

Hon Steven Joyce

Minister of Finance



21 February 2017

Media Statement

Speech to the Institute of Public Administration New Zealand

Good afternoon everyone.

Thank you John and IPANZ for hosting this event today.

Special guests, Ladies and Gentlemen. It's a pleasure to be here.

Today I'm going to talk about a renewed focus on improving productivity across the public service.

Economic Outlook

At a time when many parts of the world face significant political and economic risks, the outlook for New Zealand is positive. Businesses are investing, job growth is solid and wages are rising faster than inflation.

Treasury is forecasting 3.5 per cent growth for each of the next two years.

We are in the unfamiliar position of being one of the fastest growing countries in the developed world. New Zealand currently has the fourth fastest growth rate in the OECD.

This growth is driven mainly by the opportunities provided by our export markets, our global competitiveness, our high skills levels, our confidence to invest, and the resourcefulness and adaptability of Kiwi businesses.

But growth is not an end in itself. Growth is about creating job opportunities and higher wages for New Zealanders.

And we've seen very strong employment growth over recent years. The economy has seen another 328,000 jobs created since 2008; and Treasury expects a further 150,000 by 2021.

It also expects the average annual wage to reach \$66,000 by 2021. It is currently \$58,700 and has been growing at twice the rate of inflation.

For the first time ever we have 2.5 million people employed in New Zealand.

Our employment rate – the proportion of the total population aged 15 years or older in work – is 66.9 per cent. This is the highest rate New Zealand has ever had, and the second highest employment rate in the whole of the OECD.

This hasn't happened by accident. It's the result of hard work by households and businesses, backed by the Government's clear plan for our country's future.

Government's Books

Stronger economic growth is flowing through to the Government's books.

Tax revenue continues to come in ahead of forecast, and for the first six months of 2016/17 the Government's books showed an OBEGAL surplus of \$9 million.

Now a \$9 million surplus doesn't seem like a lot. But it is a significant milestone. This is the first time since 2008 that the Government's books have been in surplus halfway through the year.

It is still too early to be sure that a surplus will be achieved in the current financial year, particularly given the costs associated with the Kaikoura earthquakes.

However surpluses are predicted to rise to \$5.4 billion by 2018/19 and, provided they come to pass, that provides options for us as a country.

Budget 2017

I have four key areas I am thinking about in preparing for this year's Budget.

First, delivering better public services for a growing country – providing all New Zealanders with the opportunity to lead successful independent lives.

Second, building the infrastructure we need in growing a modern economy.

Third, we need to keep paying down debt as a percentage of GDP. We've set a target of reducing net debt to around 20 per cent of GDP by 2020. That's to make sure that we can manage any shocks that may come along in the future.

And finally, we remain committed to reducing the tax burden and in particular the impact of marginal tax rates on lower and middle income earners, when we have the room to do so. It is very important to remember that the money the Government spends comes from hard working Kiwi families.

For the rest of the speech today, I want to focus on the first of those priorities – better public services.

My predecessor showed, that the finance role isn't just limited to managing the books. It is an opportunity to push for better public services and to ensure we are getting the most value possible for taxpayer dollars.

Productivity in the public sector

In this vein, I am going to be very focussed as Finance Minister on improving productivity right across the public sector.

I want to acknowledge the work being done by the public sector to improve public services for New Zealanders.

I have met many public servants over the last eight years and I am yet to meet one who didn't have the motivation to do the best possible job for the public.

And there is some great work being done.

But I am confident there is much more we can do.

Productivity can have different meanings for different people. When I talk about productivity I mean it in the widest sense of how well the State Sector uses its resources to deliver outputs/services that make a difference to New Zealanders.

At its most straightforward, increasing productivity simply means getting more out for every dollar you put in.

For the public that means getting better services for their taxpayer dollar, whether it's the health service, education services, or transactions like dealing with the IRD, or Work and Income.

That's very important. Yet it's not just important in terms of the performance of the public sector.

The public sector makes up 30 per cent of New Zealand's total economy. Wider government including local government, makes up 40 per cent of our economy.

And productivity of our economy, how productive our people are, is the long-term determinant of our prosperity.

It's amazing how many people talk about the importance of improving productivity in New Zealand, but gloss over the role of the public service.

You can't improve the productivity of your country, and the prosperity of your country, while leaving 40 per cent of it on the side lines.

Productivity means understanding how well you are taking your inputs and

turning these into products and services and what impact these are having on New Zealanders, our community and our economy.

In the public sector in many cases we don't understand this story or elements of this story well enough.

We don't always know the cost of producing a product or service. We don't always know or understand what works in what circumstances. We don't always know what impact we are having on the individual in the short and long-term.

In short we have very few strong measures of system-wide productivity in the public service.

As the Minister of Finance I am going to focus on improving our understanding of the value being created by the Government's significant existing expenditure, and improving that value.

As Finance Minister (and as Bill's Associate for the last eight years) I get to see a lot of Budget bids that are about "cost pressures".

Often the bids are as simple as "costs or volume have gone up – here's the cost per unit. Hand over the money please".

And there is no doubt there is legitimacy in some of that.

But why should the cost of doing something always go up by exactly the amount by which we are doing it now?

Where are the economies of scale?

Where is the innovation that is reducing the cost?

And if there isn't obvious economies of scale, what other commitments to improved productivity can the public be given and that they can hold the service to account for in return for the additional funding.

And by commitments – I mean specific, measurable commitments.

We recently had that discussion with the police over the \$503 million we announced three weeks ago for 1125 extra police staff.

Cabinet sought and obtained specific measurable public commitments from New Zealand Police that will increase productivity of the police force.

There will be other discussions this year like that, And that is no more or less than the public expects.

So let me be clear. It is the responsibility of every agency and each public servant to continually be looking for ways to do better.

Just saying you have “cost pressures” in this budget round is not enough. Ministers want to see specific measurable improvements in productivity and results through innovation as part of all major budget discussions.

Investing in Better Public Services

The Better Public Services Results programme is a good example of the work that is being done.

Across a range of diverse results areas – the Government and the agencies have committed to attack some very challenging targets. And have made some very good progress too.

The Results have targets aimed at reducing long-term welfare dependence, reducing assaults on children, increasing infant immunisation, increasing educational participation and achievement, reducing recidivist and violent crime, and improving interaction with government.

The BPS Results programme remains challenging – and it is unlikely that all the targets will be achieved on time. But if they were all easily achieved, we wouldn't have been setting the targets high enough.

Modernising transactional services

We are making some big investments in improving transactional services for the public.

And not before time. Prior to this government, successive governments over twenty years delayed and postponed many much-needed investments in technology because of capital constraints and concerns about risk.

As a result, the public sector slipped far behind the private sector in terms of how easy it was to undertake the necessary transactions with government.

This wasn't unique to New Zealand – but it was a big and growing problem, and BPS Results 9 and 10 have been set up to tackle problem.

And we are making good progress.

One example is the new online passport application service.

From a standing start in 2012 the service has attracted a massive uptake and some very favourable comments about the short time taken to issue a passport.

Already nearly 60 per cent of adult passport renewals are completed online and 36 per cent of eligible child renewals.

Instead of filling in a hard copy form, getting a photo taken and then posting their application and waiting ... it now takes someone around 30 minutes to fill in an online application with the ability to upload their own photo and they get their passport from DIA in an average of 3-4 days.

In the last seven months, NZ Passports have issued as much through the online channel as they did in the 12 months prior - that's 157,080 in just 7 months.

That's a great example of putting customer service at the front of our heads, rather than acting like the customer experience doesn't matter because they have to use your services.

There are other examples. Visa applications have been moved online, rather than the paper based system we had just a few years ago.

Since August 2014 178,000 visa applications have been received by Visa ONLINE, and last month 40 per cent of all eligible visa applications were filed through Immigration ONLINE.

And there is Smart Gate – the automated border processing system which was first brought in in 2009 – and which processed 4.5 million air passengers last year.

These are just three of many new systems delivering real productivity benefits for New Zealanders and for the Government.

The Current Work Programme

There are currently 192 significant projects underway to transform public services, with a combined whole-of-life cost of \$39.3 billion. This has increased by 48 projects and \$4.2 billion in the last year.

And most New Zealanders don't even know it's going on.

Most New Zealanders don't realise that our three biggest citizen systems, the IRD, the ACC, and MSD are going through massive transformations and modernisations all at once.

These are being done carefully and methodically and with the minimum of fuss but they are major.

ACC's programme is costing \$240 million, while MSD is spending \$120 million.

IRD's Business Transformation is a \$1.77 billion project that is completely rebuilding the old FIRST system for the modern world – and Government provided \$857 million towards that project in last year's Budget.

Stage One went live on Waitangi weekend – and SMEs can now register for GST online, prepare and amend their returns, and pay their GST. On top of that

it is now possible for SMEs to pay their GST directly off the back of their accounting software.

All this is estimated to reduce the time that small and medium-sized businesses spend on their GST returns annually by one third – and already 4000 SMEs have reported that the new system is saving them time.

Those numbers all help tell the story of a major modernisation plan, but they also underline the story of a public sector which had fallen behind the times in terms of technology transformation of public services over the previous twenty years.

They are big investments and for them to be worth it, they must work and they must deliver productivity gains for agencies and for the public.

The new finance team and Government Investment Ministers will be particularly focused on ensuring agencies are achieving the benefits committed to in all these major agency business systems projects across the public sector.

Social Investment

Another new big area of work to improve public services is social investment.

Social investment is using an investment approach to design and implement solutions to long-term social issues.

Social investment is about understanding what makes the most difference to people's lives and using evidence to do more of what works.

It involves using the best joined up cross-government data and analysis to clearly define the issue.

Using the same data analysis to evaluate the previous attempts to solve that problem.

We all know for example that some people continuously struggle to obtain and retain a job. We know what age they are and where they live. But what about other things that affect them? How important are mental health issues, recreational drug use issues, or transport issues in their inability to hold a job.

Social Investment is about using that analysis at a population level to design solutions around the affected people rather than designing them around the Government agencies with a stake in the issue.

To design solutions with full input from the front-line people who have the best knowledge of how things work on the ground.

To implement solutions for the affected populations that are designed around them and not around the agencies;

And to use the best people for the job – and be agnostic as to whether they work in the public or private sector.

Let me give you an example that I am familiar with and that is how to lift the number of NEET young people into work in some particular areas of New Zealand.

We've made some very good progress on lifting the educational achievement of young people who were previously falling out of the school system with no qualifications. Programmes like Youth Guarantee and Trades Academies have helped lift educational achievement among at-risk young people and contributed to our better public services goal of getting 85 per cent of young people to achieve at least NCEA Level Two by the age of 18.

Yet we still have sizeable regional groups of young people who don't go on to get employment – even though the jobs are available.

Take Hawke's Bay for example. That region is seeing massive growth in horticulture and its crying out for new people to fill the permanent jobs that are available in the region. And yet the number of unemployed young people remains higher than the national average.

So we've set up with the region a new initiative called Project 1000 – a scheme to bring all the key players, employers, local iwi, EIT, the ITOs, MSD and others all together working collaboratively on a plan to match into jobs 1000 currently unemployed young people.

Those agencies will take a planned, collaborative, social investment approach to ensure we match the available jobs with the available young people.

That is social investment in action.

Social Bonds

Another innovative method of providing social services for people with complex needs, is through a social bond – where a financial incentive is offered to a provider if they can achieve a result with a service which is demonstrably better than what has been previously achieved with the old way of doing things.

Social Bonds were started under my predecessor Bill English, and today I am announcing the final contracting of the first social bond. It covers a very important piece of work for the government and for our society.

One of the difficult challenges in getting people of benefits and back into work is how best to help people with mild to moderate mental health challenges and achieve sustainable long-term results. Government agencies have struggled with this issue for a long time.

Today I am announcing that the government has completed a contractual arrangement for New Zealand's first social bond to address exactly this challenge.

The bond contracts a single provider to help people with mental health conditions in a number of suburbs in South Auckland back into work. If they meet the targets the Government has set, the bond investors get their money back and on agreed return.

It is an innovative approach to a long-term problem. I look forward to seeing how this pilot performs. I'm sure we all stand together across the public service and across the parliament in seeking a better outcome for people challenged by mental health conditions.

We plan to contract a second social bond this year to address re-offending rates of young people in the justice system.

The Minister Responsible for Social Investment Amy Adams will be working alongside me on the social bond programme. She will have more to say on next steps in Social Investment in the coming weeks.

Summary

One of the most important roles of government is providing the public services that people need to maximise their opportunity to live successful independent lives.

Providing better public services for a growing country is a key priority for this government, and in this budget.

But there is no point measuring success by what we put in. We measure success by what we achieve.

We must be open and encouraging of better, more efficient and more innovative ways of doing things so we achieve more for each taxpayers' dollar.

That's important for delivering better results in the public sector.

It's also important for our economy as a whole and our future prosperity.

But most of all it's important because of the people that provide us with the money for public services through their taxes.

These are Mums and Dads up and down this country who have always got better uses for another dollar than handing it over to the taxman.

They could use it for after school activities, for their weekly grocery bill, or for giving the family a weekend away.

Let's always keep those people absolutely top of mind when we make the decisions we make.

Thank you.

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