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## M Memorandum

**To:** Prime Minister

**From:** Maarten Wevers

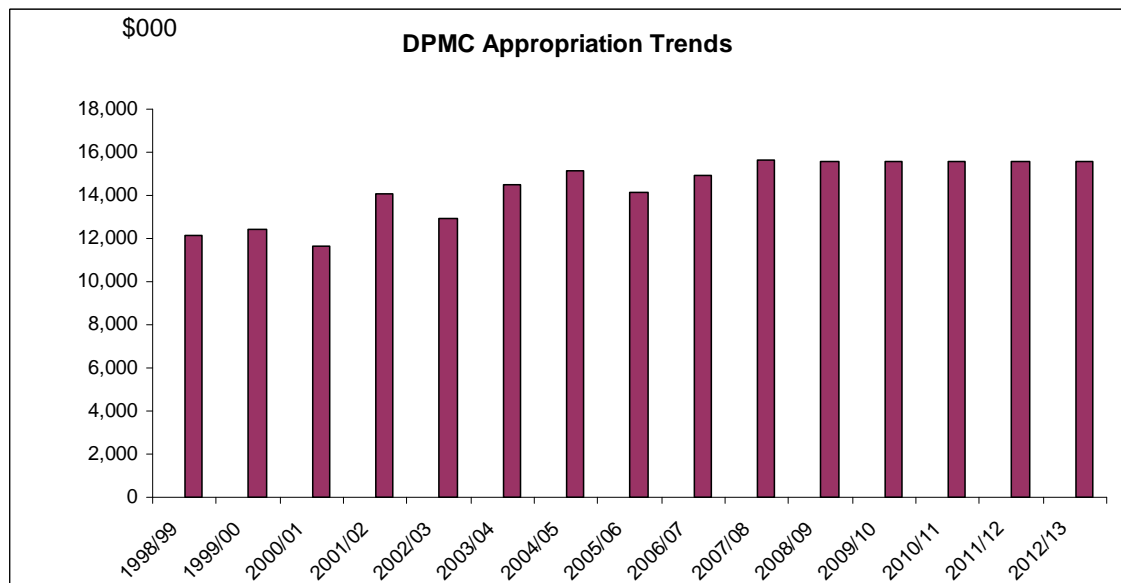
**Date:** 2 February 2009

**Subject:** *Vote: Prime Minister and Cabinet: Budget Review 2009*

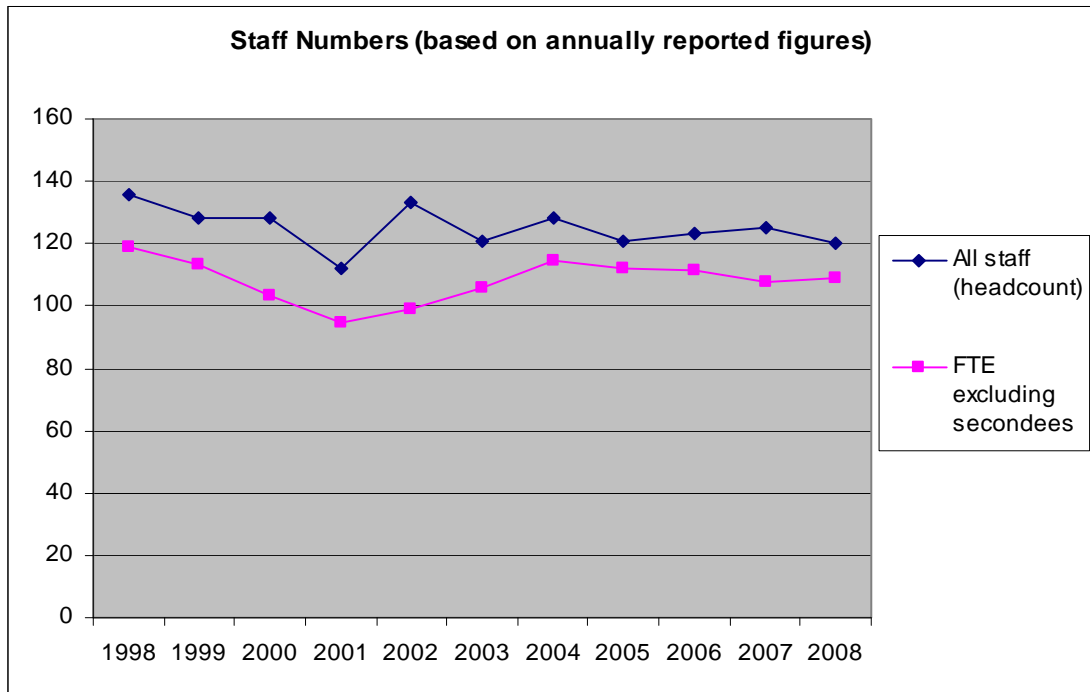
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### *Background*

1. DPMC is a very small agency that provides advice, support and coordination services to the Prime Minister, the Governor-General and members of Cabinet. The 2008/09 departmental appropriation is \$15.536 million (\$15.646 million in 2007/08). Of this amount 73 per cent is for personnel costs. The department has only 120 staff, and holds few assets (mainly fixtures, fittings, office furniture and IT). Other operating expenses go to accommodation rental, depreciation, photocopying, IT support and travel.



2. DPMC's head count has been stable over recent years, and has only increased slightly when the department has been tasked to convene or host project teams on specific items of priority policy interest to the Government of the day (e.g. House Prices Unit, Seabed and Foreshore Group, Crime Prevention Unit). At the conclusion of these priority projects, the teams have been disbanded and any ongoing responsibilities transferred to other departments. DPMC also benefits from the services of 3.5FTE staff who are made available on secondment at no cost to DPMC. The median salary in the department is \$63,000.



3. The department administers Crown appropriations for a) depreciation for the Governor-General's official residences in Wellington and Auckland (\$765,000); b) the Commissioner of Security Warrants (\$47,000); c) the Governor-General's remuneration and travel (\$1.161 million); and d) capital investment in Government House Wellington (\$6.65 million in 2008/09, which is part of a \$48.4 million appropriation over four years for the renovation and conservation of the residence).

#### *Scope for Savings within the Vote*

4. We would be pressed to make savings from within a vote of this size that did not impact negatively on support available to executive government. We already act prudently, and we always have done, to remain within budget. We intend to hold total personnel costs this year i.e. implement a zero increase in remuneration across the board this year. Currently, we are forecasting a small surplus for the current financial year, but a deficit of \$231,000 for 2009/10. Further savings will be required to absorb that deficit.
5. Most of DPMC's operating costs are not easily avoided – rent, photocopying, depreciation, Government House maintenance and gardening costs etc. They need to be managed tightly. We can see room for some reduction in the scope of the Government House conservation project, if Ministers wish to pursue that option (see para. 11 below). Otherwise, any savings next year would have to be drawn from reduced staffing levels across the organisation. As all of DPMC's business units are very small, there is a risk that reductions in staffing levels will impact on level of

service. Maintaining an appropriate but highly targeted and professional staff mix and level support for you and the Governor-General, and Ministers, is we believe an important part of allowing the Government to carry forward its agenda. We do not see scope for sensibly transferring roles to other entities, although we will continue to pursue options for sharing some back-office functions with the other central agencies. See **appendix one** for a breakdown of the major expenditure groups across the DPMC business units.

6. In recent years, we have generally sought extra room to stay within our appropriation by carrying vacancies for short periods between staff appointments. Currently, three business units are carrying vacancies.

- (i) Policy Advisory Group (PAG)

Recruitment is underway to replace advisors whose contracts concluded late last year or – in one case - will leave shortly. The PAG workload is such that a long period where the load is shared amongst a diminished group of advisors is not sustainable or desirable. It will result in lesser service. The PAG has only a dozen advisors who must be able to cover all aspects of the government's agenda, and help you drive your programme.

- (ii) External Assessments Bureau (EAB)

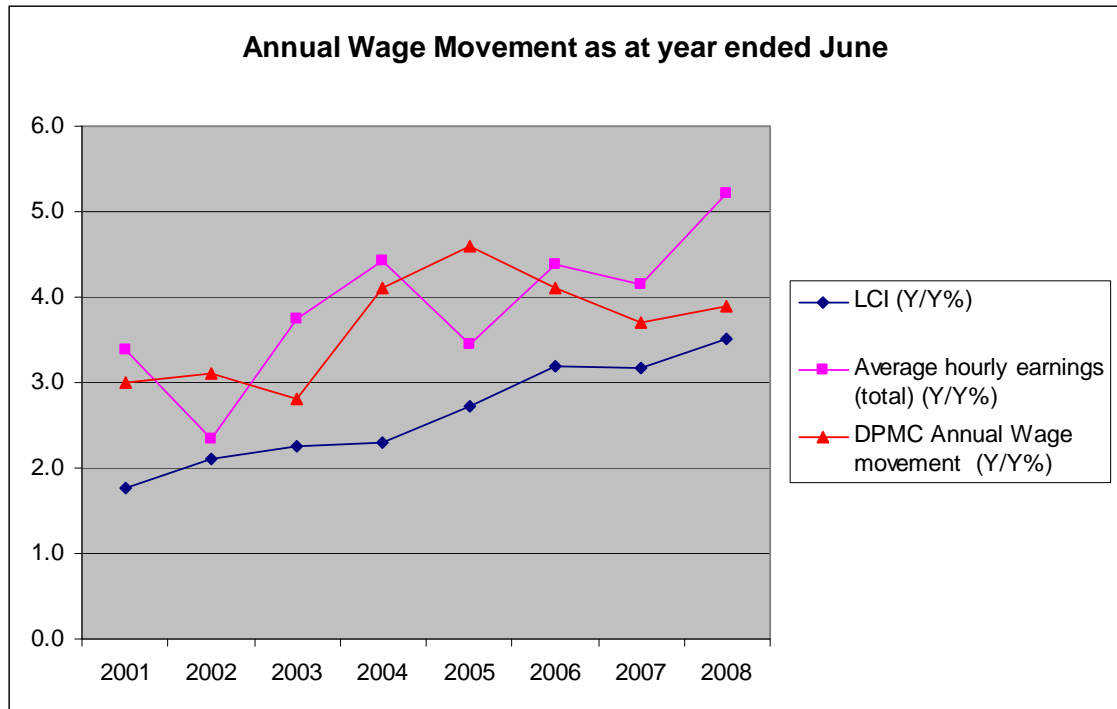
Long lead times (due to security clearance process) have provided some short term savings in recent times, but given the current work programme of the Bureau, anticipated staff turnover, lead times in bringing analysts to a competent standard, a reduction in the staff complement through holding vacancies long-term would risk the effectiveness and reach of the EAB operation.

Both the PAG and EAB are generating sayings to stay within this year's budget.

- (iii) Government House

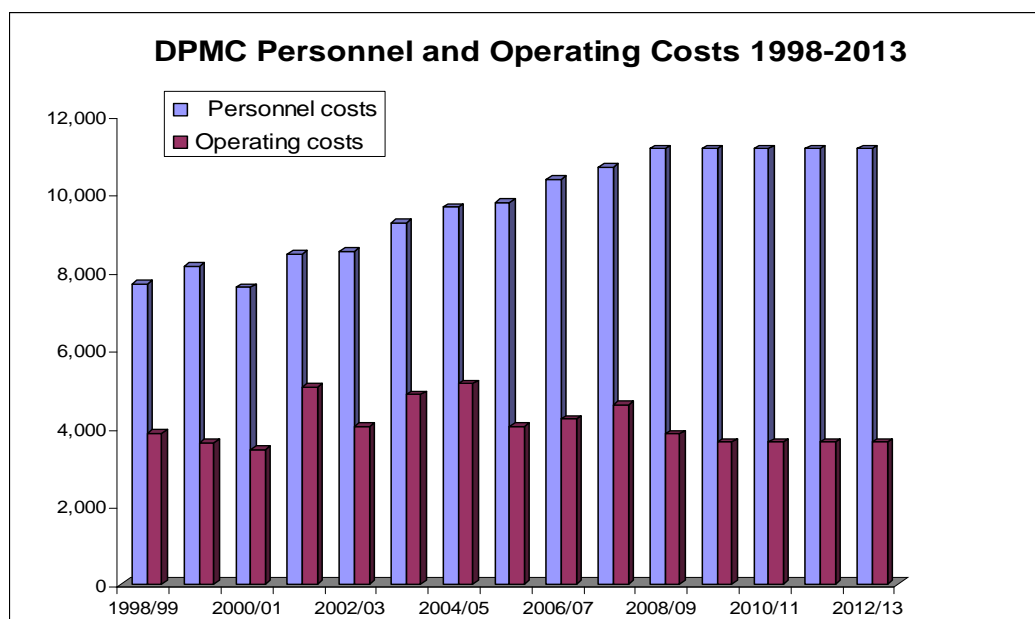
Due to the Government House conservation project staffing levels have been able to be reduced. These are mainly lower waged workers, some of them part-time and others who have been on contract. It is intended to review staffing requirements prior to the re-opening of the House in 2011.

7. The department reviews staff performance on 30 June each year. Remuneration and performance pay are assessed at the same time. Maintaining our pay rates at levels which are competitive in the marketplace has been the challenge for recent years.



This year we are proposing no general increase in salary levels. Given the serious circumstances we currently face, my senior management team has proposed that there be no increase in their pay this year, which is most welcome. We shall also be holding total remuneration for staff across the department to as close to zero as we can. There is currently no collective contract for PSA staff working in DPMC, although an approach to open discussions has been made in the last few days. Union membership levels are very low (16 out of 120 staff).

8. A salary freeze in 2009 would achieve up to \$300,000 in savings in 2009/10 (only). Reductions to current staffing levels would be necessary to stay within an unaltered appropriation next year. As you will see from the following graph, we have held operating costs tightly in DPMC over recent years, and staff levels have declined a little. But we have been less successful in holding personnel costs, as the labour market has been strong, and we have had to move our offer rates to remain competitive. We have in fact lost senior policy staff in recent years because of our salary levels.



Salary and operating costs for the period 2008/09 to 2012/13 are shown as being constant and our expectation is that cost pressures will be absorbed wherever possible.

9. DPMC returned a small surplus of \$28,000 to the Crown at 30 June 2008 (and \$46,000 at 30 June 2007). Provided we can hold costs in the current year and absorb the forecast deficit, we shall remain within our estimate.
10. Because we had been served notice on a lease we have for space we currently occupy in the Reserve Bank Building, we had been planning to relocate EAB, Corporate Affairs, Domestic and External Security Group, and the Honours Secretariat to a single floor in the SSC building in the middle of this year. (We had proposed to fund this entirely from existing resources). We have just decided to cancel that move even though it was expected to yield savings in the medium to long term. The estimated fit-out cost for the required security facilities for the planned move came in at more than double what we had been indicated. We now propose to occupy a reduced area within the Reserve Bank Building for the floors we are able to retain, and will seek alternative accommodation for the Honours Secretariat.

### *Government House Project*

11. As you know, the department is responsible for the renovation and conservation of Government House Wellington. The main contract has been let and a commitment of \$22 million has been made. This is for work on the centrepiece of the conservation project – the renovation and conservation of the main house. A sum of \$48.4 million was approved in the 2008 Budget for the entire project. Should Ministers wish to

review and reduce the scope of the project then savings would be possible. A preliminary estimate of those savings arising from a reduction of scope suggests something between \$500,000 and \$5.7 million over three years.

### *Conclusion*

DPMC will operate within its current budget for the current year, and does not have any cause to seek any emergency funding. In the event we were asked to take on new responsibilities (e.g. Office of Treaty Settlements) then additional funding might be required.

DPMC currently stays within its appropriation by prudent cost control and by managing staff expectations about remuneration increases. We also restrain starting salaries for new staff and achieve savings from periods between staff departures and arrivals. Savings could be achievable in 2009/10 by foregoing the annual remuneration review and reducing staffing levels, if there were interest. However, as pointed out above this approach has its service risks. Management will continue to apply restraint on expenditure at all levels, but particularly personnel expenditure, to stay within our current estimate.

### **Recommendations**

I recommend that you

- (i) note the contents of this paper
- (ii) agree that this paper be forwarded to the Minister of Finance

Maarten Wevers  
Chief Executive

Recommendations approved / not approved

Hon John Key  
Prime Minister

**Appendix 1: 2008/09 DPMC INTERNAL BUDGETS BY COST CENTRE**

	2008/2009 BUDGET					
	PERSONNEL	OPERATING	CORPORATE OVERHEADS	DEPRECIATION	CAP CHARGE	TOTAL
<b>OUTPUT 1-POLICY ADVICE</b>						
CORP	1,701,208	435,480	(2,253,367)	116,678	12,935	12,935
CAB	1,841,953	301,765	524,640	33,697	3,736	2,705,790
HON	235,789	246,548	100,284	7,465	828	590,914
DESG	925,235	220,341	300,884	17,994	1,995	1,466,450
ADV	2,474,886	358,686	721,796	18,148	2,012	3,575,527
COMMS		5,000				5,000
	7,179,070	1,567,820	(605,762)	193,983	21,505	8,356,616
<b>OUTPUT 3-EAB</b>	2,251,751	724,664	411,529	99,628	11,045	3,498,616
	2,251,751	724,664	411,529	99,628	11,045	3,498,616
<b>TOTAL</b>	<b>9,430,820</b>	<b>2,292,484</b>	<b>(194,233)</b>	<b>293,610</b>	<b>32,550</b>	<b>11,855,232</b>
<b>OUTPUT 2- GOVT HOUSE</b>						
GOVT HOUSE	1,721,247	1,341,745	194,233	116,525	20,250	3,394,000
GOVT HOUSE project	0	200,000				200,000
	1,721,247	1,541,745	194,233	116,525	20,250	3,594,000
CEO reserve	86,769					86,769
<b>TOTAL VOTE</b>	<b>11,238,836</b>	<b>3,834,229</b>	<b>(0)</b>	<b>410,135</b>	<b>52,800</b>	<b>15,536,000</b>

Corporate overheads are funded internally across the cost centres