



09/82485

4th February 2009

Hon Kate Wilkinson, Responsible Minister for the Department of Labour

## **Budget 2009 – Report on Departmental Overheads and Corporate Services**

### **Purpose**

1. Cabinet has directed that Chief Executives of all Departments that administer Votes carry out a review of expenditure in those Votes [CAB Min (09)1/1, CBC Min (08) 32/6 refers] refers. It has further directed that Departments that administer more than one Vote are required to report to the Responsible Minister for the Department on matters relating to departmental overheads and corporate services. This report fulfils this requirement.

### **Background**

2. Chief Executives are required to report on these reviews to their Minister(s) by 5 February 2009. Individual Ministers are to forward the review reports to the Minister of Finance. The Responsible Minister is required to forward the overheads and corporate services report.
3. The Department adopted the following approach to its expenditure reviews:
  - Setting the current 2009/10 Vote baselines as the foundation for each Vote review;
  - Identifying savings in the designated savings categories within each Vote on an output basis;
  - Identifying opportunities for further savings and operational improvements through more considered reviews and initiatives to be undertaken as a priority. These longer term Internal Value for Money (VfM) reviews are to be completed as soon as possible and no later than the end of the second quarter of 2009/10;
4. This report sets out how the Department of Labour manages its overheads and corporate services and its immediate response for associated savings for Budget 2009. It also outlines the Internal Value for Money review, Corporate Model Implementation, which will be undertaken to deliver more efficient and effective services.

### **Department of Labour overhead cost allocation**

5. The Department uses an allocation model to assign overhead costs to the outputs in its four Votes. The central support groups Corporate, Legal and the Executive Branch provide services across the Department that are funded by these outputs. There are also support and managerial cost centres within

Operational Workgroups which are allocated across the outputs of the Workgroup.

6. Appropriations are fully costed to reflect the total cost of the service, including the direct and indirect costs of delivering that service. The allocation model also allocates staffing numbers or Full Time Equivalents (FTEs).

#### **Overhead and Corporate Savings Identified for Budget 2009**

7. The Department of Labour has identified total gross Departmental savings of \$16.899m for Budget 2009 in its expenditure reviews. \$1.262m of these savings come from overheads and support areas as follows:

<b>Savings Category</b>	<b>\$000</b>
Travel	52
Consultants and contractors	178
Staff numbers through attrition and holding open vacancies	474
Discretionary project work	238
Reduction in service levels/advisory work	320
<b>Total</b>	<b>1,262</b>

#### **Capability/Ownership funding**

8. The Department is part way through a significant programme of work to upgrade its whole of Department systems. This 3-5 year programme replaces failing technology and implements new systems and processes that support the central capabilities required in the Department.
9. This Foundation Capabilities Programme (FCP) includes the investments outlined in the table below. Provision has been made for the capital requirements for this programme in the Department's capital plan. The Department's Ministers have agreed to fund the associated operating costs from savings identified in Budget 2009. FCP initiatives include:
  - *Financial Management Information System (FMIS)* – Replacement of the Department's ageing and unreliable FMIS which is a barrier to improving the financial management of the Department.
  - *Human Resources Management Information System (HRMIS)* – Upgrading of the system to provide much needed functionality in health and safety and web-based training.
  - *Electronic Document and Records Management System (stage 1) – (EDRMS)* – The replacement of the existing EDRMS which is failing and is no longer supported.
10. The additional operating costs of these investments (shared across all Votes administered by the Department of Labour) are:

	2009/10 \$000	2010/11 \$000	2011/12 \$000	2012/13 \$000
<b>Capability/ Ownership funding</b>	876	751	1,068	1,999

### Capital Position

11. The Department's existing capital programme is \$42m over the next 2 years. \$25m of the 2 year capital programme is fixed and cannot be reprioritised. This consists of \$14m of the Information Technology component and the \$10.8m Leasehold Improvements component in the following table.

Capital Programme	\$m
Information technology	27.7
Leasehold Improvements (buildings)	10.8
Motor Vehicles	2.6
Other	0.6
<b>Total</b>	<b>41.7</b>

12. The Department's capital programme has been reviewed as part of the Budget 2009 process with the following outcomes:
- release of a further \$6.0m of capital from the Department's balance sheet to part fund essential maintenance for the Application Management System (AMS). *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].*
  - a reduction in the planned commitment of \$2.5 million to refurbish National Office in Wellington. This will release further capital to support urgent and high priority areas; and
  - an assessment that the Department's existing capital base and future capital funding flows are committed to maintaining existing operations. Options to reprioritise additional capital expenditure are therefore limited and significant additional capital projects will require external funding.
13. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

### Corporate Value for Money Initiatives

14. The Department of Labour has been running an Economy Project since 2006 to identify where the Department can reduce input costs and implement changes in procurement processes to achieve savings.

15. The Project targets the following areas:
- Travel
  - Photocopying, printing and stationery
  - Electricity
  - Freight Courier and postage
  - Information systems and telecommunications
  - Staff recruitment
  - Consultants and contractors
  - Office furniture
  - Motor Vehicles
  - Office equipment
16. Savings achieved from the project's inception in April 2006 to November 2008 total \$4.577m as detailed in the following table. To date these savings have been used for other priority initiatives rather than being returned to a central pool.

Target areas	Savings (\$000)
[deleted – commercial position]	
[deleted – commercial position]	
[deleted – commercial position]	
[deleted – commercial position]	
[deleted – commercial position]	
[deleted – commercial position]	
[deleted – commercial position]	
[deleted – commercial position]	
[deleted – commercial position]	
[deleted – commercial position]	
[deleted – commercial position]	
[deleted – commercial position]	
<b>TOTAL</b>	<b>4,577</b>

17. The Department continues to run the Economy Project to realise further efficiencies and savings.
18. The Department is implementing centralised recruitment processes through its new Career Centre that makes use of new on line technology. This will streamline the recruitment process and reduce the need for external recruitment consultants. New standard 'whole of department' branding has also been implemented to improve efficiency and effectiveness. In the limited cases where recruitment consultants are used, new preferred supplier agreements have been negotiated to ensure efficiencies are achieved.
19. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

## **Recommendation**

- 1 It is recommended that you:  
**Note** the contents of this report.

**Noted**

Christopher Blake  
Secretary of Labour