

leadership behaviours
resourcing prioritisation
decision making quality results
operations
capability customer
customer focus impact
management performance
quality decision-making
impact consistency
planning organisational performance
focus results planning results



THE TREASURY
Kaitohutohu Kaupapa Rawa

Stepping Up

November 2006

Treasury Stepping Up Changes

As Chief Executive, my goal is to ensure Treasury is a highly engaged, relevant and respected economic and financial policy advisor, making an impact on the issues that are important to New Zealand's overall economic performance. I want to position Treasury to have a greater impact and to better meet the needs of Ministers in the current environment and medium-term future. I also want to make better use of Treasury's resources by ensuring they are targeted to the most important results overall.

The "Stepping Up" change programme is a fundamental look at Treasury's strategic direction, and how we organise ourselves, how we operate, and the systems and processes we need to deliver on that strategic direction. The purpose of the change is to move us from an organisation which focuses at varying levels of intensity on the full range of economic and fiscal issues, and provides comment on or input into many issues, to an organisation that focuses its resources more intensely on issues which are of the highest priority to the living standards of New Zealanders now or in the near future. Compared to our current way of operating, this will mean focusing more on fewer issues.

We face a changing environment...

Stepping Up is driven by the desire to position ourselves now to respond to upcoming challenges. These challenges are both external, in terms of the macro-economic environment and the policy agenda, and internal in terms of the challenges of remaining a highly attractive place to work for current and future staff. Being more specific:

- There are stronger demands from Ministers for the public sector – including Treasury – to improve performance and deliver higher quality services
- Related to this, there is a desire for stronger Treasury leadership, both individually and as part of the group of central agencies (DPMC, SSC and Treasury)
- A number of the frameworks that we have traditionally relied on are being challenged, and need to be refreshed
- The Government's fiscal position will be somewhat tighter than it has been for the past few years – this requires starker choices and an increased premium on high quality advice on those choices
- The public sector environment in which Treasury works is becoming increasingly complex. This is partly related to the evolution of MMP, but extends to ongoing changes in the way that the public service operates
- The types of people who Treasury needs to employ to deliver high quality advice enjoy many career options. While they are motivated by being able to make a difference to the future of New Zealand, they also want to be part of a high performing organisation.

...and changing emphasis on our roles...

The Stepping Up changes are intended to maximise Treasury's impact on the issues we consider important to the living standards of New Zealanders, both now and in the future environment, described on the previous page. In thinking about what this means in practice, it is important to be clear on our roles and the relative emphasis of those roles. This will help us define the impact we are seeking and the channels available to us to have that impact. We have refined our three roles as:

- Our **economic role** – focusing on issues that have regulatory or policy implications that may have a significant and pervasive impact on the performance of the economy as a whole, rather than providing second opinion advice on all issues with economic implications
- Our **financial role** – focusing on issues with a significant fiscal focus – expensive policies and long term trends, financial management and standards (including financial probity issues), rather than all issues with fiscal implications
- Our **central agency role** – placing more emphasis than now on helping the Government develop its overall strategy and manage the issues that emerge, even if our role in managing issues is to ensure that another party is effectively managing them.

Looking forward, Treasury will need to focus more on the performance elements of our economic and financial roles, and more on the central agency role. In many cases there will be a nexus of two or more of these roles. In particular, I see us working more in conjunction with other central agencies on priority economic or performance issues for Ministers. Stepping Up is important to position us to do this effectively.

...so we need to do things differently to maximise our impact

In thinking about how we need to change, we identified a number of things that we need to do differently to maximise our impact in our 3 roles, given the current and future environment:

- Engaging effectively on critical issues with Ministers and key stakeholders, maximising our impact by both responding to their needs and helping to shape their thinking
- Better positioning ourselves to understand and anticipate the critical issues
- Improving the quality and consistency of our advice
- Having clarity as an organisation about what our priorities are and proactively following through on those
- Having the flexibility to recognise and respond to changes in priority, backed up by changes in resourcing
- Delivering on our current priorities under our 3 outcomes

Stepping Up is about changing to maximise Treasury's impact in the new environment...

The following changes are about how I have decided we should achieve Stepping Up. I am implementing a number of significant changes to the way we operate and our systems, structures and processes. The main elements are summarised in the following pages.

...including allocating our resources to the most important issues across Treasury as a whole rather than locally at the team level

Maximising our impact means focusing on what is most important for Treasury as a whole and ensuring we take decisions to focus on these “global” whole-of-Treasury priorities rather than team level priorities. Identifying what is important will come from being clear what results we are seeking and from better identifying and meeting customer need. Focusing our resources on these issues rather than the broader set of economic and fiscal issues will come from changing the way we operate, and from having a stronger organisational “centre” to facilitate more informed prioritisation and resource allocation decisions.

What will be different?

As a result of the Stepping Up changes, I expect external stakeholders to see:

- More engagement with departments by senior Treasury staff on the high priority issues, and on public sector leadership more widely
- Greater focus on performance issues in the state sector – this means taking our fiscal management focus to include greater emphasis on the value-for-money of significant areas of state spending
- More working together with other central agencies on performance issues and issues of importance to Ministers, including implementing the recommendations of the Central Agencies Review
- More joined up advice, for example by combining our regulatory and ownership advice
- Greater external engagement with key stakeholders, to gain a greater understanding of key issues and to contribute to the wider debate.

Summary of the changes

The key elements of the change are:

Changing the focus of our work

- **Organising our policy work around our 3 outcomes**, each to be led by a Deputy Secretary, will help facilitate the change in focus to fewer key issues that we are seeking. The new policy groups will be:
 - State Sector Performance group (Peter Mersi)
 - Economic Performance group (Mike James)
 - Macroeconomic group (Peter Bushnell)

As we are changing our structure, there will be changes to the placement of workstreams and agency relationships to fit the new structure. A new organisation chart is included on page 8.

- The change in focus we are seeking to achieve in our work under each outcome is outlined on the next page.
- **Combining the ownership monitoring functions for SOEs with the relevant policy advice teams.** As well as providing joined up advice and making the most of combined sector knowledge, this change is designed to better position us for engaging with Ministers and external stakeholders who may not differentiate between the two interests, and who sometimes propose using a combination of the two levers. We will be putting in place appropriate safeguards to ensure separation from sensitive policy issues as necessary.
- **Joining the Debt Management Office with the Macroeconomic group** to improve the quality of our advice, by better linking our advice on macroeconomic and fiscal issues with Crown balance sheet management, and better linking debt issuing/repayment with budget and fiscal strategies.

Outcomes: Change in focus

Economic Performance	State Sector Performance	Macroeconomic Stability
<ul style="list-style-type: none"> A greater prioritisation of the issues we are involved in, so as to ensure that we are focussing on pervasive and significant economy wide issues, because these are the ones expected to have the biggest effect on growth. A greater focus on the explicit identification of the results that matter for the economy and ongoing testing of these results to ensure our advice remains current and draws on latest information. A shift in emphasis from an aggregate growth story to more specificity about the individual components/drivers of growth. Utilising this information to put a greater focus on providing advice to Ministers on key policy levers that Ministers could use to improve growth outcomes in sectors that matter. An increased ability to test frameworks and show that these have been assessed against the results present in key sectors. A greater focus on scanning areas that matter and identifying issues in advance and proactively raising these with Ministers. 	<ul style="list-style-type: none"> Differentiating our involvement with sectors and Government entities dependent upon performance, significance and Ministerial priority. Assessing the efficiency, effectiveness and fiscal consequences of the institutional design of priority Government sectors, and of key policies and/or regulatory settings in those sectors. Monitoring and advising on the performance of the institutions, policies and regulations in those sectors. Monitoring and advising on the performance of key Government entities within the key sectors. Supporting Ministers in setting expectations for sector and entity performance, and measuring actual performance against these expectations. Analysing and advising on the performance/value-for-money of base spending, and new spending, in key Government agencies and sectors. Using tools such as productivity and performance analysis to support this analysis. Undertaking thematic performance analysis of cross-cutting issues such as the management of capital assets across the state sector. Identifying and celebrating exemplar performers. Advising Ministers on the performance of the state sector as a whole. Advising Ministers on the effectiveness of state sector management levers, both across the state sector as a whole but also within individual sectors, and on options to improve the effectiveness of those levers. 	<ul style="list-style-type: none"> More strategic engagement with departments based on greater dissemination of information on the overall fiscal position, and placing discussion on individual issues within this context. A step change in focus, with Vote Teams working on areas that are significant to the overall fiscal position, and ensuring the results of long term fiscal projections are specifically picked up in day to day vote and policy work. A quality improvement in our tax forecasting, alongside an improved public understanding of forecasting limitations. More explicit links being made between the Government's revenue strategy and overall fiscal strategy. The Budget process to have a greater focus on the base spend, and to be informed by more focus on performance and what Ministers are getting for their investment. Ensuring our reporting products are put in a broader context that adds value to the public interpretation of the financial position and operation of fiscal policy.

Using Deputy Secretaries differently

- **More emphasis on engaging with external stakeholders** to shape the agenda and influence decision-makers, eg engaging with key private sector individuals, and to tap into their sources of knowledge to increase our own impact.
- **More senior contact with the Minister**, both individually on issues and collectively as a Strategic Leadership Team.
- **More active leadership of the public sector** at all levels, particularly using Deputy Secretaries and myself more in this role, but also with an increased focus at manager and analyst level on leadership and influencing within priority result areas. This is consistent with the findings of the Central Agencies Review.
- **More active internal leadership of the policy agenda**, including greater strategic shaping by Deputy Secretaries, and greater policy leadership by managers.

Creating a new position of Deputy Secretary Central Agencies

- **This position will provide extra focus on working across the three central agencies** to increase our collective leverage on performance issues, and to ensure internal co-ordination and appropriate prioritisation of issues of interest to central agencies and Ministers collectively. This Deputy Secretary will work across all 3 outcome based groups, but will be particularly linked to the State Sector Performance group. The details of this role will include:
 - Co-ordinating the wider processes resulting from the Central Agencies Review, the improved co-ordination and linkages across central agencies, and forging relationships at senior levels across the central agencies
 - Co-ordinating Treasury's input into the work led by other central agencies on improving the quality of policy advice.

Creation of Assistant Secretary positions

- **Creation of a layer of Assistant Secretaries** to focus on more active internal leadership and management. The Assistant Secretaries will sit below the Deputy Secretaries in the hierarchy, and will have managers and directors reporting to them. Having Assistant Secretaries will reduce the number of direct reports to Deputy Secretaries, and free up Deputy Secretary time to focus more on agenda-shaping and external engagement discussed above.

More systematic focus on engaging with the Minister and other stakeholders

- **Creation of a CE's Office.** As well as expanding the assistance I currently get on day-to-day issues, this unit will explicitly focus on better identifying and acting on the needs of the Minister of Finance and other Ministers. They will also have an explicit mandate to ensure a team takes specific responsibility for issues that do not have a natural "home" or that run across several parts of Treasury. Another part of this mandate is a "long-term challenge" role of ensuring that our frameworks and our knowledge base are appropriate to provide advice on likely future issues.

Stronger focus on results

- **A much stronger focus on the specific results we are seeking** and on prioritising across the Treasury. To this end we are creating a stronger centre, run from an Organisational Performance group (which includes teams from the former Corporate branch). This group will include a specific team responsible for measuring Treasury's performance and identifying future priorities for the organisation.

Other changes

- **A range of other, more internally focused changes** to Treasury's systems and processes to help support the change, such as quality management, resource allocation and performance measurement. However, the most important thing to making Stepping Up work will be changing the way we operate within those systems, processes and structures.

Next Steps

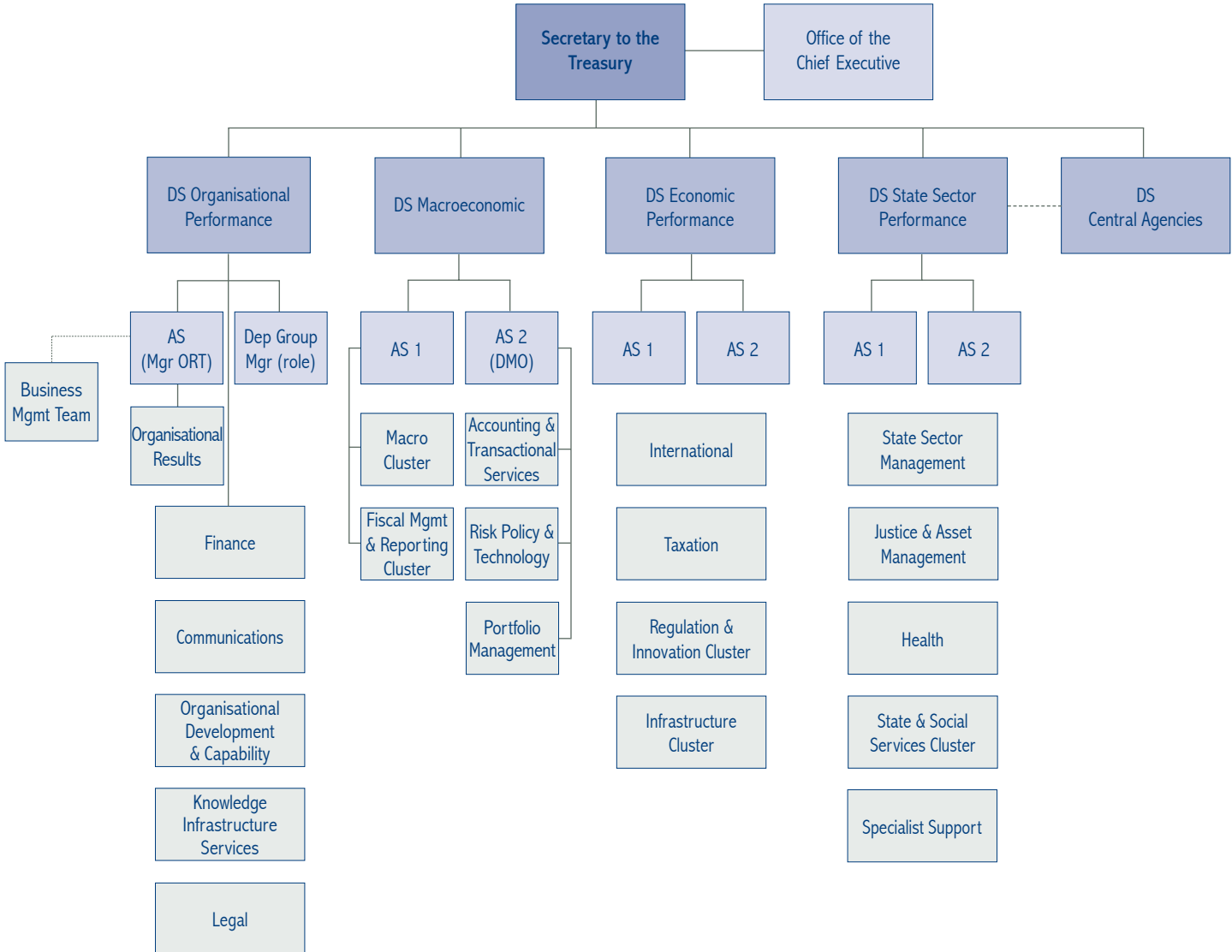
The implementation of these changes will run from now until early March 2007, with the changes to structure and reporting lines occurring from late January through February. We will continue to operate within existing baselines.

John Whitehead
Secretary to the Treasury

November 2006

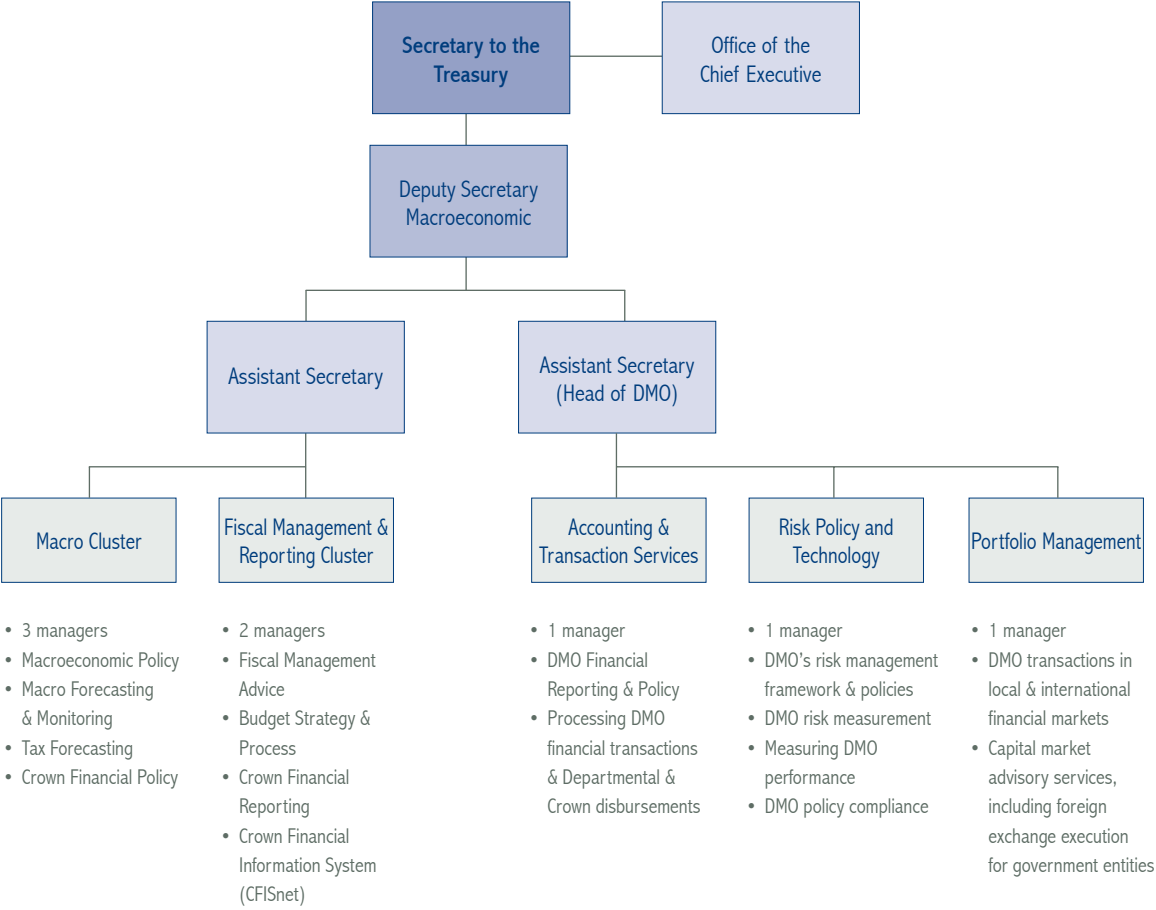
Stepping Up: Organisation Charts

The Treasury

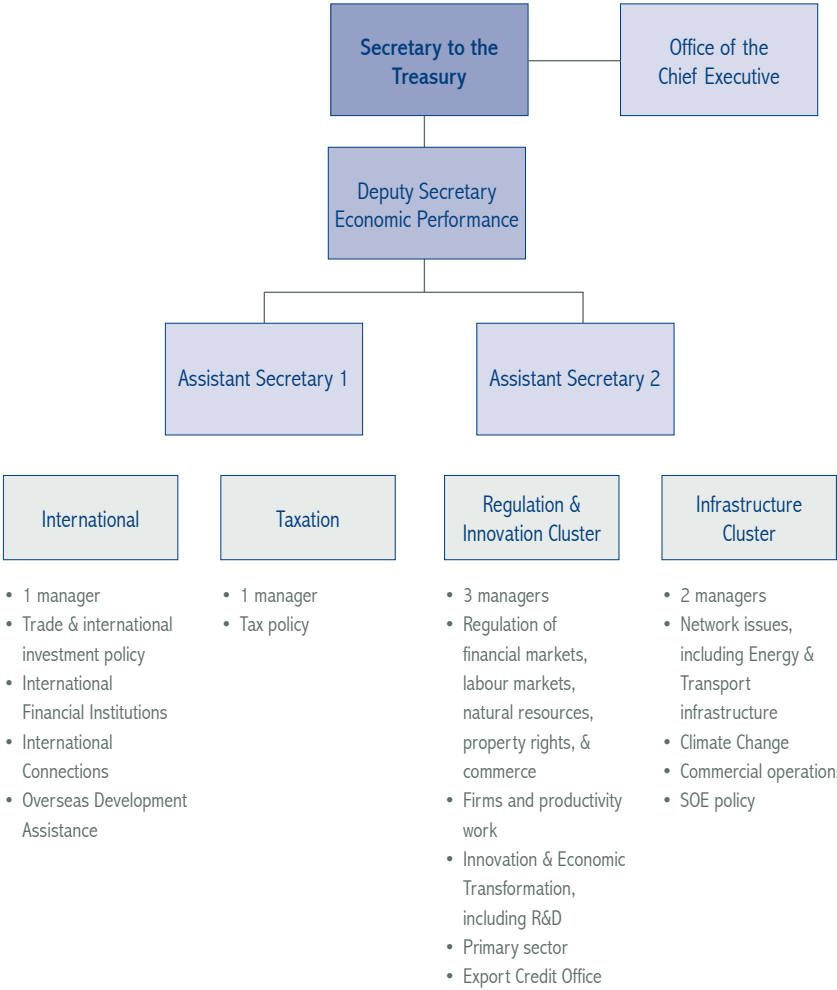


More detail on the teams within the three policy groups is provided in the next three charts.

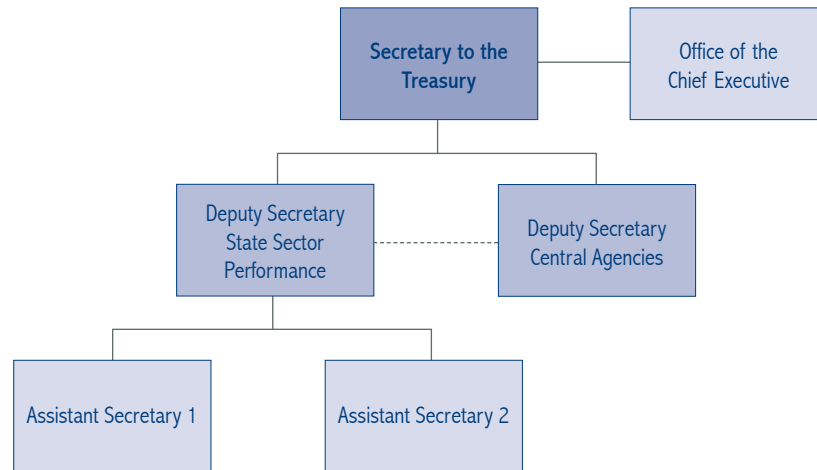
Macroeconomic Group



Economic Performance Group



State Sector Performance Group



State Sector Management	Justice & Asset Management	Health	State & Social Services Cluster	Specialist Support
<ul style="list-style-type: none"> • 1 manager • Monitoring and reviewing, jointly with the SSC, the performance of the public sector management system • Analysing the efficiency and effectiveness of the state sector as a whole • Advising, jointly with the SSC, on policy and systems changes to improve the efficiency and effectiveness of the state sector 	<ul style="list-style-type: none"> • 1 manager • Justice • Treaty of Waitangi • Defence • Crown Financial Institutions, Air NZ, NZ Post 	<ul style="list-style-type: none"> • 1 manager • Health policy 	<ul style="list-style-type: none"> • 3 managers • Votes related to Government Services & population agencies • Housing • Welfare & benefits • Education & skills • Labour market participation, Immigration & ACC • Policy related to families & children 	<ul style="list-style-type: none"> • 1 manager • Providing indepth support to Treasury teams in a range of specialities • Specialities to include: <ul style="list-style-type: none"> - Sector & organisational performance - Econometrics & specialist research skills - Capital management & related financial expertise - Tax Modelling

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