

The New Zealand public service *can* do hard things



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In this article, Karen Tregaskis discusses the challenges ahead for the New Zealand public service in an increasingly constrained fiscal environment - including what has and hasn't worked well in the past.



KAREN TREGASKIS

Fiscal constraint is not new – we've been here before

The impacts of the recent pandemic are still reverberating, the global environment is less stable, and international trade is difficult right now - and the fiscal implications for New Zealand are significant. Like everyone else, public service agencies are being required to operate within a context of fiscal constraint with little prospect of relief in the short-term. We've been here before – through wars, the great depression, the share market crash of the 1980s and the global financial crisis of the early 2000s, to name a few.

There is no doubt that managing in times of fiscal constraint is difficult. There are no silver bullets and there are no reliable crystal balls to help. Hard times are, well, hard. And it's during hard times that public service leaders are called upon to be even more effective as the stewards and guardians of their agencies and the public service. Having worked with public service leaders for decades, I know they are up for it.

I also know that some of the more common approaches to managing fiscal constraints, haven't turned out as well as hoped in the past. These approaches are often attractive to politicians and public commentators - which puts significant pressure on our public service leaders to use them.

Common approaches from the past that haven't worked well

I can't claim to have been around for the wars, but I was around in the late 1980s and early 2000s. I saw several approaches that were well meant but weren't very effective. In fact, some have caused long-term harm, however unintentional.

Focusing on budgets and costs

Managing a budget is how most public service managers approach finance. This means, when funding is constrained, the temptation is to do a line-by-line review to *reduce costs*. Which at first blush seems eminently sensible. However, a focus on costs can result in short-term decisions that drive long-term harm. The two examples I'm about to give may seem trivial, but I've seen their impact, and it was significant.

- Removal of the professional development budget. Easy to do and provides immediate savings. Only it means *not investing in your people capability*. This can lead to a range of outcomes – e.g., a greater reliance on contractors and consultants because people in house don't have the necessary capabilities, or the promotion of people who don't have the skills to really succeed. I remember the CE at Inland Revenue doing

the opposite of this. He spent *more* on professional development during hard times – and was highly criticised by some of his peers. And yet, twenty years on, many of our recent and current senior leaders have come out of Inland Revenue. He understood *value* as opposed to *cost*.

- Removing tea and coffee (or going to the cheapest brands possible that taste truly horrible) probably doesn't save you *that* much but can cause a lot of ill-will. I remember in the late 1980s in a hospital where tea and coffee rooms were removed to 'make savings and increase productivity'. People were expected to have their tea and meal breaks whilst 'on the job'. What? Management wondered why the hospital culture started to tank and rather than improving, productivity dropped. This is a small example of short-term 'cost saving' at its worst.

There are many more examples where short-term cost reductions have long-term impacts that are both undesirable and difficult to fix.

A culture of 'austerity' might work for a religious sect, but in my experience, over time, it creates an unhealthy, poverty mindset in organisations that need to be thinking strategically about getting best value for taxpayer dollars. I'm not proposing extravagance, or profligacy - far from it. But austerity brings its own harm.

Investing in new equipment, infrastructure or technology is never ending – if we don't do this, we risk failure in the years ahead. However, I never want to see us go back to the days of the 'cheapest solution wins' – which is driven by a poverty mindset, rather than a 'best value' mindset. Cheapest often ends up far too expensive in the long term, on many levels. Better to invest in fewer things each year, but to invest well.

Blanket reductions and easy targets

These are very common and perhaps even more harmful than line-by-line reviews. To just say 'everyone must reduce costs by 10%' can mean efficient and effective services must cut into sinew and bone because they have no fat. What is working well loses all resilience and can start to fail. Meanwhile, inefficient and/or ineffective services just pull their belt in a half-notch because they have plenty of fat. And so poor practices continue.

Another example is the 'sinking lid policy' where no vacancies are allowed to be filled. This can mean poorly performing or lower value teams with no vacancies just truck on, whilst higher-performing or 'mission critical' teams who happen to have vacancies come under enormous pressure and potentially start to fail.

Easy targets are often those with the least ability to argue differently. Like lower-paid call center or administrative functions. Yet these functions are often the oil in the machinery that keeps the public facing services running smoothly, reducing friction, and ensuring the details are taken care of. An engine that loses much of its oil ceases to operate well – and can become extremely expensive to fix – far more expensive than the cost of the oil! Unless there is a clear solution that will take over the work (like automation or machine-learning technologies – which can require significant up-front investment), then the impacts of going for the easy targets are often more harmful, and expensive, in the long term.

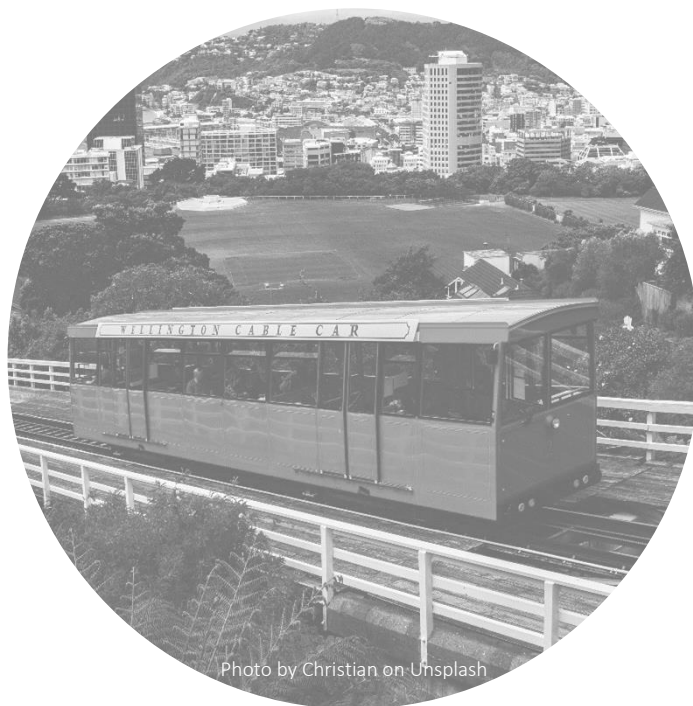


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Less common, more difficult approaches that work better in the long-term

There are approaches that have worked better in the longer term but aren't immediately appreciated from a political or public standpoint because they are rarely easy, and they don't make great soundbites.

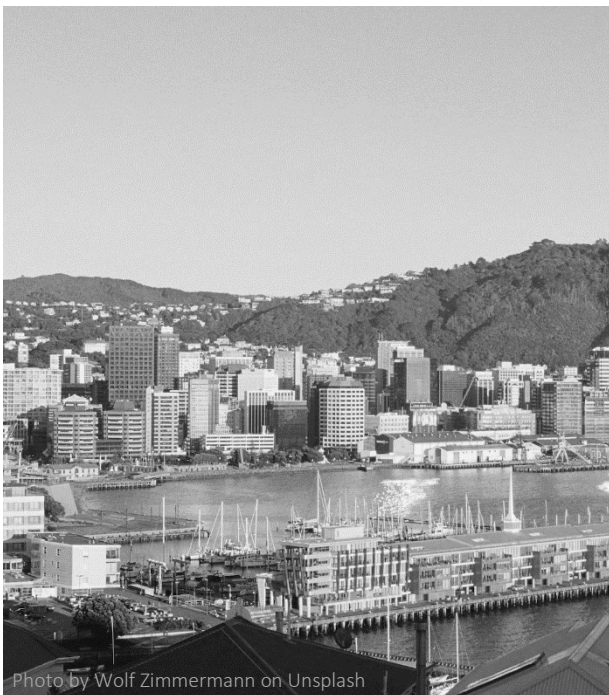
Have a laser focus on what matters most

Being crystal clear about the organisation's fundamental purpose, how it best adds value to New

Zealand, its core services, and the top 3-5 priorities, is critical in times of constraint. Organisations I work with who have a laser focus on what matters most do not struggle *as much* with difficult choices and hard decisions – they have a clear north star to guide them.

Organisations with 12 goals, 10 strategies, and 15 top priorities will struggle. They will find themselves falling back onto the common approaches that don't work well because they won't be able to identify, let alone resolve, areas of poor performance or services that provide lower value-for-money. They can't easily explain to themselves, let alone anyone else, why they are choosing to make reductions in one area or invest more in another.

I believe that most organisations, and the service groups within them *know* what matters. Some aren't that good at saying it out loud.



Simply and succinctly. Some may need help to uncover what they intrinsically know because articulating *what matters most* can be a challenge. I've seen some examples lately that are impressive – where the priorities have been made very clear, and every action is being measured against their impact towards those goals.

Which brings me to a bigger challenge – to be brave enough to say 'no' to *good things* that don't sufficiently contribute to what matters most. Which is about as much fun as chopping off your own finger. But if the organisation doesn't do this, it will slowly

starve, because it won't be able to afford to feed itself. In my view, saying no to good things because they *don't matter most* is laser focus in action.

What's more, if the leadership doesn't prioritise, and the work programme is simply too large for the resources available, then the prioritisation of effort will fall to those doing the work. And few of these people have the strategic context, or the information, to make sound prioritisation decisions on behalf of the whole organisation.

Apply more strategic financial management thinking

Strategic finance has a significant role to play in times of constraint. Understanding cost-benefit is critical for good decision-making. Service-by-service reviews driven by questions like 'what value is this providing?' will be harder, but much more useful than the traditional 'line-by-line' review.

This requires some understanding of the 'cost to serve', at least at a high level, so that lower value but higher-cost services can be eliminated or reduced. It may mean avoiding 'death by a thousand cuts' by amputating the areas that are of least value, whilst preserving the well-being of the wider organisation and ensuring core services can continue to be delivered to an acceptable standard.

At times, the government may decide to continue with 'low value' services for their own reasons – which they are entitled to do. But giving them the information they need to understand the choices they are making through a 'value' lens can be very helpful.

Stopping something is rarely popular, but I suspect there are numerous programmes that could be stopped with little or no significant impact on the organisation or the wider public interest. It's okay not to finish, if finishing isn't going to add enough value. I realise that when programmes are financially ring-fenced there is little direct financial benefit of stopping for the organisation concerned. However, it does mean at the very least, there is one less thing using up their people's time and energy. And returning funds to the Crown is *always* a good thing to do.

Be brave about difficult conversations

It bothers me that we seem to have been discouraged from having 'difficult conversations' – because in hard times these are crucial.

I know far too many public service managers who never give critical feedback to their people because, in their words, 'it just isn't worth it'. They fear complaints raised against them and their criticism being taken as bullying, and so it's easier to let sleeping dogs lie. Except this means poor performance becomes acceptable, real bullying isn't addressed, and people learn to be constantly praised or ignored, but never corrected. It frustrates me, because I think we do people an enormous disservice when we don't help them become excellent at what they are doing. It's patronising. And we end up needing more and more people to do the work. There's no more value, just more cost.

One stand-out manager recently spent the last year courageously holding her team to account. It was difficult. Over that time three poor performing team members decided to leave. She has not replaced them and so is carrying three more vacancies compared to last year. Yet her team's productivity has lifted - by quite a bit. The team no longer spends hours tracking down and fixing mistakes or redoing other people's work. In this instance, they are genuinely doing more, with less. Because one manager didn't resile from having difficult conversations.

There are other difficult conversations to be had. With Ministers, with other sector leaders and with communities. It's not fun. But if our public service leaders are not steadfast and brave as stewards and guardians of our system, the consequences can be dismal.

Tight management of the policy function is even more critical

Few organisations look straight to their policy function in times of fiscal constraint. These aren't generally the groups that cost loads of money.

But I don't know how many times I've heard large, expensive, operational groups complain that the Minister wants something they cannot easily do, or afford, or that will have a negative impact on them, or the public, when it's their organisation's own policy group who proposed that very thing. I hasten to add this isn't always the case – sometimes Ministers, as is their absolute right, want services or changes made that go against the advice of officials. In which case, the agency must implement these as efficiently and effectively as is possible. And ensure the impacts and

costs of these decisions are transparent to their Minister.

However, poorly managed policy groups with unfettered access to Ministers, or who have little awareness of the impacts of their ideas, or limitless time to think up new ideas - can cause operational mayhem. And therefore cost. The most effective policy groups have transparent work programmes for which they are happily called to account. They have strong working relationships with the operational groups, or organisations, that their policy work impacts on. And if they are focusing on what matters most, they also don't need to be particularly big.

In hard times, policy functions can vary hugely – from enormously helpful through to downright harmful. The *whole executive team* needs to pay careful attention to what the policy group is working on and ensure a rigorous lens of fiscal constraint is applied to their work. Because policy pretty much ends up driving everything else, including costs.

Think critically about everything

We need our public institutions to come through this period with the strength and capability to serve the interests of New Zealand well into the future. This requires thinking critically about practically everything.

Ministers' needs and demands might be the focus for many executives, but primarily they, and the public service they lead, are here to serve New Zealand and its people.

Coming through bad times in a fit state means being clear about what *matters most* and *saying 'no' to good things* that don't provide enough benefit, understanding *value*, being brave about *difficult conversations*, tightly managing the *policy function*, and *thinking critically about everything*. This is hard. But our public service can do hard things.

About Karen Tregaskis

Karen is the Founding Partner at Tregaskis Brown, a consulting company based in Wellington, New Zealand. She is a sought-after advisor to the public sector on governance, investment decision-making and the successful design and delivery of programmes of change.