Solving the Hard Problems

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The Treasury
First, the status of these ideas

DISCLAIMER

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A Performance Accountability Framework established…

- Minister
  - Performance Specification
  - Decision making Authority
  - Incentives on Behaviour
  - Performance Information
- Chief Executive or Board
And a strong finance system …

- **Forecast Quality**
- **True and Fair Reporting**
- **Fiscal targets**
- **Budget Integrity**
- **Internal Controls**
- **Trade-offs (Budget)**
- **Resilience System**
- **Wellbeing System**
- **Financing System**
So the problems of success …

• The Public Finance Act and its implementation:
  – Devolved much operational management to operational managers
  – Delivered Control of the Fiscal Aggregates
  – Put Ministers in charge of strategy

Hooray!

• But
  – Operational managers want guidance and assurance over their trade-offs!
  – The easiest, but not always the best, way to control costs is to defer them!
  – Ministers are in control (and so citizens aren’t!)
## Three hard problems

<table>
<thead>
<tr>
<th>Strategic Management and Leadership</th>
<th>Resilience and anticipatory governance</th>
<th>Accessing the dislocated</th>
</tr>
</thead>
</table>

[Diagram of signpost with two paths: "This Way" and "The Other Way"][Diagram of domino effect with a person standing in the middle][Diagram of three interconnected cylinders labeled "Human Resources," "Technologies," and "Strategic Management""]
**The PFA on stating intentions and setting expectations…**

<table>
<thead>
<tr>
<th>Reporting Requirements of the Public Finance Act – a history</th>
</tr>
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<tbody>
<tr>
<td><strong>The Original Act</strong></td>
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<tr>
<td><strong>1992 Amendment</strong></td>
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<td><strong>1994 Amendment</strong></td>
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<td><strong>2004 Amendment</strong></td>
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<td><strong>2013 Amendment</strong></td>
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</table>
Mew Zealand’s Strategic Challenges:

- Productivity?
- Climate Change?
- Housing Affordability?
- Child Poverty?
- Mental Health?

Strategic Challenges, Requiring changes to strategic settings, Requiring Institutional Reform
What it takes to change strategic settings ...
Managing to Strategies: Target improved feedback loops
FEEDBACK: A public service:

• Fulfilling its implementation role.
• Advising of emerging threats to the strategy
• Advising of emerging opportunities to progress the strategy
• Ensuring Ministers are aware of the capacities (strengths) and incapacities (weaknesses) of the public sector
  – in managing the threats
  – grasping the opportunities,
  – implementing the strategy and
  – achieving strategic milestones

– Ministers and the Centre adjusting public service activities and strategies to ensure that expectations created are managed and met
From Reactive Risk Management

- Provide Funds for Victims
- Hold Inquiry
- Recommendations
- Budget Tradeoffs
- Govt. actions

Disaster

Provide Funds for Victims
Hold Inquiry
Recommendations
Budget Tradeoffs
Govt. actions
To Proactive Risk Management

Risk Management Model

- Trade-offs (Budget decisions)
- Risk Mitigations
- Risk Appetite and Resilience Strategy
- Risk and Resilience Assessment
- Impact on Risk and Resilience

To Proactive Risk Management
Adding to the Economist’s analysis

Disaster

- Provide Funds for Victims
- Hold Inquiry
- Recommend Actions
- Measure the Costs
- Measure the Benefits
- Budget Tradeoffs
- Govt. actions
With an Accountant’s: Measuring Risk and Resilience:

• What’s our Position?
  – Resilience less Risk
  – Resilience = Absorptive Capacity + Adaptive Capacity
  – Risk = Spread of Probabilities and Consequences

• How has the position changed (Performance)
  – $\Delta$ Resilience less $\Delta$ Risk

• How did Performance compare with expectations?

• How can we improve performance?
<table>
<thead>
<tr>
<th>LSF Resilience Measures</th>
<th>(Absorption (dark) and Adaptability (light))</th>
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<tbody>
<tr>
<td><strong>Government</strong></td>
<td><strong>Commercial</strong></td>
</tr>
<tr>
<td><strong>Financial</strong></td>
<td></td>
</tr>
<tr>
<td>Net Debt</td>
<td>Capital Reserves</td>
</tr>
<tr>
<td>Ability to increase tax, reduce spending after adverse event</td>
<td>Ability to increase prices after adverse event, OBR effectiveness</td>
</tr>
<tr>
<td><strong>Physical</strong></td>
<td></td>
</tr>
<tr>
<td>Infrastructure robustness, modularity, redundancy</td>
<td>Capacity of PPE &amp; Technology to cope with increased demand</td>
</tr>
<tr>
<td>Expected infrastructure outages</td>
<td>Time to replace functionality if lost</td>
</tr>
<tr>
<td><strong>Social</strong></td>
<td></td>
</tr>
<tr>
<td>Measures of trust in government interventions</td>
<td>Social license</td>
</tr>
<tr>
<td>Speed of acceptance of transition to new interventions</td>
<td>Ability to recreate customer networks</td>
</tr>
<tr>
<td><strong>Natural</strong></td>
<td></td>
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<tr>
<td>Buffers in air, sea, land, natural resource use standards</td>
<td>Natural resource renewability</td>
</tr>
<tr>
<td>Speed and ability to recover natural resources</td>
<td>Natural resource substitutability</td>
</tr>
<tr>
<td><strong>Human</strong></td>
<td></td>
</tr>
<tr>
<td>Policy capacity</td>
<td>Organisational capacity</td>
</tr>
<tr>
<td>Reform capacity</td>
<td>Labour Force capacity</td>
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</tbody>
</table>
The Productivity Commission on collaboration

- To improve social wellbeing, there is a need to identify those areas where better results are in prospect. That is where the current system is generating poor outcomes.
- Mainstream systems for social services, effective in reaching the majority of the population, fail in reaching more vulnerable people.
- Failure caused by limits of the existing system to deliver services to people with complex interrelated needs over sustained periods.
- Breaking cycles of disadvantage defies simple top-down solutions. Well-intentioned people attempting to solve complex problems are frustrated by fragmented budgets and decision rights.
- Exhortation – calls to do better, collaborate more or innovate is insufficient to drive behavioural or system change. Effort needs to be grounded in an understanding of people, the organisations in which people work and the incentives that they face – only achieved through citizen-centred collaboration.
Citizen-centred collaboration is not natural for the bureaucracy:

For positive reasons
Specialisation a better driver of public-value:
• Structure is needed for strategy to be implemented, and structures generally follow strategy.
• Provides a focus on efficiency and outcomes in delivering standardised (most) services
• Standardisation lowers transaction costs
• Risks tolerated in delivery of services are appropriately geared to uncertainties over service results

For negative reasons
Lack of co-ordination is an easy blame:
• Not always possible to get consensus, when different views
• When ministers make hard choices between contested views, losers can be inclined to complain about a lack of collaboration
• System is as coordinated as ministers want it to be. It is a brave manager who will shift resources away from his or her minister’s priority to work that is the priority of other ministers without their approval
Collective impact methods need to be added to the system.
The differences between collaborative and specialist models need to be recognised

<table>
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<tr>
<th>Expectations</th>
<th>Outcome-focussed Collaboration</th>
<th>Output-focussed Specialisation</th>
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<tbody>
<tr>
<td>Achievement of Shared Goals</td>
<td>Delivery of Services</td>
<td></td>
</tr>
<tr>
<td>Operating Model</td>
<td>Value-add through collaboration</td>
<td>Value-add through specialist skill</td>
</tr>
<tr>
<td>Information needs</td>
<td>Fast feedback loops from citizens</td>
<td>Fast feedback loops from system</td>
</tr>
<tr>
<td>Accountability for</td>
<td>Commitment to shared goals and mana to achieve them</td>
<td>The quality, quantity and cost of the provision of services</td>
</tr>
<tr>
<td>Accountable to</td>
<td>Citizens before hierarchy</td>
<td>Hierarchy before citizens</td>
</tr>
<tr>
<td>Accountability direction</td>
<td>Horizontal between collaborators</td>
<td>Up through the hierarchy</td>
</tr>
<tr>
<td>Trade-offs generally favour</td>
<td>Effectiveness</td>
<td>Efficiency</td>
</tr>
<tr>
<td>Funding</td>
<td>Collective / Relationships</td>
<td>Services</td>
</tr>
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Dual Model applied by successful firms

The dual system organization has on the one side the hierarchy, on the other the network.

The network organization contains no bureaucratic layers, command-and-control prohibitions, and six sigma processes, the network permits a level of individualism, creativity, and innovation that the hierarchical organization simply cannot provide.
And a dual operating model can be applied in government.
Three hard problems solved

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<th>Feedback by Strategic Management and Leadership</th>
<th>Resilience targets</th>
<th>Accessing the dislocated through collective impact</th>
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<td>![Image of signs pointing in different directions](this way, the other way)</td>
<td>![Image of a person preventing domino effect]</td>
<td>![Image of a cartoon with text about not holding the bag]</td>
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Additionally, the document includes a textual reference to resilience targets and strategies for accessing the dislocated through collective impact.