The Treasury

Four-Year Plan 2017/18-2020/21

Release Document

July 2017

http://www.treasury.govt.nz/publications/abouttreasury/four-year-plan

Redactions made to the document have been made consistent with provisions of the Official Information Act 1982.

Key to Redaction Codes

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[1] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[2] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [2] appearing where information has been withheld in a release document refers to section 9(2)(b)(ii).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

THE TREASURY
Kaitohutohu Kaupapa Rawa

The Treasury Four-Year Plan

2017/18-2020/21

December 2016

Contents

Chief Operating Officer's Introduction

The Treasury is pleased to publish its Four-Year Plan for 2017/18 to 2020/21.

Our vision is to be a world-leading Treasury working towards higher living standards for New Zealanders. This Plan outlines the progress we want to achieve towards this vision over a four-year horizon, how we intend to make this progress, and what our challenges could be along the way.

The contents of this Plan are a snapshot in time of a body of work that will continue to evolve and grow. At the time of drafting in late 2016, the Treasury was in the early stages of undertaking a review of its strategic framework, and parts of the Organisational Strategy were still in development.

Since then we have come a long way. In February 2017 our Organisational Strategy was signed off by the Executive Leadership Team and launched to staff. There are now a number of work programmes underway to implement the Organisational Strategy from 1 July. Later in 2017 we will be releasing our Statement of Intent, which will lay out in more detail what the Treasury will deliver over the next four years.

We are ambitious about what we want to achieve and we are committed to achieving it for the well-being of all New Zealanders.

Fiona Ross
Chief Operating Officer

1 August 2017

Four-Year Plan Overview

The Treasury: who we are, what we do and how we do it

We are the Government's lead economic and financial adviser. We provide advice to the Government on its overarching economic framework, on its fiscal strategy and on achieving value for money from its investments. We implement government decisions and are also responsible for the Financial Statements of the Government, for ensuring effective management of the assets and liabilities on the Crown's balance sheet and for publishing economic and fiscal forecasts.

Our vision is to be a world-leading Treasury working towards higher living standards for New Zealanders. We want to grow wellbeing through improving the country's human, social, natural and physical/financial capital. We work with others – across the government and non-government sectors, in New Zealand and overseas – to turn our vision into reality. We believe in applying rigorous analysis to the best available evidence, using our Living Standards Framework to guide us.

We embrace diversity and inclusion as they strengthen us, as individuals and as an organisation. Our values reflect our aspirations, for ourselves and for New Zealanders:

- *bold and innovative*, so that we understand how and when to take risks, learn from failures and build on successes
- *collaborative and challenging*, so that we work with others, collaborating but also challenging them and ourselves
- *adaptable and focused*, so that when the facts change, or ministerial priorities change, we don't delay and we maintain our standards, and
- *passionate and ambitious,* for our performance, for our people and for New Zealand.

We believe in the importance of a trusted, professional, public service: our stewardship responsibilities embody kaitiakitanga; we work to support the Treaty partnership between the Crown and Māori; and we are transparent, objective, impartial and free and frank in our advice.

PART A – Context and Strategic Intent

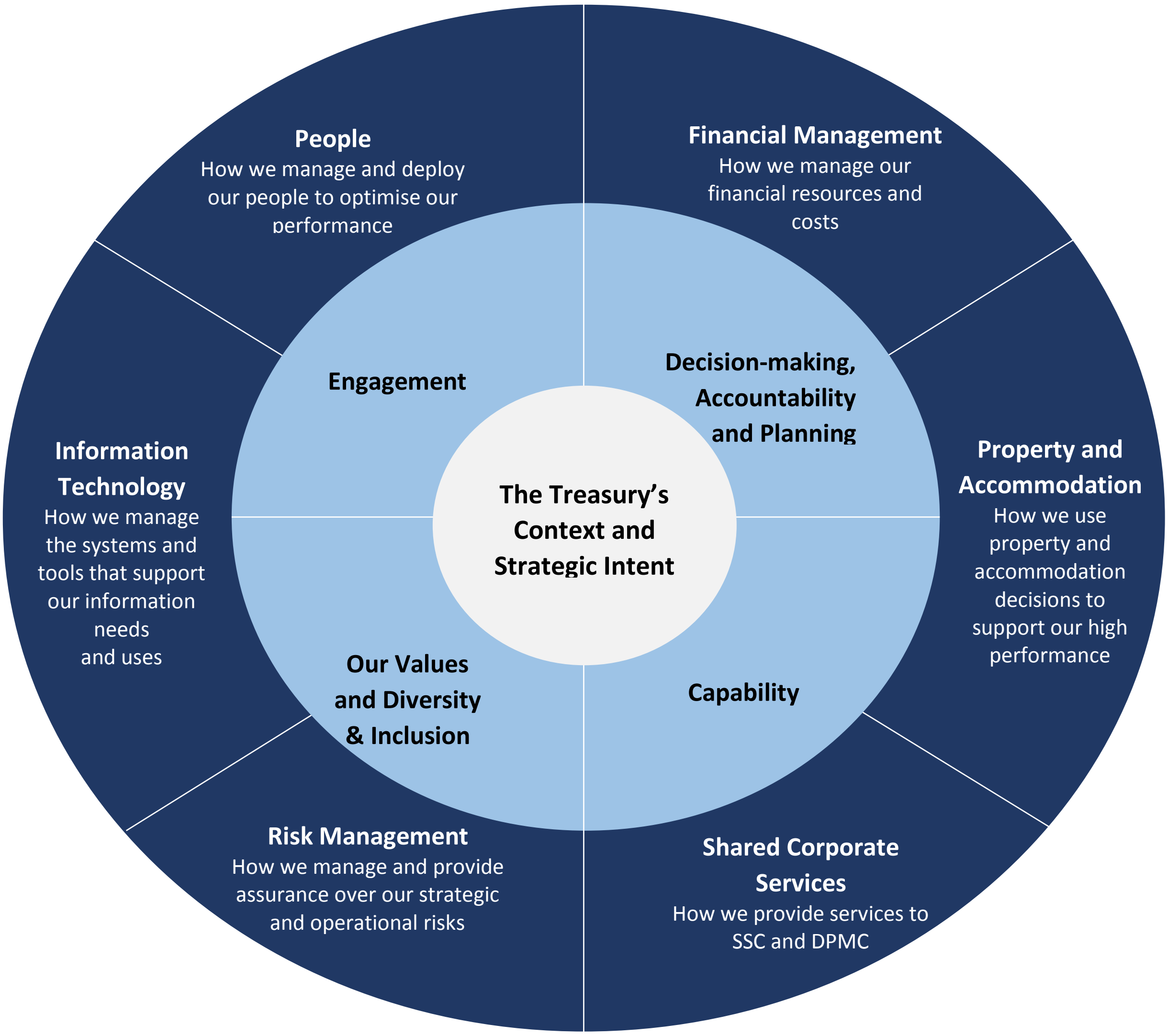
This Four-Year Plan is structured around the model of how we operate.

PART A: Sitting at the centre is the context in which we operate and our strategic intent.

PART B: The middle ring presents how we go about our work.

PART C: The outer ring presents the key levers (corporate functions) that we use to improve our performance and delivery and to meet the challenges we face. The Treasury's long-term focus will continue to be on examining ways to meet increasing cost pressures within relatively fixed baselines, while maintaining the concentration on our priorities. The key areas we are focusing on in this Four-Year Plan concern how we:

- manage and allocate funding to reflect priority work
- manage and deploy our workforce, including planned succession
- manage and use information, and our tools and systems to do this
- use property and accommodation to support our ambitions, and
- manage and provide assurance over our risks.



The Treasury is in the process of developing a new Organisational Strategy and, while we have confirmed much of the strategic framework, other parts are still to be developed over the next six months. The draft Organisational Strategy is being used as the basis of this Four-Year Plan and we anticipate this plan, as a living document, will need revision in the early part of 2017 as we work out the details of how we will deliver on the strategy.

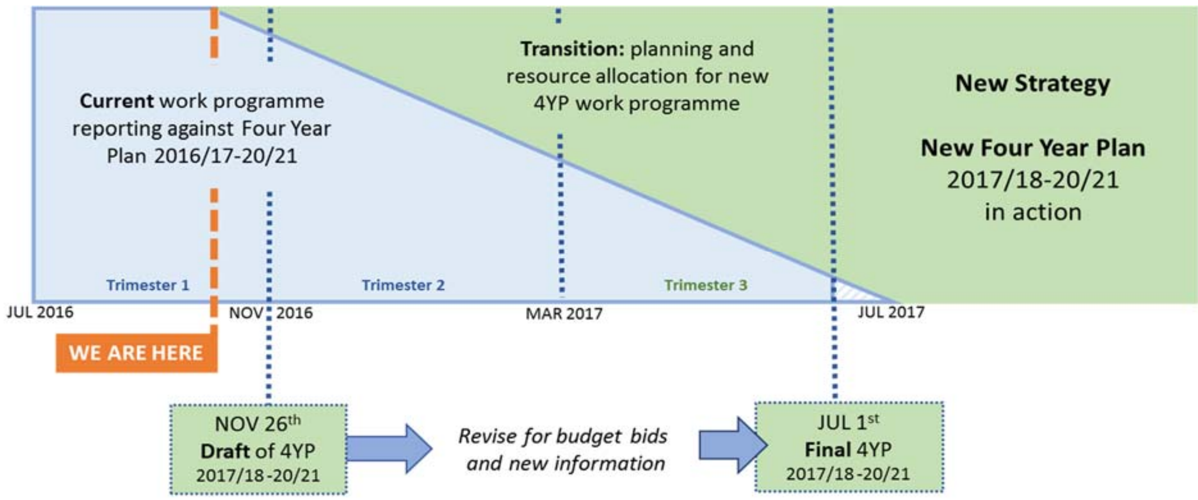
Our planning takes into account our aspirations and ambitions for the organisation and for New Zealand's wellbeing, balanced with the pressures we face: rising costs, resource constraints, a reducing baseline and a well-established customer expectation that we should do more with less. In line with this, our plan reflects our ambitions to achieve optimal efficiency in how we work while at the same time delivering greater value for the investment we make.

Our strategy sets out our approach and some of the investments we will be making on in order to seize our opportunities and address our challenges. We have determined that there are a number of key areas of work that we need to invest in. These are large areas of work that are pan-Treasury, high complexity and will make the greatest impact on our performance. Some of these strategic initiatives are already underway, such as developing a comprehensive Crown balance sheet, while others are in the planning stage.

Over the six months from January to June 2017, we will progressively develop programmes of work and identify the priority, sequence, resources and timelines required to execute them. During the same time we will shift the organisation's planning and reporting framework away from the seven Strategic Intentions we currently use. The new planning and reporting framework will be fit for purpose and make the distinction between work being run as cross-Treasury programmes, and the regular work and activity of the business that is delivered and can be accounted for by directorates.

Our plans will become clearer towards the start of the financial year for 2017–18, and planning assumptions will be less fixed as we extend our planning horizon to 2020–21. Programmes of work may be adjusted as they are developed and completed, or as they may need to be replaced by others. This planning model allows us to take account of changes in expectations and circumstances, so that our strategy can be emergent.

Figure 1. Transition timeline for the strategy and the Four-Year Plan process



Our Context – Current State Environment

The Treasury operates in a dynamic domestic and international environment where developments can significantly impact on what we do and what we can achieve. The strategy development has involved a comprehensive review of what we do, and what we need to be, in response to what's happening around us in the Treasury, in New Zealand and across the world. The current state enquiry covered five areas of investigation:

- Global trends and risks – what will impact us?
- Stakeholder analysis – what are their needs?
- The State sector context in which we operate
- The Treasury's role and purpose
- Organisational analysis – how capable are we?

Our plan takes into consideration this constantly changing operating environment and the challenges and opportunities it presents. We want to focus on being proactive – getting ahead of foreseeable changes and public debates on the horizon.

Global trends

In a challenging global environment we must seek to understand the world, recognise the complexities of global, regional and local issues and listen to others.

New Zealand is a small country and distant from its markets, susceptible to global issues such as migration, political instability, urbanisation, trade protectionism, extreme weather events and pressure on resources. All of these can have major financial and economic consequences for New Zealand. Resilience is essential.

Technological change and the use of social media are impacting the way we live and work, as well as changing how citizens interact with governments and the expectations they have for services. We must be adaptable and put people at the centre of our thinking.

New Zealand's economic growth rate has been almost double the average growth rate of Organisation for Economic Cooperation and Development (OECD) economies over the past four years, with the Crown's books returning to surplus and debt well managed. These are commendable achievements in a challenging global environment, but we need to continue to focus on the medium to long term.

Overall, we must be proactive, resilient and adaptable. We must listen to and understand New Zealanders as events in the world challenge established norms about citizenship, nationhood, government and representation.

Government priorities

The Government wants action from the public service and expects the Treasury to be at the forefront of delivering the Government's priorities and results.

The Treasury's priorities are determined by the priorities of the government of the day and may change during the term of our medium-term planning. This means that we must remain agile and responsive to the priorities of the Government, while still taking care of our stewardship responsibilities and ensuring we maintain our ability to serve future governments. The Government's current priorities are to:

- responsibly manage the Government's finances
- build a more competitive and productive economy
- deliver better public services to New Zealanders, and
- rebuild Christchurch.

Through our core functions, we contribute to all the Government's priorities. Our fiscal advice helps to manage the Crown's finances responsibly and achieve sustainability. Our economic advice recommends the setting needed to build a more competitive and productive economy. Through our State sector leadership and performance monitoring roles we provide advice on how to deliver better public services to New Zealanders and support agencies in doing so. The Treasury contributes to rebuilding Christchurch through its State sector and economic policy advice functions.

The Treasury has established strong relationships with its Ministers. Ensuring we have a good understanding of what they need and want is critical to our success. We need our Ministers to have confidence that we can consistently deliver quality advice and practical solutions. Their confidence is foundational to our influence and impact.

State sector

The State sector needs flexibility to respond to the complex and fast-changing needs of 21st century New Zealand.

The State sector is looking to the Treasury for stronger leadership, context and support to drive a lift in performance. We have a key role in understanding how the interconnected parts of the State sector system works, to ensure it is working well for the people of New Zealand. In particular, over the past 30 years the sector has become a complex mix of vertical and horizontal accountabilities, creating a need for the Treasury to lead work to simplify the planning and reporting requirements of government.

Our stakeholder engagement survey results portray an improvement in our communication skills and relationships, laying a foundation for us to collaborate with the public sector with greater confidence. Now agencies want us to lift our level of engagement, and role model what good looks like. Agencies also expect the Treasury to do more for Māori, social issues and regulation. They want us to be more active in shaping the economic debate within New Zealand.

Customers and stakeholders

New Zealanders

All New Zealanders have a stake in what we do, and we are getting better at engaging broadly and openly with others.

Our aim is to do more to put the customer at the centre of our discussions and decision-making. We need to know and understand what New Zealanders want and value, and the trade-offs they are willing to make to achieve increases in intergenerational wellbeing.

A recent example of such engagement was through our 2016 Long-term Fiscal Statement (He Tirohanga Mokopuna), in which the Treasury used an approach intended to better understand New Zealanders, and stimulate debate more widely about New Zealand's future. We used surveys and held a series of workshops with communities, business owners and leaders throughout the country to identify what New Zealanders value most, and the long-term challenges and opportunities we face.

Māori and iwi

The maturing governance and strength of the Māori economy is creating opportunities for the New Zealand economy as a whole.

Māori values and perspectives broadly concur with the holistic view of capitals in the Living Standards Framework, and with the importance of stewardship to the Treasury (and the wider public service). Diversity of thought is critical for developing robust policy advice, and is an important part of the Treasury's capability, values and practice.

As a central agency, the Treasury is taking a lead in working with Māori and iwi. Doing this well means knowing how to apply Treaty of Waitangi principles and principles derived from Te Ao Māori to the practices and frameworks we use to support our work.

The Treasury has a responsibility to assess the effectiveness of the State sector's service delivery for Māori, which is critical for improving the living standards of Māori and all New Zealanders. The maturing governance and strength of the Māori economy creates opportunities for new Māori alliances and coalitions as well as greater participation.

National and international interests

Becoming more outward-facing has been a priority for the Treasury in recent years. Being better connected enables us not only to provide better advice, but also to help deliver government priorities and to increase our level of influence. We recognise that to deliver tangible improvements in public services and better outcomes for New Zealanders, we need to find better ways to work with others – including public service agencies, communities, businesses, non-governmental organisations (NGOs), experts – to solve the complex, cross-cutting issues New Zealand is facing.

International connections are essential to New Zealand's prosperity, and the Treasury needs good relationships with a global community of thinkers, policy makers, influencers and investors to be successful. We also have a distinct role to play in New Zealand's relationship with trading partners and the multilateral institutions that shape regional and global economic policy.

Core functions and capability

Our core functions

The Treasury is the Government's lead economic and financial adviser. We provide advice to the Government on its overarching economic framework, on its fiscal strategy and on achieving value for money from its investments. We implement government decisions and are also responsible for the Financial Statements of the Government, for ensuring effective management of the assets and liabilities on the Crown's balance sheet and for publishing economic and fiscal forecasts. Our five core functions include:

- **Economic policy advice.** We are the lead adviser to Ministers on economic performance, concentrating on policy areas that have a significant impact on the economy. This includes advice on measures to improve the quality of regulation, removing barriers to growth and enhancing productivity.

- **Financial management and advice.** We manage the financial affairs of the Crown and provide advice on fiscal strategy, policy and performance. As Head of the Government Finance Profession we also work to support learning, professionalism and skills development in financial management across the State sector.

- **Performance management and advice.** We monitor the performance of departments and other entities the Crown owns, including working with them to improve performance as required. Our focus is getting value for money for taxpayers.

- **Commercial policy advice and operations.** We provide commercial policy advice, execute commercial transactions and provide financial operational services through the Treasury's Debt Management Office (NZDMO) and the Export Credit Office (NZECO).

- **State sector leadership.** With the Department of the Prime Minister and Cabinet (DPMC) and the State Services Commission (SSC), we collectively lead the State sector with the aim of delivering results for New Zealanders. We assist the Government to develop its overall strategy for the State services, provide advice on how to improve the system and manage significant issues.

The investment approach is a significant programme of work within the Treasury which seeks to improve the performance of ourselves and the State sector. The investment approach requires us to apply innovative thinking and processes to our work, including:

- articulating a clear operating model for government
- providing strategic leadership of cross-government policies or programmes
- identifying and implementing more efficient and effective ways of working
- incentivising the right behaviour – promoting collaboration, integration and innovation
- understanding the cross-government picture and, where appropriate, making the best decisions for government as a whole, and
- improving governmental capability.

Our responsibilities and functions mean that our work can be wide-ranging. We need to better articulate our role in a practical sense to help us prioritise our work and better focus our efforts and investment. We recognise a need to better integrate our functions and activities.

Our current capability

The Treasury values deep expertise in its core disciplines and its credibility depends on its reputation for rigour and depth of analysis. We need to keep expanding our capabilities. For example, our ability to execute and implement practical change relies on us leveraging public sector wisdom with commercial knowledge and experience. We need to bring together various teams to work on projects that combine our knowledge and expertise in economic frameworks and systems, financial management, policy/regulation and analysis.

Internal reviews have highlighted a need for stronger technical capability in certain fields of economics (including regulation, natural resources and tax) as well as in data analysis, evaluation and contracting.

Sustaining a high standard from our people requires ongoing investment in skills development and stronger systems and processes to capture knowledge and learning. The Treasury Information Capability aims to deliver these and drive productivity improvements in our core areas of work. Moreover, we have identified that our organisational performance would be enhanced by greater engagement, effective programme management and further reprioritisation. This includes:

- skills in leadership, building relationships and facilitation and communication are essential for working effectively with the public and private sectors
- a stronger mind-set and capability for portfolio, programme and project management will bring more discipline to the way initiatives are managed throughout their life cycle, and
- further reprioritisation can support our strategic objectives by bringing a stronger focus on impacts and outcomes.

Our Context: Implications for the Treasury

Our new Organisational Strategy must respond to the context in which we operate, as set out above, as well as the significant work we are already engaged in to improve the State sector's responsiveness and impact. The investigation we have undertaken has strengthened our commitment to the following responsibilities:

- The Treasury's role as the steward of the economic, financial management and regulatory systems of New Zealand places us in a unique position to take a whole-of-system view – looking internationally, nationally and across the State sector. Our value is to bring together the best overall knowledge of how the system works, what people want and what the State sector does, in order to assess performance.
- We have a strong commitment to understanding the challenges and opportunities New Zealanders face, and to ensure that the State sector is delivering value. We use our insights and understanding to recommend the allocation of resources, incentives and institutional settings needed, and any trade-offs required to make a sustainable difference to the wellbeing of New Zealanders.
- The Treasury has a role not only in evaluating money to be spent, but also being more proactive about post-Budget spend analysis, and asking how well the money was spent. Our responsibility is to ensure that agencies evaluate results rigorously and assess the impact of their expenditure components with their objectives.

We plan to bring together work and ideas that have been set in motion over the past 12 to 18 months including: our aspiration to be world-leading; the Minister's priorities, the Executive Leadership Team's priorities, the Living Standards Dashboard; work developing a comprehensive Crown balance sheet; the early stage 'agency performance dashboards'; the conceptual work for an investment pipeline bringing capital and operating views together; and the delivery of the Treasury's Information Capability.

This explains at a high level the thinking that has informed our strategy and this Four-Year Plan.

Figure 2. Schematic diagram showing the scope of our responsibilities

Overview of the Treasury's new Organisational Strategy

The Treasury adds most value through its core economic, financial and regulatory expertise, system-wide policy perspective and its State sector overview and influence. This combination puts us in a unique position to focus on improving performance across the system. The confluence of global issues affecting economic, financial, social and environmental conditions is a catalyst for the Treasury to be proactive. Our Organisational Strategy responds to the need for us to:

- work more at the forefront of economic thinking, extrapolating trends into the future and considering the opportunities and risks for New Zealand
- build resilience into New Zealand's economy and fiscal position to cope with potential shocks – domestic and international
- embed the Living Standards Framework into our thinking, advice and economic analysis and reporting
- ensure that our regulatory system is fit for purpose
- lift accountability for performance, evidence of delivery, return on investment and increased productivity across the State sector, and
- spur ourselves and other agencies to be more open, accountable and responsive.

Overall, the strategy means...

- increased organisational alignment – a single set of unifying priorities and a common understanding of our direction
- a wellbeing and investment approach is foundational to the work we do
- greater focus on our core disciplines (economics, strategic financial management, policy and regulation and the relationships between them) and what we have identified as critical capabilities
- understanding and articulating where and how we add value; prioritising appropriately
- increased connectedness with other agencies, with communities, the public and experts, nationally and internationally, to bring diverse perspectives and knowledge into our work, and
- a commitment to strive for collective understanding around our relationship with Māori.

The strategy makes a wellbeing and investment approach integral to everything we do, in order to achieve sustainable and equitable increases in New Zealand's collective wellbeing.

The wellbeing indicators and the Four Capitals will be fundamental to our approach to analysis, advice and the evaluation and management of allocated resources. We must understand the trade-offs New Zealanders are willing to make to live the lives they value; know which economic levers, incentives and institutional settings work best together to achieve the outcomes sought; and monitor and report against the stocks of the Four Capitals – financial and physical, social, natural and human – and the wellbeing indicators for New Zealand.

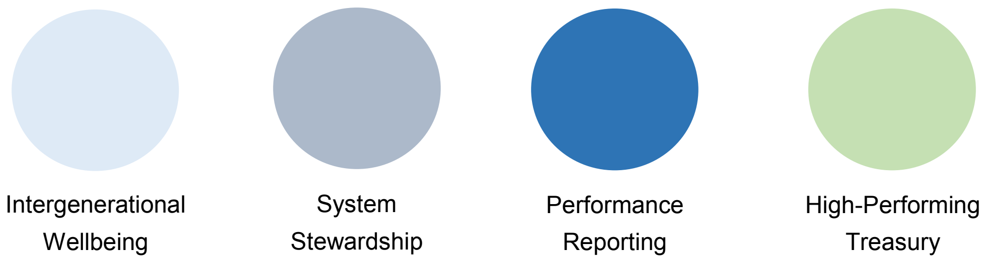
Using the indicators of wellbeing and New Zealand's capital stocks as the foundation upon which we work and measure economic success will be an intellectual and practical challenge. It means creating mechanisms to guide decisions on institutional settings and the prioritisation of resources in line with what makes a difference to intergenerational wellbeing.

Making the investment approach sit at the heart of what we do requires us to revise how we work across the State sector system. It means understanding what government spends, what spending does and does not achieve and how to invest differently to make a difference. It means looking at the way the State sector system operates, and enabling cross-agency collaboration and delivery. It means increased focus on outcomes – tracking the value delivered by capital and operating expenditure and evaluating the performance of programmes, agencies and projects. Furthermore, it means striving for better results for populations and individuals, recognising the diversity of our people and cultures – one size does not fit all.

We do some things brilliantly now and others less well, but we cannot do everything. There is broad consensus we will fulfil our vision to be world-leading only if we shift our resources, practices and focus away from the urgent and reactive to the important and proactive. When we step into a trouble-shooting role, we have to be better at working collaboratively to resolve core issues, and set a clear exit strategy.

As a result of this thinking, we have reviewed and refocused our role and purpose into three categories. Our role and purpose statements collectively form our mission. This renewed focus, along with our strategic investment areas, will guide us in reviewing all our current work and realigning ourselves accordingly. We will also revise our objectives to ensure we are measuring our success on the right things.

Our strategy focuses on four areas of investment



Our strategic investment areas reflect our emphasis on wellbeing and the investment approach. We will also focus on developing our own corporate functions in relation to our strategy, to ensure we work as effectively as possible and are a role model for the wider State sector.

What now? We are seeking to align our organisation’s resources and capabilities with its priorities. The strategy brings together everything we are doing, aligns work programmes and will involve shifting resources to priority areas. Over the next six months we will plan our approach to implementation, and prioritise our current and future work. Every individual will know how they are contributing to our vision and mission.

The Treasury's Strategy – What will we do?

The following diagram sets out the core elements of the Treasury's strategic framework. More detail is provided on each line of the framework in the following sections.

Figure 3. Our strategic framework

<table>
<tr><td>Our Vision</td><td colspan="12">A world-leading Treasury working towards higher living standards for New Zealanders</td></tr>
<tr><td>Success will be…</td><td colspan="12">An increase in our wellbeing indicators</td></tr>
<tr><td>Our Mission</td><td colspan="12">We are the lead economic, financial and regulatory adviser to the Government and steward of the public sector financial management and regulatory systems. We advise, and implement government decisions, on the allocation of resources and incentives, and institutional and regulatory settings. We evaluate performance against agreed measures of success.</td></tr>
<tr><td>Our Role and Purpose</td><td colspan="4">We advise on the global and domestic opportunities for, and risks to, New Zealand achieving sustainable increases in intergenerational wellbeing.</td><td colspan="4">We advise Ministers on the allocation of resources and incentives, and institutional and regulatory settings, assessing the opportunity costs and trade-offs for wellbeing. We manage our financial responsibilities, and implement government decisions.</td><td colspan="4">We evaluate, and take action to improve, the performance of resources and incentives, and institutional and regulatory settings in delivering intended results.</td></tr>
<tr><td>Our Objectives...</td><td colspan="12">Fiscal, monetary and regulatory settings result in a stable and sustainable economic environment
The Crown's finances and the financial and non-financial balance sheet are managed efficiently, effectively and sustainably
Institutional and regulatory settings support the State sector system to increase equitable, intergenerational wellbeing for New Zealanders</td></tr>
<tr><td>Our Strategic Priorities</td><td colspan="3">Intergenerational Wellbeing</td><td colspan="3">System Stewardship</td><td colspan="3">Performance Reporting</td><td colspan="3">High-Performing Treasury</td></tr>
</table>

Our vision, mission and purpose

Our vision

A world-leading Treasury working towards higher living standards for New Zealanders

We have reconfirmed our commitment to our vision – lifting living standards for New Zealanders. Our vision provides our ultimate strategic direction for the future, and is both aspirational and motivational.

Success will be demonstrated by achievements in New Zealand's wellbeing indicators. Work is currently underway to establish a living standards dashboard which will track a set of wellbeing indicators. The Treasury is not directly responsible for these indicators but they will help us to define and measure progress towards what we are aiming for. The ability to monitor and report on the indicators of wellbeing will get a major boost when a prototype Living Standards Framework dashboard is launched in mid-December for internal testing. It will develop and be refined over time. It marks an important transition for us to be actively presenting this data in support of the Living Standards Framework.

Our mission

We are the lead economic, financial and regulatory adviser to the Government and steward of the public sector financial management system and the regulatory system. We advise, and implement government decisions, on the allocation of resources and incentives, and institutional and regulatory settings. We evaluate performance against agreed measures of success.

Our mission summarises the three themes of our role and purpose, stating how the Treasury contributes to our vision for New Zealand. It outlines our reason for being, and the value we can provide.

Our role and purpose

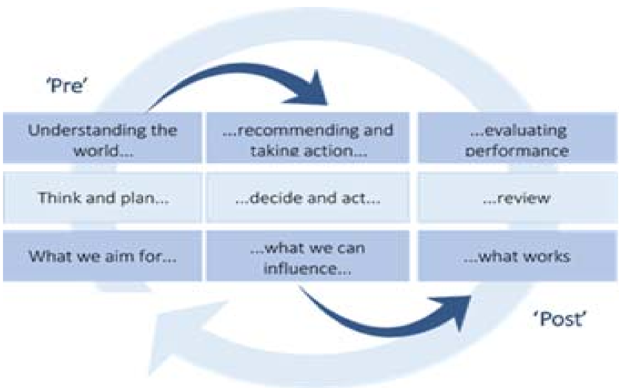
As the economic, financial and regulatory adviser to the Government and steward of the public sector financial management and regulatory systems we...

- *understand the global and domestic opportunities for and risks to New Zealand achieving sustainable increases in intergenerational wellbeing*
- *advise Ministers on the allocation of resources, incentives and institutional settings, assessing the opportunity costs and trade-offs, and*
- *evaluate the performance of resources, institutions and incentives for delivery of intended results.*

These three areas can also be broadly summarised as:

- *Think and plan*
- *Analyse, advise and do, and*
- *Report, review and improve.*

Overlaps, interdependencies and relationships between the three themes are recognised, as demonstrated below.



Our objectives

While the wellbeing indicators will measure New Zealand's overall movement toward our vision, the Treasury's business objectives are measures of achievement relating to our mission and role and purpose. They should be specific to the Treasury, in the areas where we have influence/control. Teams should be able to know what objectives they are contributing to and how the objectives link to our higher success measures for New Zealanders (ie, the wellbeing indicators). We are reviewing our objectives over the next few months to ensure we are measuring our success on the right things.

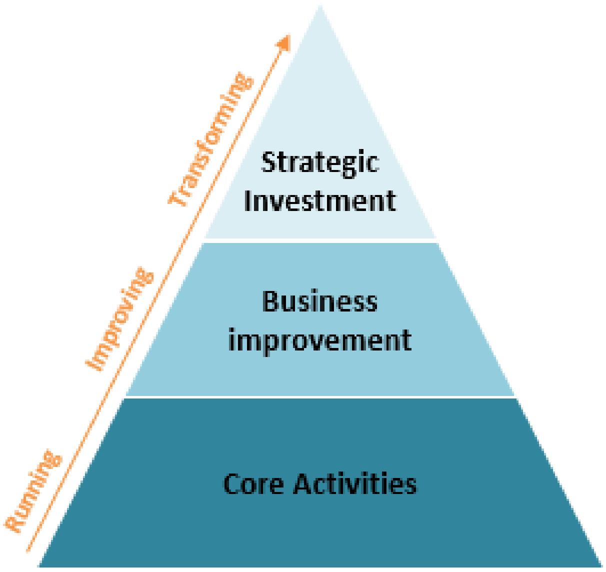
Our objectives – to be developed further:

- *Fiscal, monetary and regulatory settings result in a stable and sustainable economic environment*
- *The Crown's finances and the financial and non-financial balance sheet are managed efficiently, effectively and sustainably*
- *Institutional settings support the State system to increase equitable, intergenerational wellbeing for New Zealanders.*

Our strategic investment areas

Our strategic investment areas seek to transform or sustain the Treasury's outcomes. They represent work that is likely to be:

- specifically driven by ministerial priorities
- cross-agency, cross-sector or all-of-government work for which the Treasury is leading or responsible
- pan-Treasury and impact, or require scarce resources from, multiple directorates
- high value, high risk, high cost, high profile or high complexity, and
- reported to the Minister, Executive Leadership team.



Transforming the way the Treasury does its business

- Cross-Treasury, high cost, high risk
- ELT approved and reported
- *eg, Baseline work*

Work to improve our core activities

- Within teams/groups/directorates
- Kaiurungi approved initiatives within directorates
- *eg, Budget 2017, policy improvement*

Business as usual delivery or work programmes – contributes to our business objectives

- Directorate operations, Output delivery activity
- Regularly reported to DSs and/or Kaiurungi
- *eg, Annual Budget, accounts, operational stuff*

We have identified four areas of investment required to deliver on the Treasury's mission. We will intensify our work in these areas over the next four or more years, and align our skills and resources accordingly. These areas reflect our focus on the investment approach and on wellbeing. Within each strategic investment area we have begun to identify programmes of work which we must deliver in order to achieve our long-term objectives. Broadly, the four areas can be illustrated as below:

Figure 4: Illustration summarising the four strategic investment areas

Intergenerational Wellbeing	System Stewardship	Performance Reporting	High-Performing Treasury
Knowing what New Zealanders value, the **big** picture, wellbeing, trade-offs, comprehensive balance sheet, valuing assets and liabilities, the Four Capitals, engagement, our expertise and advice	State sector, institutional settings, incentives, practices, **delivery**, innovation, outcomes, cross-silo, populations, accountability, outcomes, budget, the baseline, Māori relationship	Monitoring, evaluation, value for money, **understanding** performance and outcomes, impact, understanding what works, financial and non-financial reporting, feedback loops, data and information, sharing, **learning**, improvement	The way we work, our practices, systems and processes, our **capabilities**

Strategic Investment Area One – Intergenerational Wellbeing

Four-Year Excellence Horizon:

- We provide advice on economic, fiscal, institutional and regulatory policy settings to promote an economic system that increases intergenerational wellbeing.
- We establish a comprehensive balance sheet that includes capital contributions, to manage all current and future financial and non-financial resources for the New Zealand Government, and to protect and grow the Crown's long-term net worth.
- We use a framework that reflects the composition of New Zealand's Four Capitals required to maximise wellbeing, to help us advise on the allocation of resources.
- The State sector has a shared understanding of how to value investments.
- We engage widely to influence and learn from others, to bring global perspectives to our work, challenge our thinking and open up informed policy discussion and debate.

Possible programmes of work:

- Develop an information management and technology system to support the integrated gathering, analysis and use of both qualitative and quantitative data on New Zealanders' values and preferences to enable us to create a coherent story.
- Develop a framework to determine asset and liability values and relative weightings for a resource allocation model based on the Four Capitals – financial and physical, natural, social and human capital (all of which make up our economic capital).
- Develop and use a comprehensive balance sheet to manage all current and future financial and non-financial resources for the New Zealand Government.
- Develop an approach to understand what constitutes wellbeing for New Zealanders, and the preferences and trade-offs they are willing to make to achieve sustainable and equitable increases in wellbeing.
- Create the Living Standards Dashboard to track indicators of wellbeing for New Zealand.
- Develop better means of enabling expert and public participation in policy and decision-making processes to better represent New Zealanders' views (eg, citizen-based mechanisms and online interaction).
- Enhance our economics research programme, in consultation with others, based on need and value.

Strategic Investment Area Two – System Stewardship

Four-Year Excellence Horizon:

- We have a strong capability for reviewing the modelling and policy analysis on which social investment proposals are based and forming a view on the worth of proposed investments.
- We encourage new models of State sector delivery focused on better long-term results for taxpayers, and users and recipients of government services, and learn from practice.
- We advise on the allocation of State sector resources based on contribution to intergenerational wellbeing
- We help agencies to make considered, consistent choices about what work they do, and to streamline and integrate Treasury quality assurance requirements into their processes.
- We take a central agency leadership role encompassing stewardship, coordination, system performance and capability building.
- We encourage a Budget process focused on confirming decisions and policy changes developed across government over time, rather than initiatives developed immediately prior to Budget.

Possible programmes of work:

- Develop, over several budget cycles, approaches for ‘getting into the base’, informed by priorities contributing to intergenerational wellbeing.
- Establish an authorising environment for allocations based on intergenerational wellbeing, including buy-in from Budget Ministers and support through legislative changes (eg, greater Public Finance Act 1989 emphasis on living standards).
- Develop (or update) tools for assessing and prioritising all proposed expenditure according to an intergenerational wellbeing framework.
- Compile lessons on which cross-discipline or portfolio arrangements work well under what circumstance; explore potential funding incentives for agencies to work across silos; develop a proposal to review the role of functional leads.
- Work with other agencies to implement the social investment approach and support the social sector to identify their priority populations and target interventions.
- Develop new approaches for commercial portfolio capital allocation.
- Give effect to the Open Government Partnership agreement (Oct 2016–May 2018 – Treasury lead) to support better resource allocation decisions and an open Budget.
- With others, establish a cross-cutting profession for data analytics and modelling focused on social policy.
- Work with Māori and other agencies to address issues that lead to disadvantage for Māori in the commissioning and delivery of public services, including identifying opportunities to draw on Māori perspectives to improve public service delivery; gathering and using data about population outcomes and aspirations to inform priority-setting; and partnering with Māori communities to support delivery of interventions.
- Implement the Pacific Strategy 2017–2020, Le tofa mamao ma le fa’autautaga.

Strategic Investment Area Three – Performance Reporting

Four-Year Excellence Horizon:

- Government has an agreed approach to integrated financial and non-financial reporting and monitoring that is flexible for sector circumstances. Agency reporting communicates a clear, concise, integrated story that explains how all of their resources are creating value in line with government priorities. Planning and reporting documents and processes support this.
- Agencies are effectively evaluating their programmes, supported by clear central agency guidance. Agencies think holistically about their strategy and plans, make informed decisions and manage key risks to improve future performance.
- The Treasury is able to look across a range of information sources to identify the value of existing investment, measure whether this is realised over time, identify the potential value of new or changed investment and compare value across the sector.
- Agencies understand what financial and non-financial information is most useful to demonstrate the return on investment of their interventions, and are collecting it. They also collect data about their populations consistently to enable cross-sector analysis, and share it.
- Data is treated as a system asset. There are common standards and processes, and government and external users can access and analyse information to improve their performance.

Possible programmes of work:

- Implement an integrated financial and non-financial performance management framework aligned with the Four Capitals.
- Review and redesign agency reporting requirements to ensure they are fit for purpose, simplified and aligned.
- Expand the range of relevant data/information agencies use to evaluate practice, including data held by communities/NGOs/iwi. Information that is not of use is not collected.
- Standardise the approach to and requirements of financial analysis work, financial activities where possible and strengthening an agency account management model.
- Develop plans (with central agencies) to build agency capability where needed (eg, commissioning, evaluation) and continue work to lift strategic financial management expertise.
- Review and develop tools needed for investment analysis (eg, ROI, CBAx, evaluation).

Strategic Investment Area Four – High-Performing Treasury

Four-Year Excellence Horizon:

- Our values and commitment to diversity and inclusion are reflected in everything we do.
- Our critical capabilities are embedded and support the way we work.
- We have successfully executed our foundational strategies – our people, environment, data, information and technology, and finances.
- We will be the exemplar within the State sector for excellence in our functions.
- Our accommodation move reflects how we work
- For all our corporate services, we are clearly focused on our customers and seek to continually improve their experience in relation to quality, cost and timeliness of service

Possible programmes of work:

- Develop and embed the strategy management system to support the new strategy (organisational governance, planning, prioritisation, performance measurement).
- Develop a robust system of measurement and analysis of shared service customer engagement
- Implement the Treasury Information Capability business case in full on time and on budget, and realise intended benefits.
- Implement plans to strengthen professional capabilities in economics, strategic financial management, policy and data analysis.
- Develop a common understanding of what the Treaty of Waitangi and Crown Māori relationship, past, present and future, means for our work.
- Continue to review and implement plans to move our diversity and inclusion competency to being 'embedded'
- Develop and implement our Te Puna Kaupapa, Pasifika and Asia strategies to build our cultural competence and confidence to engage.
- Review the Treasury's people management frameworks, tools and systems – ensure they are fit to meet expectations of productivity and performance in the strategy.

Our core activities

Many of the areas of investment identified above involve transforming parts of our core activities. However, other parts of our business and responsibilities will continue to operate as they do now. The table below includes all of the Treasury's activities, grouped according to the three categories of our role and purpose. This is a change from our usual representation of functions based on professions – economics, strategic financial management, policy and regulation, commercial and financial operations. In itself this represents our intention to introduce greater flexibility in how teams work, bringing areas of expertise together to work on specific projects.

As economic, financial and regulatory adviser to the Government and steward of the public sector financial management system and the regulatory system...

1. We advise on the global and domestic opportunities for, and risks to, New Zealand achieving sustainable increases in intergenerational wellbeing.

Scan, Think, Plan

- Stay abreast of what is going on internationally; Identify global trends, opportunities and risks
- Actively engage with economic, financial and regulatory frontier thinking
- Engage with experts and the public to generate discussion and understanding around matters of economic and fiscal importance
- Seek to understand what constitutes wellbeing for New Zealanders, and the trade-offs New Zealanders are willing to make to achieve sustainable increases in wellbeing
- Develop measures and targets for New Zealand's wellbeing and the Four Capitals
- Ensure economic, fiscal, regulatory systems are fit for purpose
- Develop and maintain economic, fiscal and regulatory strategies including:
  - balance sheet, budget, debt management, revenue, tax, international engagement
- Develop and publish the Investment Statement, Long-term Fiscal Statement, National Infrastructure Plan
- Understand the risks and benefits of ownership of a portfolio of financial and commercial assets

2. We advise Ministers on the allocation of resources, and on institutional and regulatory settings, assessing the opportunity costs and trade-offs for wellbeing. We manage our financial responsibilities, and implement government decisions.

Analyse, Advise, Do

- Develop advice on economic, fiscal, regulatory and ownership opportunities and risks, and the trade-offs to be made for increases in wellbeing
- Develop economic, fiscal, regulatory, institutional and ownership settings
- Develop recommendations on the allocation of resources based on impact on the Four Capitals and wellbeing indicators
- Manage and produce the Budget
- Advise on the institutional settings and incentives of the State sector system
- Manage all current and future financial and non-financial resources for the New Zealand Government through a comprehensive balance sheet:
  - Manage core Crown debt
  - Recommend risk allocation
  - Manage portfolio ownership of financial and commercial assets
  - Advise on capital allocation and recycling, and execute capital and commercial transactions
- Develop, test and maintain new frameworks for contracting and commissioning
- Monitor implementation of the National Infrastructure Strategy

3. We evaluate, and respond to, the performance of resources and incentives, and institutional and regulatory settings in delivering intended results.

Report, Review, Improve

- Monitor and report on the Four Capitals and wellbeing indicators
- Analyse and report on agency performance, and hold them responsible for delivery
- Prepare and publish the monthly and annual financial statements for the New Zealand Government
- Ensure regulation is implemented effectively and has the intended impact
- Monitor the performance of the Crown's portfolio of commercial and financial assets
- We are clear about what resource allocations should deliver, and we track results over time. We know what works and for whom
- Evaluate and support the effectiveness of the State sector system to deliver results, through institutional settings and incentives
- Assess roles and capabilities across the State sector, recognise gaps and coordinate action
- Evaluate and build State sector economic, strategic financial management and regulatory capability
- Take action, where there is poor performance, a lack of capability or no clear owner, to work collaboratively to resolve the core issue, with a clear exit strategy

PART B – How we work

Our Values

Every person working at the Treasury has a role in helping to achieve higher living standards for New Zealanders. We embrace diversity and inclusion as they strengthen us, as individuals and as an organisation. Our values reflect our aspirations, for ourselves and for New Zealanders:

- **Bold and innovative:** we understand how and when to take risks, learn from failures and build on successes
- **Collaborative and challenging:** we work with others, collaborating but also challenging them and ourselves
- **Adaptable and focused:** when the facts change, or ministerial priorities change, we don't delay and we maintain our standards
- **Passionate and ambitious:** for our performance, for our people and for New Zealand.

This means for our people:

Bold and Innovative	Collaborative and Challenging
You are willing to suggest an approach or objective outside the norm or prevailing assumptions You look beyond your own boundaries and common ways of working to find solutions to hard problems You take smart risks You speak up when something is wrong – 'See it, say it, fix it' You own your own and others' mistakes, fix them quickly and learn from them You are free and frank both internally and in your advice to government	You responsibly challenge others, and engage in well-informed, critical debate You are clear on expectations and you follow through – consequences matter You are open to being challenged and treat people with respect – irrespective of their status or opinion You listen well and seek to understand – instead of reacting fast You share information openly and proactively You work well with others and you are committed to the success of the collective – the Treasury, the wider public sector and New Zealand
Passionate and Ambitious	**Adaptable and Focused**
You care passionately about New Zealand's future You inspire others with your enthusiasm and aspiration You set high personal goals for doing a good job and making a difference You are tenacious You learn rapidly and eagerly You act in the best interests of the Treasury as a whole and not your own personal/political agendas	You are self-motivating, self-disciplined, self-aware and self-improving You concentrate on what really matters, and are willing and able to say no to distractions You are focused on finding sustainable solutions and making ideas a reality You are clear about where we add value and prioritise effectively You focus on great results rather than process You are open to change and recognise when change is needed

Diversity and Inclusion

The Treasury is committed to being an inclusive place to work where diversity of thought is valued in all of our staff. Diversity and inclusion enables excellent analysis and advice because we can draw on many skills and insights, attract and retain staff who know their contributions are valued and where all staff bring their best to their work. We do this by recruiting and developing staff with a variety of skills, experiences and backgrounds to ensure that we have a robust talent pool with management practices that values every person.

In 2012 we began our diversity and inclusion programme and built upon it following the 2014 cultural audit which showed we need to be more open to diverse ways of thinking and be able to operate across cultural and sectoral boundaries. In 2015/16 the Secretary spoke publicly about his commitment to bringing diversity into the Treasury and joined the public and private sector Champions for Change initiative. We have reduced the scope for negative effects of unconscious bias through permanent changes to key HR processes such as performance assessments. We have developed a Māori competency model measuring Māori capability and introduced te reo Māori classes to incorporate te ao Māori into our everyday work. Further reform for our graduate recruitment approach to attract a more diverse group of top student applicants, including blind applications, hosting career evenings with university Māori and Pasifika student networks and working in partnership with the McGuinness Institute to bring 36 18–25-year-olds from diverse backgrounds to workshop views of poverty to inform Treasury policy advice.

In the medium term the Treasury will engage and develop our leadership to foster inclusion, continue to embed diversity and inclusion thinking into our HR systems, policies and processes, support flexible work practices and deepen our engagement programmes with the diverse communities that make up New Zealand to improve the quality and responsiveness of our analysis. In particular we are developing strategies and programmes to engage Māori, Pasifika, Asian, regional communities and young people.

In 2017 we will determine new steps to further embed diversity and inclusion within the Treasury following the robust understanding gained through our cultural assessment in late 2016. While the findings were mostly positive, we want to ensure that all parts of the organisation feel that their work is valued, that career development opportunities are fair and that people feel able to introduce their cultural insights from outside of the norms within the Treasury to test and improve our work.

Capability

We are the Government's lead economic, fiscal and regulatory adviser and we require a very high level of economic and financial expertise and analysis and evaluation skills. We must be able to apply this knowledge to the real world in insightful ways, and be able to effectively connect and communicate with others to influence and lead based on our credible reputation.

The Treasury has a strong tradition of recruiting first-rate graduates from a wide variety of academic disciplines, which has added to our diversity of thinking. Internal reviews and external feedback from our current state analysis highlights an ongoing need for stronger technical capability and experience in core areas of economics, data analysis, evaluation and contract management.

Consequently, over the next 12 to 24 months we will prioritise growing our technical capability across the following areas of expertise:

- micro- and macroeconomics (including regulation, natural resources and tax)
- analytical and evaluation skills
- financial management, and
- commercial and contract management (eg, commissioning via external providers, Public Private Partnerships).

We will achieve this capability growth through a mix of recruitment and development of our existing people. In addition, we will focus on growing the capability of our people to:

- provide strong and effective leadership (within the Treasury and externally)
- communicate and engage confidently with others to convey ideas and gain input, and
- implement ideas and plans (including project and portfolio management skills) effectively.

From a leadership capability perspective, we will grow the capability of our senior leaders in the areas highlighted for development through the Leadership Insight Assessment. We will also maximise opportunities for our leaders at all levels to learn through on-the-job experiences such as rotations and internal and external secondments.

We will continue to build on our talent management and succession planning work to ensure we have clear sight of our current and future leadership talent, a clear plan to develop and retain them and a good pipeline for succession into critical roles.

We are also working to implement a revamped approach to performance management that will provide a more effective platform for meaningful career, performance, development and remuneration discussions and decisions. This will help us better develop and retain our high-performing people and manage poor performance.

We will measure our success in growing capability in our priority areas through: statistics related to the recruitment of people with technical knowledge and experience in our key areas and uptake of formal opportunities for development provided; and improved internal and external feedback.

Our critical capabilities

Building on our professional expertise, the Organisational Strategy has articulated the set of capabilities we require to achieve our mission and objectives: *economic and financial expertise, analysis and evaluation, systems thinking and connecting with others*. These four critical capabilities are mutually reinforcing. To do our work well, we need to bring different people in order to test ideas, share knowledge and insights and tackle hard problems collaboratively. We must be very good at multi-stakeholder engagement practices, as well as at forming trusted one-to-one relationships.

- **Economic and financial expertise** – We are the Government's lead economic, financial and regulatory adviser and the quality and relevance of our expertise matters for our impact, reputation and credibility.
- **Analysis and evaluation** – Rich analysis and evaluation can help us determine what works and where we must focus effort for intended results.
- **Systems thinking** – We are dealing with universal, complex and cross-cutting issues; a better understanding of systems enables us to identify the leverage points for desired outcomes.
- **Connecting with others** – We cannot have all of the information, experience or answers. Connecting enables us to pool resources, share wisdom and practice and learn from the real world. Diversity and inclusion lead to better ideas and results. Effective implementation requires buy-in from others.

Engagement

Ultimately, the Treasury's work affects all New Zealanders, so they all have a stake in what we do.

We have made substantial advances in embedding good engagement practice in our business, which has been well received by our agencies and others in the community. While we demonstrate strong public service attributes as an organisation, we know that improvement is possible, particularly in evidence gathering, engagement with others and responsiveness and openness to outside views.

Stakeholders are assigned among the Deputy Secretaries (members of our Executive Leadership Team) who meet regularly to discuss progress they are making through their engagement programme. While our focus on particular groups will change over time, we are likely to focus particularly on engagement with the public, voluntary and business sectors over the next four years given our wellbeing and investment approach.

Our 'Connecting with others' critical capability will develop our engagement approach and strategy. These programmes of work will be developed through the High-Performing Treasury Strategic Investment Area.

In a fast-changing world, every part of the Treasury has a heightened need to connect internationally to manage risk and take advantage of opportunities for New Zealand. The Treasury's International Engagement Strategy has five specific goals:

- Bring global perspectives into the Treasury's thinking and produce world-leading work
- Create opportunity and manage economic risk for New Zealand through economic diplomacy
- Help the Minister of Finance represent New Zealand effectively, and
- Uphold New Zealand's reputation in the world
- Manage operational risks for the Crown.

As a steward, we have a clear responsibility to facilitate development of the Crown–Māori relationship. We recognise the importance of working with others to lift State sector capability, and are building our own capability in order to do this effectively.

The Treasury's Pacific Strategy 2016–2020 Le tofa mamao ma le fa'autautaga (meaning – 'The wisdom to visualise the future and the ability to take us there') will contribute to raising living standards for New Zealanders by helping the Treasury to advise government on what matters most for Pacific peoples in New Zealand. We have set ourselves two external objectives to achieve this outcome:

- Pacific economic stakeholders and leaders are engaged with the Treasury and are empowered to provide advice and information to the Treasury on ways in which we can better collaborate to raise Pacific economic performance and wellbeing.
- The Treasury promotes and role models interagency collaboration and joined up projects through its active participation and leadership in innovative initiatives such as the Ministry of Education/Treasury Pacific policy capability interagency programme.

Decision-making, Accountability and Planning

How we make decisions

Leadership

In 2015/16 we changed our leadership operating model to ensure our Executive Leadership Team could focus on strategy, external engagement and was freed up to tackle cross-cutting policy issues – while our Directors ensure delivery across the business.

Executive Leadership Team

The Executive Leadership Team is made up of the Secretary and Chief Executive and five Deputy Secretaries and is our pre-eminent decision-making body. They are accountable for the strategic leadership of the Treasury with a focus on outward-facing and cross-cutting issues; where decisions are more likely to have a material impact on the outcomes, functions or reputation of the Treasury as a whole. The Executive Leadership Team members are accountable for the delivery of the Treasury's Organisational Strategy.

Kaiurungi – 'The people who steer'

The Treasury's Chief Operating Officer (Deputy Secretary, Strategy, Performance and Engagement) chairs Kaiurungi, which consists of our seven directors, Chief Information Officer and Chief Financial Officer. They are responsible to the Executive Leadership Team for delivering on the agreed organisational strategy and for ensuring the programme of work across all directorates will deliver on the Treasury's objectives and is well-aligned with strategy.

Additional assurance mechanisms

The Treasury also receives additional support from:

- The Treasury Board. This is an external advisory group that supports the Treasury's Chief Executive and Executive Leadership Team in ensuring that its organisational strategy, capability and performance make the best possible contribution to the achievement of its goals.
- The Risk and Assurance Committee. This committee is a sub-committee of the Board with an independent chair and three additional external members. It provides assurance and advice to the Chief Executive relating to the effectiveness and adequacy of internal control and risk management systems, processes and activities across the Treasury
- FSG Audit Committee. This is an external advisory committee that provides advice and observations to the Secretary relating to key issues and risks that affect the production and audit of the Financial Statements of the Government. The Committee is chaired by an independent chair and with two additional external members.
- Commercial Operations Advisory Board. The Board supports the Deputy Secretary, Financial and Commercial Operations through providing guidance on the strategic approach and work programme priorities of Treasury's commercial operations portfolio and Debt Management Office.

Forums

The Treasury holds a variety of different forums to bring staff into decision-making. Treasury Forums promote cross-Treasury discussion and debate across all areas of our business, and are open to all Treasury staff. There are different formats for these forums – sometimes we want to draw out diverse views, sometimes we need to resolve a Treasury position and sometimes we need to share information.

Leaders' Forums bring together Deputy Secretaries, Directors, Managers, Team Leaders and Principal Advisers from across the Treasury to share, discuss and build understanding. We use them to test thinking from the Executive Leadership Team and Kaiurungi, generating and exploring ideas and solutions from the practical, on-the-ground perspective of the people who lead our teams and their work programmes.

Planning and monitoring performance

The Treasury monitors progress against its objectives throughout the year. To monitor the achievement of this Four-Year Plan, the Treasury will be introducing a new framework to replace the Strategic Intentions reporting framework that has been in place.

The new planning and reporting framework will be fit for purpose and make the distinction between work being run as cross-Treasury programmes, and the regular work and activity of the business that is delivered and can be accounted for by directorates.

An operating review is conducted each trimester to assess progress to date and to establish forecast performance objectives. The process engages Directors, Kaiurungi and the Executive Leadership Team in a series of performance-focused conversations. Outtakes from this meeting flow through to a trimester conversation with our Minister. The process supports an incremental 'rolling' approach to planning where adjustments can be made to take into account any changes in priorities or aspirations.

PART C – Planning and Implementing

Our People

The ability of the Treasury to attract, develop and retain highly capable people with specialist knowledge is critical to our ability to fulfil our objective to be a world-leading Treasury. Our work to shape our new Organisational Strategy has given us a much clearer view of our current state that we will use to evolve our strategies and priorities to improve how we attract, develop and retain highly capable people.

Critical areas of focus over the medium term will include:

- Broadening our diversity of thought and perspective (and closing our gender pay gap) by attracting and promoting more women and people from a wider range of ethnicities into the Treasury and into senior roles.
- Growing the capability of our people in areas that have been identified as priorities to achieve our strategic goals and improve our performance as an agency. Our specialist knowledge capability growth priorities are:
    - micro- and macroeconomics
    - analytical and evaluation skills
    - strategic financial management, and
    - commercial and contract management.
- We will also focus on growing our: leadership skills; communication and engagement capabilities (including Māori cultural competence and Te Reo); and project implementation skills.
- Improving our retention of high-performing people and those who have the potential to be our future leaders, by ensuring we:
    - know who they are
    - have effective systems and processes to have meaningful career conversations with them and reward them appropriately, and
    - invest in development opportunities (on a 10:20:70 basis[1]) to grow our leader succession pipeline.

In addition to these goals, we will work to ensure the Treasury is considered a great place to work, and aspects that are critical to our future success are reinforced. We will also focus on developing and implementing strategies to manage within our baseline, and monitor and reset our work priorities as required to ensure we can direct our capacity to where it will add the most value.

How we attract, grow and retain our people

Our organisational strategy review has included an in-depth evaluation of our current state, using internal and external measures, to gain a clear view of our organisational capabilities, and where we should focus our attention to grow and improve. Our analysis tells us that we have some significant strengths on which to build. These include:

- Our people commitment and motivation is high; and they find the work here rewarding.
- The Treasury is seen as standing for something that is meaningful, and people are proud to work for us.

---

[1] This refers to a model where 10% of development is education and formal training, 20% is exposure to learning from others and 70% is experience on-the-job.

- We value leadership ability, and staff generally rate the performance of their manager highly.
- Our culture is seen as empowering, collaborative, open, positive and supportive.
- We develop our staff well and encourage continuous improvement and high performance in our workforce.

Some key areas for improvement have also been identified. These include:

- our ability to change the way we do things in an adaptable and agile way
- how well we involve others in our decision-making
- how well we translate analysis into action
- how well we make prioritisation trade-offs to work on the most important issues
- the need for stronger experience and technical capability in certain fields, and
- how well our reward systems and processes demonstrate that we value excellent performance.

The strategy outlined in this document is based on the understanding of our current state and what it means for our priority areas for people development over the medium term. As with other aspects of our organisational performance, this will evolve over time as we gain a greater understanding of the impact of our future organisational strategy on how we need to shape and manage our people.

Current people statistics

The table below provides an overview of the Treasury's key people statistics.

Current workforce summary statistics[1]	
Average employee age	40.8
Average tenure (years)	5.7
Unplanned turnover (%)	19.6
% Māori in workforce	7.4
% Pasifika in workforce	2.2
% Asians in workforce	7.6
% women in workforce	47
% of women at management level	38.7[3]
% of Maori at management level	Not available
% of Pasifika at management level	Not available
% of Asians at management level	Not available
Gender pay gap (average)	22.9
Maori pay gap (average)	Not available
Pasifika pay gap (average)	Not available
Asian pay gap (average)	Not available
Engagement survey result[2]	71

Statistical trends of note include:

- The Treasury's average employee age is relatively young compared to the public sector average (of 47 years), and we have a reasonably even distribution of age ranges across our workforce. The percentage of our workforce in the 50 plus age group has remained relatively stable (at around 20% since 2014).
- While there has been a small upward trend in the percentage of Māori, Pacific and Asian people in our workforce over the past few years, we still have some way to go before we can say that our workforce is more

representative of New Zealand's population. Strategies to improve our ethnic diversity and inclusiveness have been a focus over the past few years. These have included analysis and modification of our recruitment practices to improve the diversity of candidates coming through to interview stage, training for managers to reduce bias in recruitment decisions, opportunities for staff to learn Te Reo and the implementation of Puna Kaupapa (the Treasury's cultural awareness programme).

- Our average unplanned turnover is significantly higher than the public sector average of 10.9% and our average tenure of service is shorter (public sector average: 9 years). The largest contributors to our relatively high turnover rate are analysts and senior analysts (40% of our unplanned turnover in 2015/16) and our corporate functions (which accounted for 20%).

- Our gender pay gap is higher than the public sector average of 14% and our percentage of women relative to men at management level is lower than at other levels of the organisation. Steps that the Treasury is taking to address these include:

    - improved monitoring and leadership team reporting on gender pay data
    - implementation of a strategy to improve the percentage of women moving into higher paid roles, including an increase in the focus on gender as part of recruitment, talent management and promotion processes, and increased emphasis on proactive regular career conversations between managers and staff, and
    - a requirement for managers to apply a gender lens to remuneration review recommendations.

- In addition, a new approach to remuneration will enable the leadership team to have more control over how and where remuneration increases are targeted.

Forecast FTE and vacancy numbers

Although our previous Four-Year Plan projected reductions in headcount, ongoing assessment of our strategic and operational delivery goals has led us to revise our projections towards a much flatter headcount over the next four years. There will, however, be some reduction in full-time equivalents (FTEs) over this period owing to the wind down of the Social Housing Reform Programme. We will focus strongly on our strategies to achieve cost savings, including increases in productivity, ongoing review of vacancies (need and level of positions) and targeting (affordable) remuneration increases towards high-performing staff.

Forecast FTE and vacancy numbers							
	30 June 2016 (baseline)[4]	30 Dec 2016	30 June 2017	30 June 2018	30 June 2019	30 June 2020	30 June 2021
Number of FTEs	480.2	484	484	472	462	462	462
Vacant positions	53.8	50	50	50	50	50	50
Total position numbers	534	534	534	522	512	512	512

Capacity

We have grown considerably in size over the past four years, from around 390 FTEs in 2012 to around 534 FTEs today [5]. While we have been able to manage this growth within our baseline funding, we are aware that we need to work to ensure we maximise our productivity and efficiency, and manage cost pressures to enable us to stay within our baseline funding.

From a people perspective, our plan to achieve this includes:

- an ongoing programme of work prioritisation to ensure we can direct our resources to the areas that add the most value in terms of our strategic goals

- continuing our practice of reviewing vacancies to determine actual need, and looking at replacing permanent positions with short-term employment options, or increasing vacancy to appointment lag times where we can
- reviewing and achieving our optimal organisational shape to ensure the work we need to do is undertaken at the right level, and we can manage our workforce to have the right proportion of senior to junior staff. Retaining a strong core of senior level capability will be important to ensure we have a depth of expertise to enable transfer of knowledge and capability to other staff and maintain our credibility as lead advisers. We will also work to strike a balance between specialist vs generalist roles to ensure we have both depth and breadth and improve our flexibility in how our resources can be utilised across the organisation
- implementing more modern and effective performance and reward management approaches to enable us to better target increases in remuneration to the employees who add the most value
- looking at options for optimising the use of technology to automate lower value data collection and verification work where possible, and
- making better use of flexible and shared resourcing options within the Treasury and externally.

We will measure our success in achieving our workforce capacity objectives by tracking our headcount and vacancy levels, and our expenditure against baseline funding.

Risk analysis

The potential risks that could impact on our People Strategy include:

Potential risk	Mitigation
Unplanned increase in FTEs puts significant pressure on our ability to stay within our baseline funding.	Regular tracking and effective control of FTE levels. Effective flexible redeployment of existing resources. Effective reprioritisation of the work programme and resetting of stakeholder expectations where required. Use of alternative options to resource work outcomes (eg, partnering, secondments, temporary resourcing etc).
The Treasury is asked to take on extra responsibilities without additional funding to engage additional resources.	Review of the work programme to reprioritise resourcing where possible. Meet with the Minister of Finance to discuss current and future priorities and agree trade-offs.
Lack of leadership, accountability and governance for the People Strategy results in lack of progress against objectives.	Deputy Secretary, Strategy, Performance & Engagement given accountability for delivery. The Performance, Information and Resources Committee is the governance group that will discuss the People Strategy progress quarterly.
Lack of (or poor) implementation of the People Strategy.	Clear People Strategy implementation plan that includes who is responsible, key milestones, timeframes and measures of success. People Strategy action owners will be expected to apply good project management principles (eg, project plans, stakeholder engagement plans).

[1] Source – Human Resource Capability report September 2016 (data at June 2016).

[2] IBM Kenexa Employee Engagement Survey result 2015.

[3] Data sourced internally, includes all People Managers (Managers, Directors, Deputy Secretaries and Team Leaders) at October 2016.

[4] Numbers as submitted for the June 2016 Human Resource Capability Survey.

[5] Note that this includes 54 vacancies.

Provision of Shared Corporate Services

The Treasury provides corporate shared services (Human Resources, Finance, IT, Information Management and Publishing) to DPMC and SSC. The service is provided by the Treasury's Central Agencies Shared Services (CASS).

The short to medium goals for CASS are to continue to improve shared service benefits by improving resilience, reducing future costs and being able to access more strategic and innovative ideas that are relevant to the central agencies' purpose and operation. As opportunities are presented, the Treasury will partner with DPMC and SSC to work through the trade-offs and leverage the benefits relating to the adoption of new services, while also supporting significant change over the short term, maintaining operating baselines and utilising a chargeback model for agency-specific initiatives.

The long-term vision for the shared service is to continue to grow by allowing customer agencies to forge relationships with other small agencies and, if appropriate, offer a standard corporate service while continuing to customise unique service offerings and grow corporate maturity. This will be achieved by:

- realising the potential benefits of technology and information (efficiency, innovation, security, resilience)
- increasing connectivity (enabling data, people and agency connectivity)
- increasing diversity (to leverage value and reflect the communities served), and
- improving the delivery experience (of the public/customers).

Information Technology

The shared IT model with DPMC and SSC demonstrates leadership and collaboration across government and is a way to provide the expertise and scale at a level higher than any one of the agencies could alone. CASS IT supports the underlying infrastructure that is shared across the three agencies and supports the line of business applications for each individual agency. There is a goal of consolidation where possible and standardisation where practical, but always based on the business rather than the technology drivers.

The Treasury's ICT Strategy aligns with furthering the goals of the government ICT Strategy to enable the public sector to exploit ICT-enabled opportunities. Our three main focus areas are:

- innovation and optimisation
- reduced risk and improved resilience, and
- stronger alignment with the business.

Innovation and optimisation

Over the medium term we will be providing improvements in the underlying technology used by all agencies to improve stability and supportability as well as enabling future innovation.

Initiatives in this space include:

- identifying ways to improve cross-agency collaboration, including active based working and connectivity
- identifying business process automation opportunities, and
- improving business processes through better use of technology – by using technology to automate low value tasks we can improve the efficiency of business outcomes.

Through better commercial constructs, better choice or sourcing of technology or better use of the tools we already have, we can deliver savings to our customers. Some areas for review include:

- software licensing – review of the way we are licensed, leveraging all-of-government deals and rationalising multiple solutions
- cloud vs. on premise – consider whether infrastructure or software as a service provides the same or better service at a better price, and
- automation – through the better use of existing tools or new tools we can improve the efficiency of delivering low value IT services through automation, providing better service and freeing up resources to contribute to more value add services.

Reduced risk and improved resilience

The old paradigm was also catering to an old risk and availability model. Centralised systems had disaster recovery as the primary continuity method. There has also been no update of the threat model which would give a better view of the likely attack and vulnerability vectors. With a change in context for the risk environment there needs to be a review of the risks identified, the ratings on those risks and the treatment plans. Some areas of our environments for review include:

- reviewing our current technology locations and future plans
- reviewing our infrastructure to ensure a modern environment is maintained
- reviewing our application inventory and roadmaps for major applications
- reviewing our end user computing environment and user experiences
- reviewing our IT strategies, including the Information Services Strategic Plan (ISSP) and Information Strategy
- producing an IT investment plan with a longer-term view
- working with the business to consolidate and rationalise our websites and implement modern interactive web and intranet pages
- reviewing the toolsets used by IT teams to keep a modern environment
- reviewing existing service management processes, and
- ensuring our risk and governance is reviewed regularly with appropriate mechanisms in place for risk identification and system security certification and accreditation.

Stronger alignment with the business

The way we work, the outputs we deliver and the expectations of those outputs have all changed over the past four years in varying ways. The assumptions on which many of our technology and information management assumptions were made have probably changed over time.

Information technology and information management need a stronger alignment to all areas of our business and remain relevant and productive for end users. This will require a deeper understanding of the work that our people do and the challenges they face now and into the future.

These changes will allow central agencies to maximise the value of technology investment and more quickly begin to realise the benefits. Some of the areas for consideration include:

- using data and customer engagement to drive decisions and uncover new opportunities
- IT open days to demonstrate current and future technology solutions
- voice of the customer forums to capture the needs of our customers

- better understanding our customers' goals and challenges, and
- improved communications channels with the business.

Property and Accommodation

How we use property and accommodation decisions to support our high performance

We have an Accommodation Strategy that outlines guiding principles that support new ways of working and utilise space to support agility within a continually changing environment. This aims to follow the goals and objectives of the Government National Property Strategy and Principles, and the strategy has been approved by the Government Property Group (formerly the Property Centre of Expertise).

We have been working closely with the Government Property Group as part of the Wellington Accommodation Project (WAP2). We are realising our longer-term accommodation objectives through WAP2 by relocating to the lower floors of No 1–3 The Terrace in early 2019. The relocation includes co-location with SSC and will enable both agencies to pursue the opportunities of increased shared back office resources.

The strategy keeps the concepts of cross-agency engagement and cooperation/collaboration, dynamic resource allocation, maximum productivity and retention, and capability building in the frame when we consider accommodation needs and options.

We forecast cost avoidance from a reduced footprint, and thus smaller increases in property costs than if we retained our current tenancy. However, property costs are still forecast to increase and operating and capital funding will be sought from the 2017/18 financial year to address these, in line with the assumptions underpinning the WAP2 business case.

Risk Management

How we manage and provide assurance over our strategic and operational risks

We have agreed a risk appetite statement that promotes purposeful and informed risk taking to help us achieve our objectives. Our risk management framework is the set of elements of our management system that we use to identify and manage risk. The framework is consistent with the recognised standards and is aligned to our business outcomes and the strategies designed to achieve these outcomes. In areas where operational risks may reduce the effectiveness and efficiency of our operations, we take a risk averse approach. In other areas (for example, strategy) we are more willing to be creative and build a culture where innovation and thinking differently is the norm. In these areas we are more open to accepting risks. Identifying and managing risk is a key part of our planning. Our high-level strategic and operational risks are documented in a risk register and our risk management arrangements include regular discussions and review by our Executive Leadership Team and Kaiurungi.

Over the past year we embarked on a process to improve our risk management practices through a continuous improvement approach. We baselined our current practices through stocktakes and a series of workshops, established a phased programme of work and set ourselves stretch targets for 2016/17.

The main organisational risks the Executive Leadership Team is focusing on are set out in the table below. These reflect the Treasury's externally-focused risks, and our most important delivery and corporate/infrastructure risks.

The Treasury's strategic and operational risks

Risk	Mitigating strategies
Impact on the system If the Executive Leadership Team does not turn effort to become a world-leading Treasury into progress on raising living standards for New Zealanders then we will not achieve the impact to advance towards the Treasury's vision.	The key actions to reduce the risk level include: 1. delivery on the Treasury's leadership role on the changes to Child, Youth and Family (CYF) and the social system more generally 2. delivery on the Organisational Strategy and the underlying strategies (eg, Treasury Information Capability, the Finance Strategy and Workforce Strategy), and 3. build relationships and arrangements that are resilient to personnel changes.
Focus on right areas If the Treasury does not successfully: 1. focus on the initiatives and work programmes that will have the most impact on the achievement of the Treasury's vision and four-year excellence horizon, and 2. get the right balance between on one hand progressing government priorities and initiatives and on the other hand delivering critical business as usual functions such as Government Budget and managing the Crown's financial assets and liabilities, then the result will be sub-optimal delivery, lack of impact and/or unsustainable work pressures on staff.	The key actions to reduce the risk level include: 1. anticipate, address and track the political risks around where to invest, and 2. monitor and flex the implications of moving from quarterly to trimester reporting.
Responsive to changing requirements If the Treasury is not agile and nimble enough to respond to emerging priorities, then our work will lose its focus on the highest priorities and we may be seen to be off the pace or increasingly irrelevant to key stakeholder concerns.	The key actions to reduce the risk level include: development and implementation of the Organisational Strategy to achieve greater responsiveness and diversity of thought by building in adaptability, coordination and alignment.
Changing operating model If the changes to the operating model set out in the Four-Year Plan are not integrated and aligned strategically and operationally they will not produce the required results in the change areas specified, the Four-Year Plan will underachieve and the Treasury will not make progress towards achieving its vision.	The key actions to reduce the risk level include: 1. implement the Organisational Strategy which will give greater clarity over the accountability framework 2. ensure the development and implementation of clear KRAs and impact measures that track progress towards 'world-leading' 3. establish oversight of regular tracking of progress against KRAs, and *4.* implement the Organisational Strategy and the underlying strategies (eg, Treasury Information Capability, the Finance Strategy and Workforce Strategy).
Maintaining the Treasury's asset base If investment in developing and maintaining our people, information, systems and tools is not maintained at an adequate level, our assets and capability will deteriorate in quality. The	The key actions to reduce the risk level include: 1. use the developing Organisational Strategy to focus Executive Leadership Team discussions on where to invest 2. develop the balance sheet through to 2030

Risk	Mitigating strategies
results will be: 1. aggrieved and disengaged staff, and 2. deterioration in our services and outputs.	a) produce a long-term capital asset management plan, and b) plan CFISnet replacement 3. develop the plan for the Treasury accommodation move over the next 12 months. Ensure that the design work identifies and realises opportunities, and 4. implement the Organisational Strategy and the underlying strategies (eg, Treasury Information Capability, the Finance Strategy and Workforce Strategy).
Organisational resilience If the central business functions on which the Treasury depends to deliver its services are not well designed and maintained, then the Treasury will not be able to maintain its services following a disruption. The result will be that critical services will fail, Crown operations will be disrupted and the reputation and influence of the Treasury will be damaged.	The key actions to reduce the risk level include: 1. complete internal audit review of business continuity arrangements and deliver on most important recommendations 2. update and test the Business Continuity Management Plan 3. review of corporate policies, and 4. ensure essential services business continuity plans are in place and up to date.

Our Financial Management

How we manage our financial resources and costs

How we balance funding across work programme priorities

How we distribute financial resources and costs across our business priorities is critical to success. Reflecting our strategic framework, we allocate funding to the work programme through a matrix model. Funding is assigned to outputs that can be tracked by appropriation or by directorate; that is, the portfolio of work that is the responsibility of an individual director.

Budgets set at the outset of the financial year may be adjusted during the year as warranted. The directors have the ability to shift people and financial resources within their directorates, but decisions to shift funding between different directorates require Kaiurungi's agreement.

Where external demands exceed our capability and capacity, resolution may entail trade-offs and reprioritisation across the programme or, if necessary, stopping or postponing work in lower priority areas. [1]

[1]

[1] Any scale-down of activity would need to be done through agreements between Ministers and the Treasury as part of the output planning process.

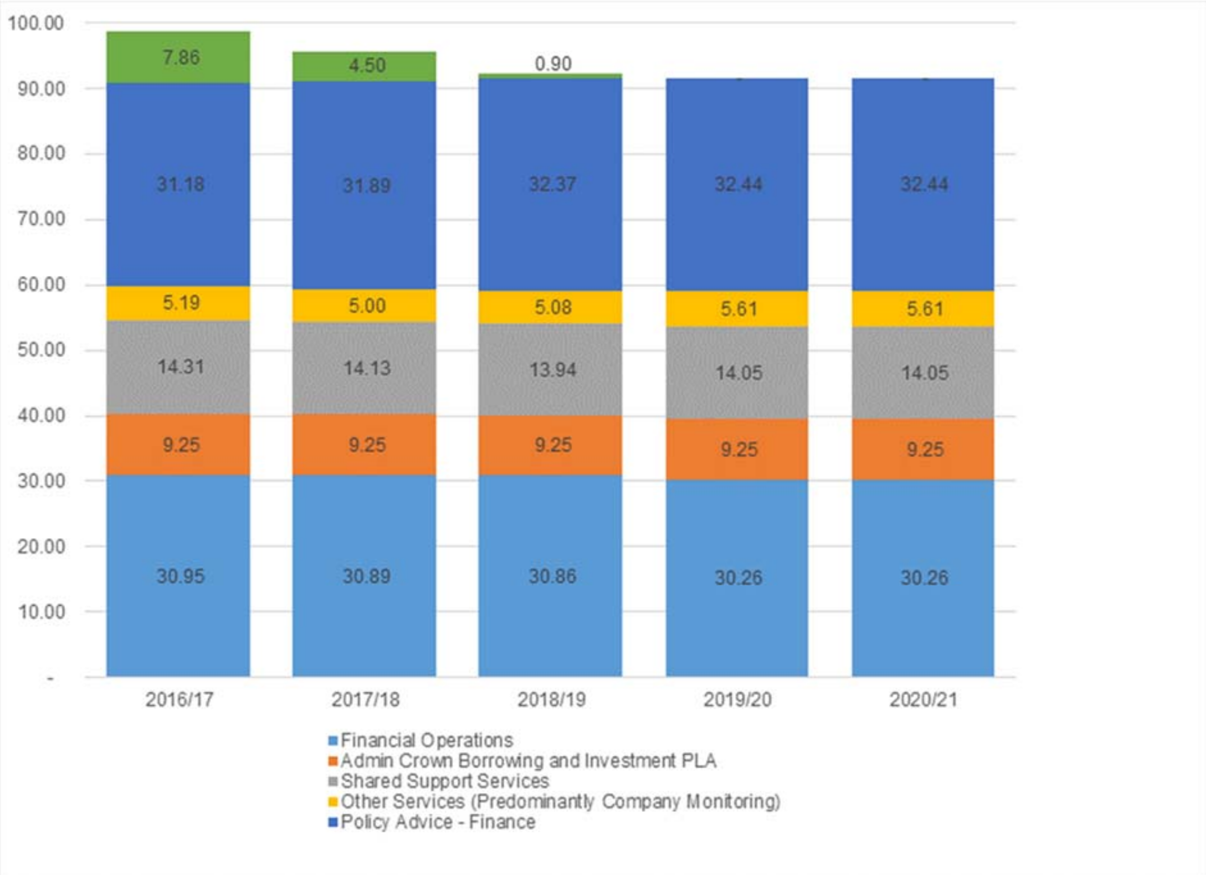
The investment objectives outlined earlier in this document will continue to make this active prioritisation crucially important in the constant balancing of outputs and resourcing constraints.

Where our funding goes

The Treasury is forecast to administer non-departmental appropriations through Vote Finance of $5.7 billion in 2016/17 reducing to $4.3 billion by 2020/21. Of this, around $3.5 billion per year represents borrowing expenses on Crown debt. The majority of the remaining balance relates to other non-departmental expenses, made up of transactions relating to Canterbury Earthquake Recovery assets and the unfunded liability of the Government Superannuation Fund.

Departmental expenditure of $99 million in 2016/17, reducing to $92 million by 2020/21, represents only about 2% of total funds administered, but is the portion of expenditure that we have direct control over. This is split into six key responsibility areas, as reflected in the chart below.

Make up of departmental funding administered by the Treasury ($millions)



We need to realise efficiency savings and reprioritise some of our existing activities in order for our operating baselines to be sustainable through to 2020/21. In the absence of new funding or ministerial agreement to discontinue some existing activities, cost pressures start to accumulate from 2017/18.

The underlying assumptions that were modelled for previous Four-Year Plans have not changed. We have taken on a number of additional functions in recent years, with the larger ones (the Social Housing Reform Programme, NZECO and monitoring of the Accident Compensation Corporation (ACC) and Housing NZ Corporation) coming with new funding, therefore having only a marginal net impact on the Treasury's overall financial situation. However, we have also taken on additional activities as a result of ministerial priorities with no associated increase in funding including funding the Investor Confidence Ratings and progressing the initial stages of advancing an effective investment system. Absorbing the associated costs has added additional pressure to baselines. Advancing an effective investment system is a developing priority for Ministers. In order to allocate the required FTEs and resources to this activity, new funding may be sought in Budget 2017.

Operating – departmental

The forecast financial results outlined in the Four-year Plan are based on Budget 2016 baselines and only reflect approved funding from the Government.

Operating within our existing baseline will be a challenge owing to our dynamic and demanding environment. Financial modelling indicates that we are moving into a period where the prioritisation of resources will be critical to support and advise on the delivery of the most important government priorities. Between 2017/18 and 2020/21 the departmental baseline expense (excluding time limited funding for the State Housing Reform Programme) is expected to remain almost static, although over that period we will face cost pressures owing to inflation and demand increases.

To meet the increased forecast costs we are currently responding to these challenges by focusing on reducing duplication and realising synergies, and continuing to review and refine the shape of our workforce. Savings resulting from these actions have resulted in a combination of permanent savings and deferral of expenditure. However, as opportunities for realisable savings are exhausted, we will need to further improve our efficiency or make explicit reductions in what we will deliver in the future.

There are a number of core functions and services we deliver that are not expected to change. However, the emphasis may change between years as we respond to changing and different needs, and put ideas into action in accordance with the agreed work programme with our Ministers. Our long-term focus will continue to be on examining ways to meet increasing cost pressures within relatively fixed baselines, while minimising the impact on priorities.

Where new functions are transferred from other agencies we would expect sufficient funding to deliver the function to also be transferred.

As the planning horizon moves out, the certainty around some planning assumptions is less fixed. However, by establishing a planning baseline we can assess which areas may require more focus if the realised pressures are significantly different from the established baselines.

We have already identified efficiencies in 2016/17 from earlier initiatives, and by reprioritising planned expenditure within business units and continuing to review and refine the shape of our workforce, but this first step will not be sufficient to offset all our future forecast cost pressures.

What is driving up our costs?

The Treasury is a predominantly knowledge-based organisation, so personnel will always be a large proportion of our costs. Personnel costs currently sit at approximately 60% of our total departmental expenses and this proportion is expected to increase over the four-year forecast period.

To achieve our vision and key result areas we need to be a high-performing organisation driven by a strong set of values, with the right capability and capacity now and into the future. We rely on our people to deliver essential services and HR-related strategies (e.g., people capability, remuneration strategy) and seek to ensure that our people are skilled and supported in delivering good-quality and affordable services.

Our executive leaders, managers and principal advisers represent around 35% of personnel cost. Given the high cost of these resources we need to maximise the value derived from the senior cohort. We will continue to achieve this by ensuring that:

- management responsibilities and capabilities, at both executive and manager levels, are appropriate
- there is an optimal mix and nature of our principal adviser roles, and
- there are clear development pathways for this cohort.

While inflation is low and is forecast to remain so over the four-year forecast period, there continues to be upward pressure on wages. As we strive to be a world-leading organisation it is imperative that we continue to recruit and retain the best possible people, with this objective contributing to continued upward pressure of wage costs. Annual 2% salary increases have been assumed over the four-year planning horizon, with the cumulative impact of these forecast wage increases adding significant cost pressures to the organisation's baseline funding.

In addition to continual upward pressure on wages we are considering (or are being requested to) undertaking a number of new initiatives that are likely to require additional FTEs and/or outsourced services. Significant initiatives include:

- Further enabling our approach to investment. This involves better meeting ministerial expectations for the organisation to perform as a government investment manager, and enabling the Treasury to perform a more substantive and connected role as a fiscal integrator to establish a long-term, integrated view of the Government's likely future fiscal position.
- We are looking to establish a permanent presence in Asia, with the purpose of achieving the following objectives:

- to support our core business functions as the Government's lead adviser on economic, financial and regulatory policy, and to strengthen strategically important economic relationships for NZ Inc
- to significantly reduce operational risk to NZDMO by ensuring it has appropriate business continuity in the event of a moderate to major disruption to Wellington, and
- to enhance our international engagement with investors and market intermediaries to maintain and enhance our global funding base with the objective of reducing the cost of borrowing.

- Assessing alternative rehabilitation solutions for Stockton mine on the West Coast through managing a comprehensive procurement process. This process will require significant technical, engineering, environmental and mining skills that we do not have in-house and will therefore need to source externally.

Our ability to fund these initiatives internally is currently being assessed but is expected to be limited owing to the magnitude of costs. We expect to put forward bids for new in Budget 2017 in relation to these initiatives.
In addition, we have identified cost pressures in relation to increasing depreciation and capital charges as a result of the fit-out of our new premises, No 1–3 The Terrace. However, we will seek additional operating funding to cover these increased costs. We have assumed funding will be available from the tagged contingency which has been set aside for agencies adversely affected by the Wellington Accommodation Project business case (WAP2).

Furthermore, the anticipated conclusion of the Canterbury earthquake work in DPMC is forecast to reduce the cost base of that agency as it reduces its FTEs. The Treasury, through CASS, provides IT, HR and Finance support to DPMC. These charges are primarily based on a per FTE basis, meaning that in the absence of the costs of CASS decreasing by an equivalent amount, the costs are allocated over a smaller base, therefore increasing the cost for the Treasury. In the same way, the decline in the appropriation for Social Housing also removes funding for absorption of an overhead component from the rest of the Treasury. Although some CASS and overhead costs will have a specific marginal decline when the number of DPMC and Social Housing people declines, there are substantial fixed costs that would become a pressure on the remaining appropriations. [1]

[1]

All these items have been identified as cost pressures in the table below. It is anticipated that, where possible, they will be funded through the reprioritisation of existing resources. However, ministerial agreement is likely to be sought if existing activities need to be discontinued to fund planned initiatives. Alternatively, new funding may be sought to fund planned new initiatives while maintaining our existing level of outputs.

Departmental Cost Pressures ($0.000m)	2016/17 Base Year	2017/18 Year1	2018/19 Year2	2019/20 Year3	2020/21 Year4
Total Approrpriations	98.738	95.650	92.398	91.615	91.615
Personnel cost pressures:					
Remuneration pressure		1.201	2.425	3.674	4.948
Wage progression (i.e. internal promotions)		0.219	0.438	0.657	0.876
		1.420	2.863	4.331	5.824
New initiatives:					
Advancing an Effective Investment System		4.120	3.170	1.170	1.170
Treasury International Footprint		2.815	2.815	2.815	2.815
Procurement of options for Stockton mine rehabilitation		2.400	1.100	1.000	0.300
		9.335	7.085	4.985	4.285
WAP 2 Related: Funding Adjustment Expected					
WAP 2 Depreciation		[2]			
WAP 2 Capital Charge Impact					
Changes Impacting Overhead Apportionment					
Absorbing DPMC's reduced share of CASS overheads		0.300	0.340	0.315	1.706
Absorbing SHRP's reduced share of overheads		0.596	1.014	1.878	1.878
		0.896	1.354	2.193	3.584
Total Cost Pressures		[2]			

Managing the Treasury's financial pressures

If we successfully implement the actions outlined in this document we can prioritise outputs so that we can live within our baselines over the next four years. However, this is based on the assumption that financial risks do not arise and, when we identify low-priority activities, that we are able to reach agreement with Ministers to discontinue some of them. To achieve this we will continue to adopt strategies to ensure we can provide efficient and effective services to Ministers within the resources available to us. The work programme priorities that can be delivered within baselines are negotiated with Ministers as part of the annual output planning process.

While the short-term focus is on prioritising operating expenditure and managing within budgets, the long-term focus is on examining ways to meet increasing cost pressures within fixed baselines, while minimising negative impacts on our strategic objectives.

While our four-year workforce and financial strategy objectives will be delivered through the use of fixed budgets across portfolios and teams, we will continue to prioritise work effectively to make sure the right people are working on the right issues at the right time. In this regard we will focus on ensuring that:

- we can surge resources into priority areas as well as stopping areas that are no longer priorities
- we have the right mix of people, both in terms of level (graduates, analysts, seniors, principals and managers) and skill sets, and
- our people are all high performers.

Our leadership is committed to improving our ability to prioritise and shift resources quickly. We will, as appropriate, also utilise the mechanisms available to us in managing across baseline years. This will require management to continue to place priority on effective and timely forecasting to inform their financial management decisions, ensuring that both financial risks and opportunities are identified early so action can be taken. The Executive Leadership Team and Kaiurungi will continue to assess progress regularly and shift resources as required. We will continue our output discussions with the Minister of Finance each trimester to discuss priorities, what we have the capability and capacity to deliver and what trade-offs need to be made.

In response to a need for additional strategic financial management support we increased resources and enhanced capability within our strategic finance area in 2016/17, with the aim of lifting our financial management capabilities. As a result, we now have more robust forecast practices in place and buy-in from Kaiurungi and the Executive Leadership Team to reallocate resources within our internal budgets within financial years to better respond to pressing issues, where budget flexibility allows. This will enable us to be more informed when allocating resources, which will be critical to respond to increasing cost pressures over the coming four years.

We incur significant consultancy expenditure each year, as there is a need to source external specialist advice when this is not available, or unable to be resourced, within the organisation. We will continue to look to savings by seeking to maximise the value of our consultancy expenditure so that it can free up resources for personnel expenditure, and assessing the value of other expenditure. However, there are limits to the efficiencies that can be achieved in these areas given the Treasury's responsibilities.

Through strong financial management and forecasting we will utilise the funding mechanisms available to effectively manage our baseline pressures. This will include, where possible, the retention of underspends and expense transfers to partly address forecast out-year fiscal pressures, and fiscally neutral transfers between departmental appropriations.

Lifting our productivity

As noted previously in this plan, our operating model has deliberately changed in recent years to better support our strategic direction and delivery of outputs. These changes are reflected in our four-year planning. We have needed to invest more in some areas and less in others so as to absorb increasing resource pressures while enhancing the required service levels.

This approach, in turn, requires us to continue to invest in a range of productivity improvement and efficiency saving initiatives which are designed to enable the Treasury to live within its baselines over time. Some of these have already been covered (eg, our investment in Continuous Improvement and Design thinking). Others are:

- ***Good use of technology*** remains an important means for increasing our productivity, effectiveness and efficiency. As noted elsewhere in the plan, we are leveraging the information capability developed over the past three years to support comprehensive data analytics capability for our debt management function as the core of the Treasury's future information capability. This solution (known as the Business Information Hub) was initially developed to support NZDMO's core activities. A wider Treasury Information Capability (TIC) programme is being developed that is looking at information analytics across some of the Treasury's wider data sets, including CFISNet and to support the Government's budgeting process.

- ***Investment and capability are shared****.* The formation of CASS combined the IT investment and resources of the central agencies into one shared service. This has delivered a number of key benefits to each agency including pooling scarce technical resources and capabilities. There is a continued programme to strengthen resilience and service across the agencies supported.

- ***Implementing the actions associated with our people***. We will look for further opportunities to adjust staffing allocations and levels, and ensure new hires have the right skills. We have introduced a more flexible approach to resource allocation, where filling each new vacancy is considered against the Government's priorities and our strategy.

- ***Continue to evaluate how we can limit and reprioritise*** the application of our outsourced services and other expenditure as we review and reprioritise the activities against which we apply our people resources. We have recently bolstered our procurement function to ensure we get best value for money when procuring services from external parties.

- ***Explore further opportunities for back office savings***. CASS is developing its long-term strategy which includes reviewing possible future operating models and what role it can play in supporting other agencies. CASS now has bilateral customer meetings to discuss continuous improvements and agrees with each of its customer's key areas of focus and improvement over the short and medium term.

- ***Realising the objectives of our Accommodation Strategy*** as part of the Wellington Accommodation Project, Phase Two (WAP2) we forecast savings from a reduced rental footprint.

There is a number of outputs that we consider to be core or foundation products and services. These are either required legislatively (eg, managing the Budget process, forecasting, fiscal reporting and debt management) or provide the foundation off which we produce our other products and services (eg, sector financial management systems leadership, performance monitoring, entity monitoring, Board appointments, longer-term investment work). There are some choices around the quantity and quality of these, but these are limited without risk to quality standards. Our focus is on ensuring that we are providing these products and services to a high standard as efficiently as possible.

The rest of our products and services – policy advice, capability building/performance improvement initiatives, commercial transactions, strengthening the Crown–Māori relationship, in-depth areas of focus – are the areas of greatest choice at any point in time over the quantity and quality of what we provide. However, in order to be able to respond to changing demands we need to maintain core capability in all these areas over time. In addition, where we are being expected to take a strong support role in helping other agencies lead programmes, this may need to be traded off against those areas where we have the lead or sole responsibility for delivery (especially against our legislative or mandated roles). Alternatively, we should be explicit about our exit strategy as the programmes mature.

While we generally deliver ministerial priorities and core business within our baselines and this remains one of the key planning assumptions, we expect that we would require additional funding for the extension or implementation of significant projects.

Capital – departmental

If we do not spend our capital appropriately, the additional depreciation and maintenance costs will put pressure on baselines, especially if we are not able to secure tangible benefits (ie, cost savings elsewhere) from such investments.

Accordingly, we have assumed we will only invest as long as our capital spending plans are affordable, prudent and sustainable. The key constraint on capital investment is the scope to afford the financial implications in terms of living within baselines and also ensuring we have sufficient working capital to meet ongoing financial liabilities.

We forecast that we will have sufficient capital funding to acquire essential and highly desirable capital items over the next four years, largely owing to the assumption that the Crown will provide an [2] capital injection to fund the fit-out of the Treasury's new premises, 1-3 The Terrace, in line with the assumptions in the WAP2 business case that was approved by Cabinet in July 2015.

WAP2 will see the Treasury shift, along with SSC, into shared accommodation in No 1–3 The Terrace. Currently we expect to move into our new premises in April 2019, but SSC may move earlier if its part of the building is completed at an earlier time. Timing may change as a result of the recent Kaikoura earthquake and the need for other agencies to source short-term accommodation in No 1–3 The Terrace. Securing the injection of [2] would add approximately [2] per year in capital charge, and the associated fit-out costs would add approximately [2] per year in depreciation. A portion of these costs will be on-charged to SSC for its share of the new premises and fit-out costs. We will seek additional operational funding to cover the additional capital charge and depreciation costs, consistent with the assumptions in the WAP2 business case. These costs will be partly offset by better utilisation of reduced space and associated rental savings.

In addition, as outlined in the plan, we will look for synergies and ways to work across the Treasury to a greater extent. Over the next four years we will continue to focus on strengthening our use of information and enabling information architecture to ensure our operating model supports our strategic direction. This will see a change in the nature of the Treasury investment in technology solutions as we implement our Information Strategy.

The objective is to start with achievable, time-boxed goals and demonstrated real value returns. This approach avoids the large multi-year project, which requires significant investment and unknown/unachievable benefit realisation. The solution must scale to meet the agreed investment allocation, match our pace for change and optimise the capability across the Treasury.

The requirement to fund our move to a new way of working, combined with our requirement to maintain our core system, is expected to put pressure on our available capital given that much of the future capability we need has not been available or invested in.

We will continue to manage this pressure by looking at opportunities to reprioritise from within our existing Capital Expenditure plan and innovative ways to procure the IT capability we require (eg, ‘as a service’, utilising cloud technologies or exploring leasing options). We will be looking at our mix of inputs (IT against personnel) to ensure we have the right balance going forward. However, as our information management practices mature, we may have a need for further capital investment by the Crown as we look to apply a systems-wide lens.

The large forecast capital expenditure in 2020/21 relates to the planned replacement of CFISNet and I-manage, with the quantum, timing and nature of these planned investments still to be determined. Whilst we expect to have sufficient capital available to fund these investments (assuming the fit-out for our new premises at No 3 The Terrace is funded by a capital injection), these investments will create a cost pressure in relation to increased depreciation that would need to be funded through the reprioritisation within existing appropriations.

Forecast departmental capital movements over the next four years

$0.000m	2016/17	2017/18	2018/19	2019/20	2020/21
Opening capital funding available	5.128	4.347	5.973	9.203	11.306
Add depreciation funding to be received	4.676	5.272	5.268	5.569	5.008
Add receipts from sale of assets	-	-	-	-	-
Add prior accumulated depreciation reserves transferred from SSC and DPMC (+ associated cash to fund asset replacements)	3.403	-	-	-	-
Add forecast capital injection for accommodation refurbishment (WAP2)	-	[2]			
Equals total capital funding available	13.207	[2]			
Subtract capital investments	(8.860)	[2]			
Subtract repayment of capital	-	-	-	-	-
Equals closing capital funding available	4.347	5.973	9.203	11.306	5.390

Non-departmental expenditure and activities

Vote Finance: Four-Year Plan for Budget 2016 sets out fiscal challenges facing the Crown over the years to come. The Crown continues to take difficult decisions to put the public finances on a sustainable path.

We have little influence over most of the non-departmental appropriations that we administer, as they are governed by legislation or relate to binding agreements and contracts between the Crown and a third party, membership obligations or borrowing costs. The Treasury administers these arrangements on behalf of

Ministers. Table 5 shows current forecasts which reflect the latest information available regarding these appropriations.

As an example, in previous years the costs related to the Crown's recapitalisation of failed insurance and finance companies (eg, AMI and South Canterbury Finance) were administered through the Treasury under Vote Finance via special purpose Crown companies Southern Response Earthquake Services Ltd and Crown Asset Management Ltd. Currently, as part of the cessation of Canterbury Earthquake Recovery Authority, part of the funding for the continuation of the Anchor Projects programme and divestment of Crown-owned land has been transferred from Vote Canterbury Earthquake Recovery into Vote Finance, through which funding is provided to Ōtākaro Ltd. These are examples of significant expenditure items that are unforeseen and out of our direct control.

While there is a forecast reduction in non-departmental expenditure over the planning horizon, mainly as a result of a reduction in expenditure in relation to the Canterbury Earthquake Recovery, unforeseen events can materially impact the Vote Finance non-departmental appropriations, of which we have limited control over as noted above. Decisions on government funding in relation to the November 2016 Kaikoura earthquake are yet to be made, and such decisions may impact the Vote Finance non-departmental appropriations.

The main expenditure items within non-departmental Vote Finance continue to be the borrowing costs on government debt, which are administered by the Treasury, and non-cash items such as valuation changes to the unfunded liability in relation to the Government Superannuation Fund.

Fiscal risks associated with the non-departmental activities will be discussed in detail in the 2016 *Half Year Economic and Fiscal Update* (HYEFU) due for release in December 2016.

Non-departmental fiscal forecasts

$0.000m	2016/17	2017/18	2018/19	2019/20	2020/21
Non-departmental output expenses	27.438	23.908	24.008	22.308	0.679
Non-departmental borrowing expenses	3,448.298	3,611.251	3,516.129	3,489.147	3,489.147
Total non-departmental other expenses	801.801	598.994	609.066	622.425	622.621
Non-departmental Multi-Category Expenses and Capital Expenditure	591.085	172.485	88.781	38.380	29.380
Total estimated non-departmental appropriation activities	4,868.622	4,406.638	4,237.984	4,172.260	4,141.827

Forecast non-departmental capital movements over the next four years

Increase (decrease) $0.000m	2016/17	2017/18	2018/19	2019/20	2020/21
Baseline funding available for the purchase or development of Crown capital assets	871.826	456.002	147.185	147.185	147.185
Add capital investments in organisations other than departments	-	-	-	-	
Equals total	871.826	456.002	147.185	147.185	147.185

Reductions from 2016/17 through to 2010/21 mainly relate to the non-recurrence of these items:

- a one-off impairment of $195 million in Southern Response Earthquake Services Ltd as a result of rising insurance liabilities in 2016/17
- a one-off transfer of Anchor Project Assets to Ōtākaro Ltd of $296 million, and
- a loan facility for Tamaki Redevelopment Company of $92 million in 2016/17 and $99 million in 2017/18.