

4 February 2009

Hon Tony Ryall  
Minister of State Services

## **Line by line expenditure review**

### ***Purpose***

- 1 The Purpose of this paper is to report to you on the “line by line” expenditure review, undertaken by SSC.

### ***Background***

- 2 The Minister of Finance wrote to all Ministers on 17 December 2008 setting out the priorities and process for the 2009 Budget and the beginning of the value for money process. Mr English’s letter was accompanied by a paper to the Cabinet Business Committee [CBC (08) 563], which specifies that:

“Through the review CEs are expected to identify.....

- a savings that can be freed up for Budget 2009
- b programmes that are inconsistent with this government’s priorities and should be discontinued
- c Programmes that may be inconsistent with this government’s priorities and should be looked into
- d Programmes and expenditure that are not efficient or effective
- e Areas where performance information is insufficient to make judgement about efficiency and effectiveness, and actions agencies should take to make improvements by the next review period.”

### ***Summary***

- 3 The SSC commenced a line by line review of its budget in September 2008, in response to emerging financial pressures.
- 4 By a combination of reprioritisation, reduced outputs and efficiency gains, the SSC identified departmental output class cost reductions from the line by line review amounting to \$6.500 million in 2008/09, to \$3.486 million in 2009/10 and \$3.236 million in out years.
- 5 As a result of the financial pressures set out below, SSC is unable to free up any further departmental savings in 2008/09. In fact, given the urgency of the financial situation relating to the Government Shared Network (GSN), SSC

requested supplementary funding for both 2008/09 and 2009/10, effectively an “emergency pressures” bid that was agreed by Cabinet on 2 February 2009.

- 6 After considering the identified financial pressures, SSC is now able to return \$0.286 million of departmental savings in 2009/10, and \$0.036 million in outyears.
- 7 The majority of SSC’s non-departmental appropriations relate to the State Sector Retirement Savings Scheme and Kiwisaver, and are demand-driven. Forecast changes resulting from changes in government policy are discussed in paragraph 15 below.
- 8 SSC also holds a non-departmental appropriation in relation to Chief Executive remuneration. Following a review of this appropriation SSC is able to return \$0.140 million of savings in 2008/09 and \$0.620 million of savings in 2009/10. The 2009/10 savings are funded by departmental revenue.

**Cost reductions identified (2008/09, 2009/10 and out years)**

- 9 The following table sets out the results of the line by line review:

Description	2008/09 (\$'000)	2009/10 (\$'000)	Outyears (\$'000)
Broadband Investment Fund	5,000	-	
Smaller, more focussed GCIO concentrating on standards, professional leadership, value for money and IT monitoring functions		1,426	1,426
Personnel related savings as a result of moving towards a smaller, more focussed Commission	276	929	929
Reduced international and domestic travel	368	306	306
Reduction re Government Logon Service	345		
Reduction in funding to LDC		250	
Recruitment capability development	184		
CE appointment spend deferred from 2007/08	150		
New Zealanders Experience research	120		
Reduced spending on SSRSS	100	150	150
Reduction in the Commission’s research programme	10	100	100

Senior Leadership Development and Employer of Choice strategy evaluation		109	109
Contributions to academic research and tuition		110	110
Composite recruitment advertising	20	-	
Graduate recruitment and internship programme	10	39	39
HR Product maintenance	20		
Pay and Employment Equity related work	5	5	5
Defer MyPSI project	30		
Other efficiency related savings	457	62	62
Less: redundancies and related costs associated with the above savings	(595)		
<b>Total Departmental</b>	<b>6,500</b>	<b>3,486</b>	<b>3,236</b>
Chief Executive remuneration	140	620	-
<b>Total Non-Departmental</b>	<b>140</b>	<b>620</b>	<b>-</b>

### **Financial pressures**

10 The following table sets out a summary of the financial pressures facing SSC:

Description	2008/09 (\$'000)	2009/10 (\$'000)	Outyears (\$'000)
Operating losses and exit of the GSN	9,370	3,730	-
Overhead transfer to DIA relating to the move of the Government Technology Service business	-	2,400	2,400
<i>[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]</i>	<i>[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]</i>	<i>[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]</i>	<i>[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]</i>

<b>Total</b>	<b>9,370</b>	<b>6,930</b>	<b>3,200</b>
--------------	--------------	--------------	--------------

### **Summary financial position**

- 11 The following table sets out the SSC's financial position after the line by line review and CBC decision:

	2008/09 (\$'000)	2009/10 (\$'000)	Outyears (\$'000)
Financial pressures	9,370	6,930	3,200
Identified cost reductions	6,500	3,486	3,236
GSN funding [CBC Min (09) 2/6]	2,870	3,730	-
<b>Available savings (departmental)</b>	<b>-</b>	<b>286</b>	<b>36</b>
<b>Available savings (non-departmental)</b>	<b>140</b>	<b>620</b>	<b>-</b>

### **Detailed response**

- 12 The following are the SSC's specific responses to each item in the Minister of Finance's letter:

**a Savings that can be freed up for Budget 2009**

See Paragraph 11 above

**b programmes that are inconsistent with this government's priorities and should be discontinued (included in paragraph 9 above)**

Broadband Investment Fund: Pilot projects relating to demand aggregation in the health and education sectors.

Pay and Employment Equity: Direct costs of \$5,000 for this work have been included in the savings listed in Paragraph 9. No resources will be allocated to this activity in outyears.

Graduate recruitment and internship programme: Direct costs of \$39,000. SSC will seek a more cost-effective approach to promoting State services as a career option for talented tertiary students.

Partnership For Quality 3: \$10,000 Legal fees; \$8,000 consultancy

**c Programmes that may be inconsistent with this government's priorities and should be looked into**

*[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

**d Programmes and expenditure that are not efficient or effective (included in paragraph 9 above)**

ICT Standards and Architecture: Reduce overall staff levels and increase focus on value for money

Reduce staff levels assigned to use of emergent ICT technologies

**e Areas where performance information is insufficient to make judgement about efficiency and effectiveness, and actions agencies should take to make improvements by the next review period.**

*[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

***Non-departmental output expenses***

***Development of on-line authentication services***

- 13 This appropriation totals \$0.116 million and relates to services provided by the Privacy Commissioner as review body in relation to the authentication programme. This output expense is expected to transfer to Department of Internal Affairs with the Government Technology Services.

***Non-departmental other expenses***

***SSRSS and KiwiSaver***

- 14 These appropriations amount to \$119 million; the cost is demand-driven and has grown each year as uptake of subsidised savings increases. State sector employers must support one or more (as applicable) of the TRSS, SSRSS and KiwiSaver to employees, with employer contributions required to be paid on top of remuneration and not tradable for cash. State sector agencies seek reimbursement from SSC of actual employer contribution costs. The employer contribution to TRSS/SSRSS at 3% plus contribution tax (ESCT) was agreed as a term in some collective agreements, notably for the state school sector.
- 15 An increase in the appropriation for KiwiSaver will be required, to cover the full cost of 2% employer contributions to KiwiSaver from 1 April 2009. Currently most of that cost would be covered by the employer tax credit, which is being removed from 1 April 2009. This increase in cost could be partially offset by savings available from the SSRSS appropriation. SSRSS uptake has ceased with the closure of the schemes to new members during 2008; a gradual decline in membership is evident, leading to a reduction in costs over time. We plan to report to the Minister of State Services on these issues later in the 2009 Budget process.

***Chief Executive Remuneration***

- 16 This appropriation relates to Chief Executive remuneration and employment costs. In 2008/09 it totals \$13.697 million, with \$12.530 million funded by revenue Department. This rises to \$14.368 million in 2009/10 with \$13.150 million funded by revenue Department. Following a review of this budget, the 2008/09 appropriation can be reduced by \$0.140 million (funded by revenue Crown) relating to Chief Executive development, and the 2009/10 appropriation by \$0.620 million (funded by Revenue Department) relating to increased salaries and associated costs.

***Settlement of legal liabilities***

- 17 This appropriation relates to the settlement of a number of claims relating to now disestablished government departments. Given the historical nature of the claims this appropriation was reduced to \$0.006 million at the 2008 October Baseline Update.

***Conclusion***

- 18 The SSC, due to the financial pressures referred to above has already completed a line by line review. This has contributed significantly towards the financial challenges, and has also contributed a total of \$0.140 million savings in 2008/09, \$0.906 million savings in 2009/10 and \$0.036 million in outyears as part of Budget 2009.

Iain Rennie  
State Services Commissioner