



Cabinet Committee on State Sector Reform and Expenditure Control

SEC (13) 12

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Summary of Paper

8 March 2013

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Speed Up Reforms with Better Public Services Seed Fund (Paper 2)

Portfolios	Deputy Prime Minister / State Services
Purpose	This paper seeks agreement to establish a Better Public Services (BPS) Seed Fund.
Previous Consideration	None.
Summary	<p>Agreement is sought to establish a BPS Seed Fund to speed up the development of BPS reform priorities. The scope of the BPS Seed Fund is defined as:</p> <ul style="list-style-type: none"> • being for cross-agency initiatives that contribute to better public services and deliver improvements across the system, reflecting Ministerial priorities; • covering one-off development costs, e.g. exploration, business case development, and design. The ongoing business as usual delivery costs are outside the scope; • being for a set period, of up to \$20 million per annum for four years, funded through departmental 2012/13 year end underspends returned to the Crown; • taking a medium term perspective. <p>The priorities for the BPS Seed Fund, outlined in the table on pages 5-6, are the development of Results 9 and 10, to improve interaction with the government for businesses and New Zealanders, and business cases for all-of-government information and communications technology (ICT).</p> <p>The following three initiatives (totalling \$7.291 million) are ready for approval¹:</p> <ul style="list-style-type: none"> • Optimise Finance (\$1.786 million over 2012/13 to 2013/14): a multi-agency programme that focuses on people, process, and technology changes to support a change in Finance function performance; • Optimise HR (\$2.115 million over 2012/13 to 2013/14): a cross-agency, invest-to-save initiative that focuses on people, process, and technology changes to the HR service delivery model to support a change in performance;

¹ The paper under SEC (13) 13, entitled *Ministerial Expectations for NGO Contracting, Optimise HR, and Optimise Finance*, sets out the related Ministerial expectations.

- NGO Contracting (\$3.390 million over 2012/13 to 2015/16): a transition to the new NGO contracting framework over three years to align with capability and capacity.

The Minister of Finance, the Minister of State Services, and the Associate Ministers of Finance will approve proposals recommended by central agencies. The central agency chief executives will ensure that the BPS Seed Fund is prioritised towards widely supported initiatives that speed up BPS reforms. The Treasury will manage the BPS Seed Fund.

**Regulatory
Impact Analysis**

Not applicable.

**Baseline
Implications**

The use of 2012/13 only underspends impacts on the surplus and will be reflected in the fiscal forecasts, but there is no impact for agencies, their baselines or the budget allowances, and there is no fiscal impact of the specific initiatives funded from the BPS Seed Fund, once the fiscal impact of the retained 2012/13 underspends has been factored into the fiscal forecasts.

The proposals in the paper under SEC (13) 12 include appropriation changes totalling \$7.291 million across the forecast period for further development of Optimise HR, Optimise Finance, and NGO Contracting. These are the first allocation of the BPS Seed Fund. Departments estimate a total of approximately \$8 million per annum for the development of the priorities Results 9 and 10, and all-of-government ICT business cases.

Authorisation is sought, subject to a \$20 million per annum limit, for:

- the Minister of Finance to approve the amount for 2012/13 only departmental underspends retained, considering alternatives;
- the Minister of Finance, the Minister of State Services, and the Associate Ministers of Finance to approve the prioritisation and allocation of the BPS Seed Fund, including appropriations, conditions, and expectations.

**Legislative
Implications**

None.

Timing Issues

None.

Announcement

The central agencies will provide direction and guidance as required, e.g. through circulars. The paper under SEC (13) 11 will be released once potential issues have been addressed. The paper under SEC (13) 12 and other accompanying papers will likely be publicly released after decisions have been made on business cases.

The Corporate Centre will ensure that material is available to enable agencies to apply for funding from the BPS Seed Fund, which includes updating the information currently available on the Treasury's website for the Innovation Fund.

Consultation Paper prepared by Treasury and SSC. All departments were consulted, and MBIE and DIA contributed to the developed of the paper.

The following Ministers were consulted: Economic Development, Justice, Health, Education, Social Development, Police, and Communications and Information Technology. The Deputy Prime Minister indicates that discussion is not required with the government caucus or with other parties represented in Parliament.

The Deputy Prime Minister and the Minister of State Services recommend that the Committee:

Establishing and operating a Better Public Services Seed Fund

- 1 agree to establish a Better Public Services (BPS) Seed Fund:
 - 1.1 to speed up the development of collaborative BPS reform priorities, with ongoing delivery costs being outside the scope;
 - 1.2 funded from departmental 2012/13 only year-end underspends returned to the Crown, with a limit of \$20 million per annum over the next four years;
- 2 note that the use of 2012/13 only underspends impacts on the surplus and will be reflected in the fiscal forecasts, but that:
 - 2.1 there is no impact for agencies, their baselines, or the budget allowances;
 - 2.2 there is no fiscal impact of the specific initiatives funded from the BPS Seed Fund, once the fiscal impact of the retained 2012/13 underspends has been factored into the fiscal forecasts;
- 3 authorise, subject to a \$20 million per annum limit:
 - 3.1 the Minister of Finance to approve the amount of 2012/13 only departmental underspends retained, considering alternatives e.g. Budget allowances;
 - 3.2 the Minister of Finance, the Minister of State Services, and the Associate Ministers of Finance to approve the prioritisation and allocation of the BPS Seed Fund, including appropriations, conditions, and expectations;
- 4 direct the central agency chief executives to recommend the priorities and best use of the limited BPS Seed Fund, aligned with Ministerial BPS priorities and with the commitment and wider support of chief executives;
- 5 direct the Treasury, on behalf of the central agencies, to manage the BPS Seed Fund, including to:
 - 5.1 assess the BPS Seed Fund applications;
 - 5.2 set out the expectations and conditions for lead and participating agencies;

- 5.3 report to Ministers and chief executives six monthly on the allocation of the BPS Seed Fund;
- 5.4 monitor the progress of funded initiatives;
- 5.5 review the BPS Seed Fund by Budget 2016 in collaboration with other agencies, including options for funding from 2017/18 if it is providing continued value;
- 6 direct the lead chief executive for approved BPS Seed Fund initiatives and funding to report to the Treasury as required, including six monthly and at completion, and to ensure that expectations and requirements are met;

High priorities and “ready to go” initiatives

- 7 endorse as high priorities for the BPS Seed Fund the development of:
 - 7.1 Results 9 and 10 to improve interaction with government for businesses and New Zealanders;
 - 7.2 business cases for all-of-government information and communications technology;
- 8 agree, subject to paragraphs 1 and 3 above, that the following initiatives receive BPS Seed Fund funding totalling \$7.291 million over the forecast period:
 - 8.1 Optimise Finance;
 - 8.2 Optimise HR;
 - 8.3 NGO Contracting – transition to new framework;
- 9 approve, subject to paragraphs 1 and 3 above, the following changes to appropriations as the first allocation against the BPS Seed Fund, with a corresponding impact on the operating balance:

Ref	Initiatives	\$m – increase / (decrease)				
		2012/13	2013/14	2014/15	2015/16	2016/17
8.1	Vote Finance Minister of Finance Departmental Output Expense: Financial Operations (funded by revenue Crown)	0.750	1.036	-	-	-
8.2	Vote Internal Affairs Minister of Internal Affairs Departmental Multi-class Output Appropriation: Information and Technology Services MCOA Output class: Cross-Government Service Delivery and ICT Investment Proposals (funded by revenue Crown)	0.750	1.365	-	-	-
8.3	Vote Economic Development Minister for Economic Development Departmental Output Expense: Sectoral Leadership, Firm Capability and Regional Development Operational Policy, Ministerial Servicing and Crown Entity Monitoring (funded by revenue Crown)	0.300	1.000	1.020	1.070	-
	Total Operating	1.800	3.401	1.020	1.070	-
	Total Capital	-	-	-	-	-

- 10 agree that the changes to appropriations for 2012/13 above be included in the 2012/13 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
- 11 agree that for the appropriations approved from the BPS Seed Fund, any amounts unspent in a financial year can be transferred to the following financial year;
- 12 authorise the Minister of Finance and the relevant Minister responsible for the appropriation to jointly approve the transfer of under-spent appropriation in one year to the next financial year, following completion of that year's audited financial statements, with no impact on the operating balance.

Saphron Powell
Committee Secretary

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PAPER 2 - SPEED UP REFORMS WITH BETTER PUBLIC SERVICES SEED FUND

Proposal

1. To remove the funding barriers experienced by agencies collaborating to deliver Better Public Services (BPS) reforms, this paper recommends establishing a BPS Seed Fund.
2. The BPS Seed Fund aims to support the delivery of BPS priorities in the ten result areas and new functional leadership roles. All-of-government ICT, Results 9 and 10 are the key priority areas for the BPS Seed Fund. In addition, the paper specifies three initiatives to receive BPS seed funding: Optimise Finance, Optimise HR and non-government organisation (NGO¹) contracting.
3. It proposes a medium-term solution with \$20 million per annum for a set period of four years funded from departmental 2012/13 year-end underspends returned to the Crown.

Executive Summary

4. BPS reforms require agencies to work differently and together. Club funding has been a way to make this happen but the experiences are that it takes too long and momentum is lost. To speed up and cut through real and perceived funding barriers, I propose to set up a BPS Seed Fund as a practical way forward.
5. The BPS Seed Fund of up to \$20 million per annum for four years will be funded through departmental 2012/13 year-end underspends returned to the Crown. This does not require reprioritisation of baselines and avoids mandatory contributions. However, the use of retained underspends affects Budget forecasts and the surplus (but not the budget allowances).
6. To ensure good use of the funding, the Minister of State Services, the Associate Ministers of Finance and I will approve proposals recommended by central agencies on behalf of the wider public service. The central agency chief executives will be responsible for ensuring that the BPS Seed Fund is prioritised towards widely supported initiatives that speed up BPS reforms. Initiatives are at different stages of

¹ NGOs mean non-government organisations that are also not-for-profit organisations

development. Seed funding will be needed to develop all-of-government ICT, Results 9 and 10 (estimated at around \$8 million per annum). There are three initiatives ready for approval (totalling \$7.291 million): Optimise Finance, Optimise HR and NGO contracting. Together the priorities and ready initiatives illustrate the use of the BPS Seed Fund. Other opportunities will evolve.

7. The on-going delivery costs are outside the scope of the BPS Seed Fund. As currently, Ministers continue to make policy and funding decisions e.g. considering business cases. While modest in the context of the ongoing costs, the BPS Seed Fund will make a difference in unlocking funding barriers that slow down progress.

Background – Agencies work together, but progress is too slow

Government priorities require agency collaboration to deliver “better services for less”

8. The Government has committed to delivering better public services for less. The ten result areas, and the newly established functional leads form part of the Government’s priorities, and these all require State sector agencies to work together collectively, rather than individually, to realise outcomes.

9. All agencies are learning how to make collaboration work in practice, and cross-agency ways of working are not without their challenges. One of the greatest challenges is getting timely funding decisions for cross-agency improvement programmes, especially at the earlier stages of development where the costs and benefits to individual agencies are uncertain.

10. Collaborative improvement initiatives are dependent on voluntary agency participation and club funding. The consistent messages are that their primary barrier to high value, timely delivery is protracted time periods required to secure agency funding decisions. Funding decisions typically take several months, which erodes the business value of programmes because:

- a. Resources are expended selling and re-selling initiatives across multiple levels of management in numerous agencies instead of focusing on the design and implementation of collaborative solutions.
- b. Delays erode each initiative’s benefits and increase costs.
- c. Delays damage momentum and credibility, making it even more challenging to sell agencies on participation and sometimes creating costs related to team frustration and turnover and diminished vendor interest.

11. It is important to commend the individual agencies that have participated and funded collaborative initiatives to date. It is not the outcome of their individual funding decisions that is problematic; instead, it is the length of time required to secure multiple agency decisions within reasonable time limits. Participating agencies may not feel recognised for the contributions they make across government. Negotiating arrangements is time consuming for both the lead and participating agencies.

Disincentives to voluntary opt-in funding, especially at the development stage

12. Voluntary opt-in arrangements work particularly well where there are established relationships between agencies and clear benefits. It is the preferred mechanism

where it works. However, voluntary opt-in contributions do not always work. Mandatory participation and contribution can be considered instead. Mandatory arrangements can be beneficial to participating agencies because it makes it clear that Ministers consider projects non-discretionary.

13. There are disincentives for lead and early adopter agencies to undertake the initial development work, when it falls on them to fund the developments. Especially at the business case development and design stages, there is a disincentive for agencies to be founding participants for initiatives with potential benefits to the whole of government: these agencies bear the costs and risks of change programmes. Instead, agencies are incentivised to be a later adopting agency once the solution is proven and development paid for - or, in effect, a "free ride".

14. Departments have asked for better practical support and guidance to make it easier for them to navigate and agree funding arrangements. Over time as cross-agency funding arrangements mature and experience builds, reaching agreement should get easier. Central agencies are working with agencies to share experiences and to develop practical guidance.

Drive BPS momentum through a BPS Seed Fund

15. To speed up BPS reforms in 2013 and cut through real and perceived funding barriers, this paper proposes the establishment of a BPS Seed Fund. The aims of the BPS Seed Fund are:

- a. to speed up the development of BPS reform collaborative initiatives
- b. to reduce disincentives that lead and early adopter agencies face, and
- c. to reduce transactions costs for the agencies involved.

16. The scope of the proposed BPS Seed Fund is defined as:

- a. It is for *cross-agency initiatives* that contribute to *better public services* and deliver improvements across the system, reflecting ministerial priorities.
- b. It covers *one-off development costs*, e.g. exploration, business case development and design. The on-going "business as usual" delivery costs are outside the scope. As currently, Ministers would continue to make policy and related funding decisions including consideration of business cases.
- c. It is for a *set period* of four years, funded through 2012/13 underspends. A set period provides a review point. The ongoing use of underspends would not be sustainable.
- d. It takes a medium term perspective. A four-year profile enables development of more complex cross-agency initiatives and solutions, such as required in Results 9 and 10.

17. To be considered for the BPS Seed Fund, proposals are required to:

- a. demonstrate commitment from several agencies working together (including staff time, expertise and information contributions)
- b. be supported by the relevant Ministers
- c. identify the lead agency accountable for the funding and the development

- d. contribute to better public services and deliver improvements across the system, reflecting ministerial priorities (e.g. contribute to the Result targets), and
- e. seek one-off funding to cover development costs only (not for on-going "business as usual" delivery costs).

18. When assessing and prioritising proposals for the BPS Seed Fund, judgments include the extent to which the proposal meets the objective to speed up the development of collaborative BPS reform priorities. Proposals contributing to better public services include proposals that enable agencies to modernise and become more cost effective.

19. Results 9 and 10 and all-of-government ICT are proposed as priorities for the BPS Seed Fund (see below). The management of the BPS Seed Fund would seek to ensure that funding is available for specific proposals submitted from these priority areas that meet the above requirements. Assessments will be responsive as proposals are submitted, e.g. agencies may submit a proposal for development of an all-of-government Banking Category in 2013. Proposals would not be a priority for the BPS Seed Fund where it is reasonable to expect agencies to voluntarily opt-in and contribute, e.g. where there are clear benefits amongst a limited number of agencies with established relationships. Agencies may still progress initiatives that do not receive BPS seed funding.

20. Experiences from previous pipeline development funding have demonstrated the value in developing initiatives and taught us that a medium-term approach adds value. A short term, e.g. one-two year, approach can be disruptive and create uncertainty and stop-start situations. For example, it takes time to build up capability for ICT business case development and business cases not completed by the end of a financial year may need to be halted. Some initiatives have undertaken initial work, e.g. a pilot, and further development could involve design and delivery e.g. additional start up costs relating to changing practices and standards. NGO contracting is an example of this.

21. While the BPS Seed Fund will help remove delays at outset, the challenges of agreeing cross-agency funding will continue to exist for initiatives that are successfully developed. At the delivery stage, the benefits will be clearer and can provide a basis for agreeing funding arrangements. The ongoing delivery costs will be greater. The costs of developing a business case typically range from 3-10% of implementation costs (totalling hundreds of millions across initiatives partly offset by savings).

22. Ministers and agencies are best placed to agree ongoing funding arrangements when considering business cases. The solutions will vary across initiatives, reflecting the nature of the services and the relationships. The arrangements for procurement and property functional leadership illustrate different solutions. In invest-to-save cases, the on-going costs would be expected to reduce over time and free up funding within baselines. For other initiatives, benefits may be non-cashable, costs avoided or service improvements.

23. A fund provides a pool and enables better overview and prioritisation across initiatives. The difficulties with a fund include: providing resources for a fund, reduced demonstrated agency commitment (by not committing funding), governance arrangements and the management of a fund. There are different ways of funding and operationalising a fund, and there are risks of making it too complex.

Alternative funding mechanisms involve baseline reprioritisation

24. The following alternative funding mechanisms considered for the BPS Seed Fund involve reprioritisation of baselines, or funding from Budget allowances. In addition to the status quo voluntary contributions, the broad alternatives include:

- a. Mandatory club funding contributions from participating agencies
- b. Mandatory levy on all agencies.

25. *Mandatory club funding.* Mandatory club funding would involve Ministers directing participating agencies to contribute and share the costs. Lead agencies may be reluctant to suggest mandatory club funding, as it makes it harder to engage with agencies collaboratively. To progress a number of different initiatives, this would require more Ministerial decisions for relatively small amounts. Decisions could be "batched up", e.g. at the time of baseline updates, but that would mean delays.

26. *Mandatory levy.* Contributions could be sought across all agencies regardless of their participation. An overall levy could be set in the budget process to overcome ad hoc and many different mandatory contributions to make it easier for contributing agencies to manage.

BPS Seed Fund priority areas

27. Cross-agency initiatives that need agreed funding to progress are at different stages of development. Concrete examples of the use of the BPS Seed Fund are set out below. New areas will emerge over time, but we know that funding is required to progress development in our BPS priority areas of Result 9, Result 10 and ICT. In addition, three cross-agency initiatives are ready to progress development pending funding.

28. I propose that Ministers endorse Results 9 and 10 and of all-of-government ICT as key priority areas for the BPS Seed Fund. This is to ensure that funding is available to consider submissions from these areas that meet the BPS Seed Fund requirements.

<p>Result 9 – Better Public Services for Businesses</p> <p>Estimate: \$4 million per annum over 2013/14 – 2015/16</p>	<ul style="list-style-type: none">• Result 9 is about reducing costs for business and transforming the government's approach to business service delivery• Mix of quick win and strategic initiatives:<ul style="list-style-type: none">○ Accelerating the shift from paper-based processes to electronic systems will simplify and reduce costs○ Establishment of a one-stop online shop for business
<p>Result 10 - Digital transactions with government</p> <p>Estimate: \$2 million per annum over 2013/14 – 2016/17</p>	<ul style="list-style-type: none">• Result 10 is about enabling New Zealanders to complete their transactions with government easily in a digital environment• The focus for Result 10 in 2013/14 is designing and delivering a strategic blueprint. This blueprint will identify the individual initiatives and influence funding requirements beyond 2013/14

<p>All-of-government ICT</p> <p>Estimate: \$2 million per annum over 2013/14 – 2016/</p>	<ul style="list-style-type: none"> • Transforming the way that government uses information and technology is key to delivering better public services including Results 9 and 10 • Aggregating demand and prioritising ICT investment across government will reduce fragmentation and duplication • Building stronger ICT capability and leadership across government is necessary to accelerate system change • Centrally led and collaboratively delivered, under the Government CIO's functional leadership
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29. We have set public targets for the ten result areas. Results require agencies to work together in new and different ways. We recently received a progress report for Result 9. It outlined the initiatives that will deliver benefits to business, addressing major costs issues for business and transforming the government's approach to business service delivery.

30. ICT is a common element and it underpins how services are delivered, and whether businesses and citizens experience government as responsive and trustworthy. It uses a lot of resources across government and we know that agency ICT plans are generally short term and agency centric. Many agencies currently do not plan their ICT investment beyond the next 12 months. Building the capacity of agencies to plan for the medium term, in collaboration rather than isolation, is a key element of Government CIO's functional leadership role agreed by Cabinet. There are risks and significant impacts of changes like Novopay. We are looking for more leverage over the capacity and rate of change.

31. Ministers are considering the ICT strategy and action plan by April 2013. The action plan will support the delivery of Results 9 and 10, and it will drive the priorities for ICT all-of-government initiatives. Development of ICT all-of-government initiatives will not realistically be funded through voluntary opt-in arrangements, and if not funded from the BPS Seed Fund would need funding from Budget 2013 or alternatively mandatory contributions levied across baselines to progress development. Development of business cases will be required as part of the Government CIO implementing the ICT functional leadership role. ICT is an area where Ministers particularly want to be well informed when making business case decisions, due to the risks and often large amounts involved.

Three developments ready to go, pending funding

32. We can progress the first batch of initiatives right now through funding from the BPS Seed Fund. Three initiatives meet the requirements and are well advanced, building on cross-agency work already undertaken. These focus on improving productivity gains and back office functions across agencies. NGO contracting will also impact positively on the NGO sector organisations that deal with government agencies.

33. On the recommendation of chief executives, I propose that Ministers approve that Optimise Finance, Optimise HR and NGO contracting receive BPS seed funding and appropriations to start their next phase immediately. These are further detailed below and paper 3 sets out related ministerial expectations.

<p>Optimise Finance</p> <p>\$1.786 million over 2012/13 – 2013/14</p> <p>Accountable: Secretary to the Treasury</p>	<ul style="list-style-type: none"> • Deliver a business case by November 2013 • This multi-agency programme focuses on people, process, and technology changes to support a step change in Finance function performance • Benchmarking and analysis phase has recently been completed for 18 agencies • The next phase includes optimisation of the service delivery model and a work programme to lift the financial management capability across the public sector
<p>Optimise HR</p> <p>\$2.115 million over 2012/13 – 2013/14</p> <p>Accountable: Secretary for Internal Affairs</p>	<ul style="list-style-type: none"> • Deliver a business case by November 2013 • Optimise HR is a cross-agency, invest-to-save initiative that focuses on people, process and technology changes to the HR service delivery model in order to support a step change in performance • Six agencies have developed a business case to support the optimisation of the HR service delivery model, which identifies that services can be provided through shared services and centres of expertise and is enabled through a cloud-based HR Information System • Scalability is a key principle of the initiative, allowing more agencies to join over time
<p>NGO contracting</p> <p>\$3.390 million over 2012/13 – 2015/16</p> <p>Accountable: Chief Executive of the Ministry of Business, Innovation and Employment</p>	<ul style="list-style-type: none"> • Transition to the new NGO contracting framework over three years to align with capability and capacity • Transition to on-going implementation and a phased mandated roll out of the new NGO contracting framework across most, if not all, contracts where government purchases services from NGOs • Successful pilot tested whether streamlined government contracting practices can reduce the compliance burden on NGOs, and minimise duplication of costs and contract management processes • Maximum benefit of the new contracting framework will only be realised if the NGO contracting framework is adopted consistently across government agencies • The four participating government agencies collectively hold over 11,000 contracts with approximately 4,400 NGOs, and with a total contract value of \$1.5 billion

Optimise HR and Finance can deliver wins in 2013/14

34. Strong HR and Finance services underpin overall agency performance. Current HR and Finance services in central government cannot drive or support overall agency performance. The shortfalls in HR management across government are well documented, e.g. "Strategic HR practices (including talent management) are at 50% of leading practice; agencies think they need to be at 75% to be successful." (*The Hackett Group, 2012*). Only 55% of agencies reported have statements that anticipate workforce needs for the next 3 years. The state of financial management in New Zealand agencies has been a recognised problem for some time, e.g. "Information sets and supporting processes that help establish how well financial resources are transformed into results...are not in place or nor widely used" (*Auditor General 2012*).

35. Optimise HR and Finance support agency wide benefits beyond cost and success of future initiatives. This includes process changes that leverage scale across agencies through collaboration and raised performance expectations. It supports greater cost consciousness and a focus on value creation in business units, together with financial and people management capability to deliver change. With a successful next stage of development, in 12 months, it is expected that Optimise HR and Finance will:

- a. Announce new service delivery models that will release FTEs and cashable savings that can be reprioritised
- b. Re-focus the HR and Finance function to improve decision making, increase transparency and support front line delivery and transformation
- c. Bring together agencies intending to do similar work independently, creating better, cheaper solutions
- d. Form a comprehensive response to the numerous reports on the poor quality of financial and human resource management in agencies (including the OAG report on financial management in central government).

Common NGO contract management will reduce compliance and duplication

36. Currently multiple forms of contracts are used by different government departments purchasing services from NGOs. The pilot developed a balanced "one size fits all" scalable template contract and associated contract management documents for use with NGOs. This suite of documents forms a single framework contract and common contract management framework, for use across government and NGOs. This reduces the compliance burden on NGOs and reduces unnecessary duplication of similar contract management measures being taken by multiple agencies for a single provider.

37. Acknowledging the work agencies are already doing with NGOs, feedback from government agencies and the NGO sector is that this new contracting framework, which places a greater emphasis on linking services to desired outcomes, represents a significant change from the way contracting and contract management is currently done. Implementing the framework to embed a long-term change in the way government contracts with NGOs will take time and needs to be aligned with other social sector initiatives.

38. Those other social sector initiatives include Whanau Ora and the Ministry of Social Development's (MSD) Social Sector Trials and Vulnerable Children work. These initiatives all target the allocation decisions, i.e. what are we going to buy and why – making different allocation decisions to achieve different and better outcomes. MSD's Social Sector Contracting with 30 Large Organisations (SSC30) and this NGO contracting framework focus on the mechanics of providing quality contracts documents to document what is being purchased after the allocation decision has been made. MSD's Investing in Services for Outcomes is starting with the mechanics of using a consistent form of contract, based off the NGO contracting framework developed by MBIE during the pilot, but is overlaying more strategic thinking about what is being purchased and why to deliver better outcomes. This NGO contracting work complements a number of those initiatives and the Ministers of Health and Social Development have endorsed its use for the SSC30 work.

39. Following the successful pilot, the next step can be taken through a mandated "phased" transition to on-going implementation. The new contracting solution transitions to implementation across all government purchaser contracts with NGOs in a phased manner. The phasing reflects the capability and capacity of the purchasing agencies and providers to operate under the new contracting framework (24-36 month transitional implementation). Following a phased transition and development, government agencies could fund the on-going implementation costs e.g. on a user pays or cost sharing basis.

40. The transition to the new framework includes: change management, relationship management, consistent communication, ongoing testing of the proposed contracting framework, a results based accountability reporting tools and exploration of wider application especially with District Health Boards. The Ministry of Business, Innovation & Employment (MBIE) can provide leadership and expertise consistent with its procurement functional leadership role. MBIE will with the involved Ministers and agencies establish the appropriate governance arrangements to support decision making and cross-agency involvement.

41. There are three requirements for a successful transition to the proposed NGO contracting solution:

- a. Education and training in the new framework and outcome contracting – both for those who have participated in this demonstration project and those outside it, including both government agencies and NGOs;
- b. Implementation of technology platforms to assist co-ordinating audit activity and, increase collaboration and information sharing across government;
- c. Phased timeframe – phasing of the implementation to align with the development of capability and capacity within the government agencies and the NGO sector to operate under the new contracting framework.

Simple governance and strong accountability for the BPS Seed Fund

42. There is a need for strong governance and accountability around the BPS Seed Fund, given that agencies will be managing the funding on behalf of Ministers. At the same time, governance also needs to be simple to not cause any delays in decision making and action. The governance and reporting arrangements for the BPS Seed Fund are designed to give Ministers and chief executives confidence in the use of the BPS Seed Fund.

43. I propose that Cabinet sets the overall funding limit at \$20 million per annum for a four year period. Within that limit I approve the amount of departmental underspends retained from the 2012/13 year-end accounts. In considering approval of the use of underspends, I will consider alternative options such as the use of the Budget allowances. To ensure good use of the funding, the Minister of Finance, the Minister of State Services and the Associate Ministers of Finance will approve the prioritisation and allocation of the BPS Seed Fund, including appropriations, conditions and expectations.

44. Proposals to receive BPS seed funding are recommended by central agencies on behalf of the wider public services. Central agency chief executives are responsible for ensuring that the BPS Seed Fund is prioritised towards widely supported initiatives that speed up BPS reforms.

45. The Treasury, on behalf of the central agencies, would be responsible for managing the BPS Seed Fund, including to:

- a. assess the BPS Seed Fund applications
- b. set out the expectations and conditions for lead and participating agencies
- c. report to Ministers and chief executives every six months on the allocation of the BPS Seed Fund
- d. monitor the progress of funded initiatives.

46. The chief executive of the lead agency for approved initiatives and funding are responsible for reporting to the Treasury as required, including every six months and at completion, and for ensuring that expectations and requirements are met. To minimise administration and reporting costs, these are aligned with other reporting requirements, e.g. for the BPS result areas. Expectations may include that agencies to the extent possible factor potential ongoing costs into their four-year planning.

Consultation

47. Departments have had the opportunity to provide input into the BPS Seed Fund proposal and they have shaped the solution. Departments support the proposal, as there is currently significant transactional effort and cost in sorting out club funding efforts that represent a relatively small component of total Government spend. It is a workable solution to ensure momentum is maintained on BPS projects.

Financial Implications

48. A small part of the departmental underspends returned to the Crown at 2012/13 year-end can be retained for the BPS Seed Fund. Current arrangements continue regarding departments returning baseline underspends to the Crown, including surplus retention and expense transfers. Departments do *not* need to reprioritise their current baseline spending, apart from the Treasury to manage the BPS Seed Fund. The Treasury is contributing funding for the Optimise Finance initiative within existing baselines.

49. The departmental and sector use of underspends do not impact on allowances. Current arrangements are unaffected by the BPS Seed Fund, including that the Justice

Sector underspends that are not retained by agencies are returned to the Justice Sector Fund (SEC Min (12) 4/4 refers).

50. While there is no impact on the Budget allowances, spending of the 2012/13 underspends returned to the Crown has a negative impact on the Government's fiscal objectives, including returning to surplus in 2014/15, and will be reflected in the fiscal forecasts. The returned underspends funding source is therefore a temporary measure. There is no fiscal impact of the specific initiatives funded from the BPS Seed Fund, once the fiscal impact of the retained 2012/13 underspends has been factored into the fiscal forecasts. I expect the Treasury to provide me with alternative options for replenishment of the BPS Seed Fund, as part of their advice when I am considering approval of underspends (up to the \$20 million per annum limit). Alternative options include the use of the Budget allowances. By Budget 2016 the Treasury, in collaboration with other agencies, will review the BPS Seed Fund, including options for making it enduring. If there is continued value from the BPS Seed Fund mechanism, it will need to be replenished by other means such as agency baselines. I expect the on-going implementation costs to be covered within existing baselines, not by the BPS Seed Fund.

51. This paper includes appropriation changes totalling \$7.291 million across the forecast period for further development of Optimise HR, Optimise Finance and NGO contracting. These are the first allocation of the BPS Seed Fund. Departments estimate a total of around \$8 million per annum for the development of the priorities Results 9 and 10 and all-of-government ICT business cases.

52. Most calls on the BPS Seed Fund are likely to be across financial years. To best manage work across financial years, the transfers of under-spent appropriations may be needed. This paper seeks agreement that for the appropriations approved from the BPS Seed Fund any amounts unspent in a financial year can be transferred to the following financial year if approved by joint Ministers. Given that the BPS Seed Fund aims to speed up changes, I would consider a request for transfers with concern as this indicates delays.

Human Rights, Legislative Implications, Regulatory Impact Analysis, Gender Implications and Disability Perspective

53. This paper has no human rights, legislative or gender implications. It does not require a Regulatory Impact Analysis or a disability perspective.

Publicity

54. Current practice is to make BPS papers publicly available on the BPS website, hosted by the State Services Commission, when ministerial decisions have been made. To ensure implementation of Ministers' decisions, the Central agencies will provide direction and guidance as needed e.g. through circulars. The "Paper 1 BPS Priorities for 2013" has wider interest in demonstrating the Government's BPS reform commitment and expectations. It will be released once potential issues, e.g. commercial sensitivity for the companion papers, have been addressed.

55. For the companion papers the main stakeholders are government agencies. The Head of State Services will inform agency chief executives of all of the papers as relevant for them. The companion papers all include elements under active

consideration by the Government. To not prejudice the development work in these cases public release is most appropriate to wait till Ministers have made decisions on business cases. Business cases are due in July 2013 for "Better use of data" (Paper 4) and in November 2013 for Optimise Finance and Optimise HR (Papers 2 and 3). Pending confirmation that NGO contracting progresses to the next stage, MBIE with social sector agencies will agree appropriate external engagement that links with and leverages agencies' other work and engagements with NGOs (Papers 2 and 3).

56. For this 'BPS Seed Fund' paper, the Corporate Centre will ensure that material is available to enable agencies to apply for the funding. This includes updating the information currently available on the Treasury website for the Innovation Fund.

Recommendations

57. I recommend that the State Sector Reform and Expenditure Control Committee:

Establishing and operating a BPS Seed Fund

1. **agree** to establish a Better Public Services (BPS) Seed Fund:
 - 1.1 to speed up the development of collaborative BPS reform priorities, with on-going delivery costs being outside the scope;
 - 1.2 funded from departmental 2012/13 only year-end underspends returned to the Crown, with a limit of \$20 million per annum over the next four years;
2. **note** that the use of 2012/13 only underspends impacts on the surplus and will be reflected in the fiscal forecasts, but that:
 - 2.1 there is no impact for agencies, their baselines or the budget allowances;
 - 2.2 there is no fiscal impact of the specific initiatives funded from the BPS Seed Fund, once the fiscal impact of the retained 2012/13 underspends has been factored into the fiscal forecasts;
3. **delegate** the authority, subject to a \$20 million per annum limit, for:
 - 3.1 the Minister of Finance to approve the amount of 2012/13 only departmental underspends retained, considering alternatives e.g. Budget allowances;
 - 3.2 the Minister of Finance, the Minister of State Services and the Associate Ministers of Finance to approve the prioritisation and allocation of the BPS Seed Fund, including appropriations, conditions and expectations;
4. **direct** the Central agency chief executives to recommend the priorities and best use of the limited BPS Seed Fund, aligned with ministerial BPS priorities and with commitment and wider support of chief executives;
5. **direct** the Treasury, on behalf of the Central agencies, to manage the BPS Seed Fund, including to:
 - 5.1 assess the BPS Seed Fund applications;
 - 5.2 set out the expectations and conditions for lead and participating agencies;

- 5.3 report to Ministers and chief executives six monthly on the allocation of the BPS Seed Fund;
 - 5.4 monitor the progress of funded initiatives;
 - 5.5 review the BPS Seed Fund by Budget 2016 in collaborations with other agencies, including options for funding from 2017/18 if it is providing continued value;
6. **direct** the lead chief executive for approved BPS Seed Fund initiatives and funding to report to the Treasury as required, including six monthly and at completion, and to ensure that expectations and requirements are met;

High priorities and "ready to go" initiatives

7. **endorse** as high priorities for the BPS Seed Fund the development of:
- 7.1 Results 9 and 10 to improve interaction with government for businesses and New Zealanders;
 - 7.2 Business cases for all-of-government ICT;
8. **agree**, subject to paragraphs 1 and 3 above, that the following initiatives receive BPS Seed Fund funding totalling \$7.291 million over the forecast period:
- 8.1 Optimise Finance;
 - 8.2 Optimise HR;
 - 8.3 NGO contracting – transition to new framework;
9. **approve**, subject to paragraphs 1 and 3 above, the following changes to appropriations as the first allocation against the BPS Seed Fund, with a corresponding impact on the operating balance;

Ref	Initiatives	\$m – increase / (decrease)				
		2012/13	2013/14	2014/15	2015/16	2016/17
8.1	Vote Finance Minister of Finance Departmental Output Expense: Financial Operations (funded by revenue Crown)	0.750	1.036	-	-	-
8.2	Vote Internal Affairs Minister of Internal Affairs Departmental Multi-class Output Appropriation: Information and Technology Services MCOA Output class: Cross-Government Service Delivery and ICT Investment Proposals (funded by revenue Crown)	0.750	1.365	-	-	-

8.3	Vote Economic Development Minister for Economic Development Departmental Output Expense: Sectoral Leadership, Firm Capability and Regional Development Operational Policy, Ministerial Servicing and Crown Entity Monitoring (funded by revenue Crown)	0.300	1.000	1.020	1.070	-
	Total Operating	1.800	3.401	1.020	1.070	-
	Total Capital	-	-	-	-	-

10. **agree** that the changes to appropriations for 2012/13 above be included in the 2012/13 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
11. **agree** that for the appropriations approved from the BPS Seed Fund any amounts unspent in a financial year can be transferred to the following financial year;
12. **authorise** the Minister of Finance and the relevant Minister responsible for the appropriation to jointly approve the transfer of under-spent appropriation in one year to the next financial year, following completion of that year's audited financial statements, with no impact on the operating balance.



Hon Bill English
Minister of Finance

Date: 5.3.13



Hon Dr Jonathan Coleman
Minister of State Services

Date: 5.3.13

Consultation on Cabinet and Cabinet Committee Submissions

Certification by Department:

Guidance on consultation requirements for Cabinet/Cabinet committee papers is provided in the CabGuide (see Procedures: Consultation):

<http://www.cabguide.cabinetoffice.govt.nz/procedures/consultation>

Departments/agencies consulted: The attached submission has implications for the following departments/agencies whose views have been sought and are accurately reflected in the submission:

All departments have been consulted. Particularly, the Ministry of Business, Innovation and Employment and the Department of Internal Affairs have contributed to the development.

Departments/agencies informed: In addition to those listed above, the following departments/agencies have an interest in the submission and have been informed:

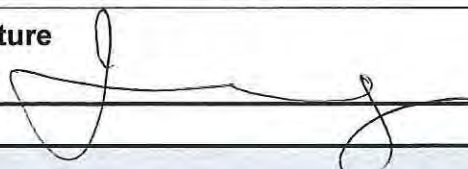
Others consulted: Other interested groups have been consulted as follows:

Name, Title, Department: Jolanda Meijer, Manager The Performance Hub, The Treasury

Date:

4/3/ 2013

Signature



Certification by Minister:

Ministers should be prepared to update and amplify the advice below when the submission is discussed at Cabinet/Cabinet committee.

The attached proposal:

Consultation at Ministerial level



has been consulted with the Minister of Finance
[required for all submissions seeking new funding]



has been consulted with the following portfolio Ministers: Health, Justice, Education, Police, Social Development, ICT



did not need consultation with other Ministers

Discussion with National caucus



has been or ☐ **will be** discussed with the government caucus



does not need discussion with the government caucus

Discussion with other parties



has been discussed with the following other parties represented in Parliament:

☐ Act Party

☐ Maori Party

☐ United Future Party

☐ Other [specify]



will be discussed with the following other parties represented in Parliament:

☐ Act Party

☐ Maori Party

☐ United Future Party

☐ Other [specify]



does not need discussion with other parties represented in Parliament

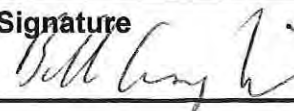
Portfolio

Finance

Date

5 / 3 / 13

Signature



If this form covers two pages ensure that both certification sections are completed and attached at the back of the Cabinet/committee submission