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# The Changing Face of the Treasury

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Good afternoon, it's a pleasure to have the opportunity to talk to you about the changing face of the Treasury.

One of the most important roles the leadership of any organisation faces is to shape it to be as effective as possible. This applies to me and my senior team and this afternoon I'll tell you about how the Treasury is taking on new ways of working, new ways of thinking, and new ways of engaging. We are lifting our capability and effectiveness to help meet global and national economic challenges, deliver results within tight financial constraints, and work towards our vision of higher living standards for New Zealanders. It's a story of ongoing change that I'm proud to be a part of and excited to share.

## Our roles

Let me start by explaining a little about the Treasury's different roles. The short version is we are the government's lead advisor on economic, financial and regulatory issues. We advise the government on its macroeconomic and fiscal policy frameworks. We help manage the financial affairs of the Crown, and we monitor the performance of state sector agencies and work with them to improve performance. We also deliver operational services through the Debt Management Office, Export Credit Office and our Commercial Transactions Group.

Our work is focussed on delivering three outcomes: improved economic performance, a stable and sustainable macroeconomic environment and a more efficient and effective State sector. Our vision is a world class Treasury that is working towards higher living standards for New Zealanders.

## We care about living standards

We put our focus on policies that increase the opportunities, capabilities and incentives for people to participate productively in economic life and we naturally have an interest in how growth contributes to living standards. We also have an important role to play in supporting government agencies to build their capability to better deliver results now and in the future.

It may surprise some people to hear that when the Treasury talks about living standards, it's not all about the almighty dollar – we see income as only one of many important factors. We live in a community, not just an economy, and a single income number can't measure our standard of living. The Treasury recognises that living standards are affected by physical and financial resources such as infrastructure, housing and savings; people's health, education and skills; social institutions and conventions; and natural resources such as quality water, a stable climate and biodiversity.

This thinking is at the heart of our Living Standards Framework, a new tool we use to assess the contributions our day-to-day work makes towards our vision. The framework doesn't generate simple answers, but it ensures that we consider both material and non-material factors that impact on living standards when we develop policy advice, and it helps us articulate the choices we have to make in striving for a growing economy. I believe the framework provides a solid foundation for our advice to Ministers, giving them greater confidence when making their decisions. I think it's also a clear demonstration that the Treasury's view of the world is far broader than many people realise.

## The world is changing and the Treasury is changing with it

A broad view and an enquiring mind are essential for us to be a world-class Treasury. The environment in which we work has rarely been more challenging, and we need to adjust to the reality that the 'rules of the game' are different to what we may have become used to.

The world is in the midst of what will be a prolonged period of instability and risk – an age of volatility. Rapid changes in economic power under way now will mean that the structure of the global economy is likely to be very different in 10 years' time.

Existing global rules, standards and norms are under severe stress, and countries everywhere are trying to understand the new world and adapt to it. Economics is at the heart of this debate. You just have to look at the economics magazines or the business pages to see that people are re-examining a few economic assumptions that used to be taken for granted, or asking what the objective of economic policy should be, or even whether the economic growth that has occurred in the last 250 years was an historical anomaly that is now over.

Some things have of course not changed. Without question it remains a fundamental truth that successful economies need, among other things, a stable and sustainable macroeconomic framework, sound monetary policy that delivers stable and predictable prices, a prudent fiscal policy and debt that's under control. And it remains true that a well-regulated financial system matters, that properly functioning markets matter, that price signals matter and that incentives matter.

What has changed, and is changing, is the environment we're now working in. It's much more complicated. That's partly about the ongoing impact of the global financial crisis, it's partly about the sophistication, pace and amount of information flows that traverse the globe and it's partly about changes in the drivers of global economic growth, the impact of a rapidly-growing Asia and huge structural change in Europe. Factors such as these are putting new and significant pressure on policy analysts and on decision-makers.

For my part, I'd argue that the objective of economic policy is to raise living standards, with growth being an essential dimension of this.

We continue to see the impact of the global financial crisis on the world and to feel the effects in New Zealand. The fact is we are not returning to the pre-crisis 'business as usual' period of strong and stable growth from traditional sources. Although the US and European markets will remain large, relatively wealthy, sophisticated and influential, it's pretty clear that for the foreseeable future, emerging markets – particularly in the Asia-Pacific region – are where the action will be. Our challenge is to seize the opportunities in our region while we deal with the imbalances in our economy, focus on our productivity and competitiveness, rebuild the Crown's balance sheet, recover from the shock of the Canterbury earthquakes and support the public service to deliver increasing value to New Zealanders. Under tight financial conditions the Treasury, like others in the public sector, is seeking to achieve more for less.

In this context, achieving our vision of higher living standards for New Zealanders will, more than ever, require us to provide sound advice that policy-makers and the public can be confident about. In a sense the Treasury is a policy-ideas factory and service delivery shop with the government as a very discerning customer. While they might not take everything on our shelves – and sometimes may not purchase anything at all or may get something elsewhere – we need our customer to feel assured that the Treasury delivers the right range of products of the highest quality and offers good value for money.

We won't be able to accomplish that by relying solely on the traditional Treasury strengths of crunching numbers, stretching dollars and pinching pennies – though they remain important. It's imperative that we take a hard look across the board at the way we do things, and we are doing just that.

## Ambition for the Treasury

My ambition is that the Treasury is an exciting and energetic hothouse of ideas. I want us to be powered by intellectual curiosity and focused on work that has a real and positive impact. I want us to be one of the most influential and respected organisations in the country, renowned for credible analysis and well-researched evidence that presents a more complete picture of complex issues. I want our intellectual and analytical strength to be matched by a deep understanding of what's happening in the real world, and have that combined knowledge translated into first-rate policy advice.

This ambition is reflected in a lot of the work we've produced over the last year. For example, after the 2011 general election we provided a comprehensive range of evidence and policy options to the incoming Government on improving New Zealand's economic performance, and we worked with other state sector economic agencies to create a shared view on economic strategy. This fed into the development of the Government's Business Growth Agenda.

A second and no doubt more controversial example has been our work on education. The Treasury continues to see student achievement as being of critical importance to raising growth and productivity over the long term, and directly connected to our vision of higher living standards. We engaged with schools, academics, and others in the education sector, and delivered solid analysis and evidence that supported development of the Government's policy agenda for schools. The work informed public debate about improving the quality of teaching. My aim is for the Treasury to continue to be respected for the standard of our analysis and advice, even if people do not always agree with our recommendations.

We've just published our latest Performance Improvement Framework Review, which gives a picture of how well we're raising our performance in order to deliver to our full potential. Reassuringly, the report tells us that the Treasury is making good progress and has the right strategic direction for the future.

## Lifting the performance of the Treasury and the state sector

A major motivation behind the changes we're going through is to boost not just our own capability and performance, but performance across the state sector as a whole.

Among the many things we do, the Treasury has a role as part of the 'Corporate Centre' for the state sector. We, along with our partners in the State Services Commission and the Department of the Prime Minister and Cabinet, are acting as one team to help drive state sector performance and support better public services. We can achieve better results for New Zealand by working together, using our complementary levers and having a shared game plan, than we can by working independently.

We all have an interest in making the state sector more efficient and effective. The quality of expenditure, regulation and other interventions by state sector agencies has a significant impact on the living standards of New Zealanders. And given this impact, the state sector needs to do the right things in the right ways at the right time – and they must be affordable.

One of the Treasury's key contributions to the Corporate Centre will be to pull together a view of financial and non-financial performance across government activities. This will give us a more meaningful picture of the state sector in a highly-challenging fiscal environment, and will help us to support and advise the government to get ahead of the tough calls and risks.

## Outward focus and collaboration

Much of the change I've talked about so far has largely been happening behind Treasury's doors, but that's really only part of the story. Absolutely central to the transformation we're going through is our drive to be more outwardly focused and collaborative.

If we are to achieve higher living standards for New Zealanders, then working with others is critical. The Treasury does not have the monopoly on good ideas. Nor can we achieve our goals without taking others with us. So we have been changing the way we engage with people outside 1 The Terrace and reaching out to benefit from other public and private sector expertise. In part this is about working in partnership with other agencies and using our complementary skills to deliver better services for New Zealanders. More broadly it is about engaging with New Zealanders to understand better how we can make a difference and ensure that a diverse range of perspectives are factored in to our policy advice.

Let me take you through a few examples of how we're working more collaboratively with others, starting with welfare reform.

The Treasury and the Ministry of Social Development have collaborated as joint leads on a reform programme that significantly changes New Zealand's approach to welfare. The investment approach established for the future will help get people back into work and participating productively in society. We know that work is of key importance to lift

people out of poverty, but also because it will lift living standards and improve social outcomes. We have worked with MSD to establish the accountability arrangements and valuation of the benefit system which underpin the investment approach. In a tough fiscal environment, we have also worked hard to find ways to fund what will be a significant investment in the benefit system over the next five years. We jointly own the issues, the problems, and the possible solutions.

In taking a far more outward-looking approach to our work, we are of course determined to engage beyond the state sector. A very good case in point is the way we're developing the next statement on the Crown's long-term fiscal position, which we are required to produce at least every four years. These statements provide 40-year-plus projections on the Crown's fiscal position, identify challenges that will face future governments, such as those arising from society's ageing population, and provide the government, members of the public and their representatives in Parliament with information on evidence-based options for meeting those challenges.

Putting together the report requires careful consideration of issues like education, health, retirement income, tax and welfare. We think it's important to put the quality of our work under the microscope, as well as contribute to the wider debate about some of the big fiscal challenges we face as a nation. For us, the Long Term Fiscal Statement is about much more than just publishing a document. It's about a meaningful process of engagement with a diverse range of groups that will ultimately be affected by these issues in their lifetime or in their children's lifetime.

We've taken a new approach to doing this by bringing together an independent panel of economists, academics and commentators to test our assumptions and analysis. We're also opening our work to public scrutiny by publishing it on the Treasury website as we go. And next month we'll be co-hosting a conference with Victoria University where experts will be able to present their own views on key issues. Being more engaged externally has helped create an environment for open debate and commentary about the policy options available to achieve long-term fiscal sustainability.

## The need for greater diversity

Ultimately, the success of change at the Treasury lies in the hands of our people. The Treasury is defined by the quality of the people we have, and that puts added weight on the importance of staff development and recruitment, the knowledge and skills we foster, the behaviours we encourage and the values we embody. I am privileged to lead a talented group of public servants who are committed to improving the living standards of New Zealanders.

Of course in this time of increased complexity and rapid change, I am conscious that, to be a world-class Treasury, we need to be more diverse in our thinking and adaptive in our behaviours. I want us to be more open to new ideas and to ask ourselves, not least in the face of post global financial crisis realities, whether we have the models and frameworks we need. We have to understand different perspectives, constantly look for new insights and recalibrate our views in light of new evidence. So we've decided to take a very deliberate approach to help bring this about.

Our Diversity Strategy launched in February this year focuses on three key areas: diversity of thinking, including new approaches to problem-solving and creativity, ethnic diversity to better reflect the views of the broader society we serve, and the proportion of women in senior leadership roles.

The Treasury is not a bunch of white men in grey suits with a beige mindset. For example if you look at the gender balance of our staff, it has been around fifty-fifty male and female for many years now, and in fact seven out of our last eight management vacancies have been filled by women. We also have a number of staff hailing from different parts of the globe and employ people from a range of disciplines and experiences. Along with economists, we've got qualified biologists, psychologists, anthropologists, sociologists, musicologists, and others.

While we've undoubtedly made progress, we know there's more to be done to address the under-representation of women in senior leadership positions, increase our ethnic diversity, and bring greater Maori perspectives to our work. This won't be an overnight transformation, but some of the first things we're doing is implementing improved recruitment strategies and processes to attract a more diverse applicant base, and initiating development programmes focused on Maori engagement.

It's consistent with what our latest Performance Improvement Framework review is telling us. The Treasury is changing and we've still got some way ahead of us. We have to keep moving with pace to achieve our vision, so we'll be keeping our foot on the accelerator and our eyes firmly on our destination.

## Conclusion

Having looked forward at the coming decades, I'd like to finish my discussion about the changing face of the Treasury by taking a look way back to when the Treasury was formally established long ago in 1840.

It seems that from the earliest days the public already had some firmly-held and not altogether consistent views about the Treasury and its officials. The first Treasurer, George Cooper, was described as "a middle-aged man of reputable and serious countenance and deportment" and yet Malcolm McKinnon's history of the Treasury notes that by 1860 – when their number had ballooned to four – Treasury officials were regarded by most colonists as "venal or incompetent or both".

Jumping back to the present day, how might perceptions of the Treasury by some quarters of the public have changed over the course of 172 years? Well, in some respects I'd have to say "not much". According to a recent comment posted on interest.co.nz, "Treasury are a pack of pencil-heads living in an ivory tower". And a few weeks ago someone e-mailed me to declare that "as a department you produce nothing but reports and comments, and most of your reports and predictions are wrong", before wishing me a really bad day. I think I'd have my work cut out trying to convince them that the face of the Treasury is changing, but I hope I've been able to convince some of you.

I'm conscious that if the Treasury wants to build public understanding and turn perceptions around – to gain a reputation that better matches the reality of the organisation I lead, the importance of the work we do, and the talents of the people I work with – then we have to earn it. I am absolutely determined that we will.

We are an organisation that is committed to being bold and innovative, passionate and ambitious, collaborative and challenging, adaptable and focused. We're operating in the midst of formidable domestic and global challenges, and I'm proud of how the Treasury is responding to those challenges. We're thinking differently, working differently and engaging differently. Our journey of change isn't over, but I know we're travelling in the right direction.