



Report Title:	Monitoring the Crown entity workforce, including contractors and consultants		
Report No:	2023-0307		
Date:	14 December 2023		
To:	Hon Nicola Willis, Minister for the Public Service		
Action Sought:	Confirm the approach to monitoring	Due Date	15 January 2024
Contact Person:	Hannah Cameron, Deputy Commissioner, Strategy and Policy		
Contact No:	9(2)(a) privacy		
Encl:	One appendix	Priority:	Medium
Security Level:	IN CONFIDENCE		

Executive Summary

1. The Public Service Commission (the Commission) will provide monitoring and assurance of your expectations around the size and composition of the Public Service workforce, including the reduction in contractor and consultant expenditure.
2. You have publicly committed to ask for current contractor and consultant expenditure in the public sector before Christmas. The 2022/23 contractor and consultant expenditure for departments and departmental agencies was released on 2 November and we have briefed you on data for the first quarter of the current year.
3. As indicated in our initial briefings to you, while the Commission has routinely monitored and reported Public Service department and departmental expenditure since 2000, our mandate has not extended to collecting Crown entity workforce data. Currently there is not a single reliable source of information for workforce information, including contractor and consultant expenditure for Crown entities.
4. The mandate to collect Crown entity workforce information will be established through the letter of expectation to Public Sector organisations that you will issue shortly.
5. In advance of this, we have undertaken a one-off collection of Crown entity workforce data which shows a snapshot as at 30 June 2023. In summary:
 - a. 101,328 FTEs in Crown entities, compared to 63,117 FTE in Public Service departments.
 - b. Contractor and consultant expenditure \$1,967M total made up of \$1,281M OPEX and CAPEX of \$686M. A significant share is Health NZ (\$596.3M OPEX, \$188.8M CAPEX) and the NZ Transport Agency (\$293.4M OPEX, \$424.3M CAPEX).
 - c. Average salary of \$103,400 for Crown entities as compared to \$97,200 in Public Service departments.

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6. We have also separately collected the same information for the key non-Public Service departments NZDF and NZ Police, as well as the Māori Health Authority, which is an Independent statutory entity rather than a statutory Crown entity.
7. This first collection is the first step in providing monitoring and assurance of Government expectations around the size and composition of the Public Service workforce, including the reduction in contractor and consultant expenditure.
8. We are proposing an ongoing approach to data collection, whereby a survey will be sent to Crown entities and non-Public Service Departments on a quarterly basis. For Crown entities, the survey will be administered through their monitoring agencies.
9. The next survey will be conducted in April 2024 and collect data as at 31 March. Where possible this will include funded Budget decisions.

Recommended Action

We recommend that you:

- a **note** the results from our first survey of Crown entity workforce data, including FTE, average salary and spending on contractors and consultants.
 - b **note** that receiving this information fulfils your public commitment to ask for data from all public sector agencies before Christmas.
 - c **agree** that the following institutions should be included in future Commission activities to provide assurance about workforce deployment:
 - Crown entities - Crown Agents, and Autonomous and Independent Crown entities (ACE and ICE).
 - non-Public Service departments - in the executive branch of Government, that is NZ Defence Force, NZ Police and Parliamentary Council Office.
 - The Māori Health Authority until it is disestablished.
- Agree/disagree.*
- d **agree** that the Commission should use a survey approach to collect aggregate information on FTE, average salary, and contractor and consultant spending from Crown entities on a quarterly basis.
- Agree/disagree.*
- e **note** that the survey will be delivered to Crown entities via monitoring agencies, to reinforce their role in oversight of these agencies.
 - f **note** that the next survey will take place in April and will collect data as at 31 March (for the first three quarters of the financial year).
 - g **note** that there are further options for more sophisticated and detailed data collection, but that these would require further resources to implement.

Hon Nicola Willis
Minister for the Public Service

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Purpose of Report

10. This report provides information on contractor and consultant spending by Crown entities. It also sets out how the Commission can provide monitoring of the Crown entity workforce.

Context

11. The Government has signalled an intention to reduce government expenditure by 6.5% and reduced contractor and consultant expenditure by \$400 million. These savings targets are being incorporated through a baseline reduction process in Budget 24, led by the Treasury.
12. It is expected that these savings will see a reduction in the Public Service workforce, and with that a reorientation of effort towards service delivery from back-office roles.

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14. You have publicly committed to asking for information on current contractor and consultant expenditure across the public sector. The 2022/23 contractor and consultant expenditure for departments and departmental agencies was released on 2 November, and information on the first quarter of the current year was released on 14 December.
15. Our previous advice to you signalled that currently there is not a single reliable source of workforce data, including contractors and consultant expenditure, for Crown entities. You sought further advice about how this information gap could be addressed.

Initial workforce data collection exercise

16. We have now collected information from statutory Crown entities on their contractor and consultant expenditure for 2022/23, as well as their FTEs and average salaries at 30 June 2023. We also collected information for the non-Public Service departments NZ Police and NZDF, as well as the Māori Health Authority¹. The appendix has detailed results by agency.
17. This is the first time we have collected this type of information from Crown entities and we need to work with agencies further on applying standard definitions to improve comparability. However, the following table shows how these results compare with those of Public Service departments and departmental agencies.

	Crown entities	Crown entities + NZP, NZDF, MHA	Public Service
OPEX	\$1,281M	\$1,461M	\$912M
CAPEX	\$686M	\$733M	\$357M
Total C&C	\$1,967M	\$2,194M	\$1,269M
FTEs	101,328	128,487	63,117
Average Salary	\$103,400	\$100,000	\$97,200
Total Salary	\$10,476M	\$12,848M	\$6,142M
OPEX Share	10.9%	10.2%	13.1%

¹ The Māori Health Authority is an Independent statutory entity rather than a statutory Crown entity.

18. Points to note from this table:
- a. As discussed further below, Health New Zealand makes up a very large proportion of the workforce and spending.
 - b. Crown entity OPEX of \$1,281M is similar to our estimate using Treasury and MBIE data (\$1,200M) that we reported in our previous advice (2023-0291). However, total Crown entity contractor and consultant expenditure of \$1,967M is higher than our previous estimate of \$1,600M. We underestimated the level of CAPEX at the NZ Transport Agency.
 - c. If we include NZ Police, NZDF, and the Māori Health Authority alongside Crown entity expenditure, government could look to find just over one third of intended contractor and consultant savings in departmental and nearly two thirds in non-departmental expenditure.
 - d. Non-departmental agencies used a smaller share of their total workforce spend on OPEX on contractors and consultants than departments and departmental agencies in 2022/23. However, the latest September 2023 quarter results shows the OPEX share for departments trending back to around 10%.
 - e. The drive for expenditure reductions to date has focused mainly on OPEX. This is because CAPEX is usually focused on the longer-term building of infrastructure, and often rely on types of expertise that the Public Service would not expect to employ directly on an ongoing basis (e.g. engineers or architects).
19. We also asked for their 2023/24 forecasts, which projected total expenditure for Crown entities of \$1,617M, \$1,279M of this OPEX and \$686M CAPEX. This represents about a 18% reduction in contractor and consultant expenditure from 2022/23.
20. Like departments and departmental agencies, there is a vast difference in size between the largest non-departmental organisations and the smallest – from 77,000 FTE at Health NZ to 7 FTE at Broadcasting Standards Authority. The following table shows the seven non-departmental agencies with over 1,000 FTEs on 30 June 2023.

Legal name	FTEs
Health New Zealand	77,154
New Zealand Police	15,425
New Zealand Defence Force	11,496
Accident Compensation Corporation	4,080
Kāinga Ora–Homes and Communities	3,305
Fire and Emergency New Zealand	2,920
Civil Aviation Authority of New Zealand	1,686

21. This variation in size is also reflected in contractor and consultant expenditure. Out of a total OPEX of \$1,461M across non-departmental agencies in 2022/23, 84% is contained in the following eight agencies that had over \$30M OPEX in that year.

Legal name	OPEX	CAPEX
Health New Zealand	\$596.3M	\$188.8M
New Zealand Transport Agency	\$293.4M	\$424.3M
New Zealand Police	\$108.2M	\$27.4M
Kāinga Ora—Homes and Communities	\$64.7M	\$0.0M
New Zealand Defence Force	\$51.2M	\$19.9M
Accident Compensation Corporation	\$47.0M	\$1.5M
Fire and Emergency New Zealand	\$38.9M	\$0.9M
New Zealand Qualifications Authority	\$30.1M	\$1.1M

Crown entities – expanded scope of workforce monitoring and assurance.

22. You have decided that the fiscal savings exercise will apply to a broad base of spending, including non-departmental expenditure. Non-departmental expenditure includes parts of central government other than departments and departmental agencies.
23. You are therefore looking to ensure that all public sector entities understand the Government’s expectations around fiscal responsibility. However, for those that are closer to the Crown, the Government will also wish to set more fine-grained expectations about how they choose to deploy their workforces, including the use of contractors and consultants.
24. We propose that the following institutions are included in Commission activities to provide assurance about workforce deployment:
 - a. Crown entities - Crown Agents, and Autonomous and Independent Crown Entities (ACE and ICE).
 - b. non-Public Service departments - in the executive branch of Government, that is NZ Defence Force, NZ Police and Parliamentary Council Office.
 - c. The Māori Health Authority until it is disestablished.
25. This excludes Crown owned companies, school board of trustees, and tertiary education institutions. It also excludes Officers of Parliament and the Reserve Bank.

Ongoing approach to monitoring and assurance

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34. We will use a survey approach to collect this information from Crown entities, unlike the Departments and Departmental Agencies for whom we have a pipeline to transfer unit record data. The information that we will collect quarterly will include aggregate data of actual and forecast FTE, average salary and contractor and consultant expenditure. The survey will also ask simple questions to provide some context for answers given.
35. The survey will be delivered through the monitoring departments, who will manage relationships and data collection from their Crown entities. This is important to support and enhance the relationship that the monitoring agencies have with each Crown entity and ensure that they have full visibility of the Crown entities' responsiveness and data provided.
36. We will also send the survey directly to NZ Police, NZDF and Parliamentary Counsel Office.
37. This survey approach can provide you assurance at the aggregate level that your expectations are being met. There will be some limitations to the extent of analysis we can do on the Crown entity workforce, for example changes to FTEs in occupational or regional composition.
38. MBIE procurement data will also be used to provide an increased understanding of consultant and contractor spend. For example, categories of spend (Policy, IT, etc) and contract pay rates.

Going further – more sophisticated methods for data collection

Collecting unit record data of employees (FTE)

39. Government departments and departmental agencies provide the Commission with administrative payroll information quarterly. This includes anonymised unit record data on every public servant, including job characteristics and demographic information. It underpins

much of the Commissions work programme to build a high performing Public Service workforce. Much of this information is publicly reported annually, and we are increasing what we report quarterly.

40. To give a richer picture of the Crown entity workforce would require the collection of administrative payroll data. This channel could be deployed across Crown entities. Already we have four agencies voluntarily participating in this exercise annually as it helps them manage their workforces. This level of data has the following benefits:
 - a. Enables analysis around where reductions in FTE are coming from, including what occupations or regions are being affected from a saving exercise.
 - b. Track composition of the Crown entity workforce to identify and address any workforce issues as they arise. This is particularly pertinent for shared workforces across the wider Public Service. For example, during the cap on core government administration it was observed that there was a hollowing out of early in career public servants, which undermined our pipeline of talent, which was noticeable in our Policy workforce.
 - c. Potential to be used for broader purposes that align to the Commission's work programme such as pay analysis to support Employment Relations.
41. This option would come with costs for both the Commission and participating agencies. This is a digital project, building a data pipeline between agencies and the Commission. While there is potential extra value and additional analysis that can be undertaken, this might get more push back from Crown entities due to both cost and complexity. It would also take some time to deploy this option, for example, an ambitious aim might be to get Crown entities able to submit by December 2024.
42. This option should be considered within the broader context of the Commission's work programme, to build a sufficient use case for this investment. There is potential to scale this option, including collecting administrative payroll data annually, or only asking the bigger organisations to participate.

Different mechanisms for collecting Contractor and Consultant expenditure

43. There are also other potential options for collecting contractor and consultant data. 9(2)(f)(iv) confid
[REDACTED], both Treasury and the Ministry of Business, Innovation and Employment (MBIE) collect limited information on contractor and consultant expenditure. Treasury has a separate consultancy code that can be used through financial reporting and the MBIE, as the Government procurement lead, collects information on contracts that go through the All-of-Government (AoG) panel. The coverage of both sources appears to be improving over time, but both have limitations.
44. MBIE data only covers contracts that participate in the AoG panels therefore, coverage is limited. It is of a high quality, providing detailed information on each contract. We are working with MBIE to use their information to assist with understanding what contracts are let for and where that spending goes. However, is not suitable for monitoring and assurance purposes of the saving targets.
45. Treasury does collect financial information monthly from agencies. The existing consultancy code is used widely across central government, but it does not appear to capture most expenditure. Treasury also advises using the other personnel expenditure code is likely to include spending on contractors, although it may also include other expenditure. Together these two codes represented 73% of total contractor and consultant expenditure as captured by the Commission's collection in 2022/23. This suggests agencies are reporting some

expenditure using other Treasury codes. However, if the codes were developed to align to the Commission's definitions around contractors and consultants, then robust auditable expenditure information on this spend would be collected monthly by the Treasury. You may wish to seek further advice from the Treasury to explore whether this option is feasible.

Financial Implications

46. The Commission will extend our Workforce Data collection for Crown entities using the survey method within our existing baselines. However, a more sophisticated approach may need further investment. In addition, priorities for the Commission will need to be re-confirmed as part of the upcoming fiscal savings process.

Next Steps

47. On approval to collect this information from Crown entities, we will brief Crown entity board chairs and monitoring departments.
48. Following this we will confirm timeframes and alignment with Budget processes before the next collection, which would occur after quarter 3 of 2023/24, as at 30 March 2024.
49. Results will be presented to you in early May 2024.

Appendix

Legal name	Entity Type	OPEX 2022/23 (\$M)	CAPEX 2022/23 (\$M)	FTEs 30-6-23
Health New Zealand	CA	596.3	188.8	77,154
New Zealand Transport Agency	CA	293.4	424.3	2,651
New Zealand Police	Other	108.2	27.4	15,425
Kāinga Ora–Homes and Communities	CA	64.7	-	3,305
New Zealand Defence Force	Other	51.2	19.9	11,496
Accident Compensation Corporation	CA	47.0	1.5	4,080
Fire and Emergency New Zealand	CA	38.9	0.9	2,920
New Zealand Qualifications Authority	CA	30.1	1.1	523
Māori Health Authority	Other	20.4	-	237
WorkSafe New Zealand	CA	18.5	7.1	753
Guardians of New Zealand Superannuation	ACE	18.3	0.0	211
Earthquake Commission	CA	16.4	3.3	316
Commerce Commission	ICE	12.9	-	433
Tertiary Education Commission	CA	12.4	6.6	358
Sport and Recreation New Zealand, Sport New Zealand	CA	12.3	0.1	284
Callaghan Innovation	CA	11.9	4.9	433
Civil Aviation Authority of New Zealand	CA	8.8	3.1	1,686
Financial Markets Authority	ICE	8.7	1.5	283
Maritime New Zealand	CA	7.6	1.7	379
Education New Zealand	CA	7.5	-	108
New Zealand Lotteries Commission	ACE	7.0	0.4	196
Electoral Commission	ICE	6.1	-	414
New Zealand Infrastructure Commission/Te Waihanga	ACE	5.3	-	47
New Zealand Trade and Enterprise	CA	5.1	2.7	724
Electricity Authority	ICE	4.6	0.3	105
Energy Efficiency and Conservation Authority	CA	4.6	-	121
Taumata Arowai–the Water Services Regulator	CA	4.2	0.2	76
New Zealand Blood and Organ Service	CA	4.0	0.1	768
Environmental Protection Authority	CA	2.6	-	216
Climate Change Commission	ICE	2.6	-	69
Te Taura Whiri i te Reo Māori (Māori Language Commission)	ACE	2.3	3.0	56
New Zealand Symphony Orchestra	ACE	2.0	0.5	89
Public Trust	ACE	1.9	-	401
Museum of New Zealand Te Papa Tongarewa Board	ACE	1.7	0.4	399
Human Rights Commission	ICE	1.6	0.2	64
Mental Health and Wellbeing Commission	ICE	1.5	-	23
New Zealand Productivity Commission	ICE	1.4	-	21
Pharmaceutical Management Agency, PHARMAC	CA	1.4	-	153
Retirement Commissioner, Commission for Financial Capability	ACE	1.4	0.2	34
New Zealand Tourism Board	CA	1.2	-	162
Transport Accident Investigation Commission	ICE	1.0	-	30
New Zealand Walking Access Commission	CA	1.0	-	16
Real Estate Agents Authority	CA	1.0	-	54
External Reporting Board	ICE	0.9	-	31
Arts Council of New Zealand Toi Aotearoa, Creative NZ	ACE	0.8	-	77
Health Quality and Safety Commission	CA	0.8	-	105
Criminal Cases Review Commission	ICE	0.8	-	26
Health and Disability Commissioner	ICE	0.8	-	120
Independent Police Conduct Authority	ICE	0.8	-	47
New Zealand Antarctic Institute	CA	0.6	29.9	85
Law Commission	ICE	0.5	0.1	23
Accreditation Council	ACE	0.5	0.4	97
Broadcasting Commission, NZ On Air	ACE	0.5	-	31
Drug Free Sport New Zealand	ICE	0.5	-	24
Social Workers Registration Board	CA	0.4	-	38
Government Superannuation Fund Authority	ACE	0.4	-	-
New Zealand Film Commission	ACE	0.3	-	49
Children and Young People's Commission	ICE	0.2	-	37
Te Reo Whakapuaki Iirangi, Te Māngai Pāho (Māori Broadcasting Funding Agency)	ACE	0.2	-	17
Broadcasting Standards Authority	ACE	0.2	-	7
New Zealand Artificial Limb Service	ACE	0.2	-	123
Heritage New Zealand Pouhere Taonga	ACE	0.1	2.8	165
Privacy Commissioner	ICE	0.1	-	49
Health Research Council of New Zealand	CA	0.1	-	33
Office of Film and Literature Classification	ICE	0.0	-	23
Takeovers Panel	ICE	-	-	8
Overall total		1,460.5	733.3	128,487

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