The Treasury

Budget 2011 Information Release

Release Document

June 2011

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[2] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[3] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Vote State Services

Four-year Budget Plan

1 December 2010

Submitted by:

The State Services Commission

Section 1: New Baseline and Summary of Changes

Direction of Change

In consultation with the Minister of State Services the State Services Commission has agreed four priority areas for the next three to five years:

1. Higher performing agencies with improved accountability;

2. Ensuring that Public Service chief executives are actively supported to deliver improved performance and are held to account for the delivery of results;

3. Supporting improved frontline service delivery and more efficient operation of the back office in the State Services; and

4. Improving the efficiency of SSC and enhancing the effectiveness of SSC with a focus on improving managerial and staff capability.

To support delivering on these priorities, SSC must identify areas where critical shifts in performance are needed and what activities and supporting capabilities SSC will need to have to bring about these shifts. This will require moving resources to areas with the greatest impact and away from functions SSC needs to do less of.

Where opportunities for working more effectively and efficiently are identified, particularly in SSC's own back office services, SSC will seek to improve its processes. Other activities that are aligned to the Government's priorities but not aligned to the SSC's core business will be considered for transition to service delivery agencies with the expertise to deliver them. This approach is in line with SSC's approach to developing leadership across the Public Service with chief executives assuming responsibility for system leadership in key areas that are naturally aligned to the core functions of their agencies.

In line with this approach SSC will be offering an annual efficiency dividend based on ongoing savings in its baseline.

SSC will be making savings in its non-departmental operating expenses for remuneration and related costs of chief executives. Additional savings are planned through rationalisation of SSC's capital expenditure programme. SSC is preparing advice on options for the SSRSS scheme and the funding of KiwiSaver employer contribution. These options, if adopted, are likely to deliver fiscal savings over the projected period. Details of these items are set out in 'Proposed Changes for Budget 2011' section of this document.

Overall Impact

Operating	Impact ($000s)				
	2010/11	2011/12	2012/13	2013/14	2014/15
Current Baseline	*234,916*	*243,095*	*252,730*	*262,738*	*262,738*
Centralised Savings					
Departmental Operating Expenses Efficiency savings	*(317)*	*(250)*	*(500)*	*(650)*	*(800)*
Non Departmental Operating Expenses Remuneration and Related Employment Costs of Chief Executives[1]	*(422)*	*(757)*	*(510)*	*(257)*	-
New baseline	***234,177***	***242,088***	***251,720***	***261,831***	***261,938***

Capital	Impact ($000s)				
	2010/11	2011/12	2012/13	2013/14	2014/15
Capital proposals seeking decisions in Budget 2011					
Capital proposals seeking decisions in Budget 2011 funded within baselines.	-	-	-	-	-
Reduction in Capital baseline funding in Budget 2011.	*(1,270)*	*(500)*	*(680)*	*(1,700)*	*(1,700)*
Total capital intentions	***(1,270)***	***(500)***	***(680)***	***(1,700)***	***(1,700)***

[1] As the remuneration and related employment costs of chief executives are charged to agencies there will also be a reduction in third party revenue which SSC has not yet quantified, but which will not exceed the level of savings.

Section 2: Vote Priorities and Pressures

What will be achieved in Vote State Services over the next four years

The priority for the State Services portfolio continues to be that strong leadership is provided to the Public Service and the wider State Services to ensure that government's expectations are met.

In the Budget Policy Statement 2010 the Minister of Finance listed six policy drivers for the Government to bring about a step-change in New Zealand's economic performance. The activities and mandate of SSC is most clearly aligned to the driver "Lifting productivity and improving services in the public sector."

In consultation with the Minister of State Services the following priorities have been agreed to be achieved over the next three to five years which are aligned to the Government's driver and its strategic direction for the State sector - Delivering better, smarter services for less. These priorities include pay and employment conditions, lifting the performance of State sector agencies and improving service delivery and governance of State sector agencies set out in the priorities letter agreed with the Prime Minister in February 2010.

Higher performing agencies with improved accountability

For Crown entities this means:

- Improving governance – ensuring Chairs are well supported.

[2]

For all State sector agencies this means drawing on the results of the Performance Improvement Framework and our other performance measurement tools, helping them to:

- Align the organisation's core business with their strategic direction
- Build stronger business processes
- Develop management and leadership capability that ensures a continuous cycle of measurable performance improvement.

Chief executive performance

- Extending the Commission's performance management responsibility into large non-Public Service departments - Police, New Zealand Defence Force, Security Intelligence Service and Government Communications Security Bureau.
- Developing a stronger senior leadership for the Public Service - employing the right people, ensuring there is an increasing pool of senior leaders, particularly at second tier level, and taking a whole of system perspective to talent development.
- Better performance management - working with Ministers and chief executives to ensure clarity of expectations and action and improving our performance management practice based on stakeholder feedback

Improved frontline service delivery and back office efficiency

- Supporting agencies to individually and collectively make improvements in transactional service delivery.
- Better Administration and Support Services (BASS) - benchmarking as a tool to help inform chief executive expectations, good practice and further along good agency design and integrated services.

Improved efficiency and effectiveness of the State Services Commission

Having a sharper focus and continuously improving core aspects of the Commission's business:

- **Employment Relations** - Providing leadership to focus agencies on the strategy needed to reach settlements that are fiscally prudent and improve productivity. Increasingly, as the economy recovers, focussing on areas where there is wage pressure.

[2]

- **Integrity and conduct** - Sustaining the current high standard through integrating with performance management work and looking for alternative ways of delivering information and support
- **Research and information gathering** – Investigating more effective and efficient means of gathering data for key monitoring activities like the Human Resource Capability Survey.

Activities within the Vote that contribute least to Government's priorities

SSC has consistently reviewed and challenged the impact and alignment of its activities with Government priorities over the last two years. All of SSC's current activities contribute to Government priorities; however, some activities have been identified as providing less of an impact on the performance of the State sector than others. As a result SSC is moving resources away from supporting agencies in the Organisational Development space and into the Leadership Development space, into a monitoring mode in the Equality and Diversity space and away from promoting and supporting employee engagement measurement tools for agencies.

	2010/11 $'000	2011/12 $'000	2012/13 $'000	2013/14 $'000	2014/15 $'000
Organisational Development	128	132	136	140	144
Equality and Diversity	95	67	69	71	73
Total	**223**	**199**	**205**	**211**	**217**

Other activities, while being aligned to Government priorities, are better housed elsewhere within the public management system. The Public Service Industry Training Organisation - Learning State has been established as a separate entity and the Government Chief Information Officer (GCIO) function is being transferred to the Department of Internal Affairs (DIA).

Major pressures facing the Vote over the forecast period

Pressure: Tight fiscal conditions creating pressure to make the right tradeoffs

Risk: With a tight fiscal environment it is critical that all expenditure is monitored and makes the maximum contribution to the attainment of SSC's and the Government's desired outcomes. Therefore the key risk associated with the pressures on Vote State Services is one of opportunity cost. A lack of advanced budget planning, control and cost structures could result in resources that could have been used on performance enhancing initiatives not being identified or freed up until it is too late to use them. There are also risks that SSC will be asked to carry out additional responsibilities without additional funding. For example, SSC's draft report on the Official Information Act proposes a function for SSC in respect of the Act. Similarly, the draft report on the Review of Policy Expenditure recommends that SSC takes an active role in increasing the professional ethic of the policy advice function.

Mitigation: Across SSC's departmental cost structure the following measures are in place or are being developed to manage cost pressures on the vote:

- The cap on the core government administration is being used as a tool to ensure that SSC delivers its key outputs while maintaining a stable level of staffing and therefore associated costs. SSC anticipates its headcount decreasing over the next two years from 135 FTE to 125 FTE
- Benchmarking and initial indications from the BASS process have uncovered areas of departmental expenditure where efficiencies can be realised through shared service arrangements or selection of more competitive vendors e.g. accommodation
- Increased scrutiny of internal budgets and budget management processes
- Developing more robust forecasting techniques for non-departmental expenditure.

Pressure: Capability

Risk: SSC relies on highly capable and experienced specialist staff to execute a challenging work programme. A key risk is that SSC does not have the right human resource capability or capacity, through attracting, developing and retaining the right people, to deliver business critical, specialist functions.

Mitigation: SSC has developed its People Strategy to manage this risk which includes improved workforce planning, succession planning and initiatives to boost the Commission's reputation as a desirable place to work.

Pressure: Capacity

Risk: The degree of change required by Government across the State sector outstrips SSC organisational capacity to deliver, i.e. SSC does not have enough resources to adequately respond.

Mitigation: SSC's organisational structures including financial planning and contracting models offer the ability to rapidly and flexibly respond to bring in extra organisational resource as required. Increasingly SSC will contract in extra resource for time–bound projects, thereby increasing organisational capacity while minimising the financial impact.

The drivers of costs in the Vote

An examination of SSC's cost structure reveals the following key categories of expense that drive costs within Vote: State Services.

- Personnel: 53% of departmental costs
- Consultancy: 20% of departmental costs (including PIF and Gateway assessors)
- Accommodation: 6.7% of departmental costs
- Depreciation: 3% of departmental costs
- Capital charge: 2% of departmental costs

Section 3: Proposed Changes for Budget 2011 (Reprioritisation)

Continuing activities

In keeping with its strategy of focussing on its key and continuing activities to improve chief executive, agency and system performance the SSC does not propose any new substantive activities in the short to medium term. In order to respond to Government priorities and its operating environment SSC will move resources between its current work programmes in line with relative priority and demand.

SSC will also be seeking to improve the delivery of its current functions through continuous process improvements and will continue to examine its operations to determine whether any current functions are not aligned to its core business or Ministerial priorities. Where this is the case these functions may be ceased or relocated to another entity where delivery can make more impact.

Within the October Baseline Update, SSC's re-forecasting identified that two key programmes the Performance Improvement Framework and the Gateway project assurance process were not funded beyond the immediate two-year period. Both programmes will now be funded from within existing baselines. To secure the necessary continuation of these programmes SSC has identified areas where efficiencies can be gained from within the business.

Changing activities

The activities listed below are all aligned with Government priorities - specifically the driver of "Lifting productivity and improving services in the public sector." However, in keeping with SSC's strategy of focussing on the core activities that help it make a significant difference to the performance of chief executives, agencies and the State sector, certain activities may be more effectively delivered in other parts of the system or may be more efficiently delivered in another way. A current example which SSC is working on and will be finalising for the March Baseline Update is the transition of the GCIO function to DIA.

Government Chief Information Officer - transition of function to DIA

Prior to July 2009, when SSC was responsible for both the policy and delivery of government ICT, the designation of Government Chief Information Officer (GCIO) was established in SSC to provide the requisite leadership to the State sector. With the recent establishment of Government Business Reform Group and the system overview of government ICT that it will now provide, Cabinet has agreed that the GCIO function will be transferred to the Chief Executive of the Department of Internal Affairs[2]. This will be consistent with, and complement, the current role that DIA has in operational

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[2] Directions and Priorities for Government ICT presented to Cabinet on 17 September 2010.

leadership of government ICT and allow SSC to continue to focus on its core performance management and improvement roles for chief executives and agencies.

Learning State

Learning State, the Public Sector ITO became a not-for-profit Crown owned company on 1 July 2010.The delivery of industry based training and qualifications, while desirable, is not aligned with the core business of SSC. As an independent organisation Learning State now has the opportunity to focus on its core delivery areas and explore collaborative arrangements with other training providers. SSC is better able to focus on its core leadership responsibilities. This approach reduces work for SSC's corporate support functions and reduces its direct governance responsibilities as SSC take a more indirect monitoring role around the performance of Learning State.

Gateway Project Assurance

Gateway is an assurance methodology for major investments. Gateway examines programmes and projects at key decision points in the project lifecycle to provide assurance that it can progress successfully to the next stage. In line with the value provided to agencies though Gateway Reviews of projects and increased demand for these reviews, SSC will recover an increased proportion of the costs of reviews from agencies from July 2011. This approach will ensure that the costs of any future further growth in demand can be met internally.

From an agency perspective the increase in cost of Gateway reviews will be $15,000 per review. The additional savings to an agency from a Gateway review significantly exceed this cost.

Corporate Services / Accommodation

In 2010/11 SSC completed a review of its Finance function and worked to streamline the function to core requirements. Centres of excellence for financial functions have been identified in which SSC holds core competencies. Non-core finance activities have also been identified, for instance the provision of financial services to the Serious Fraud Office, and work is now underway to cease these activities.

As part of SSC's review of back office functions the SSC will participate in the current iteration of the BASS project. Initial indications have confirmed that SSC's current accommodation is not fit for purpose and that floor space per employee is significantly larger than that recommended by BASS - approximately $22m^2$ per person compared to the recommended $16m^2$ per person. Currently SSC subleases one floor of its Molesworth Street premises to the Office of the Auditor General as a means of recovering costs for space that is no longer required but which SSC is obliged to pay rental on until early 2012 when its current lease expires. SSC, through the Central Agency Integration project is exploring other, more fit for purpose accommodation. By moving to a smaller floor plate in an improved location SSC also envisages significant savings in the cost of accommodation over the medium term. This will reduce the pressures on SSC's diminishing baseline and also allows SSC to offer an efficiency dividend over next four years.

Rationalised capital planning

The initial forecasts for SSC's proposed accommodation move were signalled in its Statement of Intent 2010-15. The capital expenditure was split between 'Computer hardware/software' and 'Furniture and fittings' as follows:

	2010/11 $'000	2011/12 $'000	2012/13 $'000	2013/14 $'000	2014/15 $'000
Computer hardware	584	1,300	600	1,384	1,384
Computer software	650	650	650	650	650
Plant and equipment	67	70	70	67	67
Furniture and fittings	1,024	3,230	200	224	224
Total	**2,325**	**5,250**	**1,520**	**2,325**	**2,325**

From revised costings and market conditions it is now known that there will be no costs in 2010/11 for the proposed accommodation move and it is proposed that a significant proportion of the savings on capital expenditure will be returned while retaining a small amount for contingency. The accommodation move will be confirmed by the end of 2010/11 financial year and SSC will be able to determine the exact cost of the move at this point. Any reduction in capital expenditure will have a positive flow through impact on SSC's depreciation figures and consequently the capital charge.

State Sector Employer Contributions : KiwiSaver and State Sector Retirement Savings Scheme

The non-departmental appropriations for State sector superannuation are responsible for around 90% of SSC's total appropriation. SSC is about to commission policy work to determine the most appropriate mechanism for the future funding and administration of contributions towards the superannuation of employees in the State sector. The future shape of delivery in this area will have implications not only for members of the SSRSS but also for the uptake of KiwiSaver by State servants.

In addition, SSC is also devoting resources to develop a more robust method of forecasting contributions to the SSRSS and uptake and contributions to KiwiSaver by State servants. This will allow better control of the budget non-departmental allocation for superannuation in the State sector.

Remuneration and Related Employment Costs of Chief Executives

At present SSC's non-departmental allocation for the reimbursement of Public Service chief executive remuneration (salary and development) is as follows:

2009/10 Actual $'000	**2010/11** Total Budget $'000	**2011/12** Estimated $'000	**2012/13** Estimated $'000	**2013/14** Estimated $'000	**2014/15** Estimated $'000
12,171	13,517	13,992	13,992	13,992	13,992

Through a combination of fiscal restraint in wage increases and chief executive vacancies, SSC's expenditure in this area in 2009/10 was $12,171 million, $434,000 lower than in 2008/09. SSC does not anticipate an increase of $1.400 million for the current year.

SSC proposes to reduce its budget allocation by:

- $0.422 million in 2010/11,
- $0.757 million in 2011/12,
- $0.510 million 2012/13 and
- $0.257 million 2013/14.

This reflects a continued approach of restraint. In taking this approach SSC will be careful to ensure that the budget still adequately covers the remuneration of all Public Service chief executives.

Section 4: Summary of Financial Movements

This section details the changes to appropriations (including new appropriations) which are required to implement all of the proposed changes in section 3.

Four-Year Budget Plan - Financial Summary Report (Operating - Including Operating Associated with Capital Initiatives 2011)

Vote: State Services	**2010/11 ($000)**	**2011/12 ($000)**	**2012/13 ($000)**	**2013/14 ($000)**	**2014/15 ($000)**
Share Allocation	0	0	0	0	0
Operating					
Baseline (2010/11 OBU)	234,916	243,095	252,730	262,738	262,738
Changes:					
Centralised Saving Remuneration and Related Employment Costs of Chief Executives	-422	-757	-510	-257	0
Departmental Capital Expenditure Savings	0	0	0	0	0
Efficiency Savings	-317	-250	-500	-650	-800
Total Centralised Saving	**-739**	**-1,007**	**-1010**	**-907**	**-800**
Reprioritisation					
Total Reprioritisation	0	0	0	0	0
Transfers Outside Vote					
Total Transfers Outside Vote	0	0	0	0	0
Total Changes	**-739**	**-1,007**	**-1010**	**-907**	**-800**
Total Proposed Operating Baseline	**234,177**	**242,088**	**251,720**	**261,831**	**261,938**

Four-Year Budget Plan - Financial Summary Report (Capital 2011)

Vote: State Services	2010/11 ($000)	2011/12 ($000)	2012/13 ($000)	2013/14 ($000)	2014/15 ($000)
Capital					
Baseline (2010/11 OBU)	4,804	5,250	1,520	2,325	2,325
Proposals for new Capital Funding					
Refurbish/Replace					
Total Refurbish/Replace	0	0	0	0	0
Improve Functionality					
Total Improve Functionality	0	0	0	0	0
Meet Demand					
Total Meet Demand	0	0	0	0	0
Capital Associated with Operating Initiatives					
Departmental Capital Expenditure Savings	-1,270	-500	-680	-1,700	-1,700
Total Capital Associated with Operating Initiatives	-1,270	-500	-680	-1,700	-1,700
Total Capital Proposals	**-1,270**	**-500**	**-680**	**-1,700**	**-1,700**
Total Proposed Capital Baseline	**3,534**	**4,750**	**840**	**625**	**625**