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**Speech to the Institute of Public  
Administration New Zealand**

**Building a better public service**

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Good morning and thank you to IPANZ for the opportunity to speak today.

Public policy and public management are challenging tasks at the best of times – much more difficult than commentators, business people and the public often think.

It is this challenge that attracts so many capable, motivated New Zealanders to every level of the public service.

That high level of ability and commitment has never been more evident than in the days and weeks following the Christchurch earthquake, with large numbers of public servants working long hours for the public good.

I'd like to offer my personal thanks to all those public servants – and many will be here today – who have contributed to the rescue and recovery effort in Christchurch.

As New Zealand faces new economic challenges and tight spending constraints, innovative public servants and good public sector management will be critical.

That involves a significant change in direction.

The 2000s were characterised by the idea that big increases in government spending, dispensed across a whole range of areas and in a relatively untargeted way, could transform society.

According to this view the sheer weight of spending would eventually prevail.

However, that particular experiment ran out of money in 2008 and has nothing genuinely transformational to show for it.

Public management in the foreseeable future will have more prosaic goals - sorting out which public services and income support measures are the most effective and working out how to provide those within a tightly-constrained budget.

Together we will be under constant pressure to deliver better services for little or no extra money.

The Prime Minister and I have both spoken at length this year about the need to get the budget back into surplus, to start paying down our rapidly rising debt burden, and to build a solid platform for growth based on savings, exports and productive investment.

The second Canterbury earthquake has made these adjustments more necessary than ever.

I don't want to rehearse all these issues again today, except to clear up one misconception about New Zealand's debt.

Because most developed countries guaranteed their banks, financial markets increasingly add private and public debt together to assess credit risk. So even though our government debt is lower than some other countries, that alone does not provide an accurate picture of our position.

New Zealand's total debt to foreigners is among the highest in the world and over the next few years that will be pushed even higher by growing government debt.

Getting on top of our fiscal position, and rebalancing the economy, necessarily means the Government being a smaller part of the economy than it is now.

The previous Government's decision to massively ramp up spending in the 2000s left behind a large, structural budget deficit, and a bloated public sector that by 2008 was crowding out the competitive sectors of the economy.

Despite the best efforts of the Government and the public service since then, the deficit may reach 8 per cent of GDP this year, which is uncomfortably high. But we believe if we make careful decisions about government spending we can still get back to a meaningful surplus in 2015/16.

After that, the Government is committed to resuming payments to the New Zealand Superannuation fund and generating large enough surpluses to pay back most of the debt we are currently accumulating.

That means public spending restraint is no temporary aberration. It is effectively permanent.

So over the next few years the Government needs good advice and new thinking from the public sector.

In fact there has never been a better opportunity for experienced and committed public servants at all levels to contribute to constructive change. It won't be easy but it will be rewarding.

Change is underway already.

The Government has made its longer-term constraints clear and encouraged departments and other entities to take responsibility for adapting to them.

We believe people who understand their own services are in the best position to make financial tradeoffs and to introduce innovation which genuinely improves public services.

That approach seems to be working.

Chief executives and senior public servants have become more focused on understanding how their organisations work, what drives their costs, and how to measure service levels.

We are now getting approaches from chief executives with ideas for change that have not been demanded by Ministers, and that is greatly reassuring.

They have also contributed to a range of collective processes within the public sector, such as joint procurement, shared services and benchmarking.

The first four joint procurement projects alone are expected to save around \$115 million over the next five years.

A number of agencies have been benchmarking the cost-effectiveness of their administrative and support services like IT and human resources, and this has led to some notable improvements.

We are currently updating the results of this exercise and will release them in the next month or two.

Last year and again this year - as part of long-term changes in the Budget process - departments have been required to put together four-year budget plans and I'm pleased to say many show a very thoughtful approach to delivering more for less.

We are also lifting the quality of capital investment decisions, through the publication of the government's first Investment Statement, the work of the National Infrastructure Unit and initiatives such as public-private partnerships.

A number of projects have focused on large-scale, long-term change within particular sectors.

The defence review, for example, focused on finding operational efficiencies to help fund extensive long-term capital requirements.

In housing, our aim has been to use the \$15 billion of taxpayer-owned houses more efficiently so we can respond better to thousands of New Zealanders with serious housing needs and foster more innovation in the social housing sector.

Work in the justice sector work has focused on making the process by which offenders find their way into and through the justice system more transparent so we can design effective interventions and control rapidly-growing costs.

A tremendous amount of work has also gone on in the welfare area, both from public servants and the Welfare Working Group. This is extremely important both for the costs involved and because long-term welfare dependency imprisons people in a life of poor outcomes and limited choices.

These are all long-term projects which require ongoing engagement with every public servant involved, as we look for better solutions that aren't all obvious now.

These changes are accompanied by increased transparency. The Government now publishes its goals for health and education, and publicly reports against them – a process we hope to extend to the welfare and justice sectors.

We are also publishing internal public sector performance information such as the Performance Improvement Framework and the Better Administrative and Support Services project.

Finally, the Government has also made some structural changes in the public sector, for example by bringing Archives New Zealand and the National Library into the Department of Internal Affairs; creating the new Ministry for Science and Innovation; and bringing together MAF, the Food Safety Authority and the Ministry of Fisheries.

We have set a high threshold for structural change so we can be sure the effort and disruption is worth it.

I want to turn now to the future.

The Prime Minister has already signalled that the Government intends to pick up the pace of public sector reform.

It is apparent to us after two years in Government that there is more scope than we expected for improvement in the focus and efficiency of public services.

We are confident that over time we can continue to get better value for money in the public sector. Indeed we are obliged to.

We will continue to be guided by three principles, and I want to talk about each of these in turn.

**Our first principle is having clear priorities.**

We will focus our efforts, and government funding, on the things that matter most to New Zealanders.

New Zealanders as a whole have an obligation of care to vulnerable people who depend on public services – children, for example, the aged, and struggling families.

And we have an obligation to maintain and strengthen the core functions of government, such as law and order, public infrastructure, and the ability to respond effectively to disasters like the two Canterbury earthquakes and the Pike River Mine disaster.

At the same time, as I said earlier, the Government has to reduce its overall size as a proportion of New Zealand's economy.

Something has to give, and that has to be lower-value activities the government is currently funding.

This is not a time we can afford to indulge in a whole lot of "nice-to-haves", even though, for sections of the population, they feel the loss of those services or funding streams.

The alternative is that "nice to haves" come at the expense of necessities and at the expense of fairness to people with more need.

The mechanism for reducing the size of government has already been set by the adoption of tight new operating spending allowances at a maximum of \$1.1 billion a year. This year we are looking to reduce that allowance further.

But future spending allowances are simply assumptions in a spreadsheet until actual changes are made in the real world.

And many of those changes can't be made by chief executives themselves because they involve decisions about what the Government should or shouldn't be funding.

Those decisions belong to the Government itself, consistent with its political mandate and accountability to the New Zealand public.

So the Government will continue to make decisions about what to stop increasing, scale back, or stop doing altogether.

### **Our second principle is achieving high-quality services.**

We will ensure that public services are modern, responsive and provide good value for money.

New Zealanders increasingly expect the level of responsiveness, innovation and use of technology that they see in the market economy.

Public services have not always changed as rapidly as services in the rest of the economy, partly because government agencies are risk-averse and don't feel the keen edge of competition.

In some areas, a greater degree of contestability would help.

In others, government agencies need support to change the way they do business with the public.

In any case, government agencies will be encouraged to seek new and better ways to deliver public services – they shouldn't accept that the way things have always been done is necessarily the best way.

**Our third principle is reducing waste.**

We will ensure that government administration is as efficient and well-organised as it can be.

The longer we are in office the more it is clear that the costs of running government are too high, there is too much duplication and the organisation is too cluttered.

For a country of just 4.4 million people, we have 38 government departments, over 150 crown entities and more than 200 other organisations for which the government has some responsibility.

Too many agencies in the wrong place risks diseconomies of scale, transaction costs, duplication of roles and back-office functions, and in some cases reduces the cohesion and quality of frontline services.

New Zealand's limited governance and management skills have to be spread over a large number of agencies, all of which are vying for ministers' time and attention.

As the Prime Minister indicated in his Statement to Parliament last month, you should expect to see more consolidation of agencies and functions over the next two or three years, where those changes have the potential to improve the direction, focus and results of the public service as a whole.

I have said previously that this Government has a high threshold for structural change and that remains the case. But where the benefits – in terms of enhancements to services and fiscal savings – exceed the costs, the Government will certainly entertain changes.

However the Government is practical. Where there is a need for a new agency – such as the new earthquake recovery agency the Prime Minister and my colleague Gerry Brownlee are announcing in Christchurch today – we will consider that.

Another agency that falls into that category is Crown Fibre Holdings, set up to negotiate the roll out of ultra-fast broadband.

However structural changes are only one part and, in the end, not the most important part, of the Government's move to pick up the pace of public sector reform.

Alongside that particular stream of work you should also expect to see more back-office savings initiatives, fewer positions in core government administration and more projects - like I outlined earlier – that tackle the challenge of more for less.

This will still make up the bulk of change in the public service.

Details of these projects will be released when they have been worked up and after Cabinet has had the opportunity to consider them.

Some of these might appear quite dull but that is probably how it should be. The back office, internal workings of the public sector will be of little interest to the public, which is rightly focused on frontline services and costs.

### **So what is the end point for public sector reform?**

Let me be clear about where I see us getting to.

I'd like to see a New Zealand where the Government is consistently running surpluses, delivering the public services New Zealanders really want and need, and where the public sector operates as an efficient and world-class organisation.

In that future, government agencies will be increasingly organised around meeting the needs of households and businesses rather than expecting New Zealanders to navigate through a maze of specialised agencies to get the services they require.

In some cases, this will mean harnessing technology much more aggressively to seamlessly deliver more transactional services to New Zealanders in their home or business.

One project with this aim is Servicelink, which involves IRD, MSD and the Department of Internal Affairs working together to provide simpler ways for New Zealanders to have real-time access to their income support and tax accounts with the Government through a single on-line site.

While many services will continue to be delivered through government agencies, they will increasingly also be provided by non-government organisations, iwi and private sector providers.

Social housing is an example where greater steps are being taken in this direction.

In addition, all agencies will need to change the way they operate so they can cope with a period of ongoing financial constraint, while also strengthening frontline services.



This direction is likely to lead to fewer government agencies over time, to stronger governance across agencies where it is needed and for agencies to be more frequently based around common services and processes.

Contrary to what some might think, I do not have a pre-prepared master plan sitting in my back pocket and I do not believe there is one elegant model of public management that should be applied in all cases.

We are a Government that is interested in what works, and that needs to be worked through on a case-by-case basis.

We are committed to making considered decisions and are open to ideas or propositions from the public sector itself.

We want to work with public servants to ensure we improve the focus and results of the public service as a whole.

And we will continue to engage the leadership of the public service in changing the way it does business.

Ministers will be clear and consistent about their priorities so that public servants can focus their efforts effectively. We will have an open door to new ideas and will support innovation even if it involves some risks and inevitably some failures.

In return, we ask public servants to proactively seek out new and better ways to deliver services, not accepting that the way things have always been done is the best way.

And we want to build on the momentum that is already in place.

But both the public and the public service can be assured that the Government is only interested in considered and consistent change.

Let me repeat, we are not interested in change for its own sake. We want to achieve a better focus on what matters to New Zealanders and meet expectations of better public services within constrained resources.

That won't be an easy task. But it is the task the Government and the public service face together – this year and into the foreseeable future.

So let's get on with it. Thank you.