Reflections from our audits: 
Our future needs – is the public sector ready?
Publications by the Auditor-General

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• Schools: Results of the 2012 audits
• New Zealand Customs Service: Managing Trade Assurance capability risks
• Draft annual plan 2014/15
• Central government: Results of the 2012/13 audits (Volume 2)
• Additional work on Solid Energy New Zealand Limited
• Inquiry into property investments by Delta Utility Services Limited at Luggate and Jacks Point
• The Auditor-General’s Auditing Standards 2014
• The Treasury: Learning from managing the Crown Retail Deposit Guarantee Scheme
• Department of Internal Affairs and grants administration
• Maintaining a future focus in governing Crown-owned companies
• Delivering scheduled services to patients
• Continuing to improve how you report on your TEI’s service performance
• Central government: Results of the 2012/13 audits (Volume 1)
• Department of Corrections: Managing offenders to reduce reoffending
• Public entities in the social sector: Our audit work
• Immigration New Zealand: Supporting new migrants to settle and work
• Summary: Inquiry into the Mangawhai community wastewater scheme
• Inquiry into the Mangawhai community wastewater scheme

Website

All these reports, and many of our earlier reports, are available in HTML and PDF format on our website – www.oag.govt.nz. Most of them can also be obtained in hard copy on request – reports@oag.govt.nz.

Notification of new reports

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Reflections from our audits:

Our future needs – is the public sector ready?

Presented to the House of Representatives under section 20 of the Public Audit Act 2001

May 2014
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Auditor-General’s introduction

Early in my term as Auditor-General, I asked my Office to do something that had not been done before in public sector auditing in New Zealand.

I asked my staff, my contracted audit service providers, and some external interested parties to come up with a theme that we could apply throughout an entire year of audits.

This was not a small request. Every year, my Office audits every one of the country’s 4000 or so public entities and carries out many in-depth audits, studies, and inquiries into the public sector. We report on all of this work throughout the year to provide assurance to public entities, Parliament, and the public that public money is being used wisely and as intended. In central government, public expenditure amounts to more than $86 billion a year.

The volume of audits, types of public entities, and nature of public entities’ activities vary hugely. From the largest government department to the smallest local authority to the most remote school board of trustees, our public sector touches every aspect of our lives – social, environmental, and economic.

How could one theme be applied to all of this? And how could it add value?

I am proud that my Office has not only risen to the challenge but exceeded my expectations.

For the year 2012/13, I adopted the theme: Our future needs – is the public sector ready? The theme reflected a widespread recognition that public services must change and adapt to help build the future we want and to meet new challenges.

We drew our observations for this report from our audit work and reports published during the 18 months from June 2012 to December 2013. We applied the theme to some degree in all of our work throughout 2012/13. We did not set out to provide a definitive “yes or no” answer to the question or to slavishly focus on one aspect of public sector performance. Instead, we used the theme to encourage debate, challenge and expand thinking inside and outside our organisation and in the public sector, and identify and highlight examples of good or poor practice to help everyone improve.

Our observations show the value of applying a theme on top of our usual comprehensive body of auditing work. It is another way that the Auditor-General’s unique view of the entire public sector can be used to add relevant comment and objectivity to improving the performance of, and the public’s trust in, the public sector.
The exercise of applying this theme has stretched and challenged my staff. They have responded in typical fashion – by helping me to also choose new themes for future years.

The proposed themes are:

• 2013/14 – Service delivery (under way);
• 2014/15 – Governance and accountability;
• 2015/16 – Investment and asset management; and
• 2016/17 – Information (focus to be determined).

More information about our proposed work on these themes will be set out in our 2014/15 Annual Plan. By identifying themes in advance, I hope to focus the public sector’s attention on strengthening these aspects.

The specific programme of work for each year will be drawn up in keeping with my responsibilities under the Public Audit Act 2001 and the Public Finance Act 1989, which include consulting Parliament and other stakeholders. I intend to create opportunities for greater public engagement and involvement in our work in future.

Our 2012/13 theme does not end here. I am keen to continue to explore the observations raised in this report because of the importance of the question we have posed about the public sector’s readiness for the future and the certainty of more change.

I invite your comments and feedback – online at www.oag.govt.nz or in writing to reports@oag.govt.nz or PO Box 3928, Wellington 6140. If you would like me to visit your organisation or group to talk about this work, please email reports@oag.govt.nz or phone 04-917 1500.

Lyn Provost
Controller and Auditor-General
22 May 2014
Part 1
Context for our future needs

The New Zealand context – what the public sector needs to be ready for

1.1 In this Part, we provide a brief snapshot of the complex matters facing New Zealand and, therefore, the public sector. Change and the increasing pace of that change are real and unavoidable. The public sector must plan for it and be ready and able to embrace the unexpected.

1.2 Figure 1, which appeared in our June 2013 report Public sector financial sustainability, is an example of one way to show the interdependency of social, environmental, and economic factors.

Figure 1
One way of displaying indicators of a community’s well-being


1.3 We have used some headings from Figure 1 to provide some context about what the public sector needs to be ready for.
Economic vitality

1.4 Although New Zealand escaped the worst of the global financial crisis, the subsequent recession reduced private and public wealth and income. We have also seen the effect on our economy of other shocks caused by natural disasters, most notably the Canterbury earthquakes. We can no longer afford to view such shocks as unlikely.

Ecological footprint

1.5 New Zealand has one of the world’s largest exclusive economic zones and is highly ranked in terms of water availability and protected land, grasslands, and forests. However, New Zealand’s renewable resource capacity per person is reducing, and our surplus capacity is expected to halve in the next 40 years if current trends continue.

Living standards

1.6 New Zealanders have spent more than they have earned for all but four of the last 55 years, as measured by the current account deficit. In the last 30 years, we have fallen from being among the most equal countries in the Organisation for Economic Co-operation and Development in terms of market income. We have high rates of youth suicide, teenage fertility, and youth unemployment.

Education

1.7 Of concern is Māori educational achievement. Māori make up 15% of our total population. In 2012, about 30% of Māori students left school with no qualifications at any level. They made up more than 40% of the total number of students leaving school who were halfway or less towards achieving a Level 1 NCEA qualification.

1.8 Also of concern is the large number of prisoners (about 71%), who have difficulty reading and writing. Poor literacy affects prisoners’ educational achievements, job prospects, and well-being. Research shows that helping prisoners to reintegrate into the community by giving them opportunities to learn valuable skills and achieve nationally recognised qualifications, helping them to find sustainable work after release, means they are less likely to reoffend.
Population density

1.9 Older people make up an increasing proportion of the population in all regions (except Auckland) and the pace of this change has increased. This structural demographic change means the proportion of working-age people in the New Zealand population is decreasing permanently. The older population is expected to continue to be dominated by people identifying as “European” or “New Zealander”, although their share of this age group will decrease.

1.10 The Treasury projects that pension costs will grow while a decreasing number of working-age people will be supporting those over the age of 65 – a group that will double as a proportion of the population (from 13% to 26%) during the next 50 years. Health spending, not related solely to the ageing population, is growing faster than the growth of gross domestic product (GDP). Real financial pressure is emerging from problems related to health and lifestyle, such as obesity and diabetes.

Affordable government

1.11 Our public sector has a solid reputation for innovation and excellence, and public sector net indebtedness is relatively low. The Government’s net external debt hovered around 10% of GDP from 2000 until 2008. However, because of the global recession and Canterbury earthquakes, net debt has since grown to 26% of GDP.

1.12 Factors affecting the long-term financial sustainability of local authorities include expected changes in population and land use, and expected capital expenditure. The income and wealth of businesses and households and the availability and affordability of housing affect the ability of citizens to pay rates and other charges.

1.13 Rates are forecast to increase at an average of 5% every year from 2012 to 2022. Overall, rates are forecast to increase relative to the underlying index of consumer costs but decrease relative to overall income growth (as measured by GDP).

Public infrastructure

1.14 Local authorities’ forecast capital expenditure for the 10 years from 2012 to 2022 is $37 billion. Of this, 59% is to meet increasing demand (often as a result of growth) or to improve levels of service.

1.15 Local authorities face increased spending to meet regulatory standards (for example, water supply standards), community expectations about levels of service, and changes in population and land use. Local authorities have to balance these demands against what is reasonably affordable for their communities.

1 Statistics New Zealand (2012), National population projections 2011-2061.
1.16 Debt is forecast to nearly double during the next 10 years as local authorities use debt to fund long-life assets. The gross debt for local authorities is forecast to increase from $9.8 billion in 2011/12 to $18.7 billion by 2021/22. The Auckland Council’s group debt, which was $4.8 billion in 2011/12 and is forecast to reach $12.5 billion in 2021/22, significantly affects total gross debt.

1.17 In the rest of the public sector, significant investment in infrastructure is under way or planned – for example, major road projects, broadband rollout, and the Christchurch rebuild.

Making observations about public sector readiness

1.18 This brief snapshot is indicative and does not purport to be comprehensive. However, it is clear that New Zealand – and, therefore, the public sector – face some complex problems. Fortunately, we have some good foundations underpinning our public management. But will that be enough?

1.19 The rest of this report discusses how prepared the public sector is for some of the challenges ahead. We have grouped our observations under these headings:

- Part 2: Public sector finances – solid foundations but with challenges ahead;
- Part 3: Looking after our natural resources and physical assets;
- Part 4: Putting ideas and plans into action;
- Part 5: He tāngata – it’s about people;
- Part 6: Making digital part of our DNA; and
- Part 7: Conclusions and reflections.

1.20 The Appendix provides a list of our reports published between June 2012 and December 2013. We drew our observations for this report from that body of work, as well as from all of our other audit and assurance work during 2012/13 and the first half of the current financial year.
Part 2
Public sector finances – solid foundations but with challenges ahead

Our public management system is seen as a world-class model
2.1 Internationally, New Zealand’s public management system is seen as a world-class model. We are ranked:
  • first in Transparency International’s 2013 Corruption Perceptions Index;
  • above the 90th percentile for all six of the 2012 World Bank’s Worldwide Governance Indicators;
  • second in the Stanford Centre for International Development’s 2011 Sovereign Fiscal Responsibility Index; and
  • second for institutional strength and 18th overall in the 2013/14 World Economic Forum Competitiveness indicators.

Public management needs to move up a gear, given the challenges ahead
2.2 In July 2013, the Treasury released Affording Our Future: Statement on New Zealand’s Long-term Fiscal Position, which described the last 40 years as a time of considerable change and noted that prudent financial management has, and continues to be, important for New Zealand. The Treasury recommended that the Government draw up plans during the next decade to address some of the more certain cost pressures that our country will face. I agree and said so in my August 2013 report Commentary on Affording Our Future: Statement on New Zealand’s Long-term Fiscal Position.

2.3 During the next 40 years, the extent of change is likely to be equally as dramatic as in the past 40, and the implications for how the public sector manages its financial resources will be just as important. Some of these changes, such as an ageing population, are already evident, but many will surprise us – sometimes in good ways and sometimes, as we have seen in the last few years, not.

2.4 Recent experience suggests that the financial implications of change can be material, intergenerational, sometimes unequal and, above all, difficult to control. What this means for the public sector is that managing the financial implications of change is not just about having money – it is about using that money effectively and efficiently.

2.5 The challenge we face is how to make our financial management system even more effective and the financial information that underlies it more useful and better used. External governance and leadership expectations are fundamental to achieving sustainable change, but capability, systems, processes, and data are critical to delivering strong financial management.
2.6 Looking forward, the possibility of more shocks, the ageing population, increasing diversity, inequality, and pressures on our natural resources will require careful and co-ordinated financial strategies throughout local and central government. Among other things, this will require bringing together financial and performance information through a more co-ordinated and responsive public management system.

**Figure 2**

Benefits and use of accrual accounting

Accrual accounting was introduced for central government in New Zealand in 1992 to help to better manage the economy by knowing the full extent of government assets and liabilities. In doing so, New Zealand was among the first adopters of accrual-based reporting by each public entity, which is associated with high transparency and good accountability.

Those introducing the reforms were responding to economic pressures, including a net public debt of 55-60% of GDP, government spending at 40% of GDP, a downgrade in our credit rating, and limited financial information about the condition, quality, and usefulness of government assets. Accrual accounting was introduced to provide better information for accountability and decision-making, which was in demand from political leaders, department heads, and the Auditor-General.

A 2013 survey of 100 countries showed that, in the aftermath of the global financial crisis, the number of public sectors using accrual accounting is expected to increase in the next five years from 26 to 63 countries.*

Governments cannot hope to govern in a sustainable way unless they are made aware of the liabilities created by the decisions and choices of the past and today. Public entities are responsible for many significant long-lived infrastructure assets that are vital for providing public services and a foundation for economic growth. Accrual accounting recognises assets and liabilities and so offers the opportunity for governments to improve their management.**

In a 1996 paper, the International Federation of Accountants noted that the main benefit of accrual accounting was seen as improved financial transparency. Reporting of useful, relevant, and soundly based financial information could help governments to avert undesirable spending behaviour. Reporting a complete and accurate picture of a government’s finances could enhance public confidence in the government’s financial management ability.***

Notes

2.7 In our discussion papers, *Public sector financial sustainability* and *Commentary on Affording Our Future: Statement on New Zealand’s Long-term Fiscal Position*, we noted the need for a wider focus on financial sustainability.
2.8 In our June 2012 report, Reviewing financial management in central government, we noted that most public entities have sound budget management and financial controls. We also noted the need to improve governance and value from our public resources. Our annual audits support these conclusions.

2.9 Figure 3 uses two diagrams from Reviewing financial management in central government to show our assessment of the maturity of financial management in central government, based on a simple maturity model scale.

**Figure 3**
Reviewing financial management in central government – our maturity assessment
Changes to financial reporting standards and legislation

2.10 By 2016, public entities will put changes to financial reporting standards into practice. We support the strategic changes and the broad direction of the proposed financial reporting standards. In particular, we support changes that will allow many public entities to report on a basis that better reflects their size and scale than has been available under accounting standards until now.

2.11 Changes have been made to the Public Finance Act 1989 to improve financial flexibility and provide more meaningful information to Parliament about what the Government is spending and achieving. However, I fear that overly rigid rules and/or fixed mind-sets will undermine the intended flexibility. I hope that access to more meaningful and concise information will improve Parliament’s scrutiny of public entities.

Simpler reporting and integrated information needed

2.12 Because of the long life of the local government asset base and the importance of assets and services such as water and waste disposal to our everyday lives, local authorities need to have long-term plans.

2.13 Local authorities have been good at budgeting for their operational expenditure, but have tended to overestimate their likely levels of capital expenditure. This indicates the challenges of delivering a diverse range of projects each year, and raises questions about the realism of local authorities’ longer-term assessments of the cost of their asset renewal and expansion programmes, as forecast in the long-term plans.

2.14 Local authorities need to seek community views on the long-term plan as a whole and engage in “the right debate” about matters such as expectations about levels of service, their costs, and funding. In doing so, local authorities need to find a middle ground between high-level description of strategy and detailed management intentions.

2.15 In my view, local authorities have scope to improve how they report because long-term plans suffer from having too much information and being complicated. I do not subscribe to the notion that more information is better. Information should
be appropriate for the users of that information. Few ratepayers have the time or inclination to digest hundreds of pages of planning documents. I will continue to encourage local authorities to simplify public reporting.

2.16 In fact, all accountability reporting would benefit from being focused more on users’ needs. Overall, standard-setters and public entities need to focus on relevant and appropriate reporting that is easy to understand and used to properly hold public entities to account. True accountability requires transparency about financial and operational performance, and an appropriate relationship between the two.

2.17 In my view, our public sector leaders should carefully consider the International Integrated Reporting Council’s integrated reporting initiative.2 The initiative supports reporting that provides concise communication about value, focuses on strategy, is future orientated, and promotes the connectivity of information.

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2 The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard-setters, the accounting profession, and non-governmental organisations. For more details, see www.theiirc.org.
Part 3  
Looking after our natural resources and physical assets

Understand the resources you rely on

3.1 If you rely on something, you need to recognise it and manage it over the long term. This is a simple, generic point that is equally applicable to natural resources (such as our indigenous biodiversity), economic advantages (such as our largely pest-free status for primary production exports), and built assets and physical infrastructure (such as our transport, water, and wastewater infrastructure). Our information assets can also be thought of in this way (see Part 6).

3.2 More than any other developed country, our country depends on biosecurity. Biosecurity is fundamental to New Zealand’s economic health and natural heritage. The Department of Conservation (DOC) administers about one third of New Zealand’s land. Our public sector manages physical assets valued at more than $210 billion.

3.3 Decision-makers need good information about these assets and future asset needs to appropriately manage maintenance, renewal, and investments. So, the first step is to recognise the resources that we all rely on so that we can collect useful information – such as age, condition, risks, expected life and value – to help us manage them sustainably.

3.4 Making good choices about where we spend our scarce resources is critical to ensuring that the public sector delivers the right services. Prioritising is vital in making good choices. This is especially so because of the complex and interrelated problems facing New Zealand (outlined in Part 1) that will continue to put financial and service expectation pressure on the public sector. The public sector will need to be in a position to make the right calls on questions about large investments in assets and using resources.

3.5 We looked at the natural resources and other assets that support the delivery of public services. We asked whether important resources were being managed well to deliver the services needed in the future.

Long-term planning is vital for good stewardship

3.6 We see an increasing emphasis on long-term financial planning and stewardship of public assets and resources – this is vital because government assets generally last a long time.

3.7 More emphasis is being put on stewardship of assets and long-term planning in public sector governance and legislation. For local authorities, the Local
Government Act 2002 prescribed a 10-year planning horizon to help set priorities, requiring local authorities to map out where they expect to focus their resources. The focus on effective contribution from the community continues to grow.

3.8 In central government, agencies are increasingly being asked to use longer-term planning horizons, such as preparing four-year plans. Recent legislative amendments will have implications for planning and for agencies’ stewardship of their resources – for example, by putting greater focus on sector-wide outcomes.

**Big challenges for biosecurity and biodiversity**

3.9 New Zealand is home to an exceptionally high number of indigenous species, many of which are not found anywhere else. Our internationally renowned lands and waterways attract many tourists.

3.10 Biosecurity is fundamental to New Zealand’s economic health and natural heritage. No border control is 100% effective, so it is important that New Zealand is prepared to deal with incursions effectively. In our report, *Ministry for Primary Industries: Preparing for and responding to biosecurity incursions*, we concluded that New Zealand is under-prepared for potential incursions from some high-risk organisms. The Ministry of Primary Industries has good work under way to address this.

3.11 In our report, *Department of Conservation: Prioritising and partnering to manage biodiversity*, we found that although DOC is recognised for its leading conservation methods and practices, it is not winning the battle against the threats to New Zealand’s indigenous species and their habitats. Recent research shows that, at best, efforts to date are merely slowing the decline of biodiversity, which is a cause for concern. The job of managing biodiversity on conservation land is far greater than the resources available.

3.12 DOC has a difficult and complicated task in managing biodiversity on conservation land and waterways. The task crosses geographical boundaries – between private and public land and waterways – and organisational boundaries at various levels of government and outside government. We saw that the decisions that DOC makes using its prioritisation tools will have long-term effects and, therefore, are critical. This includes fitting regional partnerships into an integrated, strategic framework.

3.13 We have questions at the system level about prioritisation and trade-offs. As the DOC example shows, trade-offs and opportunity costs relating to services that benefit the public sector as a whole should not be considered within appropriations for single public entities. They need to be looked at and understood from a whole-of-system perspective.
Plans are worth doing only if they are useful and used

Overall, evidence about stewardship and prioritisation presents a mixed picture. In our report on managing public assets, we noted that public entities understood the importance of planning for assets and that most public assets were in suitable condition to provide services. However, more than half of public assets were not being managed in keeping with a plan and nearly half of assets were known not to have any deferred maintenance or renewals. These assets with unknown and known amounts of maintenance and renewal deferrals had lower condition ratings than those without deferrals.

The need to plan for assets over the long term is increasingly recognised. The same effort is needed to maintain and renew these assets.

Decisions about priorities should be made deliberately, based on good information and discussion

Sometimes, a complex balance needs to be struck between protecting and preserving resources and using them to meet current needs and deliver services. Finding this balance relies on:

- good information and long-term forecasting of the availability of resources and the demand for resource use – this data is vital to inform strategies and decision-making about how to balance supply and demand; and
- communication and co-operation between public entities and with the public to recognise the range of needs and interests and have the “right debate” about the issues, choices, and implications – this is fundamental to working out approaches that users and the public accept and support.

A prerequisite for improving stewardship and prioritisation of assets is to understand whether outcomes are actually being or have been achieved and, therefore, whether prioritisation is having the desired effect. This is achieved through high-quality measuring of performance, monitoring, and evaluating the consequences of policies and interventions. Good data is vital.
Part 4
Putting ideas and plans into action

A good clear strategy makes a big difference

4.1 Public entities with a clear purpose, working proactively to achieve that purpose, were better placed to consider New Zealand’s future needs and are more likely to be confident that they can contribute to meeting those needs.

4.2 We saw plenty of examples of well-founded strategies – for example, our report on enforcing drink-driving laws found that the Police have a clear national strategy that Police officers understand well.

4.3 In the Department of Corrections’ work to reduce reoffending by 25% by 2017, we found that early results are encouraging. Between 2011 and 2013, the reoffending rate reduced from 30.1% to 26.6%. The Department has clearly defined what it wants to achieve and has carried out structural changes within the organisation to put it in a better position to reduce reoffending. It has a clear strategy that staff understand, and the reduced reoffending target has unified effort throughout the Department.

4.4 Sometimes, we reported on the effect of a lack of strategic approach. In our report, Immigration New Zealand: Supporting new migrants to settle and work, we noted that the lack of a whole-of-government settlement structure has limited achieving some intended results, such as tackling the difficulty for partners of immigrants to get employment.

Effective strategy implementation is patchy

4.5 The future needs of New Zealanders will not be delivered solely by having a good strategy or plan. A strategic plan is only as good as how well it is put into effect. This requires all those who should be involved properly and realistically identifying required resources, devising ways to put the plan into practice, and following up as planned.

4.6 Putting a strategy into effect is not a uniformly strong point in our public management system.

4.7 Our reports looking at education for Māori identified that Ka Hikitia, the Ministry of Education’s strategy for Māori education, is based on thorough research and has a strong evidence base. Where Ka Hikitia has been given effect, there have been statistically significant gains for Māori students. However, the Ministry’s
interim evaluation report to Cabinet in 2011 noted that Ka Hikitia had been put into practice more slowly than intended. We also found that failing to communicate the strategy effectively or to work with partners adversely affected putting Ka Hikitia into practice.

4.8 The problems and challenges that people and communities will face in the future do not necessarily fall neatly into the current organisational mandates or public sector structures. To effectively prepare for and meet our future needs, public entities need to work together across organisational boundaries, often alongside organisations from outside the public sector, including local communities and iwi.

Planning needs to address risks and worst-case scenarios

4.9 We have found that public entities plan mainly for likely events. However, they also need to deliberately and sensibly prepare for potentially catastrophic but unlikely events. Those events can require public entities to administer large and complex initiatives that must be set up quickly.

4.10 Being prepared for these types of situation is difficult but possible. Although detailed action planning cannot be done before such an event, public entities can prepare a coherent strategic approach in advance. A disciplined approach is required when responding to these events, particularly when the immediate emergency phase of the event has passed.

4.11 The 2010 and 2011 earthquakes in Canterbury are a case in point. Rebuilding Canterbury is a priority for the Government and, with so much public spending involved, I have made it a priority to provide assurance that the recovery is being carried out effectively, efficiently, and appropriately. Our set of three reports – *Roles, responsibilities, and funding of public entities after the Canterbury earthquakes*, *Earthquake Commission: Managing the Canterbury Home Repair Programme*, and *Effectiveness and efficiency of arrangements to repair pipes and roads in Christchurch* – provides ample lessons from the response to these events.

4.12 Throughout our work, we see examples of overly optimistic forecasting, without enough focus on what might happen in the future or considering the need for an emergency or escape plan if disaster struck. Various unexpected events and changes have affected public entities in recent years, including the global financial
Part 4  Putting ideas and plans into action

Although specific events and changes may not be predictable, we know that unexpected events will happen and not all will go as hoped. Public entities need to consider how they would respond to an unexpected event, and have “exit strategies” to use in unforeseen circumstances. After a major event and changed circumstances, they need to consider whether original intentions and assumptions remain valid.

4.13 The better the information, the better the decisions

Throughout our work, we find the information that public entities use to support decision-making and communicate with service users and the public is of variable quality. Having the right kind of data available is one component in being prepared for the future and getting benefits from opportunities and investments.

4.14 Our inquiries into the Mangawhai community wastewater scheme and the decision by Hon Shane Jones to grant citizenship to Mr Yang Liu show that records matter. Being able to explain why you did something is the essence of accountability and is basic for trust and good administration. Accountability, including attention to legality, procedural requirements, and record-keeping, should be at the heart of a public entity’s systems and operations.

4.15 Understanding and preparing for the effects of an ageing population is important for everybody. We used an international benchmark from the United Nations – the Madrid International Plan of Action on Ageing (the Madrid indicators) – to assess the quality of our information on ageing.

4.16 We found that the data needed to report on most of the Madrid indicators was available and that public entities were collecting and reporting most of the data. This means that public entities have, at least, a minimum set of data about demography and older people that they can use.

4.17 As public entities look to reuse, combine, and share information, I suggest that they consider some common themes about collecting and reporting data. For example, it would help if public entities reported data using more consistent definitions and groupings (such as consistent age groups).
The new requirement to include a financial strategy in local authorities’ 2012-22 long-term plans improved the way that local authorities present financial matters in their long-term plans. This is likely to have helped communities to assess the implications of proposed financial decisions. In Matters arising from the 2012-22 local authority long-term plans, we suggested that local authorities could also explicitly consider the implications of trends, using a wider range of indicators for long-term sustainability of their financial and operational performance.

New ways of working don’t change the principles underlying public sector work

Throughout our work, we see that people are exploring new models and relationships to achieve the best value and be as effective as possible. Innovating and adapting are important, but public entities need to continue to respect the underlying principles that established ways of working aim to protect. New ways of working do not eliminate the need to show that public resources are managed appropriately.

In the case of the Mangawhai community wastewater scheme, Kaipara District Council decided that it wanted to explore a public-private partnership (PPP) approach, to keep the debt “off the balance sheet” and to transfer as much risk as possible to the private sector provider.

In my view, this decision took Kaipara District Council out of its depth. The Council followed all the right basic steps when it first went to the market for advisors and put the project to tender, but it did not fully understand the complexity of what it was doing. The early decision to use a PPP approach put too much emphasis on achieving a certain accounting outcome and the transfer of risk, and not enough on value-for-money and affordability. The Council’s decision-making about the PPP was also not consistent with the good practice guidance that was then available.

In exploring and introducing new approaches, public entities need to ensure that they get the basics right. These basics include making sure that decision-making and organisational processes are legal, good records are maintained, and personal and sensitive data are protected. In forming new service delivery relationships, public entities should consider the need for public accountability. For example, contractors need to be tied into public sector accountability mechanisms.
Part 5
He tāngata – it’s about people

5.1 Our observations in Parts 2 to 4 of this report have highlighted that being able to meet future needs requires lots of information, analysis, understanding of risk and opportunity, strategic thinking, planning, and management. All that needs people and their skills – good technical skills, thinking, and judgement.

**Invest in capability at all levels**

5.2 Throughout our annual audits and other assurance work, we see many highly committed and capable people working to deliver effective and efficient public services. The Public Sector Act, passed in 1912, established the principle of an independent and merit-based public service that remains an important strength of our public sector.

5.3 We find that public organisations largely have the culture and tools to support high integrity and performance. Public servants generally know what appropriate behaviour is, understand what is expected of them, and are willing to report observed behaviour that does not meet these expectations.

5.4 However, translating public money into high-quality services and outcomes for New Zealanders means that public sector agencies must have available the right people with the right skills. Our work has found recurring themes about the capability of public entities. Management, governance, and leadership as well as the more tacit and intangible aspects of capability – organisational culture and behaviours – profoundly affect the effective, efficient, and ethical use of public sector resources.

5.5 Good management, leadership, and governance are important for making the changes needed to prepare well for our future. In our inquiry into the Mangawhai community wastewater scheme, we saw the effects of a local authority becoming too lean and failing to have the capacity to stay in effective control of what was done on its behalf. A public entity needs to maintain capability to properly manage its financial and other affairs and discharge its responsibilities. It needs to understand the importance of project governance and management arrangements to ensure that a steady eye is kept on the big picture.

5.6 To date, the State Services Commission’s Performance Improvement Framework reviews of government departments and Crown entities have rated aspects such as leadership and governance, management of people and performance, and workforce development as weaker.
5.7 Most public entities are small. Through our audit work, we see some evidence that it can be a challenge to maintain financial management capability, including preparing financial statements in keeping with accounting standards. The increased focus on long-term forecasting (see paragraphs 3.6 to 3.8) will create more demand for forecasting, financial management, and analysis skills.

**Good people need to be supported by good systems**

5.8 Several of our inquiries confirmed the importance of good management, leadership, and governance practice in ensuring that everything is done appropriately and is seen to be done appropriately. In these inquiries, we found that the absence of good processes had given rise to allegations of corruption.

5.9 These inquiries included looking at the decision by Hon Shane Jones to grant citizenship to Mr Yang Liu, the Government’s decision to negotiate with SkyCity Entertainment Group Limited for an international convention centre, and aspects of the Accident Compensation Corporation’s Board-level governance. In these instances, we found no bad intent, but people trying to do the right thing when systems did not adequately support that (such as not identifying and protecting against risks adequately).

5.10 I rarely find evidence of improper motive or considerations, collusion, or political interference in decision-making. At times, I do find that the quality of advice or information falls short of what I expected, and have been surprised to find basic and commonly accepted governance practices used irregularly. As a result, I can see opportunities for improving different aspects of governance and decision-making processes. Although, sometimes, what we find seems to be, and is, common sense, such common sense is not always put into practice.
Organisational culture matters, and needs to be carefully fostered

5.11 In recent years, large and significant changes to public sector services, structures, and systems have often been carried out quickly to create momentum and to show clearly the nature of the change that is sought. Changes, especially those that affect the staff of an organisation, need to be carried out with great care to avoid damaging the culture and values that are fundamental to an organisation’s purpose. Sometimes, an organisation’s culture and values have not been fully considered in times of change and we have seen loss of morale and an increase in attrition, resulting in reduced capability.

5.12 Important values, and expectations of the public, users and suppliers of services, and staff, need to be well understood and addressed in times of change. Meeting these expectations requires strong and principled leaders committed to working together. In our report, Auckland Council: Transition and emerging challenges, we noted the importance of having an integrated plan, being reliable, and delivering services in the spirit of the values expected for building trust among the public, staff, and partners.

5.13 Our third monitoring report on the response of the New Zealand Police to the Commission of Inquiry into Police Conduct shows the need to respect positive aspects of organisational culture while working to change other behaviours. The Commission of Inquiry report criticised the historical conduct, including sexual conduct, of some police officers and their associates. The Police have a good base from which they should be able to encourage a sense of pride in providing a high standard of service to all New Zealanders.

5.14 We noted the need to be mindful of cultural norms and expectations in our report, New Zealand Defence Force: The civilianisation project. Although the New Zealand Defence Force (NZDF) intended to reduce the number of military staff through the civilianisation project, it lost many more military staff than intended, which made it more difficult for the NZDF to do its job. Discharging military staff needed to be handled with great care to avoid damaging the bonds of camaraderie, integrity, and commitment that are part of the NZDF culture.

5.15 The governors and leaders of each public entity need to understand their organisation’s unique values and culture in times of change and deliberately decide what to protect and what to try and change.
Scrutiny should be welcomed

5.16 Governors and leaders of public entities need to encourage staff to see scrutiny as a valuable tool, not a threat. Throughout our work as public sector auditors, particularly in our more in-depth performance audits, we find that our work goes better and delivers more value when the public entity genuinely values an external perspective.

5.17 Complaints and other feedback can be thought of in the same way – as a useful lens on how others perceive what you do. In many of our inquiries, we find that staff express concerns and people external to the organisation complain before matters are drawn to the attention of my Office, the Ombudsman, and the media.

5.18 Being receptive to an external perspective can help public sector governors and managers stand back from operational matters to recognise possible symptoms of systemic problems, and identify what can be improved.

5.19 Through our inquiries, we are finding that expectations and scrutiny of the public sector are increasing in ways we have not seen before. The public sector will need resilience and leadership more than ever.
Part 6
Making digital part of our DNA

6.1 Information and communications technology (ICT) is a growing component of public sector expenditure. In central government, it has increased by about $43 million since 2009/10 when annual ICT spending was $980 million. During the past 25 years, ICT has become integral to how we work, enjoy leisure activities, and receive services.

6.2 Accurate, relevant data underpins the good use of digital services and communication. One way or another, many public resources will be committed to responding to the challenges of our future. Therefore, having the right kind of data available is important. Robust information can be useful for identifying improvements or adverse consequences as a result of changes in society and in government policy. Also, it can help support accountable and transparent decision-making.

Public expectations about communication and service are changing

6.3 Partly because of advances in ICT, people who use public services expect them to be delivered more quickly, more cheaply, and more conveniently. ICT can help public service providers to meet these expectations and it has become essential for delivering many of these services, such as collecting taxes, paying benefits, and recording land titles.

6.4 In our private lives, New Zealanders are making widespread use of social media to connect with people – friends and acquaintances, their friends and acquaintances, and complete strangers, nationally and internationally. Collectively, many of us are using social media to share our news, opinions, interests, and images with a wider audience than we can otherwise reach. The potential to connect with people has also led many public entities to actively consider whether to use social media to communicate with the public.

6.5 As the public sector builds the robustness and use of information, it will also need to build its practices in the management of private and sensitive data and explore related public expectations – some of which are changing as we all interact more with technology.

We need to be prepared to experiment with social media

6.6 Social media has the potential to change the way that public services are delivered to New Zealanders, not just connecting and communicating with people, but actively involving and even empowering them.
In our report, *Learning from public entities’ use of social media*, we shared what eight entities (seven public entities and one non-governmental organisation) had learned from using social media in different ways.

The public sector is moving cautiously but positively to embrace social media. Public entities will get the most value from social media when they are clear about the purpose and the appropriateness of their involvement and have staff using the technology wisely.

**New ways of engaging**

During several of the “Our future needs” projects, we progressively published our findings online and in new electronic formats to make the results available more quickly and to increase the transparency of our work. In some instances, we updated them when we got new information.

We published our work on *Using the United Nations’ Madrid indicators to better understand our ageing population* and on *Learning from public entities’ use of social media* as a series of blogs. We used blogs to set out information about selected Madrid indicators and the insight they gave and to discuss examples of how public entities use social media.

We are also using blogs as a way for our staff to discuss interesting, perplexing, and pleasing aspects of our work, with the aim of enriching the value of that work and engaging meaningfully with our audiences.

In response to public entities telling us that it can be difficult to find out about the ideas and experiences of others, we contacted 190 public entities and asked for their success stories. Many city, district, and regional councils, government departments, and Crown entities of all sizes responded.

On our website, we shared 47 stories as an online catalogue of ideas so that stories could be searched by type of agency and type of initiative.

Most of the stories have common elements, such as collaboration and sharing services, capable and engaged staff, and fostering an organisational focus on effectiveness and efficiency. There are also stories about improving corporate or back-office functions, and directly improving services. All highlight the common aim of delivering better services to the public.
Part 7
Conclusions and reflections

7.1 Overall, in considering the question *Our future needs — is the public sector ready?* we have concluded that there are many strengths to build on. But there are also many challenges and uncertainties. The public sector needs to keep pace with change if it is to serve us well into the future.

7.2 It is important we understand that our future holds many complex and interrelated challenges. These challenges are social, economic, and environmental, and they will profoundly affect the public sector as it strives to meet our future needs.

7.3 Facing those challenges is vital for our future. From our work throughout the public sector, I offer some overall conclusions and reflections. The public sector needs to:

- continue its journey of understanding how effective its work is — we see positive signs of progress and early hope of success in Māori education;
- learn from recent unexpected disasters that it must be ready for the unlikely and catastrophic — taking time to think and plan is a necessity, not a luxury;
- improve how to prioritise activities and have plans to ensure that the intended benefits of decisions and investments are delivered;
- better position itself to make the right calls on questions about significant investments in assets and using resources;
- build up consistent expertise for governance and management;
- move up a gear in providing financial advice on future investments, funding, and managing public resources;
- make smarter use of information and technology — there are many positive examples;
- understand that thinking about and planning for long-term resilience and sustainability is vital for our future; and
- continue to explore ways of communicating better with citizens so that they are empowered to contribute to our future choices and to shape the public services they receive.

7.4 Carrying out the work for this report has influenced my thinking and that of my Office about our part in preparing for the public sector’s future. Before we set the theme, *Our future needs — is the public sector ready?*, we planned our work every year. However, as Auditor-General, I have a unique overview of the entire public sector. This overview is built over time, mainly through our annual audits and through our analysis and reporting on the results of public entities’ external reports. Our in-depth performance audits, inquiries, and other studies deepen it.
7.5 We are now taking a multi-year approach to planning our work, for two main reasons:

• The first reason is to make the most efficient use of the Office’s resources. Our audit and reporting work involves looking at a lot of information from the entire public sector. About 87% of our effort each year is spent on carrying out the annual audits of public entities. A big-picture theme helps us draw together findings and insights from auditing this wide range of public entities.

• The second reason is to be as effective as we can. When we signal topics that we intend to focus on, many public entities begin to improve and strengthen these aspects without us needing to carry out detailed audit work.

7.6 My 2014/15 work programme is the third in a five-year programme based on annual themes. These themes are:

• 2012/13 – Our future needs – is the public sector ready?
• 2013/14 – Service delivery;
• 2014/15 – Governance and accountability;
• 2015/16 – Investment and asset management; and
• 2016/17 – Information.

7.7 My annual plan describes my priorities and the work that would be useful, based on my knowledge of the public sector and its strengths, challenges, and problems.

7.8 In Part 6, I noted that social media has the potential to change the way that public services are delivered to New Zealanders, not just connecting and communicating with people, but actively involving them and even empowering them. This general comment is relevant for my Office’s work too. I intend to develop and experiment with opportunities for greater public engagement and involvement in my Office’s work during the coming years.

7.9 These opportunities may include, for example, forums about:

• the future of public sector accountability;
• the governance and decision-making arrangements between central and local government; and
• the ongoing stewardship of our assets and scarce natural resources.

7.10 I am left with questions about which bodies can take these thoughts and lead work about the public sector and its future. A few organisations, such as the State Services Commission and Local Government New Zealand, may be in a position to take the next steps.

7.11 I trust that the public of New Zealand and those who work in and with the public sector will reflect on these observations, discuss our future needs, and act on their reflections.
Appendix

Our reports published between June 2012 and December 2013

- Delivering scheduled services to patients, December 2013
- Continuing to improve how you report on your TEI’s service performance, December 2013
- Department of Corrections: Managing offenders to reduce reoffending, December 2013
- Public entities in the social sector: Our audit work, December 2013
- Central government: Results of the 2012/13 audits (Volume 1), December 2013
- Inquiry into the Mangawhai community wastewater scheme, December 2013
- Immigration New Zealand: Supporting new migrants to settle and work, December 2013
- Regional services planning in the health sector, November 2013
- Effectiveness and efficiency of arrangements to repair pipes and roads in Christchurch, November 2013
- Earthquake Commission: Managing the Canterbury Home Repair Programme, November 2013
- Using the United Nations’ Madrid indicators to better understand our ageing population, October 2013
- Using development contributions and financial contributions to fund local authorities’ growth-related assets, August 2013
- Commentary on Affording Our Future: Statement on New Zealand’s Long-term Fiscal Position, August 2013
- Learning from public entities’ use of social media, June 2013
- Inquiry into Mayor Aldo Miccio’s management of his role as mayor and his private business interests, June 2013
- Managing public assets, June 2013
- Insuring public assets, June 2013
- Evolving approach to combating child obesity, June 2013
- Public sector financial sustainability, June 2013
- Education for Māori: Implementing Ka Hikitia – Managing for Success, May 2013
- Central government: Results of the 2011/12 audits, April 2013
- Health sector: Results of the 2011/12 audits, April 2013
- Local government: Results of the 2011/12 audits, March 2013
- Transport sector: Results of the 2011/12 audits, March 2013
- Crown Research Institutes: Results of the 2011/12 audits, March 2013
Our reports published between June 2012 and December 2013

- Inquiry into decision by Hon Shane Jones to grant citizenship to Mr Yang Liu, March 2013
- Ministry for Primary Industries: Preparing for and responding to biosecurity incursions, February 2013
- Inquiry into the Government’s decision to negotiate with SkyCity Entertainment Group Limited for an international convention centre, February 2013
- New Zealand Police: Enforcing drink-driving laws, February 2013
- New Zealand Defence Force: The civilisation project, January 2013
- Effective and efficient: Stories from the public sector, December 2012
- Department of Conservation: Prioritising and partnering to manage biodiversity, December 2012
- Auckland Council: Transition and emerging challenges, December 2012
- Matters arising from the 2012-22 local authority long-term plans, December 2012
- Education sector: Results of the 2011 audits, December 2012
- Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Third monitoring report, October 2012
- Roles, responsibilities, and funding of public entities after the Canterbury earthquakes, October 2012
- Effectiveness of arrangements to check the standard of rest home services: Follow-up report, September 2012
- Inquiry into aspects of ACC’s Board-level governance, August 2012
- Education for Māori: Context for our proposed audit work until 2017, August 2012
- How the Far North District Council has administered rates and charges due from Mayor Wayne Brown’s company, Waahi Paraone Limited, August 2012
- Reviewing financial management in central government, June 2012
- Realising benefits from six public sector technology projects, June 2012
- District health boards: Quality annual reports, June 2012
- Fraud awareness, prevention, and detection in the public sector, June 2012
- Institutional arrangements for training, registering, and appraising teachers, June 2012.

Our corporate documents (such as annual plans and annual reports) are also available on our website, www.oag.govt.nz.
Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Health sector: Results of the 2012/13 audits
- Schools: Results of the 2012 audits
- New Zealand Customs Service: Managing Trade Assurance capability risks
- Draft annual plan 2014/15
- Central government: Results of the 2012/13 audits (Volume 2)
- Additional work on Solid Energy New Zealand Limited
- Inquiry into property investments by Delta Utility Services Limited at Luggate and Jacks Point
- The Auditor-General’s Auditing Standards 2014
- The Treasury: Learning from managing the Crown Retail Deposit Guarantee Scheme
- Department of Internal Affairs and grants administration
- Maintaining a future focus in governing Crown-owned companies
- Delivering scheduled services to patients
- Continuing to improve how you report on your TEI’s service performance
- Central government: Results of the 2012/13 audits (Volume 1)
- Department of Corrections: Managing offenders to reduce reoffending
- Public entities in the social sector: Our audit work
- Immigration New Zealand: Supporting new migrants to settle and work
- Summary: Inquiry into the Mangawhai community wastewater scheme
- Inquiry into the Mangawhai community wastewater scheme

Website
All these reports, and many of our earlier reports, are available in HTML and PDF format on our website – www.oag.govt.nz. Most of them can also be obtained in hard copy on request – reports@oag.govt.nz.

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We offer facilities on our website for people to be notified when new reports and public statements are added to the website. The home page has links to our RSS feed, Twitter account, Facebook page, and email subscribers service.

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Reflections from our audits: Our future needs – is the public sector ready?