



Report Title:	Modernising the Public Service Operating Model		
Report Number:	2023-0295		
Date:	27 November 2023		
To:	Hon Nicola Willis, Minister for the Public Service		
Action Sought:	Discuss this briefing with officials	Due Date:	27 November 2023
Contact Person:	Hannah Cameron - Deputy Commissioner Strategy and Policy		
Contact Number:	9(2)(a) privacy		
Encl:	No	Priority:	Medium
Security Level:	IN CONFIDENCE		

Executive Summary

- 1 The Government has signalled a focus on ensuring public service efficiency and lifting public sector performance.
- 2 This report outlines how modernising the Public Service operating model can support an efficient and high performing Public Service and mitigate some of the implications of our highly devolved Public Service.
- 3 In particular this includes:
 - whole of system leadership
 - more collaborative policy and delivery across agency boundaries
 - a more productive and aligned workforce, and
 - aligned common functions across agencies.
- 4 As most of these mechanisms are discussed across other briefings we have provided to you, this briefing focuses mainly on how common functions across agencies (e.g. property, procurement, digital) can be aligned to secure economies or efficiencies across departments, improve services or service delivery, develop expertise and capability across the Public Service, and ensure business continuity.
- 5 One particular system function that is underdeveloped compared with other jurisdictions is digital service transformation. We can provide you with further advice on how the Public Service's leadership and capability in digital service transformation can be strengthened to ensure New Zealand's public services are high quality, easily accessible, and responsive to New Zealanders' needs.

Recommended Action

We recommend that you:

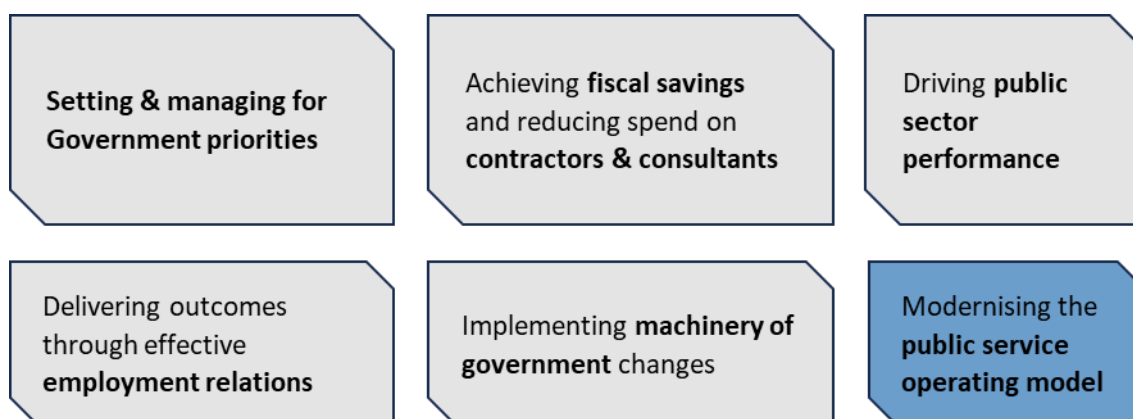
- a **discuss** your feedback on this briefing with officials and indicate whether you wish to receive further advice on how to strengthen digital service transformation in the Public Service

Hon Nicola Willis

Minister for the Public Service

Purpose of Report

- 6 This report:
- outlines how modernising the public sector operating model can support an efficient and high performing public sector
 - expands on how common functions across agencies can be aligned, and
 - provides advice on how one particular function (digital service transformation) could be developed further to support higher quality, easily accessible, and responsive public services.
- 7 It is part of the first tranche of interrelated briefings on key focus areas that we set out in our briefing on supporting your first 100 days [2023-0289 refers].



Context

- 8 The Government has signalled a focus on ensuring public service efficiency and lifting public sector performance.
- 9 The Public Service operating model is a key lever to achieve a more efficient and effective public sector. Steps have been taken over the last decade to create a more flexible operating model to mitigate some of the implications of our devolved Public Service.

New Zealand's devolved public service

- 10 New Zealand's Public Service gives chief executives more autonomy over their departments than any other OECD country. Our chief executives have the flexibility to manage their agencies in a way that can best deliver their agency's outputs and respond to agency-specific issues and opportunities. This can be contrasted with New Zealand's Public Service prior to the 1980s which was characterised by centralised rules and processes which applied across the whole Public Service regardless of agency-specific requirements.
- 11 One implication of a devolved system is that agencies have evolved a narrow focus on the outputs of their own department. While this has enabled them to become effective at addressing agency-specific tasks, this also means that cross-agency issues are often treated as lower priority.
- 12 Another implication is that departments each establish and manage their own systems and processes. This can lead to divergence and duplication of functions; systems and processes that are not interoperable between departments; and significant variation in the maturity of systems, processes and capability between agencies. These challenges have also been

highlighted over the last 30 years by the need for all agencies to digitise services and ensure that information and data is managed appropriately and securely.

A highly aligned, highly devolved system

- 13 We have learnt that devolved and centralised models each have benefits and shortcomings. Over roughly the last decade, a number of mechanisms have been developed or are underway which work to the principle that there are benefits in a highly aligned, highly devolved system. This is done by working across our devolved system to make it more collaborative, aligned and high performing.
- 14 These includes the following mechanisms:



- 15 Some of these approaches are similar to those being developed in other jurisdictions. For example, efforts are being made in Australia (both federal and state), and in the UK to align common functions across agencies using 'functional leadership'. Similarly, Australia has developed ways to build a more productive workforce that is less reliant on external consultants by establishing an 'in-house consulting unit'.
- 16 In many cases New Zealand may need to go further than other jurisdictions in our efforts to align processes across departments in order to compensate for our more devolved Public Service.
- 17 The mechanisms we have been progressing are outlined in more detail below.

Whole of system leadership

- 18 Public service chief executives are now part of a legislated Public Service Leadership Team (PSLT), which works to provide strategic leadership and stewardship to create a more cohesive and effective Public Service. As a group, chief executives work together towards system alignment by ensuring the Public Service takes a joined-up approach to major issues and aligns around common approaches.
- 19 The value of this approach quickly became evident during the COVID-19 experience, where PSLT supported rapid and innovative delivery. It has also been used to drive significant change, such as a recent focus on fiscal discipline and financial capability.

- 20 PSLT meets fortnightly to share context and discuss priorities across the Public Service. Chief executives also use these sessions to share their own lessons, expertise and experience with their colleagues to support each other in dealing with common issues.
- 21 Sub-groups of PSLT have also taken responsibility for key system issues, such as improving diversity and inclusion across agencies, or looking at better deployment of skills across the Public Service.

More collaborative policy and delivery across agency boundaries

- 22 In response to difficulties with cross-agency working, collaborative models have been developed to incentivise sustained commitment by agencies to solve issues that span agency boundaries. The full range of options available to structure cross-agency collaboration in the New Zealand Public Service are described in the 'Toolkit for Shared Problems' on the Te Kawa Mataaho Public Service Commission website.¹
- 23 As part of the 2012 Better Public Services reforms the 'specific purpose board' was developed to address problems with voluntary collaboration board models. The specific purpose board was a Cabinet mandated mechanism for joint chief executive responsibility. The Public Service Act 2020 built on this model with the creation of a legislated 'interdepartmental executive board'. This legislated model uses the same legal accountabilities that chief executives have to ministers, and also allows for the board to appoint staff, hold contracts and administer appropriations.
- 24 A further example of how interdepartmental executive boards could be utilised to drive commitment and progress on Government's priorities is included in our briefing on managing for government priorities [2023-0290 refers].

A more productive and aligned workforce

- 25 People and their skills are the greatest asset the Public Service has, but more can be done to use them effectively. Because of our devolved Public Service, responsibility for employment arrangements and capability development are largely located at the agency level.
- 26 Where there are professions and occupations that are required by all agencies in the Public Service (e.g. employment relations specialists, policy professionals, ICT) there is a risk that aggregate skill development will not be sufficiently coordinated to meet the needs of the Public Service as a whole. This can also give rise to competition between agencies, which drives staff costs up.
- 27 There is an opportunity to better coordinate and align recruitment, development and employment of common workforces, particularly those that are unique to the Public Service such as policy professionals. There is also a need for mechanisms to flexibly deploy public servants to where they are most needed, regardless of agency boundaries. One recent initiative has been to establish a flying squad of experienced corporate public service leaders who are willing and ready to offer support to other agencies facing change.
- 28 This matter is also touched on in our briefing on employment relations [2023-0293 refers], and we can discuss possible approaches with you to make further improvements in this area.

Aligned common functions across agencies

- 29 Strong public service leadership for common business functions (e.g. property, procurement, digital) is a critical lever for creating further efficiency and effectiveness within the Public

¹ <https://www.publicservice.govt.nz/guidance/guidance-system-design-toolkit/>

Service. This can be done by designating a public service chief executive to lead on a particular function in addition to their agency leadership role.

- 30 This 'functional leadership' model was developed as part of the Better Public Services programme, and aims to secure economies or efficiencies across departments, improve services or service delivery, develop expertise and capability across the Public Service, and ensure business continuity.
- 31 The remainder of this briefing outlines how this approach is being used across the Public Service, and how this model can be utilised to make further improvements.

Aligning common functions across agencies

Establishment of system leadership approach

- 32 In 2013, Cabinet tasked the then State Services Commissioner with appointing functional leaders within the Public Service. Functional leaders have been successful in creating more alignment between departments across business functions, including by issuing guidance, setting standards, building capability and developing system assets (i.e. standardised processes, tools and infrastructure).
- 33 With the Public Service Act 2020 this model was formalised in legislation, allowing for 'System Leaders' to be designated to 'lead and co-ordinate best practice in a particular subject matter area across the whole or part of the State services'. System Leaders are designated by the Public Service Commissioner and are responsible to ministers for achieving agreed outcomes. With Cabinet's agreement System Leaders can set standards that other chief executives must implement within their agencies, or require those agencies to use particular tools, processes or infrastructure.
- 34 The Public Service Commissioner has designated System Leaders for Property, Procurement, Digital, Data, Information Security, Regional Public Services, and Service Transformation.
- 35 System Leaders for Property and Regional Public Services are responsible to you as the Minister for the Public Service.

Public service efficiency and effectiveness

- 36 System leadership provides an important mechanism to achieve a more efficient and effective Public Service.
- 37 First, it can be used to manage spending across the Public Service. This is partly through creating economies of scale – for example:
 - the System Leader for Procurement has introduced changes in how agencies procure goods and services (e.g. the all-of-government contracts) which are estimated to save Government \$200 million every year
 - the System Leader for Property is undertaking work to coordinate management of the government's property footprint, including office leases, facilities and asset management functions, and
 - the System Leader for Digital is undertaking work to standardise back-office financial management systems. This will involve agencies sourcing approved suppliers of

software-as-a-service² financial management information systems, who comply with government contracts, security, common processes, and feature requirements as specified by the System Leader for Digital.

- 38 System Leaders have also been tasked with coordinating relevant investments across their function. This will involve supporting ministers to make informed decisions on spending by providing advice on upcoming spending by agencies on the relevant functions, and on how any required funding can be best utilised and prioritised.
- 39 Second, system leadership can be used to make our Public Service work better, e.g.:
- More effective services for New Zealanders: for example, System Leaders for Digital, Data, Information Security and Service Transformation are leading and managing the whole-of-government programme to design digital public services that are high-quality, easily accessible, responsive, and designed to meet the needs of the customer.
 - Effective and resilient systems and processes: for example, the System leader for Information Security is working with other relevant System Leaders to lift the quality of agency information security systems, thereby reducing system risks.
 - Interoperable systems: for example, work led by the System Leader on sharing standard business processes across government agencies doesn't just maintain a consistent standard across agencies – it also enables interoperability between agency systems, removing barriers to agency collaboration.
- 40 The System Leaders have mandates agreed by Cabinet and meet regularly in a group chaired by the Public Service Commissioner to discuss their respective work programmes to ensure their work is aligned, that interdependencies are worked through and that common issues are addressed.

Funding system functions

- 41 Funding has been a key barrier to change in this area. System initiatives often require an investment before savings or benefits can be realised. In some cases, an upfront investment would generate longer term savings, or avoid future costs. However it has proven difficult to obtain the necessary funding through both the Budget process and through reprioritisation of funds:
- Budget process: By default, bids from System Leaders are considered alongside other bids from the lead agency through the Budget process. This means that trade-offs are made within specific Votes rather than between system-focused initiatives. Precedence is often given to portfolio-specific initiatives, rather than those that look to improve existing functions and infrastructure across the Public Service, even where these may result in longer term savings.
 - Reprioritisation: While chief executives may reasonably be asked to consider options to fund portfolio-specific initiatives through a reprioritisation of funding within their agency, System Leaders hold their role on behalf of the Public Service as a whole and are usually not positioned to resource system activities from their own agency's baseline. There is logic in the funding being sourced from the agencies benefiting from the function, but in many cases these agencies already have baseline funding for the function (e.g. IT, property) at the individual agency level, so are not incentivised to give

² Software that is accessed online via a subscription and accessible via a computer's browser software, rather than installed on computers used by a user.

up funding to resource initiatives that may generate savings in other agencies or which might be returned to the centre.

- 42 We have been working with the Treasury on mechanisms to more effectively fund system initiatives. The Treasury has indicated they will consider how system-level initiatives could be considered together (e.g. using a 'system initiative' tag) in the next Budget process.
- 43 The previous Government also recently agreed to a proportional transfer mechanism which involves Cabinet agreeing to take a small, proportional amount from each public service agency and transferring this to a central appropriation to fund the system initiative. This approach avoids the need to undertake bilateral agreements with every agency and minister, and is being used to support the development of a software-as-a-service financial management information system which can be utilized across the whole Public Service, reducing procurement and implementation costs and risks for agencies and government overall.

Your role as Minister for the Public Service

- 44 Once the Prime Minister has finalised portfolio allocations, those ministers responsible for system leadership functions will be briefed separately by the relevant System Leaders on those functions. This will include advice and updates on any funding proposals or efficiency opportunities as outlined above.
- 45 As Minister for the Public Service you will have oversight of the whole system leadership approach across the Public Service. This gives you the opportunity to set expectations on how system functions can be used across the Public Service to further Government's public service vision. This could include how system functions are used to drive cost savings across the Public Service, ensuring our systems are resilient, and/or driving higher quality services for New Zealanders.
- 46 Most System Leaders have been established in some form for several years and have fairly established work programmes and mandates – most of which have been updated by Cabinet agreement in the last year. One system function that is currently underdeveloped is digital service transformation – this is discussed below.

Digital service transformation

- 47 Service transformation involves making our public services high-quality, easily accessible, and responsive for those that need them. The primary focus of *digital* service transformation is to simplify and modernise transactional services that don't require a face-to-face interaction (e.g. applications for passports, tax returns, or payment of benefits). Digital services done well can transform citizens' interactions with government, significantly reducing delivery costs while providing more accessible, targeted and user-focused support. For this reason many other jurisdictions are also looking at how they can make digital service transformation easier.
- 48 Agencies are largely managing to successfully transform services at an individual agency level – as evidenced by Inland Revenue's recent Business Transformation of the tax system. However, there is room to improve the way the Public Service approaches digital service transformation at a system level. This includes:
- transforming public services that cross agency boundaries, and
 - sequencing and prioritizing service transformations across the Public Service to ensure public service capacity and capability are used in a deliberate manner.

- 49 To drive progress in these areas, the previous Government refocused the functions of the Digital Executive Board (an interdepartmental executive board) on leading and managing a whole-of-system transformation of digital public services. System Leaders for Digital, Data and Information Security are all members of this Board and can together provide Government with a system view of the service transformation landscape. The Board is currently developing a blueprint for digital public service to enable clear sequencing and prioritisation of investment across digital service transformation.
- 50 To ensure sustained progress in this area, there are a number of further steps Government could take:
- *Strengthening leadership for service transformation:* while the Digital Executive Board provides a mechanism for bringing together the necessary perspectives for effective service transformation (i.e. digital, data and information security), there is an opportunity to provide more dedicated service transformation leadership. This point of leadership would be focused on improving the experience of customers, clients or citizens that are common across agencies by integrating digital services around them. This would require experience in designing services with a customer-focused perspective. There are options for the form this leadership could take which we can advise you on further.
 - *Building and managing the capability needed to deliver service transformation:* The Public Service has gaps in the skills and talent needed to make digital service transformation successful – for example, expertise in service design and business architecture. We need to better develop and deploy this resource to support priority transformations. There are also opportunities to access external expertise, including private sector perspectives.
 - *Ensuring our digital infrastructure and systems support system-wide digital service transformation:* Improving digital public services is difficult unless agencies are working with systems that are modern, secure, and cohesive. Modernising agency services requires a move away from legacy digital systems, and a corresponding redesign and modernisation of digital policies and processes, which will provide opportunities to shape services that are more customer-focused and easily accessible. Continued implementation of the Strategy for a Digital Public Service³ should remain a priority, as should the development of the Service Transformation blueprint, which will outline how we can build greater interoperability into our services. For example, this could include reusable components that can be built into multiple services, common digital platforms, and strong data, digital and security foundations (e.g. approach to digital identity, and use of cloud technology).
- 51 You may wish to discuss this approach with the Minister for Digitising Government. If Ministers agree with this approach, we can work with the relevant System Leaders to provide you with further advice on strengthening the Public Service’s leadership and capability in service transformation.

Next Steps

- 52 We recommend you discuss this briefing with officials and indicate whether you and the Minister for Digitising Government wish to receive further advice on how to strengthen digital service transformation in the Public Service.

³ The strategy for a Digital Public Service sets the direction to modernise and transform the Public Service putting citizens and business at the centre of government services.

- 53 Once Government has allocated the system functions to portfolio ministers, those ministers will be briefed separately by the relevant System Leader on those functions. We have suggested to System Leaders that they copy you into advice to their respective ministers to give you oversight across all system functions.