



Report Title:	Outcome of the Fiscal Sustainability Programme		
Report No:	2024-0282		
Date:	26 September 2024		
To:	Hon Nicola Willis, Minister for the Public Service		
Action Sought:	Noting	Due Date	17 October 2024
Contact Person:	Gaye Searancke, Chief Executive on assignment		
Contact No:	9(2)(a) privacy		
Encl:	No	Priority:	Low
Security Level:	IN CONFIDENCE		

Background

1. In late 2023, the Public Service Commission (the Commission) increased our focus on assessing the pressures on our current and future financial position. These included the end of time-limited funding, reduction in other agency contributions for programmes, remuneration and inflation pressures, and the Government's expectations of baseline reductions of 7.5%.
2. We established a Fiscal Sustainability Programme and developed a savings target and explored a range of initiatives to achieve the reductions needed. In addition to finding savings in non-personnel spending, the Commission undertook organisational change processes to resize and reshape our workforce.
3. These change processes are now complete, and this paper outlines the approach taken, impact on our workforce and structure, the costs associated with the change process, and the savings achieved through this work and the wider Fiscal Sustainability Programme.

The Fiscal Sustainability Programme at the Commission

4. In December 2023 we provided you a briefing on our financial position. This included noting that our main cost was people, with personnel accounting for 83 percent of our expenditure. Given this, we indicated it was likely we would need to downsize our employee numbers to operate within budget going forward.
5. In early February, a Fiscal Sustainability Programme (FSP) office was established to manage the change processes that would be required to achieve the savings required. This was resourced internally with a small team of Commission employees and led by Gaye Searancke as sponsor.
6. Approximately \$1.2 million was identified in non-personnel savings, as outlined in the financial outcomes section of this report.
7. Active management of fixed term personnel and managing or holding vacancies also contributed to achieving our savings target.

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8. We engaged with employees and key stakeholders including the PSA throughout the Programme with regular communications and briefings, a dedicated programme page on the intranet, and ongoing wellbeing support for our people.
9. The Pay Equity reset and end of time-limited funding also resulted in a change process and reduction in employees. We did this before the wider organisational changes, as timing was determined by Cabinet decisions. This change process disestablished six roles and created one new role.
10. We consulted on a Commission-wide change proposal in May 2024. Following this consultation and in response to feedback, we consulted on three additional change proposals specific to teams or individual roles.
11. The design principles that underpinned the change proposals and decisions were:
 - a. Bringing together workstreams and functions where there are complimentary capabilities or the focus for stakeholder engagement and decision-making are similar
 - b. Maximising management spans of control and reducing hierarchy
 - c. Retaining the capacity and capability to meet our legislated functions and deliver our priorities as a fiscally sustainable organisation.
12. We moved to the new structure from 19 August 2024, and the FSP Office was wound up on 30 August 2024.
13. There have been no requests to review appointment decisions, and no personal grievances have been raised as a result of these change processes.

Structural and Employee changes

14. The Commission is now structured in four externally facing groups, plus one that is primarily internally focused, and supports and drives our performance as an agency.
15. Our workforce reduced from 202 FTE to 164 FTE overall (core Commission excluding recoverable functions reduced from 151 FTE to 126 FTE). This is a reduction of 18.8% of total, and 16.5% of core Commission employees as a result of the FSP. We reduced the number of tier two leaders (Deputy Chief Executives) by 43%, down from seven to four, and reduced other leaders (managers and chief advisors) by 22% from 27 to 21.
16. Two roles were vacated through targeted voluntary redundancy in specific teams.
17. As the Commission is staffed under a funding model, rather than an 'establishment model', we continue to review each vacancy as it arises to ensure we are allocating people resource where it is needed most.
18. We disestablished 25 roles and created 12 new roles. All roles were filled through redeployment or reassignment. Two of these as well as an additional vacancy were filled by employees taking a role at a lower level and therefore received the contractual entitlement to a salary equalisation payment.
19. The two new Deputy Chief Executive roles were filled by internal candidates following a recruitment process that had similar independent assessments to those used in chief executive recruitment across the Public Service. Interview panels included a Statutory Deputy Commissioner, a Chief Executive and two external panel members.

Financial context

20. In 2016/2017, the Commission received \$25 million in Crown funding. Crown funding peaked in 2021/2022 at \$32.9 million, which included \$3 million in time-limited funding for Pay Equity.
21. In 2023/2024 the Commission assessed fiscal challenges including the end of the time-limited funding, reduction in other agency contributions for programmes, remuneration and inflation pressures, and the required baseline reductions of 7.5%, all of which were combined to develop the savings target for our Fiscal Sustainability Programme.
22. Through the initiatives outlined below, we have reduced our baseline costs for 2025/2026 and outyears to \$27.1 million. This is a reduction of 23% from the peak in 2021/2022, and an increase of only 8.4% from 2016/2017 (compared to inflation of over 25% since 2017).

Fiscal Sustainability Programme outcomes

23. Reductions in the Commission's workforce are projected to save approximately \$3 million per annum. This can be split into:
 - a. \$541,000 per annum from the pay equity change process
 - b. \$2.5 million per annum (approximately) from the reduction of permanent positions
24. We realised further savings through the active management of fixed-term positions and vacancies (as mentioned above). For example, it was decided that most fixed-term employees at the time of the programme would not have their contracts renewed (about 20 people as at April 2024).
25. The \$1.2 million in non-personnel savings was achieved via a line-by-line analysis. Significant savings included:
 - a. \$280,000 from lowering funding for Public Service wide events (including the Public Service Leaders' Summit)
 - b. \$230,000 from removing contingent consultant funding (this had been used to produce election guidance in 2022/23)
 - c. \$200,000 from a reduction in property rent following the move to Bowen House. (this will not be realised until 2025/26)
 - d. \$130,000 from removing the funding for improvements to the Commission's data sets.
26. We incurred termination/end of employment related costs¹ to achieve these savings. Some final costs are yet to be paid (due to staggered end dates) but we expect total end of employment costs to be \$1.196 million. (This aligns with the prior estimate provided of costs between \$1.1 million and \$1.3 million). These expenses are split between:
 - a. 12 employees received end of employment payments to date at a total cost of \$791,000. Payments have ranged between \$46,436 and \$143,258.
 - b. Five employees have a provision recorded as their employment has not yet ended, this provision is currently \$405,000.
27. The change management process incurred further one-off costs of \$113,000. These costs covered support for affected employees, legal fees, leadership support, recruitment costs for new roles created, and resource backfill. There were also contractually obligated equalisation costs of \$112,000.

¹ Excludes payment of outstanding leave costs

28. The impact of these costs and savings can be seen in the table below. Note the savings in 2024/25 are lower due to the cost and timing of implementing the new structure.

Particulars	2024/25 (\$000s)	Outyears (\$000s)
Personnel savings (not including fixed term)	2,600	3,000
Non-Personnel savings	1,000	1,200
End of employment costs	1,196	0
Change management process costs	113	0
Total savings	2,291	4,200

29. The Commission has requested an in-principle expense transfer of its surplus from 2023/24 into 2024/25 to assist with the one-off costs of the change process in 2024/25.
30. The programme made reductions with the medium term in mind. This meant building in some financial headroom in the 2024/25 year, with the intention of possibly transferring some funding from this year into outyears to allow for modest inflationary and wage pressures in out years. As we confirm our 24/25 financial position during the year, we will likely request a funding transfer into outyears in the March Baseline Update.

Recommended Action

We recommend that you:

- a **note** the approach and outcomes of the Commission's Fiscal Sustainability Programme
- b **note** the programme made reductions with the medium term in mind by building in financial headroom in the 2024/25 year. As the Commission confirms its 24/25 financial position during the year, a request for a funding transfer into outyears in the March Baseline Update will likely be made.
- c **agree** that Te Kawa Mataaho release this briefing once it has been considered by you, with personal information withheld due to privacy reasons.

Agree/disagree.

Hon Nicola Willis
Minister for the Public Service

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Appendix 1. Te Kawa Mataaho Public Service Commission: functions and internal allocation of resources (as at 20 September 2024)

Commission's legislated functions	Corresponding roles/areas	FTE (Prior)
Oversight of performance and integrity of the system	<ul style="list-style-type: none"> Advise on stewardship and overall state of the Public Service Manage collection and use of data including on Public Service Workforce Data and trust in Public Service Maintain relationships with international public services, academics and institutions 	9.48 (11.58)
Promoting integrity	<ul style="list-style-type: none"> 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) Support the Public Service to lift integrity capability and standards of conduct and behaviour Support leaders to preserve, protect and nurture the Spirit of service to the community by celebrating and recognising successes 	6.70 (9.20)
Promoting transparency and accountability	<ul style="list-style-type: none"> Conduct investigations and inquiries into matters of integrity and conduct Lead work programme to improve agencies' official information capability, practices and compliance Coordinate New Zealand's involvement in the Open Government Partnership 	6.00 (7.50)
Chief executive and agency performance management	<ul style="list-style-type: none"> 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 	16.20 (17.0)
Chief executive appointments	<ul style="list-style-type: none"> Support Lead the recruitment, development and remuneration of Public Service Chief Executives 	5.50 (6)
Crown Entities oversight	<ul style="list-style-type: none"> Support consistent and accountable governance of Crown entities, including matters relating to appointments, remuneration and all-of-government expectations 	3.50 (3.50)
Review of the design and operation of the system of government agencies	<ul style="list-style-type: none"> Advise on areas of public management, governance and accountability, including delivery of priorities that cut across agency boundaries Advise on possible improvements to delivery of services and interagency cohesion, agency disestablishments, establishments and amalgamations, and allocations of functions between agencies 	9.35 (10.45)
Leadership strategy and capability	<ul style="list-style-type: none"> Lead development and implementation of a strategy for the development of senior leadership and management capability in the Public Service 	4.50 (5)
Workforce Strategy and management	<ul style="list-style-type: none"> Lead work to address the Government workforce policy, and the development and implementation of a Public Service Workforce Strategy Provide data to monitor and measure workforce size, composition, capability, remuneration (incl. pay gaps) to support implementation of the Workforce Strategy 	7.00 (9.50)
Diversity, equity and inclusion	<ul style="list-style-type: none"> 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. Provide guidance and data to measure progress against diversity and inclusion indicators across the Public Service Support Public Service role to support the Crown in its relationships with Māori Employee Led Networks (partly subsidised through Papa Pounamu levy) 	10.80 (9.70)
Employment relations	<ul style="list-style-type: none"> Set standards and maintain oversight of negotiating processes including approvals of bargaining strategies and proposed settlements, supporting Public Service collective agreements² 	9.00 (7.90)
Pay equity	<ul style="list-style-type: none"> Support management of pay equity claims within the Public Service 	0.00 (8.40)
Minister and Parliamentary Services	<ul style="list-style-type: none"> WPQs, OIAs, Select Committee, Minister's Office support 	6.90 (7.00)
Organisational Capability and Performance	<ul style="list-style-type: none"> IT, finance and assurance, people, workplace and administration 	18.83 (21.53)
Governance and Public Affairs	<ul style="list-style-type: none"> Legal, communications, media, events and engagement, and support for statutory officers 	12.45 (16.7)
Total Core Commission FTE		126.21 (150.96)
Functions with recoverable funding ³	Leadership Development Centre -15.80FTE (17.90 FTE), Employee Led Networks - 0.00FTE (3.88FTE), Clerical Pay Equity Claim – 0.00FTE (2.20 FTE) Fale – 15.90FTE (18.9 FTE)	31.70 (42.88)
Leadership Team	Public Service Commissioner, Statutory Deputy Commissioners, Deputy Commissioners	6.00 (9.00)
All FTE incl. recoverable functions and Leadership Team		163.91 FTE (202.84 FTE)

² Employment relations now includes Pay Equity

³ LDC and Fale were not within scope of the Fiscal Sustainability Programme. Their updated FTE is based on the latest payroll information.

**Appendix 2. Te Kawa Mataaho Public Service Commission: Executive Leadership
Team and contact details (as at 20 September 2024)**



Heather Baggott

Acting Public Service Commissioner

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Rebecca Kitteridge

Deputy Public Service Commissioner

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Gaye Searancke

Chief Executive on assignment

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Tania Ott

Deputy Commissioner Public Service Fale

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Hugo Vitalis

Deputy Chief Executive Strategy, Policy & Integrity

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Alex Chadwick

Deputy Chief Executive Workforce

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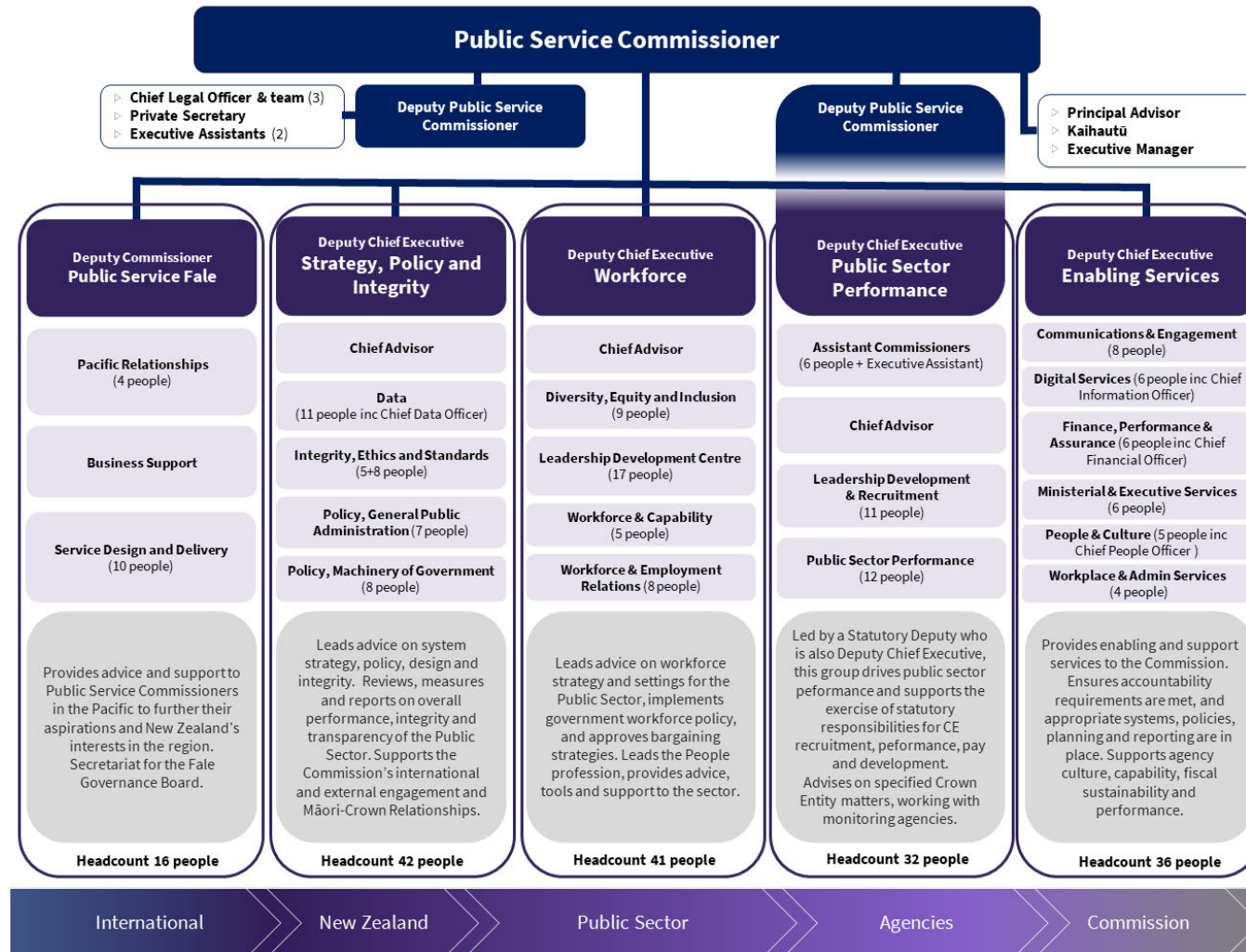
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Deputy Chief Executive Enabling Services

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Appendix 3. Te Kawa Mataaho | Public Service Commission: Structure and groups including headcount (as at 20 September 2024).



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