



THE 2017 GARRAN ORATION

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THE GREAT HALL
AUSTRALIAN PARLIAMENT HOUSE, CANBERRA
WEDNESDAY 15 NOVEMBER 2017

Sir John Key:

Good morning. It's a great pleasure to be here in Australia. It's also an honour to be invited here today to give this Garran Oration. I looked at the previous speakers, going all the way back to 1959, and it's a very distinguished list. I think I'm right in assuming I'm the first New Zealander to give this speech, although these days it's a bit hard to know who in Australia is a New Zealand citizen and who isn't!

Today, I'm going to talk about my own experiences in New Zealand and reflect on a number of years in government on the other side of the Tasman. Others can determine whether those reflections are interesting in the Australian context – I wouldn't want to presume that. But I don't think the Australian system is all that different to ours. Australia is a very important country for New Zealand. It's our biggest trading partner, biggest source of investment and biggest source of All Black victories – until very recently.

In New Zealand we have always kept a close eye on what is happening in Australia, including migration flows. One of my predecessors as Prime Minister – Sir Robert Muldoon – once said that New Zealanders moving to Australia raised the IQ of both countries. That may have been a little harsh. When I ran against Helen Clark in 2008, I filmed an ad in the Westpac Stadium in Wellington where I pointed out that the capacity of the stadium – about 30,000 people – was leaving New Zealand to live in Australia every year, in net terms. I said this was a terrible thing and we had to stop the drain of talent. We had billboards – admittedly grammatically incorrect – that promised “Less Kiwis going to Australia”. Well that number went up and down a bit, but by the end of 2012 the net number of people going to live permanently in Australia had risen to close to 40,000 – not what we wanted.

However, by the time I stepped down as Prime Minister in 2016, the flow had completely reversed and for the first time in ages there was net migration from Australia into New Zealand. Of course, that didn't stop people complaining. Now we were getting criticised for high rates of population growth, even though half of that was due to New Zealanders not going to live in Australia. So you can't win. You also have to be careful what you promise, and you're at the risk of elements outside your control.

That's true of so many things in politics, including public sector reform, which I'll come to shortly. The theme of this conference is “Thinking Differently: Building Trust”. I want to talk about both those elements today, starting with trust. There is always an idiosyncratic element to government and to public affairs. Ministers can be difficult; officials can be obstructive; the public can be fickle. But I think that when things work well, it's in no small part because of the trust between government ministers and officials, between the government and the public, and also between the public and those who serve them. I think of it as a three-way triangle of trusting relationships between government ministers, public servants and ordinary citizens. I was privileged to work with a lot of hugely competent public servants, whose advice and judgement I relied on heavily.

As a country, I think New Zealand is blessed to have a large group of talented, intelligent and forward-thinking people who understand public policy and run complex service agencies.

I'm sure that's true in Australia as well. Public policy and public administration are far more difficult than most commentators imagine. We had an example of that early on in government, during the dark days of the global financial crisis. In response to some dire predictions about unemployment and job losses, I thought it would be a good idea to hold a jobs summit, inviting the best people from the private sector, unions, and so on, alongside the public service.

It became very clear, very quickly that only the public service truly understood how to formulate good public policy, despite the good intentions of the other participants. The approach my Government took from the very beginning was to respect people's professional skills and to back public servants who want to get on and make New Zealand a better place. As one small example, we immediately reintroduced the practice of having officials attend Cabinet committee meetings, some permanently and some on an item-by-item basis. We wanted to get advice from the people who had the greatest knowledge of particular issues. And we thought it was good for officials to see where ministers agreed and disagreed, what they felt comfortable with and what drove their considerations. In fact, it was a little odd that public servants who had spent a year or so working on a particular issue, living and breathing it every day, couldn't see what ministers made of it. I also think one of the great strengths of the New Zealand public management system is the neutrality of the public sector.

In my mind right now I can see my former officials from the Department of Prime Minister and Cabinet, Treasury, and other agencies, who once advised Bill English and me, now trooping in to advise the new Labour Prime Minister, Jacinda Ardern. You mention this concept to Americans, for example, and they are astonished. But it works, and is of great benefit to the country. While I think it's important for governments of all stripes to respect the political neutrality of the public sector, it's also equally important for public servants to respect the political mandate of the government.

As I said, we always valued advice from the public service very highly and considered it carefully. Yet that advice can only go so far. While government is about practical, considered decision-making, it is not a technocracy. In the end, the biggest, most fundamental decisions governments are called on to make are not reducible to calculation in a spreadsheet. If they were, the Treasury would be running the country. But the fact is that in a lot of areas even the most thorough policy analysis doesn't lead you to an inevitable conclusion. It simply highlights the fundamental judgements that have to be made around concepts like fairness, opportunity, and the balance between individual and social responsibility.

That is why we have an elected government, so that politicians make those sorts of judgements and are accountable to the people of New Zealand – or of Australia – for doing so.

Governments also have to bring things to a head. The public and the media can debate issues forever and change their minds a lot. Governments don't have that luxury. In the end, the Government has to cut through all that consideration and make a decision, which will invariably please some people

and disappoint others. In my time as Prime Minister I witnessed very few leaks from the public service. That is a testament to the high professional standards of public servants and their respect for the respective roles of officials and ministers. The few times that was broken, however, it seriously weakened the bonds of trust and respect.

I want to come back to the ideas of trust and empowerment. I believe we shouldn't be afraid to pay our best civil servants well. That can be hard to justify to the public. But often the organisations they work in and lead are larger than most New Zealand companies. It's critical for them to attract and retain talent that's among the best in the country. We should work harder to help map out people's career paths, and encourage greater cross-fertilisation across departments and agencies. In my view, we should be open to more sabbaticals between the public and private sectors. For example, we should actively encourage some of the bright young people who work in legal, accounting and consultancy firms to spend a period of time on secondment in the public sector, and vice versa. Agencies also shouldn't be nervous about allowing junior policy analysts to attend meetings with Ministers. Their knowledge and enthusiasm will benefit both sides.

We must continue to build trust and respect so that public servants are able to give free and frank advice even when their minister doesn't want to hear it, and not fear that such a move will limit their career advancement. Ministers need to challenge themselves about the tough issues, not be surrounded by sycophantic advice that in the long term does no-one any good.

On the other hand, officials need to recognise when ministers have made up their mind, and not relitigate issues again and again. Sometimes free and frank advice is hindered by concerns about the release of information. In New Zealand we have an Official Information Act, similar to your Freedom of Information Act. Both were passed in 1982, when the transmission and storage of information was a lot different than it is today. I am all in favour of the benefits that come from freedom of information rules, in terms of transparency and accountability.

It is also important, however, that ministers get advice that addresses difficult and sensitive issues fully. And it is important that officials can work through these issues in a robust way. I mentioned earlier that we came into government in the middle of the global financial crisis. In fact the election was held less than two months after the collapse of Lehmans. Treasury told us that the government's books were going to be a sea of red ink if we didn't do something to correct the fiscal track the previous government had put us on. So we needed to start reining in spending growth. I think we worked out pretty early on that top-down savings cuts, driven by ministers, are hard to do, often seem random and don't usually work. History tells us they are often only temporary as they are reversed in the face of public opinion or the opposition party promises to reinstate them.

I remember at one stage we went on a drive to reduce the number of crown entities, of which there were hundreds, because it didn't seem like a very efficient set-up. Well, I think our quango hunt resulted in the net loss of

about three small quangos – they are very elusive beasts. It is actually the people who understand their own services who are in the best position to make financial trade-offs and to introduce innovation. So we let chief executives and senior public servants focus on understanding how their organisations work, what drives their costs, and how to measure service levels. And we backed them to do that.

Top-down pressure came because we imposed flat nominal baselines on government departments, with the exception of health and education. In New Zealand there are no automatic funding increases for inflation, as I understand there are in Australia. So government agencies had to make a convincing case for why they needed any additional funding. Otherwise they had to find money by reallocating it within their existing funding envelope. It wasn't easy, but that approach drove considerable increases in efficiency and effectiveness, without losing the support of the public.

According to a survey conducted by the State Services Commission, New Zealanders' overall trust in public services, based on personal experience, is 12 percentage points higher now than it was in 2007. That public support is necessary to make changes stick. As a government, we tried very hard to keep our word with the electorate. We were consistent and up-front with New Zealanders about what we were doing and why. At each election, we sought a mandate for new policies we wanted to put in place, especially those that weren't likely to be popular. We wanted to take the public along with us as we made changes, explain the reasons for them well in advance and implement those changes competently.

Trust is, in my view, fundamental to the relationship between politicians and voters, just as it is fundamental to the relationship between politicians and public servants. This approach often looked like incrementalism and a lot of the time I guess it was. But we were also prepared to take some political risks to execute worthwhile changes.

Higher profile examples of this were our decisions to increase GST, cut the top personal income tax rate, introduce work obligations for sole parent beneficiaries, make significant changes to urban planning and housing rules, involve the private sector and NGOs in social housing, and sell 49 percent of three state-owned power companies.

My main point, though, is that by making a series of sensible decisions, which build on each other and which are signaled well in advance, and by taking more people with you as you go, you can effect real and durable change. This support and trust can be seen in the results of the recent election. The fact that after nine years of a National-led Government, Bill English secured 44.4 percent of the popular vote is extraordinary. Bill was a superb Minister of Finance, Deputy Prime Minister and then Prime Minister. He was also the intellectual and deeply human force behind our public-sector reforms, particularly the social investment approach that he personally led and championed.

I remember that once we had got through the worst of the global financial crisis we started to think about how we could make progress on difficult

social problems. There wasn't any money to spend. But that wasn't really the issue. In the six years to 2008, government spending went up by 50 percent and there was little to show for it. We weren't focused on money, but on doing things differently. Our approach was to focus squarely on results, have more of a customer focus in the provision of services, try to understand our most difficult and troubled clients, and use analytical tools to help guide investment.

The aim was to help improve people's lives and get on top of some longer-term drivers of spending - to shift from social spending to social investment. As we would often point out, what is good for communities is good, in the long term, for the government's books. One of our early initiatives was to announce the Prime Minister's Result Areas.

At the beginning of our second term, in 2012, I gave a speech that announced a set of results I wanted to see achieved over the next five years, in the areas of welfare dependence, education, crime reduction, child wellbeing, and the interactions that people and businesses have with government. These were accompanied by quantitative and very challenging targets. I said, for example, that I wanted to see the proportion of kids getting the key qualification in secondary school, called NCEA Level 2, go up to 85 percent.

Considering the proportion at the time was less than 75 percent, this was no small improvement. All this was a somewhat risky strategy. We signed up to the publication and regular reporting of these targets in a way that no other Cabinet to my knowledge has done. There was every chance we'd fail on some or most of them. But we were prepared to fail if it meant that progress was being made. And that very public accountability – with the Prime Minister's personal stamp on it – is what made ministers, chief executives and senior public servants feel challenged and work to change the way things had always been done.

I have to say, the leadership of the public service was very supportive of this approach. At times during the process of developing the targets they were at least as ambitious as ministers were. Many of the results fell between or across the responsibilities of individual government departments. So achieving them meant adjusting the way the public sector works – for example, making people accountable for achieving something, not just for managing a department or agency. And it meant giving public sector leaders more flexibility to operate in different ways.

So alongside the targets we also made some amendments to the State Sector Act and the Public Finance Act. It's now 2017 so we can look at what happened over that five-year period. Some of the targets were met and some weren't. Even when they weren't met, the improvements were often striking. This is a credit to the public servants who oversaw considerable changes in the way their agencies worked, and worked with others.

I mentioned we were aiming for 85 percent achievement of NCEA Level 2. The last public figure I saw was 85.2 percent, up from 74 percent in 2011. The proportion of eight-month-old children being immunized – which was

another of the public sector targets – has gone up from 84 percent to 93 percent. The youth crime rate has fallen 32 percent since 2011.

The number of people completing their transactions with government online has increased from below 30 per cent in mid-2012 to nearly 60 per cent in 2016. In some areas, there wasn't as much progress as we'd like, but the heightened focus saw a more determined and honest grappling with the problem. For example, too many New Zealand children experience violence. Preventing that is complicated and we didn't make the progress we wanted to. A lack of will or lack of money was not the issue. This is a deeply complex problem for which there are no simple solutions. I think there'll be progress, however, in the coming years.

There are now ten Children's Teams, for example, operating in New Zealand. These involve social welfare, health, police and other government services working together in a new way to support at-risk children and their families. The result areas were a good innovation but they only covered a small part of what we wanted to achieve. More work was going on to understand how the government can help improve the lives of the most vulnerable in society. We thought in general that the system works pretty well for people with relatively uncomplicated lives, although of course there is scope for further innovation and efficiency. If people get sick, they go to hospital; if they get laid off, they are supported by a benefit. But it's much harder to make a meaningful difference in the lives of people with multiple, interdependent and complex problems.

So we asked the public service to do some analytical work to better understand the lives and trajectories of our most difficult and most expensive customers.

They found, for example, that there is a group of one percent of five-year-olds – that's about 600 children each year – for whom you can expect that three quarters will not achieve NCEA level 2, four in ten will be on a benefit for more than two years before they are 21, and a quarter will be in prison by the time they are 35. Each of these children will cost taxpayers an average of \$320,000 by the time they are 35, and some will cost more than a million dollars. Many of those five-year-olds will be in state care.

Traditionally the system has looked after those kids on a shoestring budget, through the valiant efforts of foster parents and front line social workers. What could the government do differently, spending money up front, to save those children from such a life and also save some of those future costs? That hadn't previously been the question, because the government had never had this type of analysis presented so starkly. Successive governments organised the system for caring for children, and the education system, and the welfare system, and the prison system, and treated them as separate issues. But they're not.

The public sector is now using better analytical tools to look at these sorts of issues. For example, the Ministry of Social Development is using an investment view of welfare liability to create a much richer understanding of what actions can be taken to reduce long-term dependency. It commissioned

Australian actuaries Taylor Fry to calculate the lifetime welfare costs of people on benefits. That liability turned out to be \$78 billion – or just under 40 per cent of New Zealand’s GDP.

This work also uncovered the groups with the largest lifetime liabilities, like sole parents and people with psychiatric and psychological conditions. You can keep drilling down. Among sole parents, for example, the most expensive group is those who go onto a sole parent benefit before they turn 20. A teen sole parent on a benefit in New Zealand is on a benefit for around 20 years, on average, with a net present cost of \$213,000 per person. So that helps us know where to focus our efforts. The next obvious question is “what can you do about it?”

With that group of teen sole parents, for example, we no longer just gave them a fortnightly benefit and wished them good luck. We brought in a new system that, among other things, ensures they are in school or training, gives them each a supervising adult, and manages their money for them. That programme is showing promising results. We also focused on getting sole parents of all ages off a benefit and into work, through extra support, greater work obligations and more intensive work by front line case officers. The latest welfare valuation I saw showed the future liability of beneficiaries had reduced by \$3.6 billion as a direct result of these actions.

This approach was also being rolled out to the justice sector and social housing, to give a more complete picture of both the problems and potential solutions. I wouldn’t claim for a minute that this is a profound new theory of government. People have talked about having a results focus for years, and taking a cost-benefit approach to social spending is taught in all good public policy courses.

But the difficult part is being able to put these ideas into practice in the real, messy and contentious world of government. We had a decent go at that. I truly hope the new government in New Zealand picks up that work and continues it. There’s certainly nothing ideological about it. It’s simply based on the idea that public services should make a genuine difference to those people in our communities. Governments also have to think about the people who pay for these services. They are often taxpayers who get up at six in the morning to do jobs they’d rather not be doing. In my view the government owes it to those people to spend their taxes as effectively as it can.

Can I finish by thanking you again for inviting me here today. I hope what I have spoken about has been useful and relevant. While our two systems have some differences, they also have a great many similarities and we can learn a lot from each other.

I can tell you that I myself entered Parliament with no particular in-depth knowledge of public policy or public administration, but over time was excited and motivated by what can be achieved, and sometimes disappointed and frustrated by what could not. It’s maybe not the occupation for those who like instant results, but the long-term satisfaction

of making things better, especially for those who most need it, is hugely rewarding.

I wish you all the best for the rest of your conference.

The End