrastructure Building on the first National Infrastructure Plan and progressing opportunities for greater private sector involvement in infrastructure development</p> | |
| <p>PERFORMANCE RATING</p>  | <p>Performance Rating: Well placed</p> <p>The National Infrastructure Unit was established in 2009. Its role is to develop infrastructure policy, prepare National Infrastructure Plans, develop the market for Public Private Partnerships and build asset-management capability and practices in the public sector.</p> <p>Achievements include the establishment of the National Infrastructure Advisory Board, development of a National Infrastructure Plan, with the purpose of contributing to growth, and assisting with two Public Private Partnerships.</p> <p>The first plan was primarily a list of projects. It did not identify the strategic focus areas to contribute to long-term growth.</p> <p>However, most key stakeholders are positive about this first plan as it is a significant step forward for the Crown and they have an expectation that the next iteration will be more strategic. As such, the Unit has created a platform upon which to build a national infrastructure strategy and asset management capability. The Unit’s challenge will be to realise this promise through consistent and coherent public sector infrastructure decision-making over the next few years. Whether external expectations of progress will be more demanding than currently assumed will influence confidence.</p> <p>Despite a drawn out set up phase, ministers are now happy with the progress and contribution of the Unit.</p> |

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| <p>Improving regulation</p> <p>Progressing the Productivity Commission and Regulatory Responsibility Bill as well as a wide ranging programme of regulatory reform</p> | |
| <p>PERFORMANCE RATING</p>  | <p>Performance Rating: Well placed</p> <p>Improving the quality of regulation is one of the Government’s six drivers of growth and the Treasury has a key responsibility to progress this area. The Treasury played the lead role in the establishment of the Productivity Commission and supporting the Regulatory Responsibility Taskforce and the resultant Bill. The Productivity Commission was being established at the time of this Review. The Treasury also plays a key role in a number of reviews of specific regulations, including those related to the Securities Act 1978, Resource Management Act 1991 and the Overseas Investment Act 2005. Since 2008 the Treasury has had responsibility for the Regulatory Impact Analysis process.</p> <p>The Treasury has supported the various taskforces exceptionally well. However, the question was raised whether the Treasury had struck the right balance between supporting the taskforces versus providing intellectual leadership.</p> <p>The Treasury was criticised in some quarters for being slow to advance a ministerial priority and failing to provide constructive solutions to issues it had identified and causing delays. It is not clear that these criticisms are deserved and may reflect complexity and a difference in professional opinion on the merits of the proposal, both within the Treasury and in the wider policy community.</p> <p>On the other hand, there is evidence to suggest that the Regulatory Impact Analysis process is ‘biting’. There has been a big push to improve the quality of, and justification for, regulation, recognising how sticky regulation can be once introduced. These added checks and balances might reasonably be expected to slow down and result in more considered regulations. However, it is too early to judge its operational efficiency and how effective it will be in improving policy analysis and ultimate decision-making.</p> <p>The Treasury could do more to challenge the balance between new regulatory proposals and scanning and reviewing the existing stock of regulations. At this point there does not seem to be the emphasis needed on the latter, yet significant opportunity exists for New Zealand if existing regulation is aligned and tested for continued relevance.</p> <p>The Treasury’s future impact will be dependent on improving regulatory review and design across the State sector. To this end, it has identified the importance of building capability within its Vote and policy teams.</p> <p style="text-align: right;">contd...</p> |

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| | <p>Overall, we see the Treasury as ‘well placed’ in this area, particularly given progress through the productivity taskforce and the push to improve regulatory analysis, but it is too early to see the full benefits of the re-designed regulatory impact framework and process.</p> |
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| <p>Supporting business innovation and trade Including monitoring the fiscal impact of the Economic Growth Agenda</p> |
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| <p>PERFORMANCE RATING</p>  | <p>Performance Rating: Well placed</p> <p>This is one of the Government’s six drivers of growth identified in the economic growth agenda, though it is a driver that the Minister of Finance does not have primary responsibility for. In support of this priority, the Treasury has been part of a number of initiatives and reviews spanning science, business assistance and trade. This priority also extends to Treasury’s monitoring of the fiscal impacts of the Economic Growth Agenda.</p> <p>Treasury has contributed to advice on business research and development (R&D) incentives and technology transfers, governance arrangements for agencies undertaking business assistance functions, review of Foundation for Research Science and Technology and New Zealand Trade and Enterprise programmes, review of the overseas investment regime and desired outcomes for a Single Economic Market with Australia.</p> <p>However, to date some stakeholders are concerned whether Treasury shared the high priority Government had given to business and industry strategy. These people considered that, in many cases, Treasury had performed a reactive and review role, in contrast with a thought leadership role.</p> <p>Treasury is comfortable with the Ministry of Economic Development leading the public sector’s advice to the Government in this area. The Minister of Finance has requested Treasury focus its efforts on testing ideas that are being surfaced (ie, a strong second opinion role) rather than taking a lead policy role in this area.</p> |
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| <p>Lifting skills</p> <p>Monitoring and assisting implementation of National Standards and the programme of change in the tertiary education sector</p> | |
| <p>PERFORMANCE RATING</p>  | <p>Performance Rating: Well placed</p> |
| | <p>Lifting skills is another of the Government’s six drivers of growth. The Treasury’s focus has been to work with the Ministry of Education, with a particular focus on the Tertiary sector. The Welfare working group was another area of strong activity.</p> <p>The Treasury has focused on high impact areas where it believes it has a comparative advantage relative to others in the sector. The Treasury priority in the tertiary sector has been to work on student loans and the Youth Guarantee scheme. The Treasury has consciously chosen to be less active in other major policy areas, such as National Standards and early childhood education and this is consistent with its Minister’s expectations.</p> <p>The Treasury has a close working relationship with the Ministry of Education, at least at the day-to-day operational level. Ministers were not always aware of the contribution the Treasury was making in this space. There is the opportunity for the Treasury to provide more value through being more open about its thinking and adopting a more inclusive approach to developing strategic policy direction.</p> <p>Stronger governance and less monitoring, by way of collaborative effort, may be more appropriate in this complex sector, giving impetus to Minister of Education leadership. The Treasury may be limiting its impact in this area through relying too heavily on the more automated means of signalling potential fiscal and other risks, such as Cabinet papers and fiscal processes. Effectiveness might be improved through business and engagement models, which embody greater intimacy and context for the sector and the decentralised drivers of change.</p> <p>Given the Government’s focus on achieving growth in the short to medium term, it may be worth considering whether sufficient attention is being given to lifting skills in the workforce. Overall, however, our assessment is based on the scope of responsibility the Treasury has been given in relation to this priority. On that basis, it is ‘well placed’ through making good progress on well targeted areas.</p> |

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| <p>Lifting public sector productivity Embedding a culture of continuous performance improvement, greater innovation and value for money</p> | |
| <p>PERFORMANCE RATING</p>  | <p>Performance Rating: Needing development</p> <p>Public Sector Performance is one of the Government’s six drivers of growth. This priority is concerned with improving value for money and quality and creating a more innovative and self-regulating public sector. The Budget is a core tool for this work and the Budget process. Alongside this, a range of actions have been initiated, although their accumulated value is somewhat reduced by the need for a strong strategic direction that would ensure the coherence and collective benefit in initiatives as they are staged. Whatever the value of individual initiatives, it would be difficult to assess the Treasury as being ‘well placed’ until such strategic thinking is well articulated.</p> <p>A key element has been to promote greater collaboration (eg, Cross Agency Programme Management Office) and benchmarking (eg, Better Administration and Support Services) within the State sector. This priority is also concerned with greater collaboration with the private sector, including exploring the application of Public Private Partnerships. As a central agency, the Treasury has been instrumental in the development and introduction of the Performance Improvement Framework (PIF).</p> <p>The Treasury does not appear to have been well prepared for supporting and leading the current Government’s push in this area. The Treasury has responded to this challenge in raising the priority given to public sector performance through a number of initiatives, including the establishment of a State sector Strategy Team in 2009.</p> <p>There have been achievements at the individual agency and sector level (eg, the Defence Review). The Treasury is taking a more strategic view on expenditure control, increasingly focusing resources on priority spending areas.</p> <p>There has also been a greater reliance on system approaches, such as using the chief executive (CE) forums, and developing the responsibility model and informal “league tables” to encourage efficiency and innovation.</p> <p style="text-align: right;">contd...</p> |

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| | <p>Recent success in reducing baselines is not likely to continue and the Treasury recognises a more strategic approach will need to be developed that has a greater long run consistency. The commitment to shift the emphasis from monitoring and review, to more effective governance is not well linked to decisions on the ground by Vote management teams. Central agency performance assessment, of which the Treasury is a part, is not regarded by State sector chief executives as placing a strong emphasis yet on the most significant dimensions of their potential contributions. Strategies for improving performance across complex sectors by focusing on systems leadership are still in their early stages.</p> <p>Progress is evidenced by the Minister’s increasing satisfaction with performance in this area. However, the Treasury and the State Services Commission have yet to develop the coherent and compelling approach to public sector performance capable of providing the desired value for money and innovation outcomes.</p> |
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| <p>Strengthening the tax system</p> <p>A durable tax package that focuses on improving productivity while delivering acceptable equity and fiscal outcomes.</p> |
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| <p>PERFORMANCE RATING</p> <p></p> | <p>Performance Rating: Strong</p> <p>Tax is one of the Government’s six growth drivers. The aim has been to develop a tax system that is consistent with growth, through making New Zealand more competitive and removing distortions which have encouraged investment in the non-tradeable sector at the expense of the tradeable sector.</p> <p>The Treasury has worked closely with the Inland Revenue Department (IRD) to provide major tax policy advice. The Treasury has played a lead role in the establishment and support of the Tax Working Group, developed the Government’s policy position on the Group’s recommendations and developed the tax-package in Budget 2010.</p> <p>The Treasury had made a significant investment in tax thinking (including using an external task force), which allowed the Government to move more quickly in this area.</p> <p>The Treasury is considered to have performed admirably in establishing, servicing and providing a valued intellectual contribution to the Tax Working Group. The experience with the Tax Working Group, and the subsequent policy development process, is now considered a model approach for addressing major issues with significant political and technical complexity.</p> <p style="text-align: right;">contd...</p> |
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| | <p>The Treasury has been able to achieve these results with a team of 10 FTEs. This is a significant reduction in the Treasury resources committed to this area when compared with the mid 90s. These reductions were achieved through a restructuring in early 2000, which reduced duplication of function across the Treasury and the IRD. The Treasury’s role is now focused on how the tax system can contribute growth and ensuring the system is positioned to achieve revenue goals, with IRD taking greater responsibility for the tax policy and implementation.</p> <p>The relationship between the Treasury and IRD is considered a model example of two major policy agencies working together. The relationship plan encompasses regular meetings at both official and ministerial levels, secondments and protocols.</p> |
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Improving State-owned Enterprise and Crown Research Institute performance

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| <p>PERFORMANCE RATING</p>  | <p>Performance Rating: Well placed</p> <p>The Government is seeking to lift the financial performance of its balance sheet. Lifting State-owned Enterprise (SOE) and Crown Research Institute (CRI) performance is a central component of this objective as their total equity value, including Air New Zealand, is over \$30 billion and their total assets amount to over 23% of total Crown assets. Significant developments are in train, meaning this area is likely to be ‘strong’ were it reassessed at some later time.</p> <p>To better support this Government priority, the Treasury consolidated all of its monitoring activity into a new unit, the Crown Ownership Monitoring Unit (COMU.) The monitoring functions include providing shareholding ministers with performance issues and strategic ownership advice, and assisting with the appointment of directors. In the medium term COMU intends to build monitoring capability throughout the public sector, thereby contributing to improved productivity across the entire sector.</p> <p>The major achievements have been of an organisational and capability building nature. Crown Company Monitoring Advisory Unit and the Treasury’s other monitoring functions were integrated into a single unit. COMU has also made substantive progress regarding intervention frameworks for engaging with poor performing entities and developed financial performance measures intended to strengthen SOE transparency and accountability.</p> <p>Whilst the achievements to date have been well managed and demonstrate clear progress towards the Government’s priorities, a ‘well placed’, rather than ‘strong’ score is appropriate for the current situation. It is too early to judge the performance of COMU in terms of impacting the Crown’s balance sheet performance and the economy more generally. Moreover, key challenges and risks remain. (See Part Two: Delivery of Core Business.)</p> |
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RESULTS SECTION

Part Two: Delivery of Core Business

This section reviews the agency’s effectiveness and efficiency in delivering its core business. The report is based on a judgement about the current performance of the agency and the trend it has demonstrated over the last three to four years.

| Medium-term economic strategy | |
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| <p>PERFORMANCE RATING</p> <p>Effectiveness</p>  <p>Efficiency</p>  | <p>Performance Rating (Effectiveness): Needing development</p> <p>Performance Rating (Efficiency): Well placed</p> <p>This business area is charged with the development of advice to assist ministers with making decisions about the economic choices facing New Zealand. The work is shared across two business groups – Dynamic Economy and Business Environment, People and Skills. There is also a strong link with the Macroeconomic and Fiscal Environment area.</p> <p>The Treasury has been successful in making productivity central to the economic growth agenda and being instrumental in the development of the ‘six drivers’ structure for framing this work.</p> <p>Treasury has provided influential advice in a number of key policy areas, including tax reform, emissions trading and regulatory reform. Ministers were very pleased with the 2010 Budget, which advanced the economic growth agenda within the constraints imposed by adverse economic and fiscal conditions. This work has earned a strong reputation with ministers for the provision of advice and operational capability of a more reactive nature eg, deposit guarantee, response to the economic crisis, earthquake response. The Treasury is well placed to face the demands of its ongoing obligations and to meet challenges that rarely occur but which can bring huge costs if poorly managed.</p> <p>The Treasury readily acknowledges it has been less successful at bringing resources to the development of future policy and delivery capability. The demands of servicing ministers, including a reputation for being a ‘safe pair of hands’ to address urgent problem-solving, has crowded out critical longer-term thinking. The Treasury has also struggled in some instances to bring big and complex issues central to the medium-term strategy, to a close. The 2009/10 restructuring is intended in part to ensure sufficient strategic thinking is undertaken and to promote timely resolution of big issues. Other mechanisms may be needed to ensure these goals are achieved. Micro-macro integration of strategy is not well established but is currently under development as a leadership priority.</p> <p style="text-align: right;">contd...</p> |

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| | <p>Through this work, the Treasury is seeking to take a leadership role in developing an economic vision and strategy for New Zealand. Such a strategy has the potential to improve effectiveness, prioritisation and coordination at all levels of Government decision-making and bringing greater certainty to the private sector. The opportunity cost of not doing this well is therefore very high, although difficult to specify. The Treasury has put in place a mix of actions to lift the game here, with the impact and sustainability of many of these yet to be proven.</p> <p>The Treasury recognises the importance of setting a good example in supporting the Government’s priority for less and better quality regulation. The Regulatory Impact Assessment Team (RIAT) is working with the Treasury staff to lift their awareness for and capability in the regulatory assessment process. For example, RIAT engaged with the Treasury staff involved in the review of Securities legislation to ensure good practice was built into the development of their advice.</p> <p>The Treasury’s external engagement efforts are intended to both raise awareness of the Treasury thinking and inform its economic policy development. Whilst the Treasury has raised its visibility in recent years, notably through speeches, further work is required to build its strategic leadership and engagement.</p> <p>Performance indicators are generally activity-based and relate to timeliness and quality/standards. The Treasury recognises that for planning and accountability purposes impact measures would be ideal but there is internal doubt and an absence of known international precedent that this is possible.</p> <p>The ‘needing development’ assessment reflects the need to complete work which is under way across the whole of Treasury to help ministers develop their longer-term economic strategies. This is a vitally important role for the Treasury as it is the only organisation that can provide this support to ministers. We acknowledge, however, that it is not easy to progress this longer-term work while providing advice and support in response to a wide range of complex and demanding challenges. Treasury performs very well in response to such challenges.</p> |
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| State sector performance | |
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| <p>PERFORMANCE RATING</p> <p>Effectiveness</p>  <p>Efficiency</p>  | <p>Performance Rating (Effectiveness): Needing development</p> <p>Performance Rating (Efficiency): Needing development</p> <hr/> <p>This result area is concerned with ensuring the public sector ‘does the right things’ and in ways which are ‘better, smarter and for less’. This efficiency and effectiveness drive is framed within the wider fiscal strategy, which is seeking to achieve enduring fiscal constraint.</p> <p>This business area is the prime focus of several core business groups (Vote teams) as well as strategy and project teams. The Vote teams cover Health, Education, Justice and Security and Defence. These Votes are large expenditure areas in their own right but also share a number of big issues, such as the aging population and ‘long-tail’ social outcomes, for which integrated management should be beneficial.</p> <p>The State sector Strategy team is focused on maintaining and further developing the public sector management framework and its operation. On the project side, the State sector Management Team is focused on innovation of public sector delivery. Initiatives include Cross Agency Programme Management, Capital Asset Management and supporting the Chief Executive Business Reform Group.</p> <p>It is recognised that the Vote analysis function is not performing to its potential. Service quality is inconsistent and heavily dependent upon the individual Vote analyst. The Treasury is looking to lift the Vote analysis function. Anecdotal evidence is inconclusive on the extent of the progress.</p> <p>Major spending agencies observed that over the last 18 months they had been exposed to a number of performance improvement initiatives originating from the centre, including line-by-line reviews, the Performance Improvement Actions initiative and detailed evaluations of Votes. It was pointed out that the costs to the organisations of supporting these initiatives were non-trivial, the actions were often not seen through to realise the benefits, and they did not appear to be part of a considered game plan. Departments are encouraged by the prospect of developing three to five-year plans.</p> <p style="text-align: right;">contd...</p> |

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| | <p>The Ministerial Review Group report on the health sector, which was supported by the Treasury, was the most significant action in recent times to recognise that the performance of sectors of government that contain a large and sometimes complex mix of agencies need more emphasis on a whole of system governance. The Treasury is not necessarily the right place to lead the governance for any specific sector. However, in the absence of alternatives being established, this obligation often becomes the Treasury’s concern by default. In this context the Treasury’s contribution falls short of what is required for system-wide governance. The Treasury needs to give priority to development of sector governance.</p> <p>The Treasury’s size means it must be smart about how it seeks to influence productivity gains in the wider public sector system. To this end, there has been a system-wide focus on productivity improvement. Initiatives include reliance on the responsibility model to change chief executive behaviours; providing benchmarking information (ie, BASS), centre-led innovation (eg, shared services) and efforts to build capability and culture (eg, Chief Financial Officers’ forum).</p> <p>There is growing evidence of resulting changes in behaviour within the public sector. However, the effectiveness of these initiatives and whether they will be enduring, particularly should there be a return to a less constrained fiscal environment, has yet to be tested. Whilst the current approach is pragmatic and expedient, clarifying the role the Treasury sees itself playing in the longer term, and how it plans to get there remains very much a work in progress and an area where the Treasury is still developing its thinking.</p> <p>The Treasury’s strengthening of its own organisational management will add to its leadership capability. The Treasury serving as an exemplar where relevant can be expected to improve its effectiveness in motivating desirable change behaviours across the State sector.</p> <p>The assessment of needing development will not seem to give full credit for the range of initiatives put in place over the past 18 months, more it reflects the need for a clear strategic pathway with the direction of change and key ideas made transparent.</p> |
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| Management of Crown risks and balance sheet | |
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| <p>PERFORMANCE RATING</p> <p>Effectiveness</p>  <p>Efficiency</p>  | <p>Performance Rating (Effectiveness): Well placed Performance Rating (Efficiency): Needing development</p> <hr/> <p>The purpose of this core business is to ensure that the Crown’s assets and liabilities are identified and managed and that the balance sheet’s financial performance and resilience is consistent with Government’s expectations. The Treasury advises 15 ministers in their capacity as ‘owners’ or ‘shareholders’ of SOEs and CRIs.</p> <p>The capacity and commercial capability of COMU will underpin its success. The ability to draw on commercial experience and assess trends adds to understanding of business issues and the management of risks in many ways, such as advising on tradeoffs between profit and balance sheet objectives.</p> <p>It was suggested by some interviewees that there had been too much focus on market disciplines and private ownership at the expense of how to maximise performance within a State ownership paradigm. This may have inhibited the strategic management of these entities, including the development of business partnerships.</p> <p>A more strategic ownership perspective will be critical if COMU is to address long standing issues around SOE monitoring and performance. This will involve taking a longer-term and ‘NZ Inc’ perspective, with strong commercial disciplines in advising on key shareholder decisions, including dividend policy, capital expenditure planning and scope.</p> <p>Moreover, the Unit will need to stay focused on improving performance across the portfolio of entities it advises on and not get distracted by more tactical and time consuming ‘fire fighting’. A major part of this will be ensuring its shareholding ministers agree strategic priorities and relative priorities for best impact.</p> <p>More recently, the Treasury committed resources to the management of the consolidated balance sheet. The Balance Sheet team was formed in the first half of 2010 and is a part of COMU.</p> <p>There has been considerable progress since 2009. This work has resulted in a better understanding of the Crown’s overall risk and has lead to improved risk reporting. It has also resulted in greater consideration of balance sheet issues in Crown financial management documents, such as the Budget. The Crown’s first Investment Statement was released in late 2010.</p> <p style="text-align: right;">contd...</p> |

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| | <p>This work has enabled the management of the Crown balance sheet to inform policy issues, notably where there are large contingent liabilities, such as housing, student loans and Accident Compensation Corporation (ACC). The Treasury has a growing capability to undertake scenario testing to assess the Crown’s resilience to shocks.</p> <p>The Treasury’s balance sheet management capability is at a formative stage and balance sheet management is an area of public finance which is not well developed internationally. Even so, the Treasury is operating at the leading edge of balance sheet management thinking amongst its international peer group.</p> <p>The enduring impact of this work on policy and public finance outcomes largely remains untested. A small team has achieved a lot, and based on this, in the absence of other measures of efficiency, we have judged as ‘needing development’ for efficiency as appropriate. The world leading nature of this work deserves recognition through its application in policy in the coming years.</p> <p>The team faces similar recruitment challenges to the other areas of the Treasury which must compete directly with the private sector for commercial skills.</p> <p>The Unit is aware that more rigorous and systematic efficiency and effectiveness measures are required and this is now a focus.</p> <p>The Unit is well aware of the need to address the areas identified above. Its future success will be dependent on addressing recruitment challenges, progressing a prioritised work programme with ministers, with clear objectives and tradeoffs, and then working effectively with Crown entities to achieve it. The recent move to focus their engagement with Crown entities at the governance level is a positive move.</p> |
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| National Infrastructure Unit |
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| <p>PERFORMANCE RATING</p> <p>Effectiveness</p>  <p>Efficiency</p>  | <p>Performance Rating (Effectiveness): Well Placed Performance Rating (Efficiency): Well Placed</p> <hr/> <p>The Investing in Infrastructure strategic priority section contains a discussion of the National Infrastructure Unit’s (NIU) history, role and achievements to date.</p> <p>The majority of stakeholders are well disposed towards the quality of the senior appointments, the levels of engagement, and policy and operational progress.</p> <p>The Unit has risen well in the face of a slow beginning but the expectations on it will continue to be a challenge despite the significance of its recent achievements.</p> <p style="text-align: right;">contd...</p> |
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Whilst the first National Infrastructure Plan has been received favourably, there is an expectation that the next Plan will need to be a step up. This will necessitate a plan with a greater strategic perspective on the key infrastructure challenges constraining medium-term growth.

Moreover, some stakeholders believe that the next plan ought to take more of a system view, concerned with the institutions and incentives needed to generate efficient infrastructure outcomes. Such an approach promises to increase the Unit's reach into the country's infrastructure decision-making, beyond what would otherwise be possible, given the Unit's limited resources.

One area of risk is the ability for the Unit to attract the specialist financial, contracting and project management skills required to achieve the impact expected of it.

There is a risk that the Unit places more weight on the ownership dimension of infrastructure developments rather than their importance as strategic assets for the wider economy that are able to be leveraged as the basis for nationwide productivity improvement.

Another challenge is how the Unit can best build infrastructure management and investment decision-making capability across wider central and local Government. The Unit intends to become a Public Private Partnership 'centre for expertise', however, there will be challenges in leveraging this capability across the system in ways which do not compromise its core functioning. However, if the Unit is able to achieve this expanded reach and influence, there will be a corresponding increase in its impact throughout the economy, including more strategic and rational infrastructure decision-making. The Capital Asset Management programme reflects success so far in this.

Relative to the size of infrastructure units internationally it appears that the Unit is run efficiently. Although no formal quantitative measures are currently available, we judge the unit to be 'well placed' but consider that a more robust means of assessing performance, albeit indirect, needs to be established so that consistent judgements can be made of its progress, given the scale of its indirect impact.

Macro-economic and fiscal advice

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| <p>PERFORMANCE RATING</p> <p>Effectiveness</p>  <p>Efficiency</p>  | <p>Performance Rating (Effectiveness): Well placed</p> <p>Performance Rating (Efficiency): Needing development</p> |
| | <p>This business area provides macro and fiscal advice to the Government. It also performs core operational functions, notably the annual Budget process, the preparation of the consolidated Crown accounts and the fiscal and economic forecasting function.</p> <p>The various teams of this business area appear to be well integrated in their work flow. Feedback from ministers on recent Budget processes is positive. The significant operational component in this business area does create the potential for the longer-term critical thinking on macro and fiscal strategy to be crowded out. The Treasury has also found it challenging to join up the Treasury’s macro and micro advice. It is working to improve these linkages and this will also be reflected in the quality of thinking on national infrastructures, Crown commercial enterprises and complex networked sectors, such as health. The Treasury’s performance is conditional on the capability of Vote analysts, departments and other Crown entities, and the quality of the information it provides. A number of initiatives are under way to lift performance in this regard, including more frequent communication, investigation of variations in outturns from forecasts and facilitating CFO professional development across the public sector. Key person risk has been identified and is being mitigated through greater documentation of processes.</p> <p>The group undertakes regular reviews of the efficiency and effectiveness of its operations, including annual reviews of the Budget process, which includes external review. These reviews have resulted in more streamlined processes and more accurate forecasts. However, whilst these reviews give confidence in a relative improvement in efficiency, there is an absence of efficiency benchmarks and performance indicators.</p> |

Effective and efficient management of financial operations: New Zealand Export Credit Office, Crown guarantee schemes, New Zealand Debt Management Office

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| <p>PERFORMANCE RATING</p> <p>Effectiveness</p>  <p>Efficiency</p>  | <p>Performance Rating (Effectiveness): Well placed</p> <p>Performance Rating (Efficiency): Well placed</p> |
| | <p>The Management of Financial Operations covers the New Zealand Debt Management Office (DMO), the Export Credit Office (ECO) and the Deposit Guarantee Scheme (DGS). As of 1 July 2010 these businesses came under the management of a single Deputy Secretary.</p> <p style="text-align: right;">contd...</p> |

Overall, the Treasury has developed a good reputation amongst ministers when it has been asked to operationalise policies for managing specific financial risks, such as an expanded borrowing programme or implementing the DGS.

All three units have played critical roles in assisting the Government with its response to the global credit crisis. The NZDMO has been able to quickly increase its fund raising five-fold. The ECO was able to provide financial assurances which facilitated exporters operating in overseas markets. The DGS was established in such a way as to maintain depositor confidence. In the cases of the DMO and ECO, the growth in transaction volumes was considerably greater than any increase in operating budgets.

Attracting and retaining high value finance professionals within a Treasury can be problematic. The Treasury can't compete directly with private sector financial services compensation levels. However, it has been able to attract specialised staff through a flexible remuneration structure (notable in terms of speed of advancement) and owing to the generally high regard in which the experience gained in the Treasury's financial operations areas is held by prospective employers. The ability to continue to attract and retain staff will be more challenging in a period of fiscal restraint.

The Treasury's financial operational activities were brought together in a single group to realise synergies between these businesses and to integrate the policy and operation arms of the Treasury more effectively. The Lead Reviewers were not able to assess the extent to which these boundaries have been eroded and whether any benefits have been derived.

Whilst the DMO has done well in responding to the global credit crisis, there is a question whether it is doing sufficient critical thinking on how to improve its efficiency.

The DMO must manage the impact any deterioration in investors' perceptions of New Zealand's credit rating would have on the cost of borrowing. They are mitigating this risk through an active investor relations and disclosure programme, coupled with continuing responsible fiscal management.

The ECO anticipates the need to manage a significant increase in default rates and associated losses. This will need to be managed carefully, including ensuring that the Government and the public recognise the nature of the underlying business and risks. A 'no surprises' strategy is critical to mitigate the risk to the Treasury's reputation.

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| | <p>The DGS is scheduled to cease at the end of 2011, though obligations under the scheme will extend beyond that date. The organisational management issues to reduce the Treasury’s resourcing in this business appear to be well thought out. The risks are more concerned with the moral hazard issues created by closing the existing scheme and the transition to the new environment.</p> <p>The DMO has long had measures of performance that were overseen by an external board. While the other areas (ECO, DGS) have no efficiency and effectiveness measures in place, measures are under development. The operational nature of these businesses, coupled with a number of comparable public and private sector peer groups, should make the identification of appropriate measures easier than is the case for the Treasury’s policy functions. We have assessed the efficiency in this area as ‘well placed’, based on our assessment of the performance of the DMO and its relative impact on the country’s economic position.</p> |
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| Crown entity monitoring | |
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| PERFORMANCE RATING | Performance Rating: Not rated |
| Not rated | <p>One aspect of this Review process is an assessment of an agency’s monitoring of Crown entities. In the case of the Treasury it has responsibility for a particularly wide range of Crown entities, in addition to State-owned enterprises and companies in which the Crown holds shares.</p> <p>Its performance in monitoring the full range of these entities is reviewed under the Government Priority ‘Improving SOE and CRI performance’ and the Core Business ‘Management of Crown risks and balance sheet’.</p> |

| Regulatory Impact | |
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| <p>PERFORMANCE RATING</p>  | <p>Performance Rating: Well placed</p> <p>The Treasury administers:</p> <ul style="list-style-type: none"> • critical public sector legislation, such as the Public Finance Act 1989, the State Owned Enterprises Act 1986 • the Overseas Investment Act 2005 • a number of pieces of legislation relating to individual SOEs, superannuation schemes and various guarantee schemes • legislation relating to international financial institutions and arrangements • significant legislation relating to international financial institutions and arrangements. <p>Typically, the Treasury does not have a large legislative programme outside of Budget legislation. However, this year there are two significant bills – Productivity Commission Bill and International Financial Agreements Bill. There has also been a recent review of the Overseas Investment Act.</p> <p>The Treasury has undertaken the Better Regulation scanning process and identified those Acts that are redundant or subject to review and could be repealed. Decisions to advise repealing some legislation is awaiting review by the relevant Treasury people responsible for the policy underpinning the Act.</p> <p>There are a number of mechanisms to ensure that legal advice is integrated and provided in a timely manner into policy and operations activities. The Treasury Solicitor and team provide advice on good regulatory practice to build awareness and capability. The policy and operations teams within the Treasury each have a Legal Liaison Officer assigned to them, to identify legal issues early and facilitate access to legal services. The Deposit Guarantee Scheme is an example of the policy, operations and legal arms of the Treasury operating together.</p> <p>However, the Treasury Solicitor is not automatically privy to a number of high level conversations, often with a legal component, because the role is a level four position and not a member of many of the senior decision-making forums. This increases the risk that legal issues are not identified as early as they could be or overlooked entirely. This puts a premium on the senior managements’ awareness for possible legal issues and to know when to bring in legal expertise.</p> |

ORGANISATIONAL MANAGEMENT SECTION

Part One: Leadership, Direction and Delivery

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| <p>Vision, Strategy & Purpose</p> <p>How well has the agency 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?</p> | |
| <p>PERFORMANCE RATING</p>  | <p>Performance Rating: Needing development</p> <p>There is an inherent long-term certainty in the purpose of the Treasury that is reflected in its history and the leadership it provides to critical constitutional processes, most especially the Budget. What Government does continues to evolve and the nature of what the Treasury does will both respond to and lead such change. The strength of this leadership will reflect the depth of its strategic thinking and how this influences the work of the organisation will depend on its articulation and merit.</p> <p>The role and purpose of the Treasury regarding management of the Crown accounts and servicing ministers ranging from first best advice on fiscal matters to second opinions regarding the advice from other agencies, is well understood both internally and externally. The Treasury has often taken on activities that ministers have required of it and these are often not foreseeable.</p> <p>The clarity of these roles would appear to be well understood by the highly capable analysts in the Treasury but the servicing staff, whose services are key to the efficiency and reliability of Treasury work appear to be less well served by the translation of this into the services they provide and systems they oversee.</p> <p>The Treasury’s multi-year organisational strategy is integrally linked to the economic strategy supported by Government. At the time of this Review the Treasury was in the early stages of developing both of these strategic documents.</p> <p style="text-align: right;">contd...</p> |

The application of Government policy and Treasury priorities has been generally left to the discretion of the analyst teams and increasing the coherence and consistency of direction across these teams has been a key aim of the recent leadership and organisational developments. We obtained an outside perspective on the forces that have motivated the Treasury leadership in initiating these changes. These views generally highlighted considerable benefit from having a clearly articulated economic strategy to better align the Treasury's organisational focus and activities to support its achievement. The latter will require the Treasury to develop a robust, multi-year organisational strategic plan, which will include identification of key focus areas for the organisation and milestones and KPIs, which must be achieved. The plan needs to be supported by an aligned annual business plan and progress monitored against annual and multi-year targets and KPIs.

The reviewers recognised that many elements of a strategic plan existed in the body of the many substantial review and advisory documents prepared for ministers and saw the key challenge being in the integration and coherence of thinking across sectors and realms of Government. The contribution of the Treasury that no other entity can bring is in the alignment of economic, fiscal, social, public management and regulatory policies, not only in their initial formulation but how they evolve as circumstances alter. The leadership of the annual appropriation process through the preparation of the annual Budget is the most visible and key element of this contribution.

We recognise that the significant shift in the outlook for New Zealand's economic prospects and expectations of public sector management have contributed significantly to the need for the developments in articulating strategic positions more clearly. We would expect that the conclusion of the activities now in place, for which in the latter stages of our Review we were able to see several significant reports in draft, that the capacity to articulate leadership would be well placed. We saw the past capacity of the Treasury in adapting rapidly to demands as reflecting its capacity to adapt but believed that delays in establishing the capability for several key Government initiatives pointed to a need for improvement.

We judged that the initiatives now under way would leave the Treasury 'well placed' when completed but saw that to be 'strong' in this rating there would need to be a stronger focus on the capacity to bring about the alignment of economic, social and public management policies with the foreseeable changes to the context in which Government will operate over the next two decades.

| Leadership & Governance How well does the senior team provide collective leadership and direction to the agency? | |
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| <p>PERFORMANCE RATING</p>  | <p>Performance Rating: Needing development</p> <p>The Treasury plays a central leadership role supporting and influencing the Government and the State sector at several levels – not only in what is done but how, who with and how well.</p> <p>Its leadership is multi-faceted and there are a number of lenses for thinking about it, including strategic leadership, process leadership and leadership for the State sector, including becoming an exemplar on performance, effectiveness and efficiency. The broad nature of this leadership places sometimes inconsistent expectations on the leadership team.</p> <p>The Treasury is in the midst of an organisational development strategy to lift its performance here with some innovative approaches, including having externally appointed members of its management board (a proxy governance board). The new structure has been developed to provide clarity in what each of the top tiers of management does and how they relate. At the time of this Review, it was too early to assess the effectiveness of these changes, but over the course of this Review process we learned of some of the shifts that were occurring.</p> <p>A key role of the leadership team is the alignment of the strategies, standards, practices and culture of the organisation. The key test of this is in the adaptability of the priorities of the manager teams to the direction setting by ELT.</p> <p>The Lead Reviewers believe that more work is required in the Treasury in being more explicit about the leadership forms that are of most importance to it and how these are embedded in it and across the wider State sector to maximise the impact of the Treasury’s leadership.</p> <p>Some particular risks faced by the change management programme might be better managed if it were managed as a series of goals, with specific expectations of the goals which would be given most attention in any six-month period. Matching results to plans increases in importance with each iteration of a change management strategy, if staff are to act as though things will really change. It is too early to tell how well the senior team and its array of initiatives will improve collective leadership and direction. It is also too early to tell how the recently established Treasury Board will advance the functioning of ELT and the Results and Resource Team (RRT). For these reasons we assessed the performance as ‘needing development’ but recognised that the organisation should be ‘well placed’ as the outcomes from the change process become successfully embedded.</p> |

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| <p>Culture & Values</p> <p>How well does the agency develop and promote the organisational culture, behaviours and values it needs to support its strategic direction?</p> | |
| <p>PERFORMANCE RATING</p>  | <p>Performance Rating: Needing development</p> <p>As part of its 2009 Leadership Review the Treasury articulated a set of three desired organisational behaviours: ‘One Treasury’, “Accountability” and ‘Influence’.</p> <p>While awareness of the three behaviours amongst staff is judged to be high, a significant gap between the desired behaviours and actual practice has provided the momentum for the culture change initiatives by ELT.</p> <p>Critical to achieving these behaviours will be the success of ELT, RRT and the high profile managers in modelling the desired behaviours, as well the successful implementation of the various change processes under way within the Treasury and closing the organisational performance gaps identified in this Review.</p> <p>The achievement of the ambitious change management programme which the Treasury has embarked on will be greatly facilitated through the way people are involved in decisions taken and how good and bad choices are recognised and learnt from. Progress in this area will be strengthened through a robust organisational strategic plan for which the relevance of these behaviours will be clear and can be actioned.</p> <p>Induction processes for new staff vary with significant focus on security and IT functioning versus expectations in terms of what it means to be a Treasury employee (ie, expected behaviours) and the role of the new employee. Following formal induction, the development of employee behaviours and work plan induction is understood to be left largely to the person’s line manager and varies in quality.</p> <p>Employees shared they have a high degree of autonomy (which they like). The challenge for the Treasury is to be able to appropriately empower staff through a strong accountabilities framework which aligns the behaviours of individuals to the organisation’s strategies. We assessed these initiatives, once implemented, as likely to leave the Treasury well placed, but considered that they had not yet had a proven impact hence the rating of “needing development”.</p> |

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| <p>Structure, Roles and Responsibilities</p> <p>How well does the agency ensure that its organisational planning, systems, structures and practices support delivery of government priorities and core business?</p> <p>How well does the agency ensure that it has clear roles, responsibilities and accountabilities throughout the agency and sector?</p> | |
| <p>PERFORMANCE RATING</p>  | <p>Performance Rating: Needing development</p> <p>The Treasury has undergone significant change in the last one to two years. The 2009/10 Leadership Review resulted in a new internal structure. The structure seems unusual for an efficient and effective enterprise and may add rather than reduce complexity. While the Treasury deals with complex issues it need not have a complex organisational structure.</p> <p>The ongoing work of the Treasury is led by some 30 team managers, who have distinct areas of responsibility, responsibility for resources and the authority to determine how they will be best applied. The levels of management have explicit roles (ELT = strategic, RRT = results and resource allocation, team managers = operational).</p> <p>The implementation of the new structure is in its infancy and requires new planning and management systems to support it. These are not yet in place. In practice there are still teething problems in operationalising new roles and the allocation of responsibilities and accountabilities in the new structure. This is particularly the case with the newly established ELT and RRT.</p> <p>The Treasury is aware of these gaps but there remains the question whether they have the appropriate resource, capability and urgency assigned to addressing these issues. Significant work is required in this area.</p> <p>There are significant issues with ‘line of sight’ from the ELT to the work teams within the Treasury. The lack of an agreed organisational strategy contributes to this. However, long standing practice has direction and decision-making devolved to the team involved in this execution. This has led to external organisations experiencing occasions when, even if they make contact with even the most senior managers regarding issues within teams, those managers are reluctant to intervene.</p> |

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| <p>Review</p> <p>How well does the agency monitor, measure, and review its policies, programmes and services to make sure that it is delivering its intended results?</p> | |
| <p>PERFORMANCE RATING</p>  | <p>Performance Rating: Well placed</p> <p>The review processes of the Treasury has reflected its comparative small scale and the sometimes excessive confidence that this brings to informal processes of assessment. In larger areas of activity, most notably the Budget preparation, there is a regular review process, while until recently the Debt Management Office had an external governance board to challenge its operations. The Tax Working Group, recently replaced by an Advisory Panel, is another vehicle for review. As an active member of the OECD, policies are compared as are the results. In 2010, in an innovative step, the Treasury Board was extended to include three external non-executive directors with the prime function of providing independent review and challenge and input into organisational strategy and practice.</p> <p>While an array of review processes exists, there is no systematic programme, or less tangible strategy for reviews of various forms, nor is it obvious what will trigger reviews. Given that unexpected events and political necessity will determine much of the review programme, outside the control of Treasury-led processes, it is important that there is some systematic basis for ensuring that significant areas of activity cannot lie unchallenged for long periods. Treasury has a strong external standing in the transparency with which such work becomes available in the public domain. The Treasury lecture series, for example, is an open vehicle for review and challenge of Treasury thinking.</p> <p>To be 'strong' in this area, a clear review strategy and what will necessitate action is needed, as well as a transparency about the implicit assumptions behind Treasury advice and how it is periodically validated. We recognise that there is a risk that the current assessment rating reflects a small number of successful, visible activities, and that even retaining the current rating requires considerable vigilance by the leadership team.</p> |

ORGANISATIONAL MANAGEMENT SECTION

Part Two: External Relationships

| Engagement with the Minister(s) How well does the agency provide advice and services to its Minister(s)? | |
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| <p>PERFORMANCE RATING</p>  | <p>Performance Rating: Well placed</p> <p>The Treasury has a complex relationship with ministers. The principal accountability is to the Minister of Finance, with related accountabilities to the ministers of Crown Research Institutes, State Owned Enterprises and Regulatory Reform. It also potentially interfaces with all ministers as a consequence of its second opinion and Budget roles. We rated the specific relationship of the Treasury with the Minister of Finance as now being strong.</p> <p>The Treasury is well respected for its ‘first best advice’ function and the quality and capability of its people. Ministers’ (ie, Government’s) acceptance of the Treasury’s first best advice is not a precondition for the Treasury playing its other leadership roles. The Treasury has changed its modus operandi to be more challenging and proactive, in response to a request from its Minister.</p> <p>The value the Treasury adds through its second opinion advice is also greatly appreciated by Treasury ministers.</p> <p>Opportunities exist for a step-up in the proactive value-add leadership and challenge provided to ministers by the Treasury (including ensuring the nuance of its policy positions is fully understood by Vote ministers), as well as the relationship management with ministers by senior personnel. The Treasury frequently needs to challenge advice and proposals. In doing so it needs to be vigilant about its means of delivery so that the content can always be recognised because of its value and not undervalued for reasons of its form.</p> <p>To be ‘strong’ in this area would require a greater recognition outside of Treasury ministers of the value of Treasury advice. The current fiscal pressures are likely to bring opportunities for this.</p> |

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| Sector Contribution How well does the agency provide leadership to, and/or support the leadership of other agencies in the sector? | |
| PERFORMANCE RATING  | <p>Performance Rating: Needing development</p> <p>The Treasury has working relationships with a wide range of State sector agencies. There is no consistency in how the Treasury approaches maximising the value of each relationship, so that it can advance its leadership in the sector, provide more effective and efficient support for agencies and achieve the Government's priorities.</p> <p>The Treasury has been praised for its emerging leadership in developing the cross-agency financial capability, which will be needed to deal with the challenges the public sector faces in the future. The intention to strengthen cross-agency collaboration among professional economists is another innovation with a potentially high impact. These provide good precedents for other fields of endeavour.</p> <p>There is considerable room for improvement in the way the Treasury engages with other Government agencies. Greater transparency is required in terms of who within the Treasury is responsible for what and, given priorities, the amount of resource and service a department can expect.</p> <p>Analysts play a key role at the agency interface. Their performance can range from constructive and challenging, through to disengagement. The differences appear to depend on the interest and expectations of the analyst assigned to the organisation, often without reasoning available to the agency as to the approach taken. Doubtless there will be agencies that have axes to grind from some past experiences. Whilst the Vote Analysts generally have a reasonable profile within their agencies, the Vote Analysts' managers, from whom departments are expecting a more strategic contribution, can often be less visible.</p> <p>There was consistent feedback from small and large State sector agencies that the Treasury's strength is in providing solutions to active issues. The gap identified was that the Treasury does not provide the strategic leadership required for agencies to shape their own direction consistent with the wider economic goals. This is particularly so for departments and agencies with leadership roles involving several agencies. This situation is exacerbated when the Treasury is not clear in its participation in cross-agency strategic forums. There is also some question whether the Treasury has the capability to support departments with the medium-term business and strategic planning challenges they are facing.</p> <p style="text-align: right;">contd...</p> |

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| | <p>Agencies acknowledge that the Treasury has limited resources but clear prioritisation is required so that agencies know what support they can expect. Frustration also occurs when the Treasury brings its input to debate and/or initiatives late in the play. This has a cost of rework and churn within the State sector that could be improved if the Treasury participated much earlier. Other agencies could also assist the Treasury by encouraging such engagement.</p> <p>Agencies would benefit from greater transparency in terms of the relative priority and key linkages the Treasury intends to adopt in assessing their activities.</p> <p>To better manage expectations, it would be desirable if the Treasury were to develop individual service level understandings with agencies (differentiated on impact and risk) presented in the context of its priority setting, particularly with those organisations with cross-agency leadership roles.</p> <p>This information would support resource allocation decisions, set expectations for service levels they might expect from the Treasury and foster a more joined up approach.</p> <p>The relationship between the three central agencies is not seen as fully effective, being strong at top levels, but regarded as collegial rather than providing joined-up leadership for the State sector.</p> <p>The assessment of 'needing development' reflects quite a shift in the context within which Government and the Treasury now operate, and the nature of the expectations. There is considerable goodwill and the criticism we heard reflects a greater concern with the limited amount of engagement, rather than its quality. The initiatives now in hand should leave Treasury better placed in the future. In this area, it may be difficult for any externally focused assessment to achieve a 'strong' ranking, because of the scale and diversity of those dependent on Treasury performance.</p> |
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| Collaboration & Partnerships with Stakeholders | |
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| How well does the agency generate common ownership and genuine collaboration on strategy and service delivery with stakeholders and the public? | |
| <p>PERFORMANCE RATING</p>  | <p>Performance Rating: Needing development</p> <p>The absence of a clear organisational strategy for the Treasury currently limits its ability to provide more of the leadership and collaboration stakeholders and partners are looking for.</p> <p>The Treasury must determine the emphasis it is seeking between assessing versus assisting agencies with their performance and reconciling any potential conflict between the two roles. A more proactive role requires a change in engagement models and will be tested in times of disagreement between the Treasury, departments and ministers. However, a more collegial arrangement has the potential to increase the levers and channels for influencing public sector performance. This emphasises the importance and subtleties in the engagement process, including how to add value, how to maintain independence and how to resolve conflict.</p> <p>Whilst most Treasury personnel are generally acknowledged to be accessible and approachable, the Treasury itself has recognised that it needs to improve its external engagement to achieve its key outcomes. Senior managers have been tasked with responsibility for specific strategic relationships with the objective of influencing others to support the Treasury's ideas.</p> <p>The strong focus on influence and relationships by ELT is a great opportunity to rethink and systematise the oversight of those relationships that are critical to the organisation. Given the huge transformation on the horizon not only of the public sector but of business generally, there is insufficient "grit" in these engagements and a risk that relationships exist to explain rather than be challenged. There was a consistent view that while at the top level there is a willing engagement when hearing hard things, this is not consistent throughout the organisation. There can be difficulty in getting the engagement that other public sector leaders see as vital and this dilutes the impact of the Treasury to support, drive and focus agenda elsewhere.</p> <p>The Treasury seems to bring good engagement on a day-to-day basis but at a strategic level, there is not the same quality of contribution. There is a concern that the consequential micro level involvement is less informed than it needs to be. The broader strategic goals have not been translated in actions of analysts and they are not well enough articulated for this, despite the importance.</p> <p>Stakeholders have acknowledged that the Treasury's visibility has improved and its views/think pieces are reaching and being heard by a wider audience. There is no formal process to review and evaluate outcomes for external engagement of the quality and effectiveness of stakeholder relationships.</p> |

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| <p>Experiences of the Public How well does the agency meet the public’s expectations of service quality and trust?</p> | |
| <p>PERFORMANCE RATING</p> | <p>Performance Rating: Not rated</p> |
| <p>Not rated</p> | <p>The Treasury has no direct interface with the New Zealand public. No data is collected in the Kiwi Count survey regarding this organisation. As a result, this element was not considered to warrant assessment.</p> |

ORGANISATIONAL MANAGEMENT SECTION

Part Three: People Development

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| <p>Leadership & Workforce Development</p> <p>How well does the agency develop its workforce (including its leadership)?</p> <p>How well does the agency anticipate and respond to future capability requirements?</p> | |
| <p>PERFORMANCE RATING</p>  | <p>Performance Rating: Needing development</p> <p>Staff are the core asset for the Treasury. The 2009 Leadership Review was driven by a desire to improve the leadership and performance of the organisation. However, its implementation is in its early days and its successful implementation depends on improving performance in the critical areas of leadership, direction and delivery.</p> <p>The Treasury employs very talented and willing people. Until recently, leadership development planning had focused more on the development of the individual than the development needs of the organisation as a whole. The Treasury spends just under \$0.943 million on training and development. The investment has stayed stable over the past five years. However, the Treasury could not identify whether or not the investment was either efficient or effective. There is not a strong formal organisational leadership development programme in place which would help achieve and embed the goals of the recent leadership review.</p> <p>The Treasury's broad workforce development strategy is to recruit, develop and retain strong policy generalists who are regularly rotated through roles, so it has clusters of smart high-quality people who can respond to changes in priorities. This focus encourages a diversity of experience, however, such rotation has a potential adverse consequence of slowing the development of a deep understanding of issues and of stakeholders and their businesses. This can reduce the contribution less experienced analysts can make.</p> <p>This has been a concern with the Vote Analyst position over several decades. The fact it remains unresolved brings high costs of relationship management and reduced ability to contribute to long run solutions to departmental and sector problems.</p> <p>The rotation policy requires a high level of mentoring at the manager level and above and there was some evidence this is not occurring sufficiently.</p> <p>The People Strategy indicates that greater effort will be devoted to workforce planning. Under this area, there are workstreams looking at detailed workforce planning, clarity around senior roles, leadership, and deployment and demanding performance. The Lead Reviewers support these initiatives. [See also Structure, Roles and Responsibilities.]</p> |

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?

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| <p>PERFORMANCE RATING</p>  | <p>Performance Rating: Needing development</p> |
| | <p>There is a Performance Management framework in place but its effective implementation is manager dependent and inconsistent. Management of excellent and poor performance is ‘patchy’ with good and poor examples being sighted.</p> <p>The authority to enforce corporate standards appears weaker than that which assures the quality of analytical work in areas of economic and financial analysis. This may explain in part why progress in achieving the goals of the organisational change programme has been too slow for too long. The greater capacity to assess performance at both institutional and individual levels will be necessary to drive the desired change in organisational behaviours.</p> <p>Consistent with the People Strategy, the Treasury recently implemented a new remuneration framework, which will enable it to manage and reward performance significantly more effectively in the future. This is dependent upon the completion and robust implementation of a new Performance Management framework which is currently under development and will be implemented with the new remuneration framework on 1 July 2011. Managers are involved in the development of the framework.</p> |

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?

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| <p>PERFORMANCE RATING</p>  | <p>Performance Rating: Needing development</p> |
| | <p>The ELT has established a number of initiatives, including policy and operational forums, and regular internal newsletters and information-sharing forums which provide opportunities for staff engagement.</p> <p>The Treasury uses the Gallup Q12 survey to measure employee engagement. The first administration of the survey took place in May 2009 and the high level results of the 2010 survey became available at the time of this Review. The results do not show a marked change in overall engagement. There has been improvement in some areas, notably an increase in the proportion of engaged staff, but other areas, such as clarity of expectations of staff, indicate a need for further improvement.</p> <p style="text-align: right;">contd...</p> |

Effective change management requires a foundation of strong staff engagement. The survey indicates further development is required in this area and this will be a critical success factor for the significant change programme over the next two to three years. In terms of organisational make up, the Treasury does not appear to be a particularly diverse organisation. A review of female and minority representation across the organisation shows that while the organisation is 50% female, currently only one female occupies a position within the top three tiers.

In terms of the percentage of the organisation that identify themselves as Māori or Pasifika the representation is 5% and 2% percent respectively, well below the rest of the public service. Again, the Treasury recognises it has an issue in this area. As part of the review of its employment brand, the Treasury intends to look at whether some groups are being put off applying for roles. Aside from this, it does not appear to have a strategy for addressing its lack of diversity.

The Treasury encourages diversity of opinion and this is critical to delivering its core services.

ORGANISATIONAL MANAGEMENT SECTION

Part Four: Financial and Resource Management

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| Asset Management How well does the agency manage agency and Crown assets, and the agency balance sheet, to support delivery? | |
| PERFORMANCE RATING  | Performance Rating: Well placed Asset management is not a critical issue for the Treasury. It has approximately \$5 million of non-current assets (after depreciation) primarily related to information technology (IT). There is a formal asset register with the normal disciplines and periodic asset checks are undertaken and there are appropriate disciplines around asset disposal. Asset purchasing is coordinated with other agencies to minimise cost. More critical to Asset Management is the development of an information systems (IS) Strategic Plan, which is under way. Core operational systems have not been upgraded in recent years nor until recent years have they been seen as sources of data to help manage the business more effectively. Maintenance and replacement plans are not well developed for business critical assets, like the DMO systems CFIS net and the NZ Treasury model. |

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| Information Management How well does the agency utilise information & communications technologies to improve service delivery? | |
| PERFORMANCE RATING  | Performance Rating: Needing development The effectiveness of information services (IS) on managing IS security and assuring functionality for all the Treasury users (including remote functionality) is greatly valued, widely available and used by the Treasury staff. In addition to the high IT access and high functionality for all staff, the Treasury still has a significant investment in support staff. The 2008/09 BASS results showed the Treasury as above average for the cost of ICT as a percentage of running costs. This may reflect the contribution that IT needs to make in complex, knowledge-based expert organisations. The Document Management System is readily understood, respected and functional to support cross-organisation activity and service delivery. This functionality meets the requirements of a high quality knowledge organisation. contd... |

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| | <p>The key weakness is the lack of a robust management information system. This capacity will be critical to support the Treasury make the right decisions to live within its future baseline funding. It will also be critical to enable the full potential of the new remuneration accountability and performance management frameworks, which are being developed and implemented to be realised. For example, at present the human resources (HR) function is not supported by integrated electronic reporting regarding performance management.</p> <p>The timing of an MIS solution is dependent on the central agencies' shared services project which may not be realised until November 2011. The Treasury will be challenged by the need to increase its MIS capacity prior to this.</p> |
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| <p>Efficiency How robust are the processes in place to test for efficiency and make efficiency improvements? How well does the agency balance cost and quality when considering service delivery options?</p> |
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| <p>PERFORMANCE RATING</p>  | <p>Performance Rating: Needing development</p> <p>The most significant indicator of the efficiency that we had available was an analysis of the falling baseline of the Treasury over the past nine years (in real terms, excluding special projects). We recognised that achieving this would have necessitated ongoing attention to costs and resource use but we did not see this reflected in well documented systematic processes, performance measures or benchmarks. Some of this is not surprising, given the size of the Treasury business units but given their overall impact, we considered that more attention was needed here to be 'well placed'.</p> <p>This absence of evidence of a systematic approach to generate and demonstrate efficiency seemed in line with practice elsewhere in the public sector. Ideally, output costs should be benchmarked against those in recognised efficient markets for comparable outputs or input costs and business processes would be compared with relevant market services where there is no market for outputs. In practice, of course, few Treasury services can be assessed in this way. In the absence of direct benchmarking, there can be acceptable alternatives through occasional benchmarking of selected processes, evaluation of the leverage obtained across the sector from key investments, including the recognition of changes in intangible benefits, a recognised contingency for managing adverse situations or just measures of change in costs and system performance over time. Where we were given evidence of some such comparators, we accepted that this may be sufficient, in most cases.</p> <p style="text-align: right;">contd...</p> |
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| | <p>The Treasury is primarily a knowledge management business – in many ways similar to professional advisors like law firms – where the products and services delivered are some regular operational work together, with a large number of discrete projects of short or long duration. There is evidence and commentary from the Treasury managers that the organisation is focused on continuous improvements of its outputs, and where it can it seeks to capture efficiencies, but it has not had a concerted focus on determining the cost and value for money of its work, and determining the most efficient allocation of resources to achieve its objectives.</p> <p>Internal and external reviews looking at the performance measures in the Treasury’s accountability documents have described them as weak and needing improvement. It is also difficult to draw links between inputs, outputs and outcomes, leading to difficulties in impact identification and measurement. Work is under way to improve these issues.</p> <p>Issues with the performance measures in the 2010 Statement of Intent (SOI) and Information Supporting the Estimates (ISE), which the Treasury acknowledge, include it is:</p> <ul style="list-style-type: none"> • unclear in the SOI where the ‘main measures’ are set, as required in the Public Finance Act • difficult to identify any clear performance measures or targets • difficult to link outputs in the SOI to performance measures in the ISE which creates difficulty understanding what is being measured and what impact is being achieved • unclear in the ISE what level of performance is expected or achieved, as there is no information on what standard ‘achieved’ ratings refer to. <p>It is the Treasury’s intention to improve its performance measures and it is working towards this. This includes an internal project that is reviewing the ways its projects are classified according to outputs, as determined by the Public Finance Act. The Lead Reviewers strongly endorse the need for progress in this area.</p> <p>The Treasury participated in the BASS project in 2010. Prior to this the Treasury had not undertaken formal efficiency reviews. No formal value for money reviews are undertaken and there is no formal efficiency strategy in place. At the time of this Review a ‘stock take’ on how to enable a strategy to be developed was being undertaken. No external performance benchmarking has been undertaken.</p> <p style="text-align: right;">contd...</p> |
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| | <p>The organisation does not have a systemised approach to balancing cost and quality to make service delivery decisions. This rests with individual managers. There is no organisational prioritisation framework that is linked to organisational strategy (see Vision, Strategy and Purpose). Despite personnel cost being the largest cost for the Treasury the process to relate actual staff time to outputs and assist with the ongoing dynamic reallocation of resource allocation is not sufficiently robust.</p> <p>The accountability documents for the Treasury do not enable the assessment of value for money for results achieved.</p> <p>While it will always be difficult to assess cost-efficiency at an organisation-wide level for an organisation such as the Treasury, we have also considered allocative efficiency through the capacity of the leadership of the organisation to redeploy its resources. We judge this to 'needing development' at present but recognise that the 'line of sight' initiatives, among others, do focus specifically on this weakness.</p> <p>What is more difficult is to find ready measures on how far the coherence, timeliness and quality of the Treasury's advice and guidance advance the economic and fiscal performance of New Zealand and the wellbeing of New Zealanders. More narrowly defined performance measures are few and consequently provide little challenge to assessing the impact of the Treasury's activity in any field of government.</p> |
|--|---|

Financial Management
 How well does the agency manage its financial information and ensure financial probity across the business?

| | |
|--|--|
| <p>PERFORMANCE RATING</p>  | <p>Performance Rating: Well placed</p> <p>The Treasury manages its financial information well, including adherence to accounting standards and Public Finance Act requirements. This is confirmed by positive external audit review. Resource capability in the area is strong with demonstrable understanding of the systems and processes required to assure financial probity.</p> <p>There needs to be a disciplined link to assure probity via a structured internal audit programme. This is not occurring. An updated MIS system is the key enabler for the finance function to support better alignment of priorities and resources (see Information Management).</p> <p>A medium term financial strategy was recently signed off. This required significant work reallocating costs so they were more appropriately attributed. This will be critical to support prioritisation and decisions on efficiency and effectiveness for outyears. It will be critical to link the medium-term financial strategy to the People Strategy and the newly developed strategic plan for the Treasury.</p> |
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| | |
|--|---|
| <p>Risk Management How well does the agency manage agency risks and risks to the Crown?</p> | |
| <p>PERFORMANCE RATING</p>  | <p>Performance Rating: Needing development</p> <p>While the risk management of the Treasury has probably been far from weak, the lack of formalised processes until recently means that the past dependence on a relatively unstructured approach to risk has reduced the capacity of the Treasury to learn and adapt to a changing context, as well as factor in information from experiences elsewhere of rare events in future assessments. There seems to have been little capacity to realise synergies across the departmental and public sector obligations of the Treasury. The Debt Management Office operated with a separate risk management framework, which was structured and more reflected the ideals of risk management practice.</p> <p>At the time of this Review, the Treasury was implementing a new Risk Management framework and has recently appointed a Risk Advisor in level 5 of the organisation. The Treasury’s past approach to organisational Risk Management and Risk Assurance had been fragmented and underdeveloped. It has a Risk and Assurance Committee (RAC), some form of which has existed since the mid 1990s. However, there is no formal internal audit plan. Until the appointment of a Treasury officer as the Risk Advisor, KPMG Limited prepared internal audit reports from time to time, as well as the regular quarterly audit of the DMO operations. The recently developed enterprise-wide Risk Framework has identified 13 organisational risks.</p> <p>This recognised that the role of the RAC and the new Board would need to be clarified.</p> <p>Risk assurance in relation to DMO, ECO and the Crown Financial Statements is managed through formal processes, review and reporting using external agencies. The approach to managing Crown risk is more robust than the approach taken to managing organisational risk.</p> <p>Organisational risk management is a dynamic process, which must be integrated across all elements of the organisation’s operations. It must be driven by the CE and ELT. Consideration should be given to the seniority scope and accountability of the risk coordination role within the Treasury.</p> <p>The assessment reflects the urgency that needs to continue to be given to the developments now under way to systematise practice. This should enable the Treasury to be assessed as ‘well placed’ once completed.</p> |

SUMMARY OF PRIORITY AREAS FOR ACTION

The summary of identified performance improvement recommendations (tabled below) is designed to prompt conversation with the ELT. A more formal set of recommendations is likely to be documented following this conversation.

| | Recommendation | Why? |
|---|---|--|
| 1 | Identify the key areas where excellence in the Treasury leadership is expected by stakeholders and develop explicit strategies for ensuring these are understood and practiced internally. | To optimise the contribution of the Treasury when exercising its central leadership role in supporting the Government and the State sector. |
| 2 | Develop a coherent and compelling approach to medium-term economic strategy as well as public sector performance management which is capable of providing enduring value for money and innovation. | To contribute more strongly to a step- change in economic performance and provide a vision and basis for priority setting across the State sector. |
| 3 | Ensure sufficient resources are in place to support longer-term policy development in a way which is robust and reflects the significance of likely change and the Treasury's unique integrating role across Government activity. | To ensure a better balance between short-term responsiveness and the development of a deeper, longer-term assessment of options in relation to economic and fiscal management. |
| 4 | Extend and systemise the engagement processes of the Treasury. | To maximise the potential benefits of external engagement and openness to challenge. |
| 5 | Complete a robust multi-year organisational strategic plan (including identification of key focus areas, milestones and KPIs) linked to the agreed economic priorities and implement and monitor progress. | To improve organisational alignment. |
| 6 | Ensure greater alignment throughout the organisation's structure from Chief Executive through to analyst. | To ensure more coherence between Vote teams and long term strategic goals of the Treasury. |
| 7 | Develop stronger linkages between the Treasury's people development strategy, performance management system and the desired change in organisational behaviours. This will include robust, dynamic management of high performance and underperformance, and clarity of consequences for both. | To significantly increase progress in achieving the Treasury's organisational change programme. |

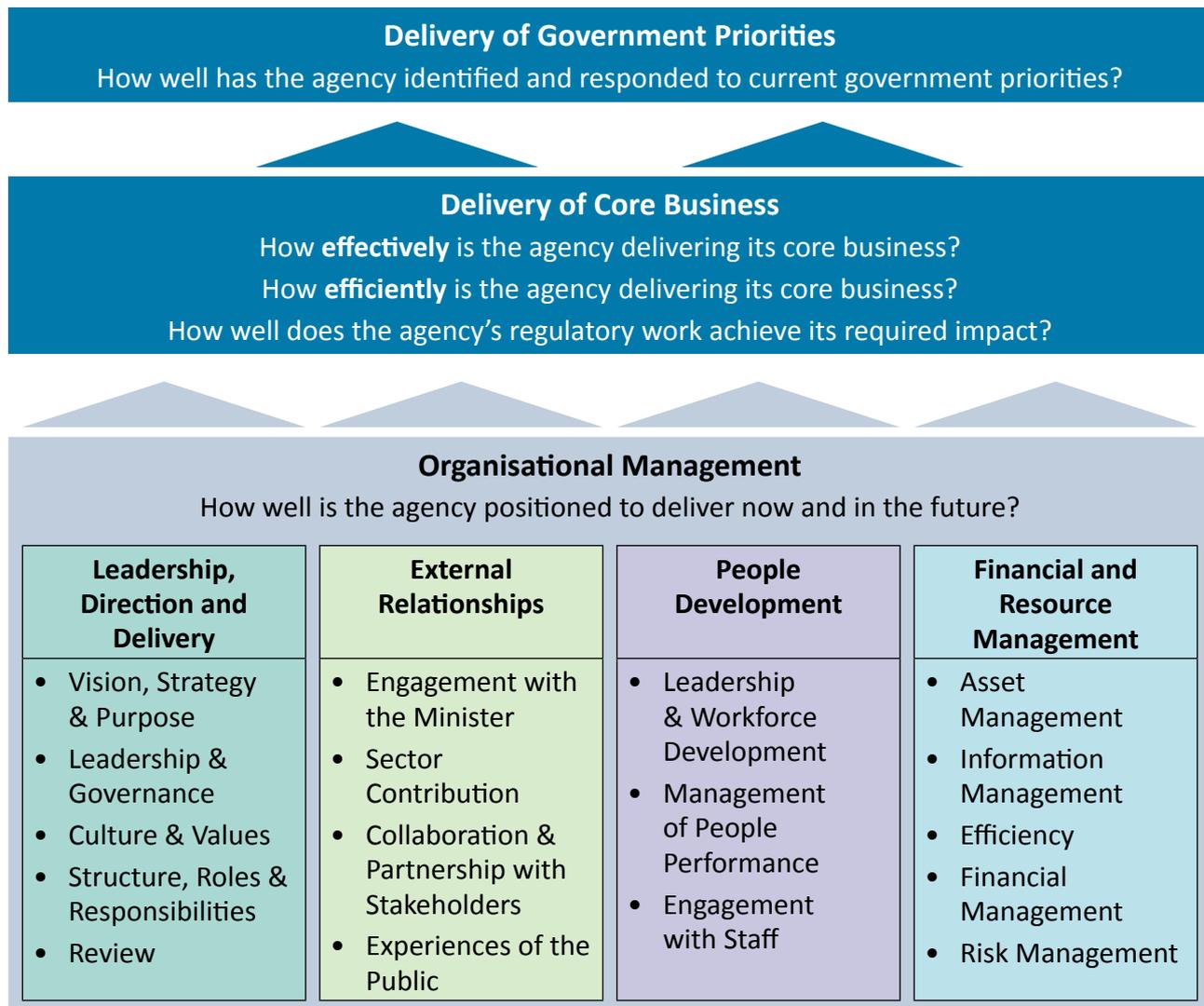
| | | |
|---|--|---|
| 8 | Develop a suite of robust direct and indirect measures of the efficiency and effectiveness of the Treasury, including its overall impact on the long run quality of Government based on the Public Finance Act's Output/Outcome framework. | To more rigorously align the resources of the Treasury to the areas of most impact and provide an exemplar for the State sector. |
| 9 | Stage the Treasury change programme to achieve fewer milestones, more frequently, to ensure the desired pace of change is achieved by demonstrating strong progress towards longer-term objectives while usual business continues. | To assist the Treasury's leadership team to manage the pace and phasing of its ambitious change agenda more effectively and with more visible milestones. |

In addition to the major action areas identified above the following items also need attention:

- developing efficiency measures, including a robust time/cost allocation system once the new MIS system is in place (potentially through the central agencies shared services initiative)
- developing individual service level understandings with agencies (differentiated on impact and risk) presented in the context of its priority setting
- extending the Treasury's modus operandi to better exploit external expertise to help achieve its change programme goals
- implementing new planning and management systems to support the new structure.

APPENDIX A

Overview of the Model



Lead Questions

Results

| Critical Area | Lead Questions |
|-----------------------|--|
| Government Priorities | 1. How well has the agency identified and responded to current government priorities? |
| Core Business | 2. How effectively is the agency delivering this core business area? 3. How efficiently is the agency delivering this core business area? 4. How well does the agency's regulatory work achieve its required impact? |

Organisational Management

| Critical Area | Element | Lead Questions |
|------------------------------------|--|--|
| Leadership, Direction and Delivery | Vision, Strategy & Purpose | 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 & 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? <i>(For Crown Entities only)</i> |
| | Culture & Values | 9. How well does the agency develop and promote the organisational culture, behaviours and values it needs to support its strategic direction? |
| | Structure, Roles & 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 monitor, measure, and review its policies, programmes and services to make sure that it is delivering its intended results? |
| External Relationships | Engagement with the Minister(s) | 13. How well does the agency provide advice and services to its Minister(s)? |
| | Sector Contribution | 14. How well does the agency provide leadership to, and / or support the leadership of other agencies in the sector? |
| | Collaboration & 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 meet the public's expectations of service quality and trust? |
| People Development | Leadership & 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? |
| | Information Management | 24. How well does the agency utilise information & communications technologies to improve service delivery? |
| | Efficiency | 25. How robust are the processes in place to test for efficiency and make efficiency improvements? 26. How well does the agency balance cost and quality when considering service delivery options? |
| | Financial Management | 27. How well does the agency manage its financial information and ensure financial probity across the business? |
| | Risk Management | 28. How well does the agency manage agency risks and risks to the Crown? |

APPENDIX B

List of Interviews

This review was informed by input provided by a number of people who were able to bring a broad range of perspectives including Treasury staff, members of Treasury advisory boards, relevant Ministers, and representatives from the following organisations and agencies.

| Agency/Organisation |
|--|
| Accident Compensation Commission |
| Department of Internal Affairs |
| Department of Prime Minister and Cabinet |
| Inland Revenue Department |
| Ministry of Economic Development |
| Ministry of Education |
| Ministry for the Environment |
| Ministry of Health |
| Ministry of Social Development |
| New Zealand Council of Trade Unions |
| New Zealand Institute of Economic Research |
| New Zealand Transport Authority |
| Reserve Bank |
| State Services Commission |
| Statistics New Zealand |
| Te Rūnanga o Ngāi Tahu |
| Victoria University of Wellington |
| Wellington Regional Council |

