



Treasury Report: Bilateral Briefing for Vote State Services Future Role Initiative

Date:	7 February 2005	Treasury Priority:	Medium
Security Level:	IN-CONFIDENCE	Report No:	T2005/190

Action Sought

	Action Sought	Deadline
Minister of Finance	read for bilateral at 9 am on 10 February	Thursday 10 February
Minister of State Services	read for bilateral at 9 am on 10 February	Thursday 10 February

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Catherine Atkins	Manager, Public Sector Management	[Information withheld under section 9(2)(a) of the Official Information Act]	✓
[Information withheld under section 9(2)(a) of the Official Information Act]	[Information withheld under section 9(2)(a) of the Official Information Act]	[Information withheld under section 9(2)(a) of the Official Information Act]	

Enclosure: No

Treasury Report: Bilateral Briefing for Vote State Services Future Role Initiative

Attached is a briefing for the bilateral between the Minister of Finance and the Minister of State Services on 10 February 2005 to discuss the Future Role budget initiative for Vote State Services. Other State Services initiatives, including one non-discretionary initiative, will be discussed at the bilateral scheduled for 2 March.

Recommended Action

We recommend that you **read** the attached briefing and use it as the basis for making decisions in your bilateral with the Minister of State Services at 9 a.m. on 10 February.

Catherine Atkins
for Secretary to the Treasury

Hon Dr Michael Cullen
Minister of Finance

Bilateral Briefing for Vote State Services

Below is the summary of submissions made by Hon Mallard.

Rank		\$million	Vote Minister Seeks						Treasury Recommends					
Vote Minister	Treasury	Operating (GST incl)	2004/05	2005/06	2006/07	2007/08	2008/09	4 year total	2004/05	2005/06	2006/07	2007/08	2008/09	4 year total
Non-discretionary														
3	1	SSRSS part A	0.174	0.456	0.259	0.259	0.259	1.233						
Total Non-discretionary			0.174	0.456	0.259	0.259	0.259	1.233						
Discretionary														
3	1	SSRSS part B	0.130	0.107	-	-	-	0.107						
1	2	Future Role	0.844	2.140	2.643	2.527	2.527	10.681	0.844	1.200	1.600	1.500	1.500	5.800
2	3	Shared Services Network												
		Operating	-	[Information withheld under section 9(2)(f)(iv) of the Official Information Act]										
		Capital	-	[Information withheld under section 9(2)(f)(iv) of the Official Information Act]										
4	5	Treaty Information Programme	-	1.209	-	-	-	1.209						
5	6	Wide Area Network												
		Operating	-	[Information withheld under section 9(2)(f)(iv) of the Official Information Act]										
		Capital	-	[Information withheld under section 9(2)(f)(iv) of the Official Information Act]										
6	4	Syndicated Procurement	-	0.536	0.536	-	-	1.072						
Total Discretionary			Operating	0.974	[Information withheld under section 9(2)(f)(iv) of the Official Information Act]									
			Capital	-	[Information withheld under section 9(2)(f)(iv) of the Official Information Act]									

TOTAL RECOMMENDED	OPERATING	1.148	[Information withheld under section D(O)(F)(ii) of the Official Information Act]							
	CAPITAL	-	[Information withheld under section D(O)(F)(ii) of the Official Information Act]							

Recommendations

VOTE STATE SERVICES

Future Role

Discretionary	Vote Minister rank = 1	Treasury rank = 2
<ul style="list-style-type: none">• SSC is seeking \$9.837 million over 2005/06 to 2008/09 to reorganise in order to develop a leadership role for the State Services and deliver on new State Services development goals.• Given other capability pressures in the "Other" allocation Treasury believes the initiative is low priority. We recommend funding of \$5.8 million over 2005/06 to 2008/09. This will allow for reorganisation of the SSC, and some progress in achieving key priority areas. Funding is also sought for reorganisation in 2004/05. Treasury supports this, but recommends that the 2004/05 costs be met within the Education allocation.		

Either (SSC)

- a) approve the following changes in appropriations to implement the State Services Commission's new strategic direction:

	\$million - increase/(decrease)				
Operating (GST incl)	2004/05	2005/06	2006/07	2007/08	2008/09 & Outyears
State Services Commission	0.844	2.140	2.643	2.527	2.527

Yes/No

Or (Treasury)

- b) approve the following changes in appropriations to implement the State Services Commission's new strategic direction:

	\$million - increase/(decrease)				
Operating (GST incl)	2004/05	2005/06	2006/07	2007/08	2008/09 & Outyears
Treasury	0.844	1.200	1.600	1.500	1.500

Yes/No

- c) agree that \$0.844 million in 2004/05 will be funded from the Education allocation.

Yes/No

Vote State Services– Analysis

Analysis of Initiatives

Future Role (recommendation a)

1. The State Services Commissioner is seeking funding to reorganise the State Services Commission (SSC) in order to develop a leadership role for the State Services and deliver on new State Services development goals. The funding sought covers costs of restructuring, implementation of the Commissioner's extended mandate and funding to collect information on New Zealanders' experience of State Services. A significant proportion of the funding sought is to employ 12 new FTEs, some of which are to support existing outputs (including an HR manager and an additional e-government manager). The Commissioner has also indicated that further funding may be sought in outyears to implement the development goals once the range of activities required is clearer.

Treasury Comment

2. Much of the impetus for the change has been driven by the extension of the Commissioner's mandate under the State Sector Amendment Act. SSC received funding of \$2.9 million over four years in Budget 2004 to implement the extension of the mandate on ethics, values and standards. This funding included provision for 3 additional FTEs. This funding, which was supported by Treasury, was considered adequate to cover the costs arising from the new legislation. While the Act also formally extended the Commissioner's mandate in other areas such as machinery of government, the Minister of State Services has indicated that in practice SSC has already been undertaking this work. Capability funding of \$2.0 million over four years was also provided in Budget 2001 to establish four Deputy Commissioner teams and raise the capability within the Chief Executives and Strategic Development branches.
3. This initiative is discretionary. It is difficult to assess the overall value of the package proposed, for the following reasons:
 - Some of the funding is to support existing outputs. While this may increase the quality of existing outputs we are not aware of any major risks to existing output delivery. We also have little information on the effectiveness of SSC's current interventions.
 - It is unclear what impact the reorganisation will have in terms of improved effectiveness.
 - At this point details of what SSC will deliver differently in order to achieve the new direction are unclear and the potential benefits uncertain.
4. Given the uncertainties identified above, and the pressure on the "Other" allocation, **we recommend a lower-level of funding of \$5.8 million over 2005/06 to 2008/09.** We think this would be adequate to cover reorganisation costs and enable the State Services Commissioner to make progress on key priority areas. It may however mean that the new strategic direction will be delivered over a longer time period.
5. The funding sought includes a contingency of \$0.844 million in 2004/05 to cover reorganisation costs. The "Other" allocation for 2004/05 is fully committed for non-discretionary spending. The reorganisation could be deferred until 2005/06. If

Ministers wish to proceed in 2004/05 Treasury recommends the 2004/05 costs be funded from the 2004 Education allocation.

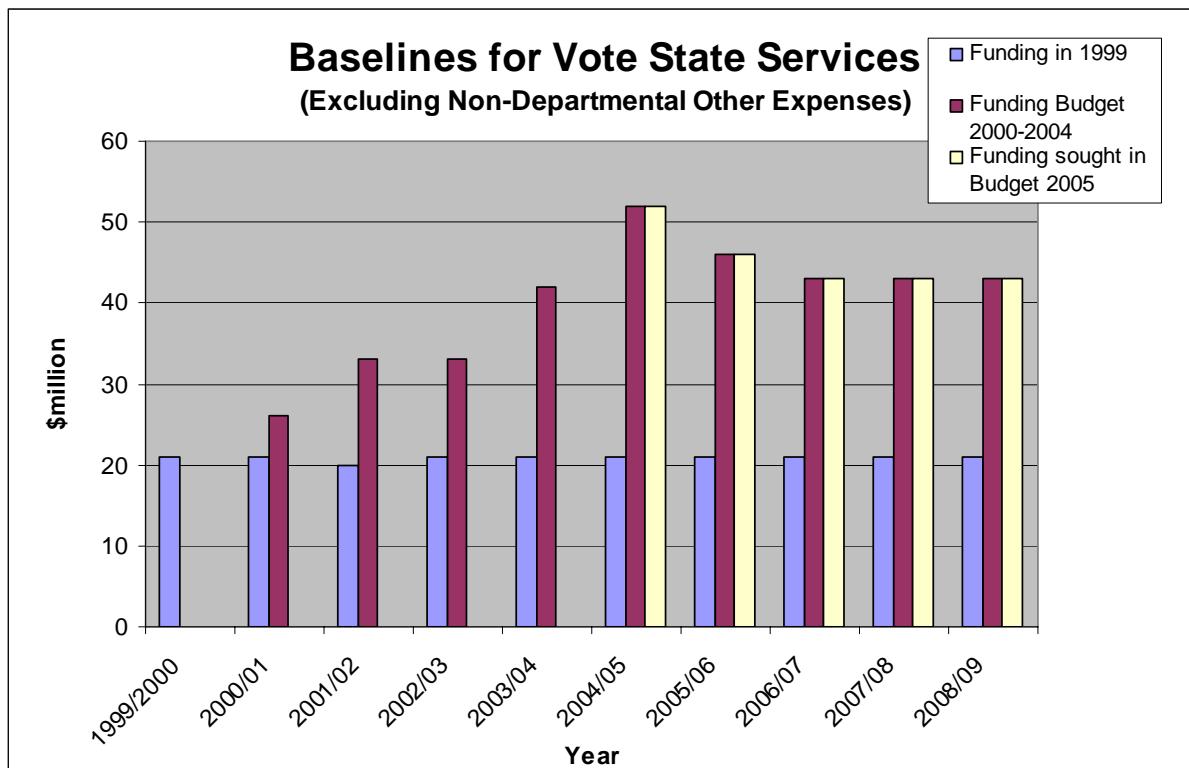
SSC Comment

6. The funding sought by SSC for new capability and enhancement of current capability is to support the achievement of the new overarching goal and six development goals for the State Services, which are to be discussed at POL on Wednesday. These goals are aspirations of how the State Services will be configured and perform.
7. Following the adoption (if Cabinet agrees) of the development goals, the SSC will continue its core business of appointing and monitoring chief executives, conducting investigations, and providing guidance and advice on a range of matters. It will also plan and implement new programmes of work to ensure that the development goals are achieved. This will include undertaking research to understand New Zealanders' experience of the State Services at an aggregate level, and use this to inform things such as new joint outcomes, and the development of policy for the State Services.
8. The proposed organisational structure aligns the responsibility and accountability for the achievement of the development goals with the leadership of each functional area and therefore the delivery of outputs required to achieve those goals. This will significantly enhance organisational effectiveness and will break down many of the silos that exist in the current structure.
9. The dispersion of the performance management/relationship management functions across all Deputy Commissioners (except Corporate Services) will also ensure that more focus is placed on the all-of-government contributions that each agency is making to specific development goals.
10. In addition to the funding recommended by Treasury, SSC recommends that additional funding be approved for the following capabilities:
 - Information and Communication Technology Branch - either Manager All-of Government Operations or Manager, E-government Delivery. This is driven by the growth in the E-government areas – whenever new initiative funding has been approved for new programmes of work, little consideration has been given to the on-going management and oversight of the various programmes collectively. Growth has been such that the one position covering both these roles is no longer sustainable – the current position needs to be split into two roles to ensure a better focus on integrated service delivery;
 - People Capability Branch - Manager Strategic Human Resources, and an Advisor to enable activities relating to people capability to be brought together, by placing them under the oversight of a dedicated manager; and
 - Corporate Services Branch - The Commission's baseline has doubled in the last 5 years, however the number of staff in corporate support roles have not increased. To support the Commission achieve the development goals, additional resources are required, mainly in strategic knowledge management services. This includes upgrading the current manager role into a Chief Information Officer position, with greater emphasis on strategic thinking, and one Reference and Research Advisor to provide senior advisors in delivery role with specialist research support, and a Database Content Manager to maintain a centralised dataset of information on organisations covered by the extended mandate of the Commissioner. In addition, a Manager People and Organisation

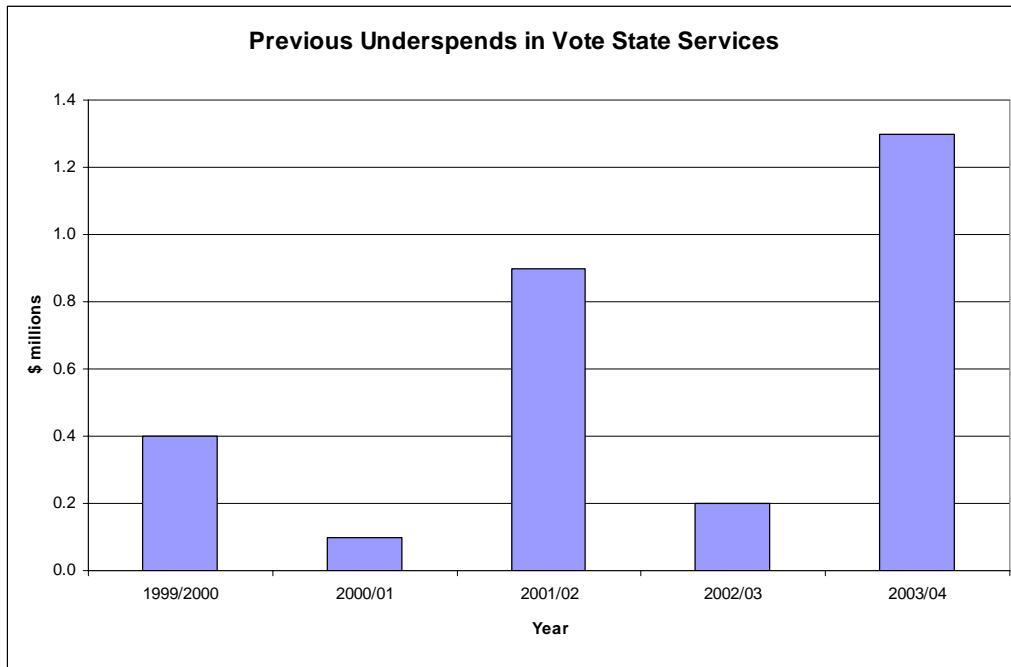
Development is required to drive internal cultural change, and to ensure that the Commission attracts, develops and retains the best people.

Analysis of Vote

11. Vote State Services baseline is currently \$120.9 million, of which \$46.7 million is departmental output classes.
12. The Vote has received significant increases in departmental output classes in the past 5 years, predominantly to fund e-government but also for additional functions such as administering the State Sector Retirement Savings Scheme and Treaty Information Programme. The baseline peak in 2004/05 is due to time-limited funding for piloting online authentication and for the Treaty Programme.



13. The following graph details the history of underspends in the departmental output classes.



14. The significant underspends in 2001/02 and 2003/04 are explained below:

- The 2001/02 underspends occurred primarily in Chief Executive appointments/reappointments, which was subject to the first year of a multi-year appropriation (MYA), due to fewer appointments/reappointments than forecast, and Management Services due to a lower than expected level of expenditure for the Public Sector Training Organisation and the administration of the Mainstream Supported Employment programme.
- In 2003/04, a significant part of the underspend (\$0.404 million) was due to the Treaty Information programme (for which an expense transfer of \$0.250 million was made into the 2004/05 year) and the administration of the Mainstream Supported Employment programme. Expenditure on Chief Executive appointments/reappointments was also lower than forecast due to fewer appointments.