



<b>Report Title:</b>	<b>Public Service Commission financial position</b>		
<b>Report No:</b>	<b>2023-0316</b>		
<b>Date:</b>	<b>14 December 2023</b>		
<b>To:</b>	<b>Minister for the Public Service</b>		
<b>Action Sought:</b>	<b>Discuss this briefing with officials</b>	<b>Due Date</b>	None
<b>Contact:</b>	<b>Hannah Cameron, Deputy Commissioner, Strategy and Policy</b>		
<b>Encl:</b>	Yes (Appendices)	<b>Priority:</b>	Medium
<b>Security Level:</b>	<b>IN CONFIDENCE</b>		

## Executive Summary

1. As part of the Government's 100 day plan there is a commitment *to start reducing public sector expenditure*. We are aware that Treasury are developing processes for agency savings plans, including an action for agencies to report back on their plans in February 2024.
2. Ahead of that process, this briefing provides you with context regarding the Public Service Commission's (the Commission) financial position, how our work programme is focused, our current work underway to manage baseline reductions and cost pressures, and how we might approach the savings process.
3. The Commission has always been a small agency in comparison to the wider Public Service. In 2017 we had approximately 115 FTE; this has slowly increased to 203 FTE in 2023. This increase is largely due to an increase in external functions now hosted within the Commission, as well as shifting our corporate functions internally rather than outsourcing them as we did in 2017. The Commission's core FTE (excluding these recoverable functions) is 151 FTE.
4. Our main cost is people. Currently, personnel accounts for 83 percent of the Commission's expenditure.
5. While our core functions have remained consistent, there has been increased expectations from successive Governments that have slowly strengthened our system leadership approach, including across the wider public sector.
6. In recent Budgets, we received small increases to our main appropriation, to recognise that our baseline had been falling in real terms over the past, nearly 15 years. This funding was to enable us to continue meeting our statutory responsibilities, expanding leadership role, and to help us to manage rising costs more effectively (e.g. pay increases as a result of the Public Service Pay Adjustment).
7. In lieu of receiving a specific savings target, we have also completed an initial modelling exercise on the potential impact of further savings reductions and are ready to provide further information through that process when appropriate. In the interim, we have identified ways of finding savings that will help us to manage our dropping baseline due to

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time-limited funding, and also meet cost pressures from inflation, particularly wage inflation.

8. To manage future savings targets and expectations, it is likely that we will need to significantly downsize to approximately <sup>9(2)</sup><sub>(a)</sub> FTE. Further considerations will need to be made regarding how our work programme can be better prioritised while ensuring that we maintain our statutory responsibilities.

## Recommended Action

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We recommend that you:

- a **discuss** this initial briefing with officials with a view to confirm your expectations and preferred approach regarding additional savings and our work programme prioritisation.
- b **note** that further briefings will be shared with you within the next month regarding the Pay Equity Centre of Excellence and the Public Service Fale.
- c **note** that a more detailed report back on our baseline savings plan will be submitted in February 2024, as part of the Treasury process.

Hon Nicola Willis

**Minister for the Public Service**

## Purpose of Report

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1. This briefing provides you, with initial context regarding the Commission's financial position, how our work programme is focused, and our initial plans to manage baseline reductions and cost pressures.

## The role and functions of the Commission

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### Our core statutory functions

2. The Commission's statutory functions have long been focused on providing leadership across the Public Service to drive improved performance both at system and individual agency levels. These functions enable us to support and advance large-scale system and legislative reforms to meet government priorities and is a role we have done consistently and effectively for many years.
3. The consistency of these statutory functions is reflected throughout legislation, such as the Crown Entities Act 2004<sup>1</sup> and the State Sector Amendment Act 2013 which strengthened the leadership and oversight functions of the Commission.<sup>2</sup>
4. We continue to use our leadership role to ensure that agencies are joined up around common priorities and issues, drive better performance and deliver large policy reform. We do this through a range of levers, including oversight of chief executives' and agency performance expectations, system monitoring, data analysis and providing advice on the wider operating model for the Public Service.
5. We have continued to evolve this way of operating and have built various networks and high trust across the system to ensure we drive priorities and change in an agile and responsive manner. Operating in this way has produced significant results to date across the whole system, for example
  - a. *Closing pay gaps by implementing a dedicated work programme and cross system resources to support agencies working to address bias, achieve equitable pay (including closing pay gaps), develop annual pay gap action plans, and ensure recruitment and career development is fair and equitable.*
  - b. *Significant improvement of OIA compliance and transparency across the public service, by improving processes, monitoring data and sharing expertise.*
  - c. *Improving diversity and inclusion across the public service through data-based target setting, agreeing key actions, and sharing resources.*
6. In addition to our function of oversight of public service employment relations, the Commission was given funding in 2021 for a time-limited additional leadership role – a Pay Equity centre of excellence, supporting the response to claims across the system.

### Our recoverable functions

7. The Commission also acts as host to other functions that have cross-system impacts which are funded on a cost-recovery basis. These functions have gradually moved into the

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<sup>1</sup> The Crown Entities Act 2004 is an example of how successive Governments have sought to slowly strengthen our leadership functions across the wider public sector.

<sup>2</sup> The Public Service Act 2020 maintained the same leadership roles as was specified in the State Sector Act 2013, and added responsibilities specifically relating to pay equity.

Commission over time, again an indication of how successive Governments have sought to strengthen our leadership role. These include the:

- a. **Leadership Development Centre (LDC)** – LDC is the primary vehicle for delivering public sector leadership development (e.g. through programmes, resources, growing communities of practice, and skills development). LDC was previously established as the Leadership Development Centre Trust before its functions were transitioned into business unit of the Commission in 2017. Their funding is approximately \$3.5 million per annum (through membership levies and course fees) and they currently have 17.9 FTEs.
- b. **Employee-led Networks (ELN) team** – The ELN team was previously the Government Women’s Network, hosted within Inland Revenue. The team then moved to the Commission in 2021 and their role expanded to support all cross-agency networks across the Public Service. They are also funded through membership levies totalling approximately \$791,000 per year and have approx. 3.9 FTEs.
- c. **Clerical and Administration Pay Equity Claims team** – This function supports two pay equity claims involving several agencies in the public service and is expected to be completed in March 2024. The team currently has \$864,000 and 2.2 FTEs. It is funded through contributions from the agencies involved in the claims.
- d. **Public Service Fale** – The Public Service Fale was established in 2020 as a Pacific-led Public Service centre of excellence - supporting the Public Service Commissioners to achieve their goals and deliver quality public services in the Pacific. The Fale has its own appropriation due to its objectives being slightly out of scope of our core appropriation. Under the International Development Cooperation programme, the Fale receives \$4 million per year from the Ministry of Foreign Affairs and Trade. This funding is due to end in December 2024. The Fale currently has 18.9 FTEs.

## Our current state

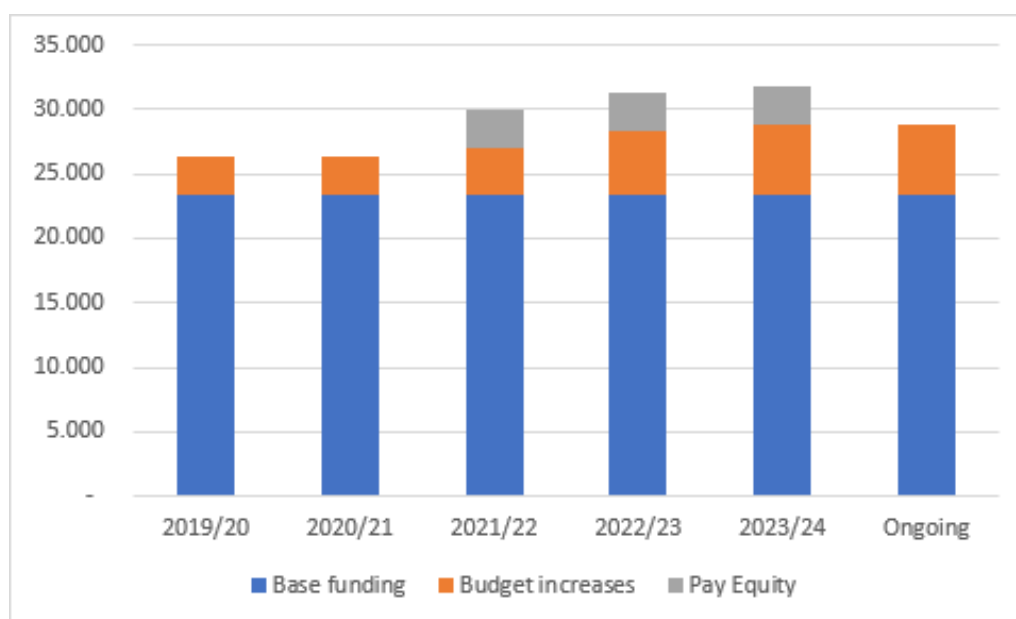
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8. Our core functions are funded from an appropriation focused on providing leadership across the Public Service and driving improved performance a system and individual agency levels. Of the broader Vote Public Service (shown in more detail in **Appendix One**) the Leadership of the Public Management System appropriation totals approximately \$39.8 million in 2023/24.
9. The Commission’s core baseline had remained unchanged for nearly 20 years but was adjusted over the past three Budgets to enable us to manage increased expectations and meet rising costs (such as remuneration costs following the Public Service Pay Adjustment). See **Graph 1** below which does not include recoverable functions.
10. Another significant change to our organisation’s make up was the shift to leave the Central Agencies Shared Services (CASS) in 2018 to improve quality and provision of strategic advice. We then revamped the model to incorporate advisory services in-house and selectively outsource certain components.
11. With the introduction of our recoverable functions, corporate functions and expansion of our system leadership role in the last decade, the Commission has grown in size. While we are still a small agency, over the last several years we have slowly increased our FTE (see **Graph 2** below), from approx. 115 in 2017, to 203 FTE in November 2023 (including

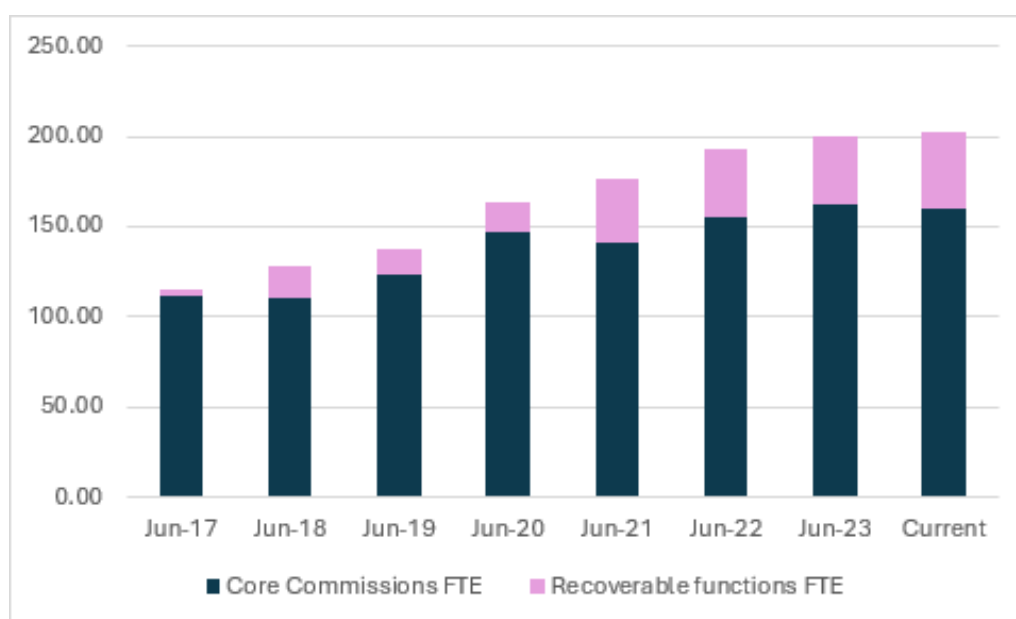
recoverable functions). Of this, the Commission's core functions are supported by around 151 FTE.

12. A very high proportion of our spending is people (approximately 83%) and there are limited levers available to manage cost pressures. Small increases to our baseline, together with continuous re-alignment around Government priorities, have allowed us to continue to meet our statutory responsibilities to date.

**Graph 1 – Baseline**



**Graph 2 – FTE**



## Looking forward

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### Managing existing cost pressures

13. In addition to the new Government's additional requirements to reduce public expenditure, the Commission is facing pressure on our available resources due to three main factors:

*a. End of time limited functions*

Our core funding will decrease by \$3 million ongoing from 1 July 2024 with the end the time-limited funding for the Pay Equity centre of excellence. The Commission will likely need to absorb some of the centre's oversight and advisory role. We have taken steps to manage this cessation of funds with a one-off conversion of \$1 million of capital funding in 2024/25. This interim management approach will give the Government the opportunity to make decisions about the operation of this function going forward.

Another of our recoverable functions, the Public Service Fale, is currently scheduled to end in December 2024. The Fale currently contributes a portion of their funding to the Commission's overheads. Further information to help inform of future options for the Fale will be provided to you separately.

*b. Ongoing wage and cost inflation*

Looking forward, we will face cost pressures as a result of inflation of both personnel and non-personnel costs. Using the Treasury's PREFU forecast for inflation and assuming a 3% remuneration increase every year, we anticipate cost pressures may total an estimated \$8.5 million over four years<sup>3</sup>.

*c. Baseline reductions of 1% already signalled by the previous government*

We have already started to identify potential cuts to deliver the \$630,000 reduction that was required by the previous Government. We understand that this will now be rolled into a single savings process ahead of Budget 2024.

14. Our assumption has been that we will have to absorb these cost pressures, which is likely to include reducing our core FTE to around 130. We have therefore begun to implement to actively manage impact of these pressures, including:
- a. *Vacancy management.* Our people make up majority of our costs. We currently only allow recruitment for high priority roles and appointments are being made on a fixed-term basis. We have a small number of fixed-term staff which we anticipate will not be renewed. As a result, we are forecasting a reduction from around 151 to 145 FTE for our core functions by the end of June 2024.
  - b. *Planning a zero-based budgeting process for 2024/25.* Natural attrition will not necessarily deliver the right mix of capability required to deliver Government priorities. We will need to ensure that our resources are deployed as needed. We propose that the Commission undertake a zero-based budgeting process to allocate resources to the right places. We will then use the mechanisms that we have in place to encourage internal re-deployment of capability (this is covered in more detail in paragraph 27 below).

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<sup>3</sup> Treasury PREFU forecast helps est. non-personnel cost pressures. Both calculations use the 2023/24 opening budget as a base year. The remuneration and inflation cost pressure assumes there will be no change to the 2023/24 opening budget.

- c. *Identifying ways to cut back on discretionary spending over the next year such as:*
    - i Slowing improvements to workforce data collection processes,
    - ii Reducing in-person engagement and events with leaders across the Public Service,
    - iii Bringing more chief executive recruitment in house. We note this could limit the ability to conduct broader searches overseas or outside of the public sector.
  - d. *Reducing our property footprint.* We are working with Government Property Group on our new accommodation at Bowen House. The new per-person costing model being used for this accommodation means that we will be able to realise savings from our reducing size, rather than being locked into a fixed amount of floorspace.
  - e. *Targeting a 10% reduction in IT expenditure.* This is a combination of changing our approach to asset management to make current fixed costs more variable, enabling a reduction in per person costs (licences and hardware) as our FTE decreases and finding efficiencies in the way we work.
15. We are also looking to decrease the amount we spend on contractors and consultants by redirecting and prioritising how we use our internal resources. Our contractors and consultants operating spend was \$4.2 million in 2022/23. The most significant spending was on interviewers to support the delivery of the clerical and administration pay equity claim, independent experts who support reviews, chief executive recruitment and the delivery of leadership coaching and programmes.
  16. If we continue to implement these savings measures, we anticipate we may be able to realise up to \$1.6m per year. While there will be some immediate benefits, fully realising these savings would take a couple of years for these measures to be implemented.
  17. As well as these measures, we have also reviewed our corporate functions for possible savings, and to review actions we have taken over the last five years since exiting the Central Agencies Shared Services model. The Commission engaged KPMG to undertake an independent review of our corporate functions to ensure they are appropriately efficient, and effective, relative to the size of the Commission. This also examined our cost allocation and determined if our costs are aligned with similar like-sized agencies (using historical benchmarking of administrative and support data adjusted for inflation, as well as other relevant information).
  18. Some of the key findings in the corporate review were that:
    - a. *The Commission's corporate costs appear cost efficient relative to benchmarks.* Relative to small entities within the New Zealand public sector, the Commission has one of the lower levels of expenditure on its corporate functions.
    - b. *Some opportunities for cost optimisation exist to drive further efficiency and increase effectiveness.* These include the measures identified above to generate workplace and IT savings, as well as implementing initiatives to continuously improve corporate function effectiveness.
    - c. *Any downsizing in line with the future financial direction of the Commission should manage risk appropriately.* The Commission will make informed choices to deliver in line with our future fiscal context.

## **Our future savings plan will continue to impact our role and resource**

19. Ahead of a specific target, we have modelled off various assumptions to estimate what the impact would be on the Commission (e.g. the impact of a 6.5% reduction to Vote Public Service, on top of the 1% required by the previous Government). In our modelling exercise, a reduction of 6.5% would result in a \$2 million reduction per year, providing a savings of around \$8 million over four years.
20. The levers above will help realise some savings, but they will not get us all the way. To achieve this amount of savings, beyond what we have already forecast, we would need to reduce FTE more significantly to a more sustainable level.
21. Again, through various assumptions regarding our falling baseline, we estimate that an affordable reduced level of full time employees on core functions might be around <sup>9(2)</sup><sub>(a)</sub> FTE (this does not include recoverable functions). Reducing our size to <sup>9(2)</sup><sub>(a)</sub> FTE would raise a number of challenges including managing the pace at which we get there; and readjusting our FTE across key priorities to maintain our statutory functions.
22. We have not included our recoverable functions within these figures because any savings proposed for our recoverable functions would return to other departments. However, there are decisions to be made about the degree of contribution from other agencies and the focus of services delivered through these functions, to realise savings for the wider Public Service. For example we will be considering a reduction to agency levies for LDC and ELN following announcements about public service savings targets.

### *Managing pace*

23. We would propose taking a staged approach to reducing our organisation's size, in turn minimising the need for costly restructuring or redundancies. Through the initial modelling exercise, we forecast a continued attrition rate of 10%. Based on this rate of attrition, it would take two years for the Commission to reach this new sustainable level.
24. As we develop our savings proposals for you, we are keen to examine options for phasing the change. This could include, for example, aiming to create an underspend in the current 2023/24 year which could be carried over to help us manage the change process.

### *Readjusting across priorities*

25. As majority of our resource is focused on delivering across the Public Service, reducing our resource to <sup>9(2)(a)</sup><sub>privacy</sub> FTE will have an impact on our ability to deliver at the same rate as we are now.
26. Given that the majority of our work programme and activity is driven by our statutory functions, there are few options to entirely stop work programmes. Instead, the choices relate to how we weight those functions, and the degree of pressure we exert on the system in different areas. We have completed an analysis of our current resource allocation against functions to help us to identify how this might be changed over time (see **Appendix Two**).
27. In recent years, we have deployed our resources to drive change across the system as needed. This can be cost effective when we are creating momentum for change, and upskilling agencies. For example, it may mean that we create one set of resources for the system, rather than each agency re-inventing the wheel. Some of these functions may have now matured to a point where resource can be shifted away and reprioritised to other areas. This will mean that agencies take more responsibility for continuing to progress work without additional system-level assistance and oversight. This may include areas like:



- a. Cutting back on our diversity and inclusion leadership role, instead agencies would be responsible for how they deliver on key priorities and report on progress;
  - b. Reducing the depth of parallel advice to Ministers on machinery of government proposals, instead lead agencies would offer advice based on our website guidance;
  - c. Reducing our leadership role with the Crown entities sector, instead engagement would be reactive, and more often managed through monitoring agencies
28. Further discussions with you will better inform which areas of our current work programme should need to be cut back on or reprioritised. We are already reviewing human resource processes to ensure that we can deliver maximum flexibility of deployment across our organisation. There is a range of mechanisms to deploy our people including matrix management, cross-Commission or virtual teams, line management changes and if appropriate, some restructuring. This will reduce the requirement for costly redundancy processes to a minimum; and reduce the disruption to our work to drive the Government's work programme.
29. These opportunities will be considered as part of a future savings model and included in the report back to you in February. This report back will also include any considerations as to how resource could be re-directed to better suit Government priorities.

### **Next Steps**

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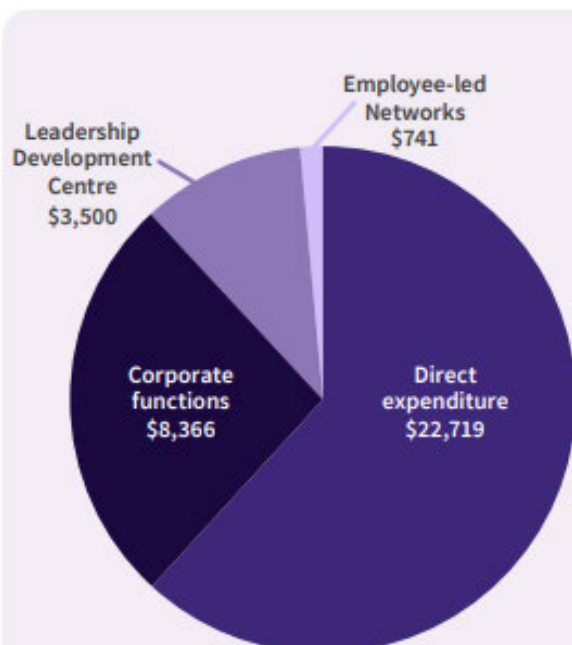
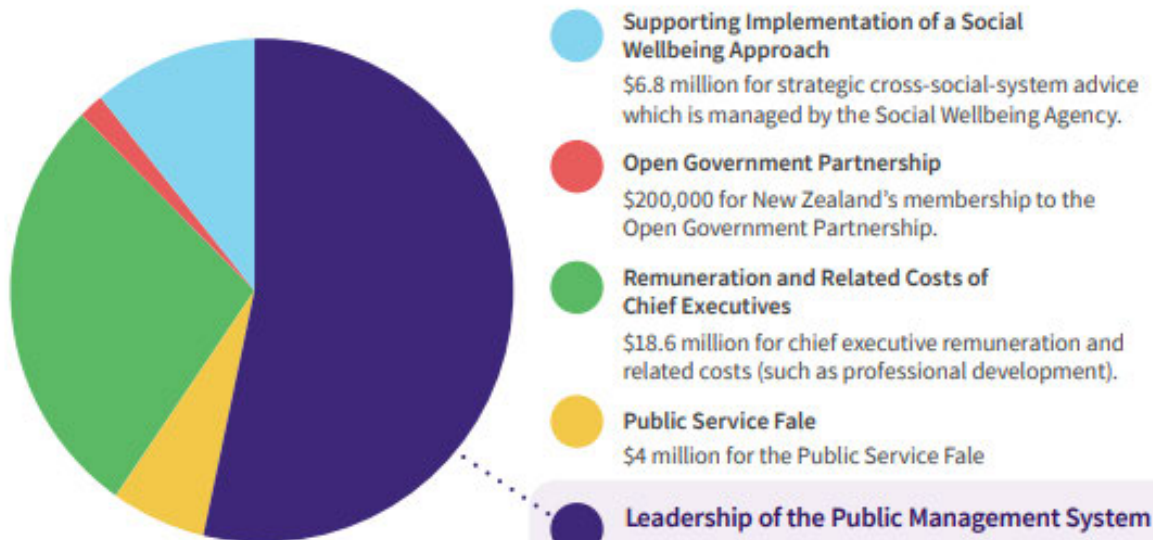
30. We recommend that you discuss this advice with officials, with a view to confirm your expectations and preferred approach to additional savings and our work programme prioritisation.
31. We will continue to work on our proposed savings plan in February 2024 as part of the Treasury process currently being put in place.

## Appendix One – Breakdown of Vote Public Service

The Public Service Commission is funded through Vote Public Service which covers the operations of the Commission itself together with the funding for chief executive remuneration, the funding for the Social Wellbeing Agency which is attached to the Commission, and the Public Service Fale.

### Vote Public Service

A breakdown of Vote Public Service by appropriation



### Leadership of the Public Management System

A breakdown of our most significant appropriation (,000s)

#### Significant Expenditure explained

##### Corporate Overhead

These are the functions that support the delivery of the Commission's direct expenditure. Included are Organisational Capability and Performance, Legal, and Communications. The biggest expenses in corporate include:

- \$5.3m for personnel
- \$1.8m for property
- \$1.5m for information technology services
- \$0.4m for CASS shared services
- \$0.3m for professional development

##### Direct Expenditure

This covers the expenditure incurred in delivering the Commission's deliverables and outputs. All teams are included except those under corporate overhead (refer below). The biggest expenses include:

- \$22.2m for personnel
- \$0.5m for chief executive recruitment
- \$0.3m for events
- \$0.3m for trust and research (kiwis count, Public Service census)

*Note these figures will not balance to the above graph as they do acknowledge any recoveries.*

## Appendix Two – Functional mapping

This map outlines the allocation of our FTE against the Public Service Commission's functions (as set out in legislation) as at 1 November 2023.

Commission's legislated functions	Corresponding roles /areas	FTE
Oversight of performance and integrity of the system	<ul style="list-style-type: none"> <li>Advise on stewardship and overall state of the Public Service</li> <li>Manage collection and use of data including on Public Service Workforce Data and trust in Public Service</li> <li>Maintain relationships with international public services, academics and institutions</li> </ul>	11.58
Promoting integrity	<ul style="list-style-type: none"> <li>Develop Model Standards with the Commissioner's minimum expectations of the Public Service and guidance and advice on integrity and conduct matters (e.g., political neutrality)</li> <li>Support the Public Service to lift integrity capability and standards of conduct and behaviour</li> <li>Support leaders to preserve, protect and nurture the Spirit of service to the community by celebrating and recognising successes</li> </ul>	9.20
Promoting transparency and accountability	<ul style="list-style-type: none"> <li>Conduct investigations and inquiries into matters of integrity and conduct</li> <li>Lead work programme to improve agencies' official information capability, practices and compliance</li> <li>Coordinate New Zealand's involvement in the Open Government Partnership</li> </ul>	7.50
Chief Executive and agency performance management	<ul style="list-style-type: none"> <li>Support the management of Public Service chief executives including reviewing the performance of the chief executives, and reviewing the performance of the public service agency that the chief executive leads or carries out some functions within</li> </ul>	17.0
Chief Executive Appointments	<ul style="list-style-type: none"> <li>Lead the recruitment, development and remuneration of Public Service Chief Executives</li> </ul>	6
Crown Entities oversight	<ul style="list-style-type: none"> <li>Support consistent and accountable governance of Crown entities, including matters relating to appointments, remuneration and all-of-government expectations</li> </ul>	3.50
Review of the design and operation of the system of government agencies	<ul style="list-style-type: none"> <li>Advise on areas of public management, governance and accountability, including delivery of priorities that cut across agency boundaries</li> <li>Advise on possible improvements to delivery of services and interagency cohesion, agency disestablishments, establishments and amalgamations, and allocations of functions between agencies</li> </ul>	10.45
Leadership strategy and capability	<ul style="list-style-type: none"> <li>Lead development and implementation of a strategy for the development of senior leadership and management capability in the public service</li> </ul>	5
Workforce strategy and management	<ul style="list-style-type: none"> <li>Lead work to address the Government workforce policy, and the development and implementation of a Public Service Workforce Strategy</li> <li>Provide data to monitor and measure workforce size, composition, capability, remuneration (incl. pay gaps) to support implementation of the workforce strategy</li> </ul>	9.50
Diversity, equity and inclusion	<ul style="list-style-type: none"> <li>Support equal employment opportunities programmes and policies for the public service, and support development of a workforce that reflects the diversity of the society it serves.</li> <li>Provide guidance and data to measure progress against diversity and inclusion indicators across the public service</li> <li>Support Public Service role to support the Crown in its relationships with Māori</li> </ul>	9.70
Employment relations	<ul style="list-style-type: none"> <li>Set standards and maintain oversight of negotiating processes including approvals of bargaining strategies and proposed settlements, supporting Public Service collective agreements</li> </ul>	7.90
Pay Equity	<ul style="list-style-type: none"> <li>Lead management of pay equity claims within the Public Service</li> </ul>	8.40
Minister and Parliamentary Services	<ul style="list-style-type: none"> <li>WPQs, OIAs, Select Committee, Minister's Office support</li> </ul>	7.0
Organisational capability and performance	<ul style="list-style-type: none"> <li>IT, Finance &amp; Assurance, People, Workplace &amp; Administration</li> </ul>	21.53
Governance and Public Affairs	<ul style="list-style-type: none"> <li>Legal, Communications, media, events and engagement , and support for statutory officers</li> </ul>	16.7
<b>Total Core Commission FTE</b>		<b>150.96</b>
Functions with recoverable funding	Leadership Development Centre (17.90 FTE), Employee Led Networks (3.88FTE), Clerical Pay Equity Claim (2.20 FTE) Fale (18.9 FTE)	42.88
Leadership Team	Public Service Commissioner, Statutory Deputy Commissioners, Deputy Commissioners	9.0
<b>All FTE incl. recoverable functions and Leadership Team</b>		<b>202.84 FTE</b>

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