

Chair  
Cabinet Business Committee

## **Summary of the Findings of the Expenditure Review of Employment Relations in the State sector**

### **Proposal**

- 1 This paper summarises and puts into context the key findings of the Expenditure Review on Employment Relations Arrangements in the State sector. It sets out proposals for enhanced support for Ministers, increased co-ordination of central agencies and enhanced risk management strategies, to improve the effectiveness of the management of employment relations in the State sector.

### **Background**

- 2 The review was commissioned in February of this year in light of the significant fiscal impacts and industrial risks associated with wage bargaining in the State sector and Ministers' interest in ensuring that effective processes are in place to manage these issues.

### **Key Areas for Improvement**

- 3 In considering the areas for improvement, three overarching themes emerged under which the recommendations are grouped. The recommendations of the review have been distilled from the analysis of the current state of employment relations and the statutory, policy and operational frameworks under which it operates.
  - **Theme One - Enhanced support for Ministers and state employers** - enriching the quality of the information and analysis provided to Ministers and employers, and;
  - **Theme Two - Increased collaboration and co-ordination** - improving the degree of collaboration at three levels – of and between State employers, of and between central agencies, and of and between members of the Executive, and;
  - **Theme Three - Enhanced risk management and monitoring** - placing greater focus back on the accountability framework to provide greater assurance as to accountability for employment relations outcomes.
- 4 Through a range of improvements in the above areas, a significantly improved foundation for the development and implementation of an integrated employment relations strategy will be developed. This will improve both employment relations outcomes and the levels of confidence that Ministers and employers have as to the way in which the current arrangements are operating.

### **Theme One - Enhanced Support for Ministers and Employers**

- 5 The need for enhanced support for Ministers and State employers was clear and there is a range of ways and means this will be delivered. The revitalised Ministerial Reference Group (MRG) is a key, but not exclusive, vehicle for ensuring that Ministers have

confidence both that employment relations processes are being followed and they are receiving information, analysis and advice in a form which they can use to make decisions in a timely manner.

- 6 Improved support for Ministers and State employers will also include reviewing the Bargaining Parameters and having greater central agency review of the setting of organisation budgets and business cases for pay/capability.

### **Theme Two - Increased Collaboration and Co-ordination**

- 7 Increased co-ordination of the central agencies in particular will help to address many of the issues relating to the practical operation of the legislative framework (the budget fixing process, bargaining parameters, the setting of organisation budgets and reviewing business cases for pay/capability and monitoring). It will also improve, in a more deliberate way, the relationships between key players such as SSC, Treasury, DPMC and, in turn, their relationships with the State employers and unions.
- 8 Collaboration and co-ordination of and between State employers will assist with overall strategy development and implementation of strategies to advance employment relations and people capability initiatives. Enhanced collaboration and co-ordination of the Executive of Government will assist information and intelligence sharing and strategy development across portfolios and assist in Ministers' judgements about setting and allocating contingencies as well responses to "hot spots".

### **Theme Three - Enhanced Risk Management and Monitoring**

- 9 Placing a greater focus on the Public Management System accountability framework can assist in many areas. This means ensuring that there are appropriate and robust mechanisms in place to provide assurance that there is real accountability for outcomes being achieved and in keeping with the stated objectives.
- 10 By adding a degree of rigour to the current framework through proactive monitoring and probing, while respecting the independence of the roles, a greater level of confidence that the framework is operating as originally intended can be provided. This impacts in a range of areas including:
  - the budget fixing process and fiscal assurance;
  - the operation of the Bargaining Parameters;
  - setting organisation budgets;
  - reviewing business cases for pay/capability and monitoring;
  - the performance management system for Public Service Chief Executives;
  - clarifying the respective roles of SSC, Treasury, DPMC, State employers and unions.
- 11 A "tightening" of these elements will contribute to better management of process and outcomes and will help to manage and control the potential slippage and associated wage/conditions creep that can occur with less stringent processes.

## **Consultation**

- 12 The Treasury, Department of Prime Minister and Cabinet, and the Department of Labour were consulted in the preparation of the full report.

## **Financial implications**

- 13 There are no financial implications arising from this review, with the associated resourcing implications for SSC having been absorbed into existing baseline.

## **Human rights**

- 14 There are no Human Rights implications arising from this review.

## **Legislative implications**

- 15 There are no legislative implications arising from this review.

## **Regulatory impact and compliance cost statement**

- 16 There is no regulatory impact or compliance cost statement associated with this review.

## **Gender implications**

- 17 There are no gender implications arising from this review.

## **Publicity**

- 18 Officials will liaise with my office concerning any communications arising out of this review.

## **Recommendations**

- 19 The following recommendations are made to achieve the improvements outlined in the Review under the three overarching (and inter-related) themes. It is recommended that the Cabinet Business Committee:

### **Theme One - Enhanced Support for Ministers and State Employers**

- 1 **note** SSC will develop a risk assessment framework upon which to base decisions about when, how and in respect of which agencies the various levers of influence/intervention could be activated;
- 2 **note** SSC will develop means to increase intelligence gathering across the State sector as a whole and for targeted reporting on sectors or agencies that feature highly in terms of risk or potential impacts in relation to agency performance and public expenditure;

- 3 **direct** SSC in collaboration with Treasury to develop quarterly reports for MRG which:
  - provide a State sector market overview;
  - identify major risk areas;
  - report on the central agencies response;
  - recommend a Ministerial response.
- 4 **direct** SSC and other central agencies as appropriate to develop strategic employment relations options/practical alternatives and containment strategies for Government to address risks associated with State services employment relations;

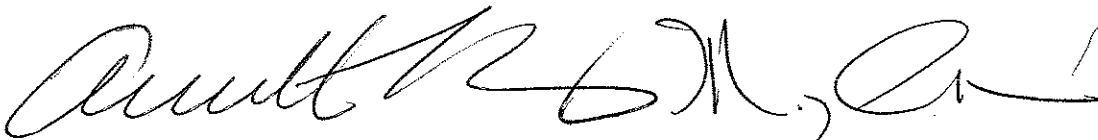
#### **Theme Two - Increased Co-ordination**

- 5 **note** that SSC and Treasury will be working more closely together at all levels to ensure consistent messages and better integration of information sharing around employment relations risks, opportunities and appropriate responses;
- 6 **direct** SSC to work with State employers to develop a more co-ordinated employment relations strategy (on a collaborative not mandated basis) that is both consistent with the higher level Government strategy and appropriate as a response to operational employment relations issues at agency level;
- 7 **note** that SSC will continue to develop new means to facilitate co-operative/collaborative operating within the sector;
- 8 **note** that SSC and Treasury will review the current remuneration pressures process in consultation with departments and PSA to ensure alignment with other related processes and to ensure maximum benefit from the process and recommend any changes required;
- 9 **note** that SSC and DPMC will jointly consider means of ensuring Ministers are aware of emerging employment relations risks and issues within and across portfolios;

#### **Theme Three - Enhanced Risk Management and Monitoring**

- 10 **direct** SSC to review the Bargaining Parameters and existing delegations, in consultation with key stakeholders, to clarify and support any necessary adjustment to the responsibilities and accountabilities of all players, and in particular to review decision making processes around funding for improvements in terms and conditions of employment, and to report the results of this work to the Ministerial Reference Group;
- 11 **note** that SSC will develop an employment relations bargaining process map to clarify expectations of the respective roles/responsibilities of the parties;
- 12 **note** that SSC and Treasury will develop a budget bid/capability bid process map to assist departments both to submit business cases and bids and to understand the respective roles in that process and the likely assessment criteria that will apply;
- 13 **direct** SSC to develop an explicit bargaining feedback loop on improvements in performance/achievement of outcomes through bargaining and employment relations interventions;

- 14 **note** that the EXG review of Crown Entity monitoring arrangements will provide information to Ministers by the end of February 2007 on the extent to which departmental monitoring of Crown Entities includes monitoring of employment relations risks;
- 15 **note** that in this respect the EXG review of Crown Entity monitoring arrangements will not cover Health and Education entities whose employment relations are already monitored under existing statutory arrangements by the Director-General of Health and the Secretary of Education;
- 16 **direct** SSC to provide advice to the Minister of State Services, within a timeframe to be agreed, on the options available to increase Ministerial oversight of Crown Entity employment relations;
- 17 **note** that SSC will develop options for increasing employment relations capability/capacity in the State sector.



Hon Annette King  
Minister of State Services

Hon Dr Michael Cullen  
Minister of Finance