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

**Banquet Hall, Parliament**

*Thursday, February 19, 2014*

**(Check against delivery)**

Good afternoon.

This is my seventh opportunity to talk to this audience, which reflects both the stability of this Government and the opportunity provided by a clear election mandate to embed changes in public services.

I want to start by congratulating the public service.

While it maintains a necessary habit of self-criticism, the public service has achieved the targets this Government has set for it.

We have been able to live within small allowances for new funding.

We have achieved better results for the public and higher levels of public trust in public services.

According to the Kiwis Count survey, New Zealanders' overall trust in public services is 16 percentage points higher today than it was in 2007.

That is a real credit to public servants across New Zealand.

So congratulations are well-deserved. But we have much to do.

By now it should be clear that the John Key-led Government is serious about two things.

Firstly, reducing costs in the public sector, as demonstrated by

- a more flexible Public Finance Act;
- the development of functional leads;
- benchmarking of back office costs and ongoing fixed baselines;
- and by ongoing investment in the public sector, particularly in information technology on which some \$4 billion will be spent over the next four years.

Secondly, we are serious about getting better results for our customers by continuously improving public services.

In the case of economic agencies, we are working to a clear common framework – the Business Growth Agenda. It is helping drive business confidence, more investment and more jobs.

And the public expects us to keep up with the rest of the world in how we transact with businesses and citizens.

Today I want to focus on the implications of this strong customer focus for our larger spending social agencies.

I use the word 'customer' deliberately.

It feels a bit uncomfortable because it implies someone who might have an opinion about our service, or might want a choice, or might have aspirations of their own that don't suit us.

Words like 'client' haven't delivered the culture shift in the public service that is needed to drive a deeper understanding of the New Zealanders we serve and how to make a bigger positive impact on their lives.

The biggest public sector challenge for the next few years will be adapting our existing departmental systems to focus more on getting better results for New Zealanders.

Getting better results will require systematic measurement, information sharing, contracting and evaluation of interventions.

The public service has already achieved a considerable amount in each of these areas over the last six years.

At a technical level, the Open Data Initiative, the Integrated Data Infrastructure at Statistics New Zealand and the Ministry of Social Development's Integrated Child Data Set have improved access to data across the public sector.

The information being collected is being used in a variety of new ways.

To give just a few examples, the Ministry of Social Development is using the investment view of welfare liability to create a much richer understanding of people on benefits and what actions we can take to reduce long-term dependency.

The Children's Action Plan aims to protect vulnerable children using tools that include predictive risk modelling and better information sharing.

And we are developing contracting and evaluation tools through social sector trials, investing in services for outcomes at MSD, and navigators in Whanau Ora and Enabling Better Lives initiatives.

The next step in developing better customer focus is to incorporate these innovations in measurement, evaluation and feedback into the Budget process.

The Cabinet has directed the Treasury and social sector agencies to develop a new Budget process, which we call social investment.

The idea is that the Government will invest in individuals and families today for measurably better long-term results.

Better results for the individuals and families.

And better results for the Government's books.

This new social investment budget process will embed five major changes.

First, ministers will have far more information about populations than is available through the traditional budget process.

They'll be able to see what services are delivered where, and the results those populations are achieving in health, education, employment, and so on.

This will help inform where the next dollar of government spending can make the greatest difference.

Second, rather than purchase inputs ministers will purchase better results.

For example, the Government will purchase reductions in recidivism, rather than rehabilitation programmes.

It will be up to providers to judge how to achieve those results in view of local circumstances. We'll be tracking results at an individual and family level.

Third, testing for spending effectiveness will be core to this process. If we can't measure effectiveness, it won't be funded through social investment.

Fourth, we'll be systematically reprioritising funding to providers that get results.

And finally, we are exploring ways to test departmental bids against external providers who might find it easier to offer services for families and communities.

We'll be buying what works.

Budget 2015 is a further step for the social investment process, starting to mainstream recent approaches we have trialled.

Officials are finding out ministers are keen to apply tools such as cost-benefit analysis and return on investment to Budget bids.

And ministers want these tools to be directed at baseline spending.

Social investment will not be suitable for all public spending, or even a majority of it. But I can tell you it is here to stay.

And make no mistake. This social investment process will be disruptive to the way the Government conducts itself.

In 2009, I said that fiscal restraint would last the professional lifetime of everyone in this room. Six years later, I stand by that statement.

The shift in public services to organisation around the customer, rather than by government department, will also last for your professional lifetime. Here's why.

First, the public expects results, and results that are relevant to them.

Many of our customers live in a competitive, productive economy, and turn up every day to workplaces which have had to reorganise themselves in tough times to get better results.

They expect the Government to be as demanding and effective as they are. And they expect the Government to show them transparently why they should trust it.

It's no accident that trust in public service has increased as we have become more transparent about what we are trying to achieve.

We are more accountable for the results we deliver.

For example, in 2012 the Canterbury health system replaced a traditional referral-based, home-based exercise service with a results-based falls prevention programme.

Around 3,500 elderly people have already been through the programme.

Qualitative assessments report an improved level of confidence among participants.

For the health system, the programme has reduced ambulance presentations for falls by over 1,000 people, avoided 370 hip fractures, and all the misery that goes with an injury, which can be devastating for older people.

This has also freed up 57 hospital beds over three years, and returned around \$5 for each dollar invested in the programme.

That is the sort of evaluation and feedback that will become more mainstream through the social investment process.

The second reason organisation around the customer is here to stay is that the public expects we have the ability to meet the unique requirements of individual New Zealanders who need public services.

When the Government does its job well and intervenes effectively to increase resilience and social mobility, it saves money.

What works for communities and families works for the Government's books.

Third, the information revolution will fundamentally change the structure of government in the next 10 years because it provides us with information about those unique needs, which we can then act on.

That same technology makes choices available to people who would otherwise have no choice but to take what we give them.

And it allows citizens and departments to access better information at low cost, enabling decisions to be made closer to the customer and with real time feedback.

This shift in public services – putting the customer at the centre of decision-making – is inevitable.

The only choice is how quickly we get there.

Once the public sees benefits, it will push us along.

In education, for example, we now follow the progress of each child in our schools and report that to parents. That used to be controversial.

What happens in the classroom is more transparent, so education lobbyists no longer control that flow of information to parents.

We want less time on generalised debates about the system and more focus on children, particularly those who most need the benefits of education.

The flow of data enables tighter feedback loops.

A 14-year old who is falling behind at school can now be identified and have a targeted action plan in the classroom in a few weeks.

National Standards demonstrate more generally that holding information about the impact of public services is no longer the specialist function of government. Now everybody can access information at low or zero cost.

That means there will increasingly be competition for who can make the best use of that information to get better results. This Government wants to increase that competition, so we have more people chewing over our problems.

For example, the Government recently announced the next steps in its Social Housing Reform Programme. Public engagement on this programme began last week.

We are seeing a flood of good ideas and potential providers asking all sorts of questions about tenants in housing.

We will answer those questions by making public large amounts of relevant data previously non-existent and inaccessible to anyone but a handful of officials and ministers.

We're meeting state housing tenants who understand the information that is already available and contest it.

They too expect information and choice.

They are beginning to behave like customers, not claimants.

We welcome that because their feedback enables us to better help them realise their aspirations.

Public sector structures are still defined mostly by the control of information and characterised by long feedback loops.

The Government and public agencies continue to make decisions with only some of the available information and often with little information about customer preferences.

If we are going to reach the most vulnerable New Zealanders, solve their complex problems and effectively deliver on the high expectations of the Government and the public, we need to make better use of the information we already have.

The six-monthly update of the Government's 10 Better Public Services results are being published today.

Back in 2012, we set these results areas focused on improving health and education outcomes, reducing crime, lowering welfare dependence, and increasing online connectivity.

We have made good progress using the tools we have.

But the benefits have flowed mainly from simply focusing with some clarity on what we want to achieve.

The framework has contributed to some significant reductions in problems we used to regard as too hard to solve. For instance,

- there has been a 38 per cent reduction in youth crime since 2011;
- the number of teenage solo parents on a benefit has dropped by 40 per cent since 2011; and
- immunisation rates for Maori are now as high as the rest of the population.

The Government is determined to make further progress.

So what can the public service uniquely contribute?

You have specialist knowledge about how to use the tools of public finance and accountability.

New Zealand has world-leading public sector probity through the appropriations systems and the use of output statements. In recent years we've made changes to the State Sector Act and the Public Finance Act.

No one else has that knowledge – not politicians, stakeholders, media or customers.

The public service will be at the forefront of the transformation that puts the customer at the centre of public spending.



We need to get better at understanding and using these tools of public finance and accountability because they underpin management and operational decisions.

Let's take as an example one issue that is apparent when I visit frontline public services.

When officials from a range of agencies want to achieve a common goal or organise services around families or communities, the participants often have different levels of management and budget delegations.

So it's hard to get processes aligned when the transaction costs of cooperation are high.

But delegation levels are not a state of nature. At some stage, someone decided on the existing delegations and they can be changed.

Levels of delegation, which are often determined by the funding system, need to be aligned.

The same family can be accessing services that are bulk funded, formula driven, highly discretionary or input- or output-funded.

Any manager is going to be careful about delegating authority, to cede control of any aspect of funding or decision making to another department or another minister.

From ministers down, we need to pay more attention to improving the environment for authorising people to make relevant decisions to achieve better results.

Where the Government wants more delegation and flexibility we've had to buy it, by paying extra for new or experimental programmes.

We have not yet had much effect on improving the alignment of delegation and decision making in mainstream services.

Improved capability around contracting means the Government will be more inclined to reject slow and unfocused processes.

It can deal directly with commissioning agents and providers who are aligned with our results and have the capacity and willingness to manage financial and operational risk.

Rigidities around delegations is one expression of the drive to create certainty.

But if we are going to continue solving more complex problems, then we all need to continue to develop our toleration of uncertainty.

In particular, I'm talking about uncertainty in the light of clear results and accountability.

Actually, we are currently willing to tolerate uncertainty in the sense that much of the money we spend under existing programmes is likely to be not working.

But we continue to spend it, because we are certain that changing it will create fuss.

Another aspect of this risk aversion is that often you believe, as public servants, that you are managing our risk tolerance - that is the risk tolerance of politicians.

Sometimes you're wrong.

This Government has shown, where it is able to establish a strong sense of common purpose with the public, it will take political risks to execute worthwhile changes.

Higher profile examples of this are tax reforms, welfare reform, significant changes to urban planning and housing rules, significant state housing changes, and the Better Public Service results.

Another example is the publication of the Performance Improvement Framework assessments.

When this was first discussed, I remember a great deal of anxiety about the public backlash that could result.

In fact, it's become an effective, transparent mechanism for ensuring we focus on lifting performance and the public service deserves credit for that.

The constraint is our ability to use our unique knowledge of the institutional tools of the public service to solve more difficult and complex problems.

I believe we are in good shape to take the next steps up – we are clear about what we are trying to achieve and we know better the tools we need to achieve it.

The pay-off is the positive impact we will have on individuals, on families and communities.

Thank you.