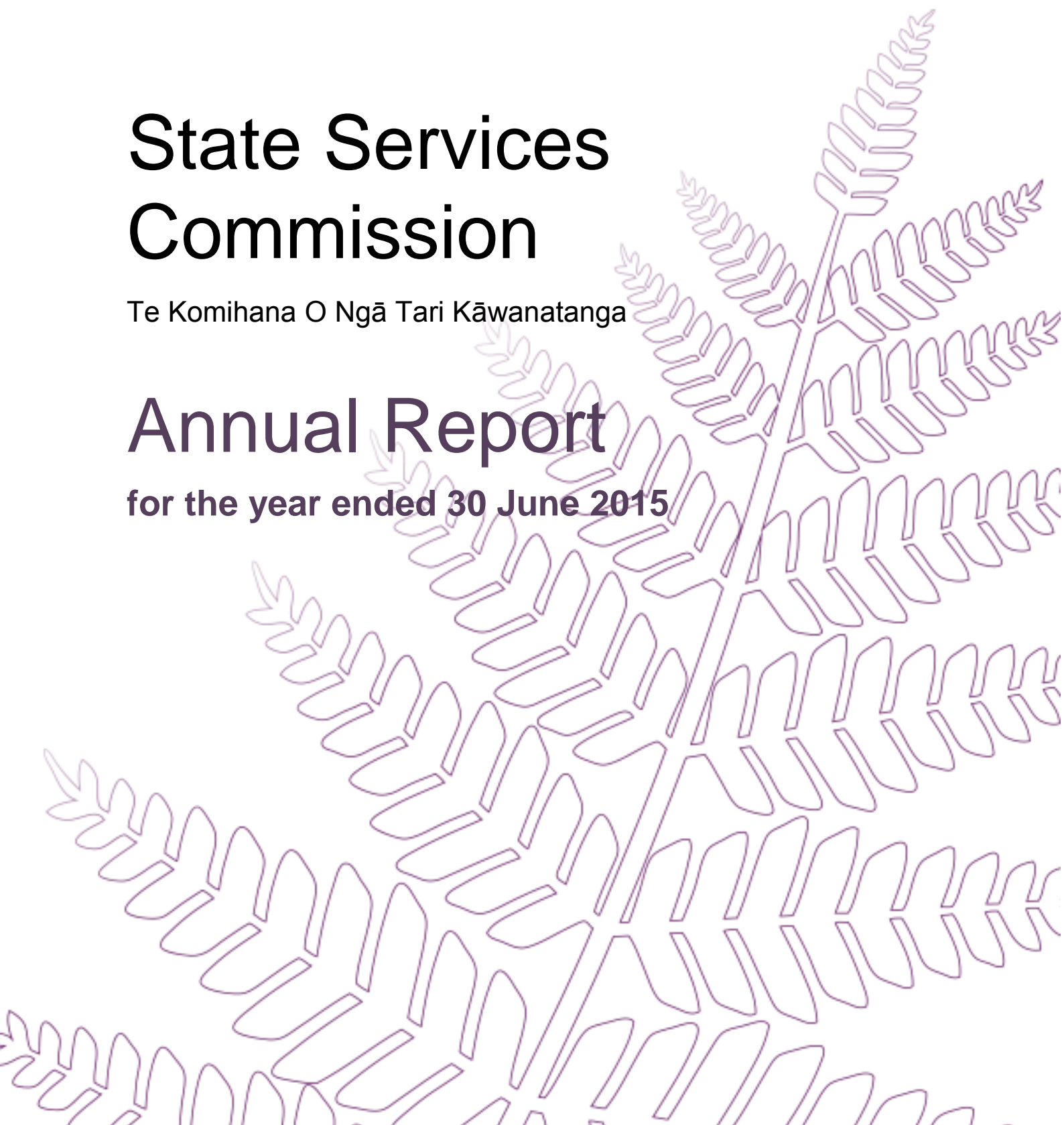


# State Services Commission

Te Komihana O Ngā Tari Kāwanatanga

## Annual Report

for the year ended 30 June 2015



Presented to the House of Representatives pursuant to the Public Finance Act 1989.

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I am pleased to present the report of the State Services Commission for the year ended 30 June 2015. The report comprises:

- the Annual Report of the State Services Commissioner on the operations of the Commissioner, provided under the State Sector Act 1988
- the Annual Report of the Chief Executive on the operations of the State Services Commission and its audited financial statements, provided under the Public Finance Act 1989.

A handwritten signature in black ink, reading "Iain Rennie". The signature is written in a cursive style with a large initial 'I' and a stylized 'R'.

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**Iain Rennie** | State Services Commissioner

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# Commissioner's Overview

This Annual Report emphasises the State Services Commission's (SSC's) role in leading change in New Zealand's State sector system. This section discusses the overall context of system change: objectives of reform, changes made to date, and level of impetus for further change.

We know that New Zealand's State Services have enormous strengths. The high integrity of our system is internationally recognised and envied, and reports on agencies, from Performance Improvement Framework (PIF) reviews, time and again demonstrate agencies' capacity for high quality responsiveness to the needs of Ministers and governments.

We also know about areas where the system needs to improve. This includes building the capability of the system to meet new challenges. The expectations of communities and governments are changing and rising. Meeting these within available resources is a major challenge and one that requires us to innovate and work more flexibly across agencies.

Three years ago we set out to address this issue in a more robust way than had ever been attempted before. The ten Better Public Services Results are the most visible aspect of a broad programme of reform that is changing the way the State sector system and its component organisations work. The ten Results are important for two reasons. First, they focus on matters of serious concern to New Zealanders and aim to bring about improvements in areas including the safety and wellbeing of children, crime reduction, educational achievement, and the accessibility of government services by New Zealand citizens and businesses. Second, they are designed to exemplify and model a way of working which, over time, will become prevalent across New Zealand's State Services.

The Results approach brings with it an increased focus on outcomes and on the difference we aim to make for New Zealanders. Consequently, the results approach brings into question our existing ways of working; it forces us to ask "Are we using scarce resources in the best way we can to achieve the outcome for customers?" Often, better results for New Zealanders will not be achieved by single agencies working in isolation from others. Consequently the Results have driven the development of new ways of working, through inter-agency collaboration. The Results approach also promotes transparency through measurement of progress. Targets for each result are set and progress is quantifiable and measurable. Progress reports are published on a six monthly basis.

The year in review has seen continued progress towards targets across the ten Results. However, perhaps more significantly, the year has also seen the implementation of broader changes that will facilitate and encourage the wider adoption of collaborative approaches to achieving results into the future. In large part, these broader changes result from the progressive uptake of tools and approaches associated with the State sector and Public Finance Reform Bill enacted in 2013. Changes to the Public Finance Act at that time greatly increased the ability to share and flexibly deploy funding between agencies. Over time this will greatly help the system shift its focus from outputs to outcomes, and from an agency-centred to a customer-centric approach.

In the Public Service, 2014/15 saw the first full year of a new approach to chief executive performance management. This has clarified and standardised chief executive performance expectations and has introduced new system stewardship obligations. These require chief executives to contribute to the collective leadership of the State Services and deliver results over the medium term. Their remuneration is linked to achieving very good performance against these goals.

Implementation of these broader changes has put us in a good position to assist Ministers to keep the Results approach relevant and steadily increasing in its application across the system.

Less visible than the Results, but vital for building momentum on system-level change, has been the progress made over the year on leadership development. The aim here is to develop leaders for the system whose skill and experience enables them to work naturally across agency boundaries, and in terms of sector and system priorities, as well as agency needs. One consequence of developing leaders in this way is that they can be more flexibly deployed between agencies according to operational needs. Leadership development was identified as a key priority in the 2013 report of the Better Public Services Advisory Committee.

In July 2014, chief executives as a group formally signed up to the Leadership Strategy for the State Services. They agreed to take collective responsibility for developing leaders as a system asset. The initiatives coming out of the Strategy are described in detail later in this Report. The overall impact, and one that is already being felt, is to give us a much better understanding of the leadership talent we have across the system, of the potential successors for a wide range of key leadership roles across the system, along with a disciplined and systematic process for identifying, assessing, and developing actual and potential leadership talent. We are at the point now where we can begin rolling out and using significant new infrastructure for leadership assessment based on the work chief executives have done to reinvigorate the Career Boards and co-produce the new Leadership Success Profile.

The work on leadership development is important in itself but is also very significant in terms of the way of working we have established. It has potential to be applied to other dimensions of workforce capability. One such issue is workforce diversity. It is important for our ability to engage with, and respond to, New Zealand communities that the State Services' workforce at all levels is similar in makeup to the society it serves. The year in review saw no major changes in the ethnic makeup of the Public Service workforce. We can note a continuation of the under-representation of Asian communities in the Public Service. At senior levels there has been a continuation of the gradual increase in the proportion of women, Māori, Pacific and Asian peoples in the Public Service senior leadership cohort. Over time we should use this gradual improvement as a springboard for more concerted action on workforce diversity.

The collective leadership role now taken by the chief executive group is highly significant in embedding the momentum for ongoing system change. Increasingly, the change process will be driven by a broader group of system leaders located throughout the State Services rather than limited to central agencies. This model of 'distributed leadership' has already been evident in the role sector leaders have played in facilitating the joint operations of clusters of agencies. It is also very evident in the work of Result leads in providing facilitation and direction setting for each of the ten Results. Over the past year we have seen these leadership roles continue to bed in. We have also enlarged the system leadership group through the appointment of several Heads of Profession. These will act as focal points for the development of key professional groups within the system and will assist chief executives to raise capability in their agencies.

The year in review has also seen consolidation of the other major new system leadership role; functional leadership. These three leadership roles; the Government Chief Information Officer and the functional leads for Procurement and Property are continuing to deliver efficiency gains working with departments and agencies of the State Services. For example, in the ICT area savings of over \$57 million have been made through updating IT infrastructure as a common capability. The consolidation of these functional leadership roles will enable them to broaden their focus to encompass a wider range of issues relating to system effectiveness. This may include such things as consideration of how changing the government property 'footprint' in communities can improve services to citizens, or how improved procurement and contracting capability can help develop the role of non-government providers in public services.

The last part of the year saw the appointment of a new State Services Commission Deputy Commissioner located in Auckland. The position is responsible for the overall leadership of the State Services in our largest city and for building the engagement between the State Services and Auckland. This appointment was a key part of our response to the recommendations of Doug McKay's 2014 review of the effectiveness of central government in Auckland. It is significant that it was one of the existing Public Service chief executives who took up this role for a three year period. It shows the chief executive leadership group, and the system as a whole, becoming increasingly agile in responding to the challenge of meeting the needs of the diverse communities that make up contemporary New Zealand.

Overall it has been a year of positive progress towards the vision of a more outcomes-oriented, customer centred State sector system. There is still much to be done but there is evidence of an increasingly dynamic response. We also know much more about the state of the system. The PIF and other measures of performance such as Benchmark of Administrative Services and Support functions (BASS) and the six-monthly reports on Better Public Services Results, provide government and the public with a far deeper picture of the system than was available previously. Moreover, the strength of the emerging leadership capability across the State sector system means that we are much better equipped to respond to identified issues and to meet future challenges. It is in this context that the SSC contributes to the leadership of system change.

A handwritten signature in black ink, reading "Iain Rennie". The signature is written in a cursive, flowing style. The first name "Iain" is written in a larger, more prominent script, and the surname "Rennie" follows in a similar but slightly smaller script. The signature is positioned above a horizontal line.

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**Iain Rennie** | State Services Commissioner



# Part A: State Services Commission's Strategic Direction

SSC's purpose is to lead a State sector that New Zealand can be proud of. Together with our central agency partners, the Treasury and the Department of the Prime Minister and Cabinet (DPMC), we have a shared outcome to lead a high performing State sector that New Zealanders trust to deliver outstanding results and value for money.

In 2014/15 SSC embedded a portfolio approach to prioritise and balance investment across our priority activities. The three externally-facing portfolios encompass five priority areas:

Portfolio	Medium-term outcome	Priority areas for 2014/15
Collective Impact	Chief executives take collective responsibility and work together to ensure that the State Services make the greatest possible difference for New Zealanders	<ul style="list-style-type: none"> <li>• Chief executive recruitment</li> <li>• Chief executive performance management</li> </ul>
System Stewardship	The State Services has the people, institutions and approach to anticipate and respond effectively to the needs of New Zealanders today and in the future	<ul style="list-style-type: none"> <li>• Leadership capability development and deployment</li> <li>• Employment relations</li> </ul>
Learning Culture	The State Services learns about what works best and uses this to improve its performance for customers	<ul style="list-style-type: none"> <li>• Performance Improvement Framework</li> </ul>

The five priority areas for 2014/15 were strongly aligned to the recommendations of SSC's Follow-up PIF review and the expectations of the Minister of State Services that SSC focus on building excellence in our core business. The priority areas are mutually reinforcing and together enable SSC to lead chief executives to drive the focus and pace of performance improvement across the State Services.

SSC also invested in two new areas that have the potential to become key levers to lifting State Services performance. The first was to host a continuous improvement centre of expertise to assist agencies to improve service delivery for their customers. This two-year pilot programme was funded through the Better Public Services seed fund. The second initiative was to establish a new senior leadership role to better connect government leaders in Auckland and support their connection and engagement with central government.

Our fourth, internally focused portfolio, Better Every Day SSC, lifts SSC's own performance and capability to act as a confident and respected leader of system change. Transforming SSC to work in the same collaborative and customer-focused way we expect of all State Services leaders was the driver for this portfolio last year.

The outcomes framework on the following page illustrates the links between our outcome, the impacts we seek, the services we provide to achieve those impacts and the measures we report against.

<b>Our purpose</b>	Leading a State sector New Zealand is proud of			
<b>Our outcome</b>	A high performing State sector that New Zealanders trust to deliver outstanding results and value for money			
<b>Our portfolios</b>	<b>Collective Impact</b>	<b>System Stewardship</b>	<b>Learning Culture</b>	<b>Organisational Health: (Better Every Day SSC)</b>
<b>Impact statements</b> What we aim to achieve over the next four years	Chief executives take collective responsibility and work together to ensure that the State Services makes the greatest possible difference to New Zealanders	The State Services has the people, institutions and approach to anticipate and respond effectively to the needs of New Zealanders today and in the future	The State Services learns about what works best and uses this to improve its performance for customers	SSC is a confident and respected system leader
<b>Our services</b> What we did this year and how	<p><b>Chief executive performance management and recruitment</b> to deliver results and incentivise collective leadership</p> <p><b>Collective governance of system priorities</b> to improve State Services performance and drive the delivery of results</p> <p><b>Providing advice on system design issues</b>, including tailoring government services to the needs of specific communities and evaluating what works in State sector reform</p>	<p><b>Leadership capability, development and deployment</b> to build the leadership pipeline and implement a common approach to developing and deploying leaders for the State Services</p> <p><b>Employment relations and effective people strategy</b> to provide employment relations advice and grow system capability to implement effective people strategies</p> <p><b>Strengthening the integrity of the State Services</b> to support the delivery of the integrity strategy for the State Services and New Zealand's Open Government Partnership commitments</p>	<p><b>Performance Improvement Framework (PIF)</b> to support agencies to improve performance, including by understanding their customers</p> <p><b>Continuous Improvement centre of expertise</b> to support State Services leaders to improve services for New Zealanders, including across agency boundaries</p> <p><b>Information strategy</b> to enable efficient and effective use of information to lift system performance</p>	<p><b>Service Delivery</b> to improve our customer focus and ensure we act as one SSC</p> <p><b>Culture</b> SSC models collaborative behaviour, prioritising and aligning our work to maximise our impact</p>

<b>Impact measures</b> (Departmental output expense 1: Management of the public management system)	<p>Percentage of result areas on track to achieve their targets</p> <p>Stakeholders agree that SSC interventions are contributing towards improvement in performance of the system (now five separate measures, see *)</p> <ul style="list-style-type: none"> <li>* Chief executive quality: percentage of stakeholders agreeing that New Zealand Public Service Chief Executives are effective leaders of the Public Service increases</li> <li>* Collective impact: percentage of stakeholders agreeing that agencies are working together more effectively than two years ago to deliver results increases</li> </ul>	<ul style="list-style-type: none"> <li>* Percentage of stakeholders agreeing that tier 2 and tier 3 capability in the New Zealand Public Service is fit-for-purpose</li> <li>* Ministers are satisfied that SSC's oversight of State sector employment relations achieves solutions within government expectations and provides for effective management of risk within and across agencies</li> </ul> <p>Respondents in the Kiwis Count survey agree or strongly agree that they can trust public servants to do what's right</p>	<p>Overall service quality of public Services improves over time</p> <p>Demonstrable benefits have been created through agencies implementing SSC continuous improvement practices (baseline year)</p> <ul style="list-style-type: none"> <li>* PIF: Percentage of stakeholders agreeing that Performance Improvement Framework reviews have led to changes that improve agency performance increases</li> </ul>	<p>A high proportion of staff participate in the SSC staff engagement survey</p> <p>Staff engagement survey results improve over time</p> <p>Audit NZ rates SSC systems and controls as at least 'good'</p> <p>SSC maintains or reduces total running costs for administrative and support functions</p>
<b>Performance against service standards</b> (Departmental output expense 1: Management of the public management system)	<p>Chief executives' performance meets the State Services Commissioner's expectations, including implementation of PIF recommendations</p> <p>Chief executive recruitment processes are completed within 16 weeks of the vacancy announcement</p> <p>Majority of agencies' Four-year Plans meet central agency criteria for a credible medium-term strategic plan</p>	<p>Identified high-potential leaders have agreed Individual Development Plans</p> <p>Senior leadership capability is redeployed or developed to cover high-priority system needs</p> <p>Bargaining and remuneration strategies approved by SSC meet Government expectations</p> <p>State servants agree or strongly agree that they know where to get good advice about integrity and conduct</p>	<p>Performance Improvement Framework (PIF) reviews are completed with identified Public Service agencies and significant Crown entities</p> <p>Agencies implementing SSC's continuous improvement practices see demonstrable benefits</p>	
<b>Resources</b>	<b>People</b> Develop and retain a capable and engaged workforce	<b>Systems</b> Use technology to more effectively share information and transfer knowledge	<b>Processes</b> Embed a culture of continuous improvement	<b>Vote State Services</b> DOE \$26.4m NDOE \$14.2m
<b>Policy Outputs</b>	<p><b>Policy advice:</b> Minister of State Services has 70% satisfaction with policy advice</p> <p><b>Policy quality:</b> Technical quality of policy advice papers rated at 70%</p> <p><b>Policy cost:</b> Total cost per output hour at \$170</p>			

## Building Excellence in our Core Business

Over the last year, SSC has:

- undertaken the first full year of a new approach to chief executive performance management. This process improved comparability between expectations, performance and reward, by appraising all chief executives concurrently. This improved the consistency of performance judgements for the chief executive group as a whole
- relaunched the Career Boards<sup>1</sup> so that chief executives take collective responsibility for developing leaders. This included establishing a new Auckland Career Board and brokering shifts of senior leaders across agencies
- developed a new Leadership Success Profile for the State Services that describes the qualities required for successful leaders
- implemented a common leadership assessment tool to assess the capability and potential of leaders across the State Services
- evolved the Performance Improvement Framework (PIF) model. This now provides a sector, or cross-agency, view of performance, and better supports agencies to improve performance based on a deep understanding of their customers
- completed 12 full PIF reviews, in comparison to six full PIF reviews in the previous 12 months
- applied the continuous improvement method developed for State Services agencies to streamline our own chief executive recruitment process and improve candidate care, and
- completed 13 appointments and re-appointments of chief executives and senior officials. This was a peak of recruitment activity compared to previous years.

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<sup>1</sup> Career Boards are made up of chief executives from across the State Services. The Career Boards match talent to roles, either to meet a specific need, or to promote individual development. The three sector Career Boards are:

- Social & Justice Career Board
- Business Facing & Natural Resources Career Board
- External & Security Career Board.

## SSC's Follow-up PIF

SSC's Follow-up PIF<sup>2</sup> was undertaken in February 2015 and found that SSC has made significant progress in the priority areas identified in SSC's first full PIF review in 2013. The Follow-up PIF focused on two areas:

- SSC's progress in meeting the expectations of chief executives and Ministers (specifically regarding chief executive recruitment, performance management and developing and deploying leadership capability), and
- the effectiveness of internal changes made following the 2013 PIF.

The Follow-up PIF found that SSC has made tangible progress in strengthening the performance of Public Service chief executives and building the State Services leadership pipeline. However, the review notes that SSC has more to do to improve the tools and services we offer chief executives. The review also noted that SSC's leadership needs to improve communication and engagement internally and externally.

SSC has activities already underway to implement the review's recommendations. These include:

- better integrating our engagement with chief executives, including at induction, through performance reviews and in succession planning
- building our analytical capability
- developing a stronger and more diverse pipeline of future State Services leaders
- learning about the needs of internal and external audiences to ensure we engage and communicate more effectively.

In May 2015, SSC measured employee engagement through the Gallup Q12 survey. Our results have continued to improve from an overall engagement rating of 3.96 to 4.09, which puts SSC at the 68<sup>th</sup> percentile of the New Zealand Public Service.

## Feedback from our Stakeholders

SSC has developed five new performance measures to reflect the views of stakeholders (chief executives, other senior leaders and Ministers) about its effectiveness in priority areas of its core business. The measures are:

- Stakeholders agree that New Zealand Public Service chief executives are effective leaders of the Public Service
- Stakeholders agree that agencies are working together to deliver results more effectively than two years ago

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<sup>2</sup> [www.ssc.govt.nz/2015-ssc-pif-follow-up-review](http://www.ssc.govt.nz/2015-ssc-pif-follow-up-review)

- Stakeholders agree that tier 2 and tier 3 capability in the New Zealand Public Service is fit-for-purpose
- Ministers are satisfied that SSC's oversight role of State sector employment relations achieves solutions within government expectations and provides for effective management of risk within and across agencies
- Stakeholders agree that PIF reviews have led to changes that improve agency performance.

From 2015/16 these five measures will replace a single measure (that stakeholders agree that SSC's interventions are contributing towards improvement in the performance of the system). To establish baselines, from which targets for improvement could be set, SSC ran a small pilot survey of 12 Public Service chief executives and six Government Ministers. We received responses from all 12 chief executives, but unfortunately no Ministers had responded by our publication deadline. The results of the survey of 12 chief executives are reported in the next sections of the Annual Report.

## Part B: State Services Commission's Services and our Performance

In this section we tell our performance story. By providing a description of the actions taken in 2014/15 in relation to each of SSC's priority areas, we explain how we progressed towards our outcomes. Feature stories are used to highlight new initiatives or significant achievements.

We describe performance against the impact measures set at the beginning of the year. Where we did not achieve the standards that we set, we explain what we are doing to address this.

We also describe the progress made on aspects of our organisational health and capability.

## A High Performing State Sector that New Zealanders Trust to Deliver Outstanding Results and Value for Money

SSC uses three measures as indicators of our progress in leading a high performing State sector that New Zealanders trust to deliver outstanding results and value for money. The three measures reflect the performance of the State sector as a whole and SSC uses them to assess the impact of our interventions on State Services performance. Each of our five priority areas and major work programmes contribute to this overall outcome.

The three measures are the Better Public Services results and targets set by Government for agencies to achieve over the next five years; New Zealanders' experience of the overall quality of public services; and New Zealanders' trust in the Public Service, both measured through the Kiwis Count survey.

### Better Public Services Results

The State Services Commissioner holds Public Service chief executives directly accountable for their agency's contribution to achievement of the Better Public Services Results and targets. This accountability is articulated in their agreed performance expectations. In addition, SSC uses an exceptional performance payment (of up to 15% of target remuneration) to incentivise chief executives to lead collectively. The potential to earn a performance payment helps drive achievement of result targets over the medium term.

Ways SSC leads result delivery include:

- recruiting and developing senior leaders who can work collaboratively to deliver Results
- supporting chief executives' collective leadership by convening biannual chief executive forums to compare progress, remove barriers and link work programmes
- convening governance groups to monitor the performance of State Services agencies in delivering Result targets
- advising Ministers on progress and next targets, and
- supporting chief executives to improve outcomes and service delivery for customers through Performance Improvement Framework (PIF) reviews and continuous improvement engagements.

There are ten Better Public Services Results. Eleven targets are used to assess programme performance.

Impact measure	2013/14 Actual	2014/15 Target	2014/15 Actual
Percentage of Better Public Services Results on track to achieve their targets	73%	81%	63.6%



Data from the Better Public Services Results 2015 mid-year report to Cabinet shows that seven out of 11 results are on track to achieve targets.

In February 2015 more ambitious targets were set for three Results where targets were on track for achievement. The failure to meet the 81% standard is due at least in part to the extension of these targets. The new targets are:

- Result 1: A 25% reduction (from 295,000 people as at June 2014 to 220,000 as at June 2018) in the total number of people receiving main benefits and a \$13 billion reduction in the long-term cost of benefit dependence. This replaced the target of a 30% reduction (from 78,000 people to 55,000 people) in the number of recipients of Jobseeker Support who have continually received benefits for more than 12 months.
- Result 6: Sixty percent of 25 to 34-year-olds will have a qualification at Level 4 or above by 2018. This replaced the target of 55% of 25 to 34-year-olds holding those qualifications by 2017.
- Result 7: A 20% reduction in total crime by 2018. This replaced the target of a 15% reduction by 2017, which has already been achieved.

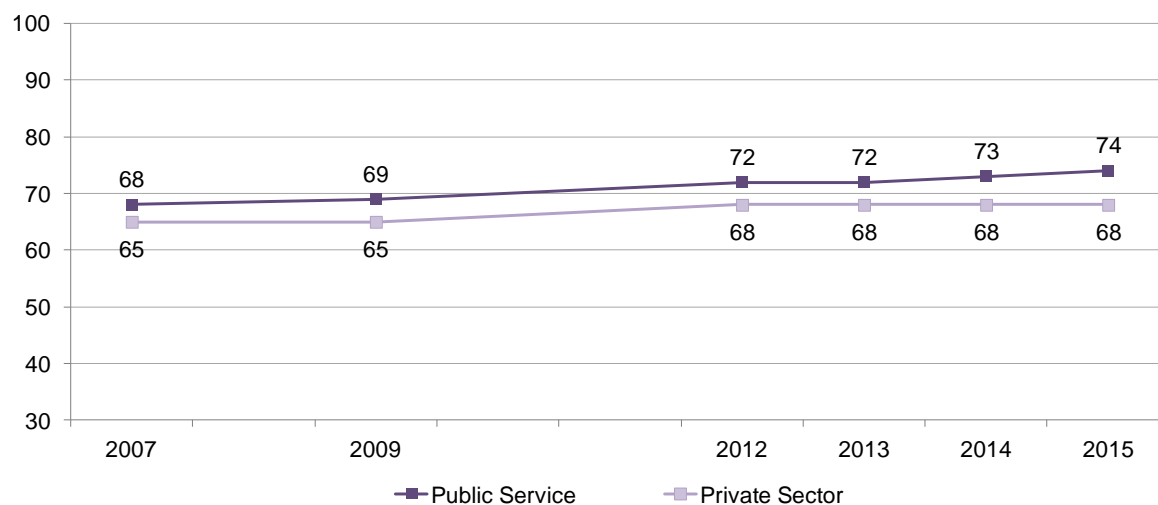
A snapshot of progress on Better Public Services Results, as at June 2015, is available on the SSC website at: [www.ssc.govt.nz/better-public-services](http://www.ssc.govt.nz/better-public-services).

## The overall service quality of Public Services improves over time (Kiwis Count)

SSC uses the Kiwi's Count survey to measure the perceptions of New Zealanders of the overall quality of Public Services, a key component of a high performing State sector.

The graph below, from the Kiwis Count report, reflects the experience of 2,365 New Zealanders who completed the survey between July 2014 and June 2015. In 2015, the annual overall service quality was 74%, a small increase on last year. The Kiwis Count score for perception of the quality of public services has increased slightly over the last several years, while the private sector comparator has stayed the same.

### Service Quality Score – public services and the private sector



Performance measure	Actual 2013/14	Performance standard 2014/15	Actual 2014/15
Overall service quality of Public services improves over time (Kiwis Count)	73	Improvement in the overall service quality score	74

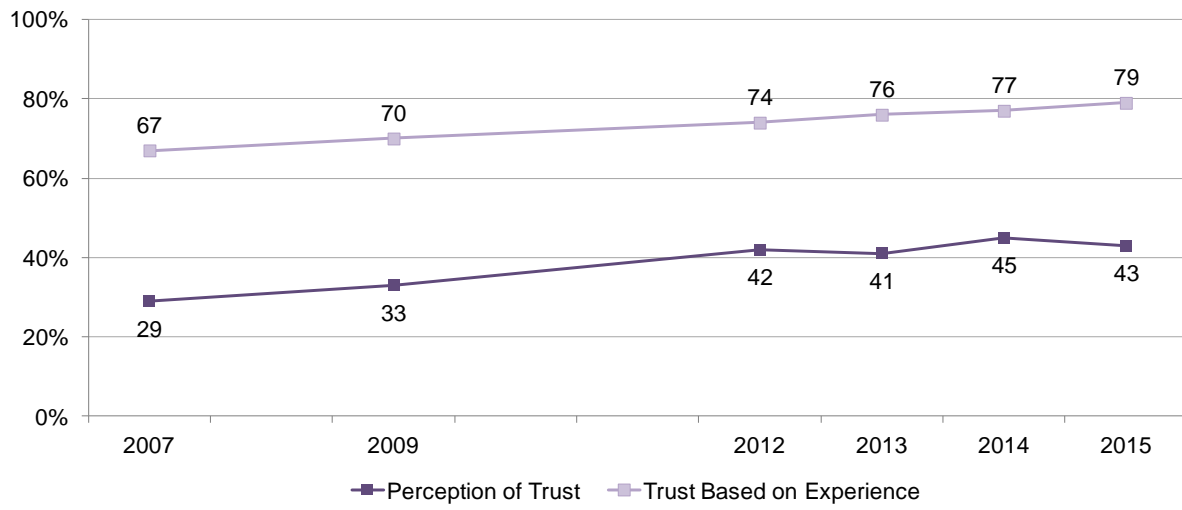
### Trust in public services

SSC also uses the Kiwis Count survey to measure New Zealanders' trust in public services. The Kiwis Count survey measures trust in public services based on both perceptions and experience. To report against our performance standard we use the response based on experience.

Impact measure	Actual 2013/14	Performance standard 2014/15	Actual 2014/15
Kiwis Count survey shows levels of trust in the public services are maintained or improved	77%	At least 70% of respondents agree or strongly agree that, based on experience, you can trust public servants to do what's right	79%

The following graph shows the trend across both experience and perception measures over time. While both measures have increased, trust in public services based on experience is consistently rated higher than trust based on perception.

### Experience and perception of trust of public services



## Collective Impact

### The outcome we aim to achieve

SSC's ambition is to lead chief executives to take collective responsibility and work together to ensure that the State Services makes the greatest possible difference for New Zealanders.

This will require:

- lifting the capability of agencies and senior leaders
- State Services leaders achieving Better Public Services results, and
- sustained improvement in customer experience of government services.

### The services we delivered

SSC's priority activities in 2014/15 were:

- chief executive performance management
- chief executive recruitment
- leading collective governance (to lift State Services performance and the delivery of Better Public Services results), and
- advice to Ministers and agencies on machinery of government matters (in particular developing government services tailored to the needs of specific communities).

### Public Service chief executive management

This report covers the first full year of the new approach to chief executive expectation setting, appraisal and remuneration. The improved approach supports:

- more regular performance dialogue between the State Services Commissioner and chief executives, Ministers and other key stakeholders
- greater responsibility on chief executives to provide evidence of their performance throughout the year
- easier comparison between expectations, performance and reward
- more consistent performance judgements across the chief executive group, and
- improved identification of common performance issues.

## Expectation setting and appraisal

This year, also for the first time, all Public Service chief executives were appraised against a new, common set of performance expectations. Chief executives must show that they are:

- delivering core business
- responsive to Ministers
- building organisational capability for the future (organisational stewardship)
- demonstrating fiscal responsibility, and
- contributing to collective leadership to build the capability and lift the performance of the State Services and deliver results over the medium term (system stewardship).

Part of system stewardship is the responsibility to reduce the overall costs to the Public Service of common business functions including ICT, procurement and property management.

In addition, SSC has introduced a common performance management cycle. The performance of all chief executives is now appraised annually at 30 June, rather than at the anniversary of their appointment. This makes it easier to moderate performance judgements and improve transparency for the chief executives. By standardising when chief executive expectations are set, to match departmental financial and performance management cycles, SSC has enabled chief executives to cascade expectations to other senior leaders.

## Remuneration

In January 2014 SSC adopted a new approach to remuneration for Public Service chief executives. This step provided comparability between expectations, performance and reward.

Under the new approach, chief executive remuneration is set to reflect the scope and complexity of each role, and the knowledge and expertise required. Remuneration is generally only reviewed mid-way through a term of more than three years, or at reappointment. These reviews take into account the chief executive's position in the applicable remuneration range and their overall performance rating.

Ten percent of a chief executive's remuneration is withheld until performance has been assessed at the end of the year. This 'earn back' is granted only if the chief executive achieves satisfactory performance against the common expectations.

Chief executives can potentially earn an additional performance payment of up to 15% of their remuneration. This payment is only for exceptional performance against the system stewardship expectation, based on their contribution to collective leadership which lifts the performance of the State Services.

## Outcomes of the 2014/15 chief executive performance and remuneration review (relating to the 2013/14 performance year)

Ten Public Service chief executives were due a remuneration review during 2014/15 (relating to the 2013/14 performance year). This resulted in remuneration increases of between 0 and 4% with an average increase of 1.7%, and translated into an average 0.7% movement across the Public Service CE cohort (all Public Service CEs except those whose remuneration is set by the Remuneration Authority).

During the 2014/15 year, 74% of the eligible chief executives received the full 10% earn back payment (relating to the 2013/14 performance year) and the majority of others received 8%.

Five chief executives received a portion of the 15% exceptional performance payment, with payments ranging between 3% and 5% of target remuneration.

As we bed in the new approach to performance management, chief executives are becoming familiar with how it operates and what it means to them. SSC anticipates that having greater comparability across the group will keep chief executives incentivised to perform, while remaining within budgeted expectations of chief executive remuneration.

## Leadership effectiveness

To understand our own performance, SSC has introduced new performance measures that reflect the views of stakeholders (chief executives, other senior leaders and Ministers) about SSC's effectiveness in key areas.

Impact measure	2014/15 Target	2014/15 Actual
Stakeholders agree that New Zealand Public Service chief executives are effective leaders of the Public Service	Baseline from which a target will be set for 2015/16	Average score: 4 out of 5
Stakeholders agree SSC's interventions help New Zealand Public Service chief executives be effective leaders of the Public Service	Baseline from which a target will be set for 2015/16	Average score: 2.8 out of 5

On behalf of SSC, AC Nielsen administered a small pilot survey of 12 Public Service chief executives. The survey had a 100% response rate from the 12 chief executives we approached. The survey results will establish a baseline from which targets will be set for 2015/16. SSC will run the survey again next year, potentially with a wider group of respondents. The measures replace our previous measure "that stakeholders agree that SSC's interventions are contributing towards improvement in the performance of the system."<sup>3</sup>

<sup>3</sup> Five initial measures from the survey were developed for inclusion in the 2015/16 Estimates of Appropriation. The survey was then expanded to include other questions. These have been included in this year's Annual Report, where appropriate, to give fuller information.

While only 8% of respondents agreed or strongly agreed SSC's interventions have helped Public Service chief executives to be effective leaders, a further 33% of respondents were neutral. SSC has made changes to chief executive expectation setting, appraisal and remuneration. These should improve recognition of the support we offer chief executives. SSC has introduced new initiatives over the past year, including new collective governance arrangements, executive away-days, and programmes to support development of the leadership pipeline. SSC expects these, with the roll-out of leadership and talent programmes, to have appreciable impact on leadership performance in the medium term.

## Feedback from stakeholders on the changes

In November 2014 SSC sought chief executive feedback on early implementation of the new approaches to executive management. The review found that:

- overall, chief executives viewed their new performance expectations as going in the right direction. Chief executives and SSC recognise it will require several performance cycles to maximise the value of the changes
- as at November 2014, regular performance conversations were not yet an integral part of SSC's practice, and
- the moderation process (comparing chief executives as a group) introduced greater rigour to SSC's decision-making and improved SSC's understanding of performance.

In response to feedback from chief executives, SSC has re-designed some of the performance information required from chief executives. Further work has been undertaken to improve guidance to chief executives on the common expectations, explain the new approach to remuneration, and improve the efficiency and effectiveness of the appraisal process. Several new analytical tools were developed for the performance review round undertaken at the end of the 2014/15 year.

A chief executive reference group is continuing to provide feedback to ensure the changes are effectively embedded and SSC continues to improve its executive management practice.

## Public Service chief executive appointments

There was a peak of concurrent appointments between February and June 2015. Four Public Service chief executives with a direct reporting line to the State Services Commissioner were appointed between February and June 2015 and four chief executive reappointments were managed by the State Services Commissioner over the same period.

**Chief executives appointed under section 35 of the State Sector Act 1988:**

Chai Chuah	Ministry of Health
Vicky Robertson	Ministry for the Environment
Brook Barrington	Ministry of Foreign Affairs and Trade
Paul James	Ministry for Culture and Heritage

**Chief executives reappointed under section 36 of the State Sector Act 1988:**

Ray Smith	Department of Corrections
Martin Matthews	Ministry of Transport
Andrew Kibblewhite	Department of the Prime Minister and Cabinet
Martyn Dunne	Ministry for Primary Industries

**Appointments on behalf of Ministers**

Two appointments were managed by the State Services Commissioner on behalf of the Prime Minister and two reappointments of senior officials were also managed on behalf of Ministers.

Appointment made by the Governor-General in Council on the recommendation of the Prime Minister under section 12 of the State Sector Act 1988:

Andrew Hampton	Deputy State Services Commissioner (Term of appointment: 1 May 2015 – 14 June 2015; Acting: 15 June 2015 to 9 August 2015)
Debbie Power	Deputy State Services Commissioner (Term of appointment: 15 June 2015 – 14 June 2020; Commenced in the role: 10 August 2015)

Appointment made by the Governor-General in Council on the recommendation of the Prime Minister under section 7 of the House of Representatives Act 1988:

David Wilson	Clerk of the House of Representatives
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Reappointment made by the Governor-General in Council on the recommendation of the Prime Minister under section 13(1) of the Policing Act 2008:

Viv Rickard	Deputy Police Commissioner
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Reappointment made by the Governor-General in Council on the recommendation of the Prime Minister under sections 66(3)(b) and (d) of the Legislation Act 2012:

David Noble	Chief Parliamentary Counsel
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## Collective governance

In 2014/15 SSC convened two biannual two-day meetings for Public Service and key Crown entity chief executives. At the first chief executive forum in March 2014, the chief executives committed to operating as the collective leaders of State Services' performance. The two forums in 2014/15 enabled the chief executives to compare approaches and link work programmes to lift State Services performance and the delivery of results.

Two governance groups were also established in 2014 to take a system-wide view to monitoring the performance of the State Services.

The State Sector Reform Leadership Group (SSRLG), is chaired by the State Services Commissioner, and comprises the Secretary of the Treasury, the Chief Executive of DPMC, and other Public Service, private sector and Crown entity chief executives. The group monitors progress on cross-agency activities, including Better Public Services results and targets, and identifies issues critical to building capability and lifting performance across the State Services.

The State Sector Reform Advisory Group (SSRAG) is a group of senior public servants from SSC, the Treasury, DPMC, and the office of the Government Chief Information Officer. The group provides assurance to the SSRLG on the successful delivery of cross-agency initiatives to build capability, lift performance and deliver results.

## Working together

The Better Public Services results programme was launched by the Prime Minister in March 2012 and SSC has been working since then to incentivise and support senior leaders to work collaboratively to deliver the result targets. It is likely that the higher rate of agreement that SSC's interventions have helped agencies to work collaboratively reflects that this approach has been in place for a longer period than the changes to chief executive management.

Impact measure	2014/15 Target	2014/15 Actual
Stakeholders agree that agencies are working together more effectively than two years ago to deliver results	Baseline from which a target will be set for 2015/16	Average score: 4 out of 5
Stakeholders agree that SSC's interventions help agencies work together more effectively to deliver results	Baseline from which a target will be set for 2015/16	Average score: 3.1 out of 5

## Tailoring government services to the needs of specific communities

Alongside leading collective approaches to governing the performance of the State Services, SSC provided advice to Ministers and chief executives on machinery of government matters. The focus of our advice has been how to develop government services tailored to the needs of specific communities, in particular those in New Zealand's largest city, Auckland.

## Connecting senior leaders in Auckland

Auckland represents about 34% of New Zealand's populace. Few global cities constitute such a large proportion of their country's population and Auckland is continuing to experience rapid growth. Auckland also has one of the world's most diverse populations and much of its growth is fuelled by migration. While this creates opportunity and a sense of dynamism, social deprivation is significant in parts of the region.

A 2014 review of central government effectiveness in Auckland argued that improving the returns from central government investment in Auckland would materially shift New Zealand's social and economic wellbeing. However, the review suggested that, although significant resources and enablers already exist, central government leadership in Wellington is not well positioned to respond to the needs of Auckland.

In response to the review, the State Services Commissioner created a new Deputy Commissioner role in Auckland. Lewis Holden, previously chief executive of the Ministry of Culture and Heritage, was appointed to the role in May 2015. He is working with central agency colleagues, State sector agencies, the Auckland Council and others to improve the effectiveness of engagement in Auckland, initially focusing on the following three areas:

- Leadership of the Auckland Policy Office (APO)

The APO is both a branch office for eight government agencies and a collaboration space for government agencies engaging in Auckland. The APO leadership team is adopting a shared services approach to the office's operations.

It is increasingly important for government leaders to understand the opportunities and challenges that Auckland represents. The APO is becoming a resource for agencies and individuals who want to better understand the needs of Auckland and its communities. The APO can play a valuable role in building a pipeline of State Services leaders better able to reflect and serve New Zealand's diverse communities.

- Strengthening the dialogue between central and local government

Building on work already underway to improve coherence and cooperation across government agencies in Auckland is a focus of the Deputy Commissioner Auckland role. Part of this work is to review and refresh the various mechanisms for sharing information and formulating strategy.

The establishment of a single Auckland Council affects how central government operates in Auckland. For example, questions have been raised about the degree to which the Auckland-based staff of Public Service departments should be able to make financial and other commitments on behalf of their agencies. More generally, there is enthusiasm for increased and better quality dialogue between Auckland Council and central government.

- Auckland-specific initiatives

The Deputy Commissioner Auckland is a member of the governance group for the Auckland Transport Alignment Project, tasked with brokering agreement on a strategy for addressing Auckland's land transport challenges. He also participates in the Auckland Social Sector Leaders Group. This group straddles economic and social issues and has a particular focus on improving outcomes in South Auckland.

## System Stewardship

### The outcome we aim to achieve

SSC's aim is that the State Services has the people, institutions and approach to anticipate and respond effectively to the needs of New Zealanders today and in the future.

This requires:

- building the State Services' leadership pipeline through common approaches to identifying, developing and deploying leaders
- ensuring the Public Service has the capacity and capability to anticipate and respond effectively to the changing needs of New Zealanders
- that government institutions and public servants' behaviour support and build legitimacy, including by delivering on New Zealand's Open Government Partnership commitments.

### The services we delivered

SSC's priority activities in 2014/15 were:

- implementing the Leadership Capability, Development and Deployment (LCDD) programme to build the leadership pipeline across the State Services and introduce common approaches to identifying, developing and deploying leaders
- employment relations advice and growing agency capability to develop effective people strategies, and
- strengthening the integrity of the State Services (providing State servants with guidance on integrity and conduct).

### Leadership capability, development and deployment

At the biannual chief executive forum in July 2014 Public Service chief executives formally signed up to the Leadership Strategy for the State Services. They agreed to take collective responsibility for developing leaders as a system asset.

### Talent management

Implementing the programme to build the 'pipeline' of leaders ready to step up and fill critical roles across the State Services is one of SSC's five priority areas agreed with the Minister of State Services. Priority activities in 2014/15 were:

- relaunching the Career Boards (including establishing a new Auckland Career Board) where chief executives take collective responsibility for developing leaders and brokering shifts of senior leaders across agencies

- co-producing a new Leadership Success Profile with agency HR practitioners and the Leadership Development Centre, to provide a consistent way to describe the characteristics and qualities of successful State Services leaders
- implementing a common leadership assessment tool that assesses the capability and potential of State Services leaders against the new Leadership Success Profile. Several hundred senior leaders will be assessed using this tool by the end of 2015
- procuring and piloting a Talent Management Information System that will be a single repository of information about talent, skills, leadership experience and potential. SSC joined with the Ministry of Social Development (MSD) and the Ministry of Business, Innovation and Employment (MBIE) to procure the system<sup>4</sup>. SSC is currently piloting the system and when testing is complete it will be made available to agencies for their use, and
- producing and distributing a talent management toolkit to help agencies identify and develop leaders with the skills and qualities to deliver results.

## Early in careers

As well as high potential senior leaders, a key priority for SSC in 2014/15 was supporting career development for interns, graduates, and emerging leaders.

In December 2014 the State Services Commissioner hosted a 'Welcome to the Public Service' event for 120 interns, who were introduced to prospective employers. In February 2015 SSC convened the same group to showcase specific Public Service careers, with presentations by senior leaders from the Department of Internal Affairs, Inland Revenue and NZ Police. SSC is currently developing an online introduction to working in the public sector, and will continue to host events promoting State Services careers to graduates and summer interns.

## Measuring our progress

### Building the leadership pipeline

Results below are from the pilot survey of 12 chief executives, administered by AC Nielsen on SSC's behalf:

Impact measure	2014/15 Target	2014/15 Actual
Stakeholders agree that tier 2 and tier 3 <sup>5</sup> capability in the New Zealand Public Service is fit-for-purpose	Baseline from which a target will be set for 2015/16	Average score: 3.3 out of 5
Stakeholders agree that SSC's interventions help make tier 2 and tier 3 capability in the New Zealand Public Service fit-for-purpose	Baseline from which a target will be set for 2015/16	Average score: 3.3 out of 5

<sup>4</sup> The Talent Management Information System is an SSC asset for accounting purposes.

<sup>5</sup> Tier 2 and 3 = senior management

This is a new priority area for SSC since changes to the State Sector Act in 2013 gave the State Services Commissioner strengthened oversight of the development of State Services leaders. The Government Chief Talent Officer was appointed in May 2014 to oversee delivery of the leadership development and deployment programme and act as Head of Profession for HR in the Public Service. It is likely that the rating reflects that the programme of work is in its early stage.

## Employment relations and effective people strategy

SSC advised Ministers, Public Service departments and a small number of other government agencies on employment relations matters, collective bargaining and remuneration. This supported agencies to achieve agreements that align with the Government's expectations for pay and employment conditions in the State sector. SSC uses the Labour Cost Index (LCI) published by Statistics New Zealand to monitor whether bargaining outcomes are in line with, or below, those in the private sector. In 2014/15 Public Service wage growth was 1.2% compared to 1.8% for the private sector. The year to date has been very busy for collective bargaining, with a steady stream of agreements being achieved.

## Ensuring agencies are developing effective workforce strategies

SSC and the Treasury support Public Service agencies to develop Four-year Plans which provide an integrated medium-term view of business, workforce and financial strategy. Thirty-Four Public Service and non-Public Service departments completed Four-year Plans in 2014/15. SSC upskilled agency workforce planners by providing masterclasses on technical aspects of workforce planning and providing opportunities for peer support. An important product of this work was a common workforce environmental scan undertaken by 21 agencies to inform their Four-year Plans.

## Diversity

The table below, based on the Household Labour Force Survey from Statistics New Zealand shows that the ethnic composition of the Public Service is broadly similar to the New Zealand working-age population. The European group is the largest in the Public Service and the New Zealand working-age population. Māori represented 16.6% of the Public Service, and a slightly smaller proportion of the working-age population. Pacific people, who comprise 5.5% of the working-age population, also have a relatively higher share of Public Service employment at 8.0%. In contrast, the Asian group comprised 8.2% of the Public Service and 12.5% of the working-age population.

Representation of ethnic groups in the Public Service, 30 June 2010-14

	2010	2011	2012	2013	2014	New Zealand Working-Age Population (2014)
Māori (%)	16.4	16.4	16.4	16.5	16.6	12.7
Pacific People (%)	7.6	7.6	8.0	7.7	8.0	5.5
Asian (%)	7.4	7.4	7.0	7.6	8.2	12.5
Middle Eastern, Latin American, African (%)	1.0	1.0	1.1	1.2	1.1	1.0
European (%)	72.6	72.5	73.1	72.0	70.7	73.3

When recruiting Public Service chief executives, SSC collects diversity data and aims for diversity in interview panels. SSC does not propose to set targets for diversity in the senior Public Service due to the small number of roles available. Ethnic groups are still underrepresented at chief executive level, notwithstanding the recent appointment of New Zealand's first Asian Director-General of Health.

The SSC's Human Resource Capability (HRC) Survey 2014 shows progress over the past five years in the diversity of Public Service senior leaders. Women now constitute 42% of the senior leadership group, while in 2010 that figure was 39.8%. Māori representation in senior leadership has grown from 8.3% to 12%, Pacific peoples' representation has grown from 1.5% to 1.8%, and Asian representation has grown from 1.7% to 2.4%.

Public Service chief executive performance expectations agreed with the State Services Commissioner note the chief executive's role in developing more diverse and inclusive workforces. For 2015/16 the Chief Executive Expectations ask chief executives to "set the priorities to make your department a healthy, diverse, inclusive, productive and innovative workplace". At a regional level, the newly established Auckland Career Board aims to have a government leadership profile that matches the community.

## Monitoring the size of the public sector

SSC monitors the cap<sup>6</sup> on the size of the public sector and reports the results to the Government every six months. In 2014/15, SSC regularly engaged with agencies on their workforce numbers to ensure they were managing within their cap responsibilities. As at 31 December 2014, there were 36,107 full-time equivalent positions in core government administration, which was 368 below the cap.

## Measuring our progress

### Effective employment relations

As part of its small pilot survey of key stakeholders SSC sought feedback from six Government Ministers on the effectiveness of SSC's oversight of State sector employment relations:

Impact measure	2014/15 Target	2014/15 Actual
Ministers are satisfied that SSC's oversight of State sector employment relations achieves solutions within Government expectations and provides for effective management of risk within and across agencies	Baseline from which a target will be set for 2015/16	Not available at time of publication

<sup>6</sup> For more detail refer to [www.ssc.govt.nz/capping-dec14](http://www.ssc.govt.nz/capping-dec14)

The pilot survey asked chief executives their view of the effectiveness of SSC's support for employment relations:

Impact measure	2014/15 Target	2014/15 Actual
Stakeholders agree that SSC's oversight of State sector employment relations achieves solutions within Government expectations	Baseline from which a target will be set for 2015/16	Average score: 3.6 out of 5
SSC's oversight of State sector employment relations effectively manages risk within and across agencies	Baseline from which a target will be set for 2015/16	Average score: 3 out of 5

## Strengthening the integrity of the State Services

During 2014/15 SSC initiated a project to support positive workplace behaviours. Together with the Public Service Association (PSA), SSC developed an aspirational guide to workplace behaviour. The guide complements *Preventing and Responding to Bullying* published by WorkSafe in 2014, and is aligned to a new Public Service sexual harassment policy developed with senior HR practitioners and the PSA (described below). The guide to positive workplace behaviours will be launched in 2015/16.

The resignation of the Chief Executive of the Canterbury Earthquake Recovery Authority (CERA) in November 2014, following an investigation by SSC into the conduct of the chief executive after a complaint by a CERA staff member, prompted public debate on appropriate conduct for Public Service leaders. In response, SSC worked with senior HR practitioners and the PSA, to develop a Public Service sexual harassment policy. The new guidelines advise government employees on how to prevent and respond to sexual harassment in the workplace.

In addition, from 2015/16 the number of incidents of sexual harassment recorded by Public Service agencies will be publicly reported through SSC's annual Human Resources Capability Survey. The EEO Commissioner continues to be involved in SSC's work to support positive workforce behaviour across the State Services.

Part of SSC's role in supporting integrity is to host, as needed, inquiries into specific issues. In 2014/15 SSC provided administrative support and facilities for an inquiry into the departure of Phillip John Smith/Traynor from New Zealand.

SSC's provision of legal and integrity advice is part of our overall commitment to increased transparency in the public sector. Another method for improving transparency is our participation in the Open Government Partnership, as described below.



### Open Government Partnership

In October 2013 New Zealand joined the Open Government Partnership (OGP), a forum of countries working to make their governments more open, accountable and responsive to citizens. OGP member countries are required to develop Action Plans outlining how they will work towards OGP principles and values. SSC worked with the Department of Internal Affairs and Land Information New Zealand, and consulted with stakeholders, to develop an Action Plan based on four initiatives. These are:

- Better Public Services Result 10 (transactions with government can be made easily in a digital environment)
- the Government ICT Strategy and Action Plan to 2017 with a focus on Action Area 4 (Accelerate the release of public information and data re-use)
- the Kia Tutahi relationship accord (to enhance the citizen-government relationship), and
- responding to the 2013 Transparency International New Zealand Integrity System Assessment report.

All OGP countries work with stakeholders in developing and implementing Action Plans. The State Services Commissioner established a stakeholder group with membership representing a range of perspectives from media, civil society, academia and local government. The appointment of the group demonstrates the Government's commitment to work with New Zealanders.

Given New Zealand's reputation as a world leader in transparency and openness, New Zealand's involvement in the OGP represents an opportunity to showcase and share our strengths with OGP partners. Participating in the forum also provides the opportunity to learn from our peers and further build and enhance New Zealand's openness and transparency in government.

### Disclosure of chief executive expenditure

SSC requires the chief executives of all Public Service departments and statutory Crown Entities to disclose their expenses, gifts and hospitality. The disclosures are made annually on agency websites with links posted on [www.data.govt.nz](http://www.data.govt.nz). Chief executives' expenditure must be in line with the State Services Standards of Integrity and Conduct and the agency's own policies. The disclosure requirement promotes transparency. It balances the need for chief executives to have the resources to do their job effectively with responsible use of how public money is spent. It mitigates the risk of gifts and hospitality unduly influencing senior public servants.

### Legal and integrity advice

The pilot survey asked chief executives their view of the effectiveness of SSC's legal and integrity advice to Public Service agencies:

Impact measure	2014/15 Target	2014/15 Actual
Stakeholders agree that legal and integrity advice provided by SSC helps improve integrity and conduct across the Public Service	Baseline from which a target will be set for 2015/16	Average score: 3 out of 5



Legal and integrity advice is part of the Commission's core business. This rating from chief executives contrasts with the results of the 2013 integrity and conduct survey, which showed high levels of integrity in the State Services.<sup>7</sup> The 2013 survey also showed that the majority of staff were familiar with their agency's code of conduct, but didn't necessarily know about SSC as the source of integrity information.<sup>8</sup> SSC is working to update the suite of integrity advice that we provide to State servants and agencies. The intention is to ensure integrity advice reaches State servants, whether directly from SSC or via good information within their agencies. SSC will investigate the reason for the variance in views from the two surveys.

## Learning Culture

### The outcome we aim to achieve

SSC's aims to ensure that the State Services learns about what works best and uses this to improve its performance for customers.

This will require:

- the methodical use of customer information and insights to improve performance
- new ways of thinking about policy and implementation that better meet the needs of customers.

### The services we delivered

SSC's priority activities in 2014/15 were:

- developing the Performance Improvement Framework (PIF) model to provide a sector, or cross-agency, view of performance, and to better support agencies to improve performance around understanding their customers
- maintaining a continuous improvement centre of expertise to support leaders to improve services for New Zealanders, including across agency boundaries, and
- developing an information strategy to enable the efficient and effective use of information to lift system performance.

## Performance Improvement Framework (PIF) reviews

The PIF programme is one of SSC's five priority areas. It is a key intervention to lift the performance of the State Services to deliver outstanding results for New Zealanders.

PIF reviews start by asking what future contribution New Zealand needs from this agency, or group of agencies (its performance challenge). It then assesses how well placed the agencies are to deliver on this vision. The review process supports senior leaders to identify priority areas to lift performance.

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<sup>7</sup> 80% of respondents agreed or strongly agreed that their agency demonstrated the standards of integrity and conduct.

<sup>8</sup> For example, 60% of respondents had not heard of SSC's political neutrality guidance.

The benefits of the PIF approach are that:

- senior leadership teams get a good picture of the potential for their agencies and how to improve
- central agencies get a system-wide diagnosis of what is good and where agencies can improve
- ministers get assurance that the agencies they are responsible for are constantly seeking ways to improve how they do business and deliver value for the taxpayers' investment, and
- the public can see that agencies are determined to improve government services and their delivery, and are transparent about that.

After each PIF review, SSC seeks feedback from chief executives. This enables us to continually improve PIF design and practice. In 2014/15, the most common positive comments were related to engagement with the PIF lead reviewers and the discipline of agencies doing a self-review before the PIF.

SSC has learnt from chief executives that PIF reviews are most valuable when assisting a new chief executive or when helping embed major change programmes. The main areas for improvement identified by chief executives are the length of time to publication, and the challenges for agencies, lead reviewers and central agencies in understanding and responding to complex issues identified in the review process.

## Refresh of the PIF model: Customer at the heart

In 2014/15, the PIF model was refreshed to better reflect how agencies are delivering on the reform agenda of Better Public Services to build and deliver services. The aim of the refresh is to put the customer at the heart of the framework. The improved PIF agency model better captures how agencies incorporate customer-centric thinking, design and delivery into their work. It also captures how they deliver increased value over time. The model now includes an agency's Four-year Excellence Horizon, which describes its medium-term performance challenge.

The new agency model is being tested in PIF reviews from September to November 2015, with formal release in early 2016.

### **New Zealand Trade and Enterprise improves through PIF**

New Zealand Trade and Enterprise (NZTE) was one of the first Crown entities to undertake a PIF review. The 2011 PIF review noted NZTE's strengths, but also identified areas for improvement. A PIF Follow-up review in 2013 described impressive progress made by NZTE and found it was a far more focused, coherent, urgent and open agency than at the 2011 PIF review. The changes had helped generate a significant lift in key lead indicators, such as customer satisfaction and staff engagement.

A 2015 PIF review noted further progress and that NZTE is an example of successful transformation, is leading strongly and performing superbly. Strategy and purpose are clear and the lead reviewers particularly commented on NZTE's execution and change management capability.

## Measuring our progress

### Performance Improvement Framework

PIF reviews are one of the five areas of its core business for which SSC has developed new impact measures to be reported from 2015/16. The pilot survey asked chief executives their view of the impact of PIF reviews:

Impact measure	2014/15 Target	2014/15 Actual
Stakeholders agree that Performance Improvement Framework (PIF) reviews have led to changes that improve agency performance	Baseline from which a target will be set for 2015/16	Average score: 4 out of 5

The strong rating likely reflects that this is a mature and well-understood service. SSC completed 12 full PIF reviews in 2014/15, an increase from six in 2013/14.<sup>9</sup>

### Continuous improvement

A continuous improvement pilot programme, funded for two years through the Better Public Services seed fund, was established in SSC in October 2013. In 2014/15 SSC continued working in partnership with six agencies and the PSA to develop and test a common approach to continuous improvement to support State Services agencies to improve the delivery of government services for their customers, including across agency boundaries.

Continuous improvement business coaches work with State Services leaders and their teams to build and improve their services from a customer perspective. The objective is to challenge thinking and make changes to improve outcomes and service delivery.

In 2014/15, SSC provided ongoing support to proof-of-concept pilots at Auckland International Airport Departures and at Land Information New Zealand in surveys and titles. Engagements also commenced in three new areas: the NZ Customs Policy Group; NZ Police, and within SSC's chief executive recruitment process. People involved in these five engagements have formed an online collaborative group and have met on several occasions to support development of the method, and to share and grow their own continuous improvement learning.

Over the next year, SSC will be transitioning the continuous improvement centre of expertise from a Better Public Services seed funded initiative to part of the Commission's core business.

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<sup>9</sup> PIF reviews completed and published in 2014/15 are reported in full in Part C: State Services Commission summary of performance during 2014/15 (page 54).

### **Auckland International Airport Departures**

Each year more than five million people leave New Zealand on international flights. Improving their experience at the airport was a focus of SSC's Continuous Improvement programme in 2014. With passenger traffic expected to double within the next 10 years, organisations working at the border are keen to find ways to work together to improve the effectiveness and efficiency of their operations.

From April to September 2014, SSC's Continuous Improvement business coaches worked with staff from the four entities that manage the flow of passengers through Auckland International Airport to improve the customer experience. The joint team was made up of staff from the New Zealand Customs Service, Aviation Security Service, Statistics New Zealand, and Auckland International Airport Ltd.

The business coaches and the team analysed customer-centred data to identify opportunities for improvement, prioritising problems and testing solutions live in the Departures environment at the airport. Improvements identified by the team will be incorporated into the design of a new International Terminal.

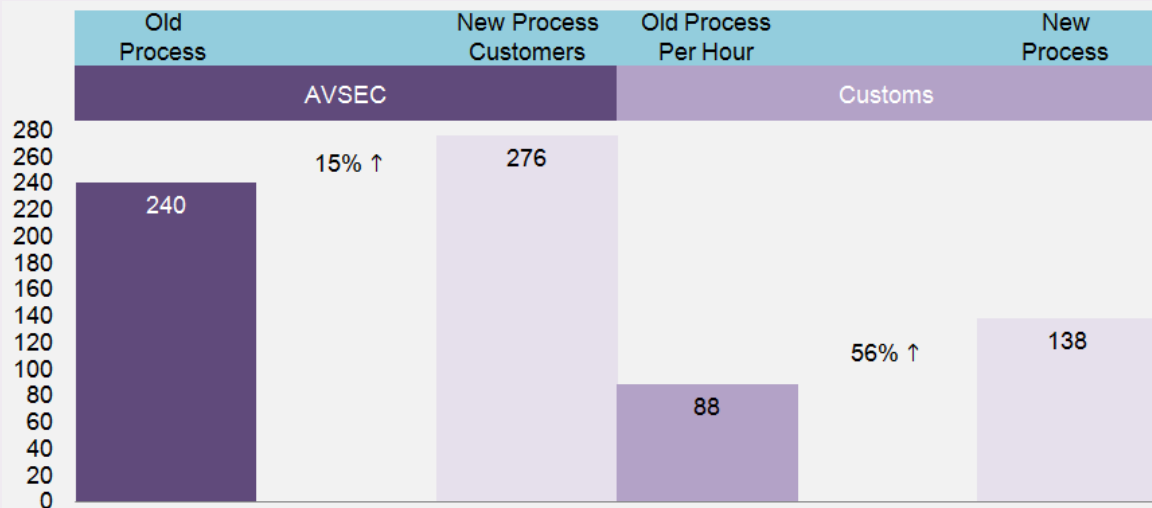
Prior to the Continuous Improvement team's intervention the Customs' and Aviation Security Services' (Avsec) international departures operations were largely run independently. This resulted in:

- issues around coordinating emigrating and security queues
- separate operational performance targets
- significant duplication and rework, and
- customer dissatisfaction.

The initiative has led to a world-first trial of a combined (Customs and Avsec) departures process. Results from an initial small-scale trial showed:

- a 20% reduction in the amount of time passengers need to spend clearing emigration and security
- Customs and AVSEC jointly monitoring customer demand and sharing resources and planning to meet that demand
- fewer customer issues at Smartgates
- fewer passengers needing to surrender their liquids, gels and aerosols at security checkpoints
- Avsec and Customs exploring sharing resources, and
- a reduction in the distance passengers need to walk to clear Customs and Security.

In the trial, the number of customers able to be processed per hour significantly increased. An Avsec team processed 15% more customers and an individual customs officer processed 56% more customers in an hour. If these results are borne out in the full trial occurring in the second half of 2015, agencies would be more able to meet increasing demand.



Chief Executive and Comptroller of Customs Carolyn Tremain points to a range of spin-off benefits from the Continuous Improvement team's work at the airport. These include the development of "closer working relationships across the Airport Company, Aviation security and Customs, development of a continuous improvement focus at the Airport and 'green shoots' of a different culture".

Aviation Security General Manager Mark Wheeler notes a new "trust and confidence" built across agency boundaries, which has led to greater readiness among the airport agencies to share resources and intelligence. The project received the 2015 Public Sector Excellence Award for Collective Impact, from the Institute of Public Administration NZ.



*Achieving Collective Impact*  
 Doing better, together, for our customers and our people at Auckland Airport – improvement and innovation through three-way collaboration  
 New Zealand Customs Service, Civil Aviation Authority



**Deloitte** **FUJITSU**



## Measuring our progress

Demonstrable benefits have been created through agencies implementing SSC continuous improvement practices. Agencies participating in the continuous improvement pilot programme have all reported benefits including:

- increased employee engagement
- improved customer experience, and
- increased capacity.

Applying the continuous improvement method to title and survey applications at Land Information New Zealand has reduced end-to-end processing time, potentially benefiting the tens of thousands of New Zealanders who use the service every year.

NZ Police are trialling improvements in how the public contact police and how police bring suspects to court. These are expected to improve both citizen experience on first contact with police and how suspects are processed in custody.

This is the first year agencies have been able to see customer and performance benefits from their participation in the pilot programme. In almost all cases there is a lag between improvement identification and the realisation of benefits. SSC continues to work with agencies to capture and quantify benefits.

Impact measure	2014/15 Target	2014/15 Actual
Demonstrable benefits have been created through agencies implementing SSC continuous improvement practices	Baseline from which a target will be set for 2015/16	100% of agencies reported benefits

Demonstrable benefits have been achieved based on agencies' reporting of their outcomes from the continuous improvement engagements. We intend to review how these reports are provided and potentially move towards a 'wrap-up' report at the end of each engagement.

## Stakeholder feedback

The pilot survey asked chief executives two questions to test perceptions of the value of its continuous improvement programme:

Impact measure	2014/15 Target	2014/15 Actual
Stakeholders agree that SSC continuous improvement engagements have been effective in helping agencies build and/or improve services for customers	Baseline from which a target will be set for 2015/16	Average score: 3.2 out of 5
Stakeholders agree that SSC continuous improvement engagements represent value for money for agencies	Baseline from which a target will be set for 2015/16	Average score: 3.2 out of 5

This result may reflect that this is a new, pilot programme which does not yet have high recognition. SSC did not commit to report against continuous improvement in 2015/16. However, the result will inform how we communicate and potentially how we set a target for improvement in 2015/16.

## Information strategy

In 2014/15 SSC developed an Information Strategy to improve the use and value of information resources. SSC collects, holds and manages information on the performance of the State Services for its own use, and for the use of agencies and the general public.

At the heart of the strategy are four information principles:

- information into insight – SSC uses information to monitor, design and evaluate the performance of the State sector
- information is an asset – information is managed and used to realise its full value
- information is well-managed – information is accurate and managed efficiently and effectively, and
- information is protected and open – information held by SSC is proactively shared unless there are grounds for refusal, such as for personal, confidential or classified information.

By implementing the information strategy, SSC will gain greater insights into the performance of the State Services. The strategy will ensure SSC has the right data, the capability to analyse it, and systems to support information management and analysis. SSC will continue to review our practices to ensure we manage information well and meet our obligations in terms of privacy, security and open data.

SSC will implement the Information Strategy over 2015/16, starting with transferring the HR information we collect into managed databases. This ensures the information is well-managed and can be integrated with all other related data held in SSC.



## Organisational Health and Capability: Better Every Day SSC

### The outcome we aim to achieve

The Better Every Day SSC portfolio outcome is that SSC is a confident and respected system leader. This will require:

- SSC championing a more collaborative and customer-centric way of working, as part of a programme of State sector reform. SSC needs to lead this change internally as well as externally
- SSC being the exemplar for the implementation of our own products and services. In particular our role as Head of Profession in HR means that SSC must lead the implementation of leadership, talent, workplace and workforce strategy, and
- SSC giving effect to our portfolio management model, culturally and procedurally.

Better Every Day SSC is more than organisational health, it is about applying our products and services to ourselves, working in a collaborative way, and putting our customers at the centre of our processes. There are five main areas of priority for the Better Every Day SSC portfolio:

- value for money
- valued and engaged workforce
- effective planning, performance and assurance
- effective engagement and communication, and
- efficient and sustainable working environment.

### Priority activities

- Implemented a portfolio management approach to support investment decision making and prioritisation. Portfolio management is a critical enabler of our value for money strategy and supports effective planning and performance management.
- Introduced talent management to SSC that was developed for State Services Career Boards and agencies. This will improve retention, staff development and performance management.
- Improved staff engagement. Our results have continued to improve with an overall engagement rating of 4.09 which puts SSC at the 68<sup>th</sup> percentile of the New Zealand Public Service. Our staff engagement has continued to increase over the last four surveys.
- Applied the continuous improvement methodology being piloted for State Services agencies to chief executive recruitment, a priority part of SSC's core business.



## *Measuring our progress*

### Central agency shared services

A close working relationship with the Central Agency Shared Services (CASS) is fundamental to the success of the Better Every Day SSC portfolio. As a central agency with system-wide oversight, SSC has a role in promoting the concept of shared services more widely across State Services, contributing to strategic direction, and oversight of performance and investment decision making. SSC is also the customer of CASS' HR, Finance, IT and information management services. CASS provides services that impact on three of SSC's priority areas within this portfolio: value for money; a valued and engaged workforce; and an efficient and sustainable working environment.

Since the formation of CASS in 2012, SSC has achieved total savings in administration and support costs of over \$500,000.<sup>10</sup> The costs of service provision to SSC have reduced, with CASS absorbing cost increases through efficiency improvements. For example, CASS improved the process for on-boarding new staff.

Over the last year, CASS successfully implemented two significant IT and information management projects for SSC; upgrading our desktop operating system and introducing a new file structure and document management system.

### Value for money

SSC has introduced a portfolio management approach to support improved investment decision making. This approach prioritises activities that will best support chief executives to lead the State Services in a more collaborative and customer-focused way. Visual management techniques make priority work visible to all staff, as well as allowing senior management to prioritise, reallocate resources and link initiatives across SSC. During 2014/15 managers have updated both SSC's externally-reported performance measures and those used to monitor progress during the year.

### Valued and engaged workforce

With a headcount of only 117 people, SSC requires an agile, competent and engaged workforce. Developing the agility of SSC staff, and retaining a mix of specialist and generalist staff able to work across priority areas, will remain a priority for SSC in the medium term.

SSC's workforce is diverse with 65% women, and 4% each Māori, Pasifika and Asian staff, but not as diverse as the overall New Zealand working-age population. At 45.27 years, the average age of SSC staff is marginally older than the Public Service at 44.6 years.

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<sup>10</sup> Calculated from savings from the CASS charges (shown as a separate line item) since 2012.

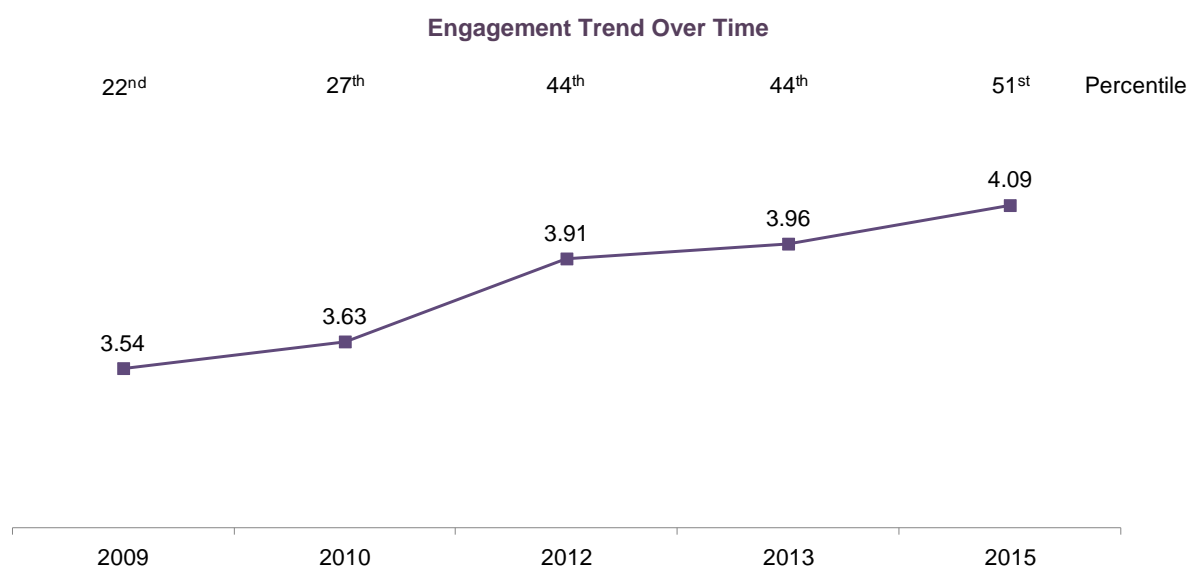
SSC's current Workforce Strategy and Action Plan were developed in 2014. In 2014-15 SSC developed a competency framework to support staff recruitment, development and performance management. This is being aligned to the new Leadership Success Profile (LSP) for the State Services. The LSP provides a common language for describing the competencies and characteristics of successful leaders across the State Services.

As part of the workforce strategy, SSC has implemented the talent management approach that was developed for State Services Career Boards and agencies. This supports a strengthened approach to performance management. The new talent management approach also helps managers identify, develop and retain high potential staff.

SSC's staff retention rate (measured through the annual BASS survey) improved from 54.55% (45.45% turnover) in 2012/13 to 60.87% (39.13% turnover) in 2013/14. Staff retention remains below other Public Service departments. The BASS measure is based on staff still in the same role after 12 months. At SSC there is a policy of building professional competence by moving staff across the Commission. These staff would count as having moved on, therefore the retention result looks lower for SSC than it is in reality.

The Workforce Strategy aimed to increase the level of staff engagement within SSC. Our engagement results (measured through the Gallup Q12 survey) have continued to improve.

Engagement levels show a steady increase over the years



Note percentiles shown are in relation to Gallup's Q<sup>12</sup> Overall Workgroup-level Database.

Performance measure	Actual 2013/14	Budgeted standard target 2014/15	Actual 2014/15
A high proportion of staff participate in the SSC employee engagement survey	90%	Continued high levels of participation	97.4%
The employee engagement survey shows meaningful improvement in grand mean results	3.96	Grand mean of 4.11 or above	4.09

## Effective planning and performance

SSC has a robust governance structure that is accountable and transparent and allows all interested parties to participate in the decisions being made. SSC's Executive Leadership Team owns the organisational risk register. Strategic risks are regularly reviewed and adapted for the changing environment. Operational risks are managed by portfolio leads with responsible managers. Risks are escalated to the appropriate governance body.

SSC reports organisational risk to the Risk and Audit Committee (RAC), which includes independent members and an independent Chair. The committee provides advice to ensure that SSC has an effective framework for corporate governance, and that risks are being identified and mitigated. RAC met three times in 2014/15.

SSC's Four-year plan is supported by external performance measures to determine success. Internal performance measures show the direction of performance early enough to allow for correction if off course.

Performance measure	Actual 2013/14	Budgeted standard target 2014/15	Actual 2014/15
Audit NZ's Management report for SSC rates SSC systems and controls as at least 'good'	<p><i>Very good:</i></p> <p>Financial information systems and controls</p> <p><i>Good:</i></p> <p>Management control environment</p> <p><i>Needs improvement:</i></p> <p>Service performance information and associated systems and controls</p>	'Good' rating for all three assessment areas	'Very good' for financial information, systems and controls and good for the other two areas

## An efficient and sustainable working environment

SSC uses the Benchmarking Administration and Support Services (BASS) survey to measure efficiency. In short, SSC increased spending on administration and support this year, but anticipates savings in out-years from upgraded IT systems and infrastructure.

BASS is a survey run by the Treasury, benchmarking the cost and capability of administration and support functions across government agencies. BASS rates agencies against standard metrics for HR, Finance, ICT, procurement, and corporate and executive services. The latest BASS results are from 2013/14 and show an increase in SSC's total administration and support costs of \$246,000 (results for 2014/15 will not be available until early 2016). Operating costs make up 11.53% of total costs at SSC, which compares favourably to the public sector median (12.82% of total costs).

SSC's expenditure on communications and legal services is relatively high (on a per full-time equivalent basis) compared with other small agencies, due to our system leadership and support role.

Performance measure	Actual 2013/14	Budgeted standard target 2014/15	Actual 2014/15
SSC maintains or reduces the total running costs of administration and support services functions	Actual 2012/13 15.6%	Less than 23%	Actual 2013/14* 11.53%

\* The result for 2013/14 is provided as the 2014/15 result is not available until around February/March 2016.

In early 2015, SSC decided to apply the continuous improvement method developed for State Services agencies to part of its own core business. Chief executive recruitment was selected, as it is one of the five priority areas agreed with the Minister of State Services, and because SSC sought improvements to timeliness and candidate experience. Benefits realised include increased engagement levels in the recruitment team, increased capacity to manage concurrent recruitments and other priority work, and improved candidate experience.

A continuous improvement business coach worked with the recruitment team to help them better understand their customer interactions and the flow of work within and outside the team. A visual management approach made the team's work visible and enabled them to track progress. A series of short checklists have eliminated wasted effort by ensuring everyone knows the steps they need to take.

The team trialled an online survey of candidates to better understand their experience of the recruitment process. Survey results now form part of an 'end of recruitment report' which is provided to senior leaders in SSC.

## Communication and engagement

SSC's Follow-up PIF advised us that SSC should communicate clearly both within SSC and externally, in particular to chief executives and Ministers. The PIF highlighted the need for more visible leadership internally and increased engagement with chief executives and Ministers externally.

As a direct result of feedback from chief executives, SSC changed the approach to chief executive appraisal. From the end of the 2014/15 performance year, the State Services Commissioner now personally leads all performance conversations with chief executives.

# Part C: State Services Commission

## Summary of Performance During 2014/15

The section includes our statement of responsibility, the independent auditor's report, the statement of performance, statements of expenditure and capital expenditure and the financial statements.

## Statement of Responsibility

I am responsible, as Chief Executive of the State Services Commission (the Commission), for:

- the preparation of the Commissions financial statements, and statements of expenses and capital expenditure, and for the judgements expressed in them
- having in place a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting
- ensuring that end-of-year performance information on each appropriation administered by the Commission is provided in accordance with sections 19A to 19C of the Public Finance Act 1989, whether or not that information is included in this annual report, and
- the accuracy of any end-of-year performance information prepared by the Commission, whether or not that information is included in the annual report.

In my opinion:

- the financial statements fairly reflect the financial position of the Commission as at 30 June 2015 and its operations for the year ended on that date, and
- the forecast financial statements fairly reflect the forecast financial position of the Commission as at 30 June 2016 and its operations for the year ending on that date.



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**Iain Rennie** | State Services Commissioner

30 September 2015

**Independent Auditor's Report  
 To the readers of  
 State Services Commission's  
 annual report for the year ended 30 June 2015**

The Auditor-General is the auditor of the State Services Commission (SSC). The Auditor-General has appointed me, Karen Young, using the staff and resources of Audit New Zealand, to carry out the audit on her behalf of:

- the financial statements of SSC on pages 61-73, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2015, the statement of comprehensive revenue and expense, statement of changes in equity, and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information;
- the performance information prepared by SSC for the year ended 30 June 2015 on pages 14 to 37 and 49 to 57;
- the statements of expenses and capital expenditure of SSC for the year ended 30 June 2015 on page 58 and 59;
- the schedules of non-departmental activities which are managed by SSC on behalf of the Crown on pages 74 to 76 that comprise:
  - the schedules of: expenses and revenue and receipts for the year ended 30 June 2015;
  - the schedules of: assets; liabilities; commitments; contingent liabilities and contingent assets as at 30 June 2015; and
  - the notes to the schedules that include accounting policies and other explanatory information.

**Opinion**

In our opinion:

- the financial statements of SSC:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2015; and
    - its financial performance and cash flows for the year ended on that date;
  - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity Standards with reduced disclosure requirements.

- Public Benefit Entity Standards with reduced disclosure requirements
- the performance information of SSC:
  - presents fairly, in all material respects, for the year ended 30 June 2015:
    - what has been achieved with the appropriation; and
    - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure;
  - complies with generally accepted accounting practice in New Zealand.
- the statements of expenses and capital expenditure of SSC on page 58 and 59 are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989.
- the schedules of non-departmental activities which are managed by the SSC on behalf of the Crown on pages 74 to 76 present fairly, in all material respects, in accordance with 2014 Treasury Instructions:
  - the schedules of: expenses and revenue and receipts for the year ended 30 June 2015;
  - the schedules of: assets; liabilities; commitments; contingent liabilities and contingent assets; as at 30 June 2015; and
  - the notes to the schedules that include accounting policies and other explanatory information.

Our audit was completed on 29 September 2015. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the State Services Commissioner and our responsibilities, and we explain our independence.

### **Basis of opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the information we audited is free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the information we audited. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the information we audited. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the information we audited, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to SSC's preparation of the information we audited in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SSC's internal control.



An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the State Services Commissioner;
- the appropriateness of the reported performance information within SSC's framework for reporting performance;
- the adequacy of the disclosures in the information we audited; and
- the overall presentation of the information we audited.

We did not examine every transaction, nor do we guarantee complete accuracy of the information we audited. Also, we did not evaluate the security and controls over the electronic publication of the information we audited.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

### **Responsibilities of the State Services Commissioner**

The State Services Commissioner is responsible for preparing:

- financial statements that present fairly SSC's financial position, financial performance, and its cash flows, and that comply with generally accepted accounting practice in New Zealand.
- performance information that presents fairly what has been achieved with each appropriation, the expenditure incurred as compared with expenditure expected to be incurred, and that complies with generally accepted accounting practice in New Zealand.
- statements of expenses and capital expenditure of SSC, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989.
- schedules of Non-departmental activities, in accordance with the Treasury Instructions, that present fairly those activities managed by the SSC on behalf of the Crown.

The State Services Commissioner responsibilities arise from the Public Finance Act 1989.

The State Services Commissioner is responsible for such internal control as is determined is necessary to ensure that the annual report is free from material misstatement, whether due to fraud or error. The State Services Commissioner is also responsible for the publication of the annual report, whether in printed or electronic form.

### **Responsibilities of the Auditor**

We are responsible for expressing an independent opinion on the information we are required to audit, and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

## **Independence**

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in SSC.

A handwritten signature in black ink that reads "Karen Young". The script is cursive and fluid, with the first letters of each word being capitalized and prominent.

Karen Young  
Audit New Zealand  
On behalf of the Auditor-General  
Wellington, New Zealand

## Statement of Performance

With the implementation of the Public Finance Amendment Act 2013 for Budget 2014, all multi-class output appropriations (MCOAs) expired at the end of 2013/14. The legislation effectively replaces them with multi-category appropriations (MCAs). For the 2014/15 Estimates, all MCOAs needed to be either transitioned into an MCA or disestablished and reverted to single category appropriations. An MCA provides greater flexibility for allocating resources to where they can best contribute to an overarching purpose, while retaining transparency at the category level on expenditure and performance. The comparative figures for 2014 were incurred as MCOAs.

### Policy Advice and Management of the Public Management System MCA

The single overarching purpose of this appropriation is to support decision making by Ministers on government policy matters and leading the Public Management System.

#### Service performance

##### Policy Advice and Management of the Public Management System

Impact measure	2013/14 Actual	2014/15 Target	2014/15 Actual
Percentage of Better Public Services result areas on track to achieve their targets	73%	81%	63.6%
Overall service quality of Public services improves over time <sup>11</sup>	73	Improvement in the overall service quality score (73 points - June 2013)	74

Although the 2014/15 target was not achieved, this reflects the fact that in February 2015 more ambitious targets were set for three Results where targets were on track for achievement. The failure to meet the 81% standard is due at least in part to the revision of these targets.

#### Public Management System Policy Advice (Category)

This category of Public Management System Policy Advice is limited to the provision of advice (including second opinion advice and contributions to policy advice led by other agencies) to support decision-making by Ministers on government policy matters relating to the Public Management System.

<sup>11</sup> Measurement is provided via the results of the "Kiwis Count" survey.

## Statement of Cost of Services (GST exclusive)

2014 Actual \$000		2015 Actual \$000	2015 Main Estimates \$000	2015 Supp. Estimates	2016 Unaudited Forecast (as per BEFU 2015) \$000
3,051	Expenses	5,321	3,230	5,530	5,532
3,150	Revenue Crown	5,530	3,230	5,530	5,532
62	Revenue Department	161	-	-	-
3,212	Income	5,691	3,230	5,530	5,532

Expenditure in this category increased in 2014/15 aligning to the across State sector definition of policy advice transferring expenditure from the category 'Management of the Public Management System'.

### Public Management System Policy Advice

Performance measure	Actual 2013/14	Budgeted standard target 2014/15	Actual 2014/15
<b>Quality measure</b>			
Technical quality of policy advice <sup>12</sup> papers assessed by a survey <sup>13</sup> with a methodical robustness of 90% <sup>14</sup>	59%	At least 70%	60%
We targeted an average score of 7/10 for SSC's documents in this process. The result was an average score of 6/10 <sup>15</sup> . SSC provided feedback from the 2013-14 survey to authors, and engaged with our incoming Minister on briefing requirements and templates. SSC's Senior Management Team is considering options to improve the quality of policy advice.			
The satisfaction of the Minister of State Services with the policy advice service, as per the common satisfaction survey <sup>16</sup>	73%	At least 70%	76.6%
<b>Cost efficiency measure</b>			
The total cost per hour of producing outputs	\$160	\$170	\$149

The efficiency of our cost of producing outputs has increased. SSC anticipates further savings in subsequent years through our recent expenditure on updating our IT platform.

<sup>12</sup> Quality of policy advice is a performance measure set by the Treasury as part of the "Review of Policy Expenditure and Advice".

<sup>13</sup> SSC runs its review process with the Treasury, using a methodology developed by the Treasury. In the scoring scale devised by the Treasury, 5 and 6 are "satisfactory" scores while 7 and 8 are "good" scores. The scoring is a judgement based on all three areas of the Treasury's policy quality framework – analytical quality, strategic perspective and customer focus.

<sup>14</sup> The statistical robustness reflects the quality of the review process as set out in the Treasury's guidance.

<sup>15</sup> The definition of "satisfactory", is:

"Work is solid but a number of important dimensions appear not to have been covered as adequately as they could have been. A decision maker should question whether some important aspects have been sufficiently covered and would not be fully confident that it would make a real difference to outcomes."

<sup>16</sup> Ministerial satisfaction with SSC's policy advice is a performance measure set by the Treasury as part of the "Review of Policy Expenditure and Advice". The ministerial satisfaction score is based on a standard survey developed by the Treasury, which provides a quantitative representation of a Minister's satisfaction with an agency's policy advice. This survey is conducted annually.

## Management of the Public Management System (Category)

This category of Management of the Public Management System is limited to ensuring the Public Management System has the design, capability and performance to deliver public services.

### Statement of Cost of Services (GST exclusive)

2014 Actual \$000		2015 Actual \$000	2015 Main Estimates \$000	2015 Supp. Estimates	2016 Unaudited Forecast (as per BEFU 2015) \$000
24,473	Expenses	22,446	24,984	23,618	26,970
22,148	Revenue Crown	20,984	22,549	20,983	19,473
2,905	Revenue Department	1,761	2,425	2,625	1,955
4	Revenue other	39	10	10	10
25,057	Income	22,784	24,984	23,618	21,438

Expenditure in this category decreased in 2014/15 with some policy advice costs now classified in the category 'Public Management System Policy Advice'. This is offset by increases associated with the establishment of the Centre of Excellence in Continuous Improvement.

### Other expenses incurred by the Crown (GST exclusive)

2014 Actual \$000		2015 Actual \$000	2015 Main Estimates \$000	2015 Supp. Estimates	2016 Unaudited Forecast (as per BEFU 2015) \$000
-	Settlement of legal liabilities	-	7	0	7
-	Open Government Partnership	67	-	67	240
11,583	Remuneration and related employment costs of chief executives	12,189	13,602	13,602	14,000
	Consists of:				
11,510	Remuneration and leave costs	12,116	13,452	13,452	13,850
31	Training and development	31	100	100	100
-	Redundancy and other related costs	-	-	-	-
42	Relocation costs	42	50	50	50

### Current revenue (non-tax)

2014 Actual \$000		2015 Actual \$000	2015 Main Estimates \$000	2015 Supp. Estimates	2016 Unaudited Forecast (as per BEFU 2015) \$000
11,418	Reimbursement of chief executives remuneration	12,292	13,334	11,944	13,334
301	Other Revenue	2	-	-	-
11,719	Income	12,294	13,334	11,944	13,334

## Management of Public Management System

Performance measure	Actual 2013/14	Budgeted standard target 2014/15	Actual 2014/15
Collective Impact			
Service activity: public service executive management			
Public Service chief executive recruitment processes successfully completed within 16 weeks of vacancy being declared	25%	70% of appointments successfully completed within timeframe	50% - 2 of 4 appointments completed within 16 weeks (Public Service chief executives only)
Complexities in the candidate search and selection process, additional assessment requirements, or limited availability of key stakeholders can all delay the recruitment process. In 2014/15 SSC introduced improvements to streamline the recruitment process using the SSC continuous improvement methodology. A change to the performance measure for the 2015/16 year had been already agreed.			
Public Service chief executives' performance meets the State Services Commissioner's expectations, including implementation of PIF recommendations	90%  Two (10%) of the 20 chief executives whose performance was assessed were judged as not meeting expectations	95% of chief executives meet or exceed expectations	80%, based on six months' performance between June 2014 and January 2015
Significant changes to chief executive performance and remuneration were rolled out in the 2014/15 year. These included new common expectations which assume a very good level of performance. In the 2015/16 Annual Report we will be able to report on a full performance year under this new model.			
Percentage of Four-year Plans submitted by agencies that met the criteria expected of a credible medium term strategic plan	44% of Four-year Plans met the criteria. 12% were not assessed	60% meet expectations	78% met expectations
All 32 agencies that submitted a Four-year Plan have been assessed, with 25 agencies assessed as having a credible workforce section (78% of agencies). It should be noted that the 2014/15 measure refers to a 'credible medium term strategic plan' where in previous years it had referred to 'credible intentions around organisational capability, financial and workforce strategies'. As SSC assesses the workforce strategy and capability aspects of the Four-year Plans, we have reported that 78% of agencies had a credible workforce section in their Four-year Plan.			
Stakeholders agree that SSC interventions are contributing towards improvement in performance of the system	SSC did not undertake a specific survey in 2014	Baseline year	This measure has been replaced with five measures reported in Part B: SSC services and our performance
Policy advice measures that relate to Collective Impact are reported under Departmental output expense: Public Management System Policy Advice.			

Performance measure	Actual 2013/14	Budgeted standard target 2014/15	Actual 2014/15
<b>System Stewardship</b>			
Identified high potential leaders are pursuing agreed Professional Development Plans (IDPs)	50%	100% of identified potential leaders are pursuing agreed IDPs	Not measured
During 2014/15 SSC worked with chief executives and the Leadership Development Centre to ensure that high-potential leaders identified as potential successors to chief executives roles each had a targeted development plan. However, chief executives are accountable for ensuring that individuals are pursuing their development plans and SSC does not monitor implementation. For this reason we have reported the measure as not measured. This measure will be changed for 2015/16 to more accurately reflect SSC's role.			
Percentage of State servants who agree that they know where to get good advice about integrity and conduct	Not applicable	60% agree or strongly agree	72%
Findings from the 2013 Integrity and conduct survey of the State Services were released in August 2014. The survey asked 13,395 State servants from 40 agencies about their perception of the integrity of colleagues, leaders and managers, the access to advice and guidance and the promotion of integrity in their agency. SSC promotes sources of good integrity advice and guidance. There is no evidence to suggest the level of agreement has decreased.			
Development and/or redeployment of senior leadership capability for professional development purposes and to cover high priority system needs	Not applicable	8-12 initiatives to deploy and/or develop senior leaders	17
Bargaining and remuneration strategies approved by SSC are within Government expectations	Not applicable	100%	100%
The Labour Cost Index indicates that Public Service wage growth does not exceed private sector wage growth	2.7% for Public Service 3.4% for private sector	Public Service wage growth is the same or less than the rate of growth in the private sector	Achieved (1.2% for Public Service, 1.8% for private sector)
This measure is from the previous year's Estimates and has been included to provide extra information.			

Performance measure	Actual 2013/14	Budgeted standard target 2014/15	Actual 2014/15
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## Learning Culture

**Service activity: using the Performance Improvement Framework to lift performance****Full Performance Improvement Framework (PIF) Reviews**

Performance Improvement Framework (PIF) reviews are completed with selected Public Service agencies and significant Crown entities	6 full PIF Reviews	10 to 15 full PIF Reviews will be published in 2014/15	12 full PIF Reviews were published in 2014/15
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These reviews were for the NZ Intelligence Community (including agency reviews for the Government Communications Security Bureau and the New Zealand Security Intelligence Service), Canterbury Earthquake Recovery Authority, the Treasury, Department of Conservation, Office of the Clerk of the House of Representatives, Parliamentary Service, Accident Compensation Corporation, Parliamentary Counsel Office, Statistics New Zealand, Ministry of Business, Innovation and Employment, and New Zealand Trade and Enterprise.

Performance Improvement Framework (PIF) reviews are completed with selected Public Service agencies and significant Crown entities	50%	70% of full PIF Reviews will be published within 6 months of the start of the review	58% (7 of 12)
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These reviews were for the Ministry of Defence, Ministry of Justice, New Zealand Customs Service, Ministry for the Environment, Ministry of Transport, Land Information New Zealand and Department of the Prime Minister and Cabinet. Publication timing can be affected by the agency's ability to provide a timely response to the report.

**Follow-up Performance Improvement Framework (PIF) Reviews**

Performance Improvement Framework (PIF) reviews are completed with selected Public Service agencies and significant Crown entities	Not applicable	8 to 15 PIF Follow-up Reviews will be published in 2014/15	7
Performance Improvement Framework (PIF) reviews are completed with selected Public Service agencies and significant Crown entities	Not applicable	70% of PIF Follow-up Reviews will be published within 4 months of the start of the review	86% (6 of 7)

**Continuous improvement centre of excellence**

Demonstrable benefits have been created through agencies implementing SSC continuous improvement methodologies	Not applicable	Baseline year	100% of agencies have reported benefits
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Demonstrable benefits have been achieved based on agencies' reporting of their outcomes from the continuous improvement engagements. Benefits include increased employee engagement, improved customer experience and increased capacity.



## Departmental Capital Expenditure Appropriation

### Scope of State Services Commission - Capital Expenditure PLA

This appropriation is limited to the purchase or development of assets by and for the use of the State Services Commission, as authorised by section 24(1) of the Public Finance Act 1989.

What was intended to be achieved

*This appropriation is intended to achieve the renewal, upgrade or redesign of assets in support of the delivery of the Commission's services.*

What was achieved with this appropriation

Performance Information	2015 Actual \$000	2015 Main Estimates \$000	2015 Supp. Estimates \$000
Property, plant and equipment	79	100	100
Total appropriation	79	100	100

Minor capital expenditure was incurred replacing furniture and fittings.

## Government Inquiries into Matters MCA

The overarching purpose of this appropriation is for the payment of costs associated with the operation of Government Inquiries into Matters.

### Secretariat and Other Costs Associated with Government Inquiries into Matters (Category)

This category of Secretariat and Other Costs Associated with Government Inquiries into Matters (MCA) is limited to secretariat and other costs associated with Government Inquiries into Matters.

#### Statement of Cost of Services (GST exclusive)

2014 Actual \$000	2015 Actual \$000	2015 Main Estimates \$000	2015 Supp. Estimates \$000	2016 Unaudited Forecast (as per BEFU 2015) \$000
- Expenses	460	-	739	-

## Other Expenses Incurred by the Crown (GST exclusive)

### Panel Costs Associated with Government Inquiries into Matters

This category is limited to panel costs associated with Government Inquiries into Matters.

2014 Actual \$000	2015 Actual \$000	2015 Main Estimates \$000	2015 Supp. Estimates \$000	2016 Unaudited Forecast (as per BEFU 2015) \$000
- Panel Costs Associated with Government Inquiries into Matters	161	-	361	-

## Government inquiry into Matters Concerning the Escape of Phillip John Smith/Traynor

Performance measure	Budgeted standard target 2014/15	Actual 2014/15
The inquiry was conducted in an appropriate manner	Yes	Not reported
As the inquiry is still underway SSC has not been able to report on the conduct of the inquiry. However the Chair has commented that SSC's administrative services were delivered with due regard to the independence of the Inquiry.		
The inquiry chair is satisfied with the support services provided to the inquiry	The Chair is satisfied	Achieved

The Inquiry chair provided the following statement "The Inquiry was well supported by the State Services Commission in its role as the relevant department under the Inquiries Act 2013. Corporate and administrative services were delivered efficiently and effectively with due regard to the independence of the Inquiry. Facilities, technology, records management, finance, administration and communications services were provided appropriate to the Inquiry needs. The professionalism, experience, and capability of State Service Commission staff meant the Inquiry is on track to deliver a report on time and within budget."

## Statements of Expenses and Capital Expenditure

### Statement of Budgeted and Actual Departmental and Non-departmental Expenses and Capital Expenditure Incurred Against Appropriations

for the year ended 30 June 2015

	2015 Actual \$000	2015 Main Estimates \$000	2015 Supp. Estimates	2016 Unaudited Forecast (as per BEFU 2015) \$000	Location of end-of-year performance information
<b>Departmental Capital Expenditure</b>					
State Services Commission - Capital Expenditure under permanent legislative authority	79	100	100	150	SSC Annual Report
<b>Non-departmental Other Expenses</b>					
Open Government Partnership	67	-	67	240	Exempt
Remuneration and Related Employment Costs of Chief Executives	12,189	13,602	13,602	14,000	SSC Annual Report
Settlement of Legal Liabilities	-	7	-	7	
<b>Total Non-departmental Other Expenses</b>	<b>12,256</b>	<b>13,609</b>	<b>13,669</b>	<b>14,247</b>	
<b>Multi-Category Expenses and Capital Expenditure</b>					
Policy Advice and Management of the Public Management System MCA	27,767	28,214	29,148	32,502	SSC Annual Report
Departmental Output Expenses					
Public Management System Policy Advice	5,321	3,230	5,530	5,532	
Management of Public Management System	22,446	24,984	23,618	26,970	
Government Inquiries into Matters MCA	621	-	1,100	-	
Departmental Output Expenses					
Secretariat and Other Costs Associated with Government Inquiries into Matters	460	-	739	-	SSC Annual Report
Non-departmental Other Expenses					
Panel Costs Associated with Government Inquiries into Matters	161	-	361	-	
<b>Total Multi-Category Expenses</b>	<b>28,388</b>	<b>28,214</b>	<b>30,248</b>	<b>32,502</b>	

## Statement of Departmental and Non-departmental Expenses and Capital Expenditure Incurred Without, or in Excess of, Appropriation or Other Authority

for the year ended 30 June 2015

Expenses and capital expenditure incurred in excess of appropriation

Nil. (2014: nil)

Expenses and capital expenditure incurred without appropriation or other authority, or outside scope of appropriation

Nil. (2014: nil)

There was no unappropriated expenditure in relation to the activities that SSC administers on behalf of the Crown for the year ended 30 June 2015 (2014: nil).

## Statement of Departmental Capital Injections Without, or in Excess of, Authority

for the year ended 30 June 2015

The Commission has not received any capital injections during the year without, or in excess of, authority.

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## Statements: Departmental

for the year ended 30 June 2015

The following financial statements record the income, expenses, assets, liabilities, commitments, contingent liabilities and contingent assets that SSC manages.

### Statement of Comprehensive Revenue and Expenses

for the year ended 30 June 2015

2014 Actual \$000		Notes	2015 Actual \$000	2015 Main Estimates \$000	2015 Supp. Estimates	2016 Unaudited Forecast (as per BEFU 2015) \$000
<b>Income</b>						
25,298	Revenue Crown		27,252	25,779	27,252	25,005
2,971	Revenue other	2	1,961	2,435	2,435	1,965
28,269	Total income		29,213	28,214	29,687	26,970
<b>Expenditure</b>						
16,058	Personnel costs	3	18,094	16,939	17,512	16,536
407	Capital charge		420	390	420	420
433	Depreciation and amortisation expense	5	434	204	446	482
10,626	Other operating expenses	4	9,279	10,681	10,809	9,432
27,524	Total expenditure		28,227	28,214	29,187	26,870
745	Net surplus/(deficit)		986	-	500	100
-	Other comprehensive income		-	-	-	-
745	Total comprehensive income		986	-	500	100

Explanations of major variances against budget are detailed in note 10.

The accompanying accounting policies and notes form part of these financial statements.

## Statement of Changes in Equity

for the year ended 30 June 2015

2014 Actual \$000	Notes	2015 Actual \$000	2015 Main Estimates \$000	2015 Supp. Estimates	2016 Unaudited Forecast (as per BEFU 2015) \$000
4,923	Balance as at 1 July	5,251	4,923	5,251	5,251
	<b>Comprehensive income/(expense)</b>				
745	Net surplus / for the year	986	-	500	100
328	Other	-	-	-	-
-	Gain on revaluation of artwork	-	-	-	-
(745)	Return of operating surplus to the Crown	(986)	-	(500)	(100)
5,251	Balance as at 30 June	5,251	4,923	5,251	5,251

The accompanying accounting policies and notes form part of these financial statements.



## Statement of Financial Position

as at 30 June 2015

2014 Actual \$000		Notes	2015 Actual \$000	2015 Main Estimates \$000	2015 Supp. Estimates	2016 Unaudited Forecast (as per BEFU 2015) \$000
<b>Assets</b>						
Current Assets						
1,741	Cash and cash equivalents		2,372	6,103	1,854	1,486
5,273	Debtor Crown		5,732	-	5,732	-
1,428	Debtors and other receivables		461	300	5,973	5,973
-	Prepayments		285	-	-	-
8,442	Total current assets		8,850	6,403	13,559	7,459
Non-current assets						
1,407	Property, plant and equipment	5	1,086	1,393	1,080	782
112	Intangible assets		78	102	78	44
1,519	Total non-current assets		1,164	1,495	1,158	826
9,961	Total assets		10,014	7,898	14,717	8,285
<b>Liabilities</b>						
Current Liabilities						
2,447	Creditors and other payables		2,463	1,835	1,887	1,954
745	Return of operating surplus		986	-	500	100
157	Provisions	7	286	119	167	-
1,122	Employee entitlements	6	764	941	1,100	900
4,471	Total current liabilities		4,499	2,895	3,654	2,954
Non-current liabilities						
239	Employee entitlements	6	264	80	80	80
239	Total non-current liabilities		264	80	80	80
4,710	Total liabilities		4,763	2,975	3,734	3,034
5,251	Net assets		5,251	4,923	10,983	5,251
<b>Equity</b>						
5,200	Taxpayers' funds		5,200	4,872	5,200	5,200
51	Artwork revaluation reserves		51	51	51	51
5,251	Total equity		5,251	4,923	5,251	5,251

Explanations of major variances against budget are detailed in note 10.

The accompanying accounting policies and notes form part of these financial statements.

## Statement of Cash Flows

for the year ended 30 June 2015

2014 Actual \$000	Notes	2015 Actual \$000	2015 Main Estimates \$000	2015 Supp. Estimates	2016 Unaudited Forecast (as per BEFU 2015) \$000
<b>Cash flows from operating activities</b>					
20,025	Receipts from Crown	26,793	25,779	27,252	25,005
2,664	Receipts from other revenue	2,868	2,435	3,163	1,965
(9,953)	Payments to suppliers	(9,905)	(10,071)	(11,133)	(9,340)
(16,311)	Payments to employees	(18,001)	(17,055)	(17,205)	(16,688)
(407)	Payments for capital charge	(420)	(390)	(420)	(420)
79	Goods and services tax (net)	120	(894)	(1,014)	(740)
(3,903)	Net cash flows from operating activities	1,455	(196)	643	(218)
<b>Cash flows from investing activities</b>					
-	Purchase of property, plant and equipment	(79)	(100)	(85)	(150)
-	Net cash flows from investing activities	(79)	(100)	(85)	(150)
<b>Cash flows from financing activities</b>					
(1,496)	Repayment of operating surplus	(745)	-	(445)	-
(1,496)	Net cash flows from financing activities	(745)	-	(445)	-
(5,399)	Net (decrease) / increase in cash	631	(296)	113	(368)
7,140	Cash at the beginning of the year	1,741	6,399	1,741	1,854
1,741	Cash at the end of the year	2,372	6,103	1,854	1,486

The accompanying accounting policies and notes form part of these financial statements.

## Statement of Commitments

as at 30 June 2015

At 30 June 2015 the Commission has no capital commitments (2014: nil).

SSC has a non-cancellable operating lease in respect of its Wellington Reserve Bank office effective 1 March 2012 for six years. The amounts disclosed below are based on the current rental rates.

2014 Actual \$000		2015 Actual \$000
	<b>Non-cancellable operating lease commitments</b>	
578	Not later than one year	629
1,543	Later than one year and not later than 5 years	1,049
2,121	Total non-cancellable operating lease commitments	1,678
2,121	Total commitments	1,678

## Statement of Contingent Liabilities and Contingent Assets

as at 30 June 2015

### Unquantifiable Contingent Liabilities

SSC has no unquantifiable contingent liabilities as at 30 June 2015 (2014: nil).

### Quantifiable Contingent Liabilities and Assets

SSC has no quantifiable contingent liabilities or assets as at 30 June 2015 (2014: nil).

The accompanying accounting policies and notes form part of these financial statements.

# Notes to the Departmental Financial Statements and Non-departmental Schedules

for the year ended 30 June 2015

## 1 – Statement of accounting policies

The State Services Commission (the Commission) is a New Zealand government department as defined by section 2 of the Public Finance Act 1989.

In addition, the Commission has reported separately, in the Non-departmental Schedules, which present financial information on public funds managed by the Commission on behalf of the Crown.

The primary objective of the Commission is to provide services to the public rather than making a financial return. Accordingly, the Commission has designated itself as a Public Benefit Entity for the purposes of New Zealand Public Benefit Entity International Public Sector Accounting Standards (NZPBE IPSAS).

The Financial Statements of the Commission are for the year ended 30 June 2015. The Forecast Financial Statements are for the year ended 30 June 2016. These Financial Statements were authorised for issue by the Commissioner on 30 September 2015.

The Departmental Financial Statements and the financial information reported in the Non-departmental Schedules are consolidated into the Financial Statements of the Government and therefore readers of these schedules should also refer to the Financial Statements of the Government for the year ended 30 June 2015.

### Statement of compliance

The Departmental Financial Statements and unaudited Departmental Forecast Financial Statements of the Commission have been prepared in accordance with the requirements of the Public Finance Act 1989, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practices (NZ GAAP), Treasury Instructions and Treasury Circulars. Measurement and recognition rules applied in the preparation of the Non-departmental Supplementary Financial Schedules are consistent with NZ GAAP and Crown accounting policies and are detailed in the Financial Statements of the Government. These Financial Statements have been prepared in accordance with Tier 2 NZPBE accounting standards as the expenditure for the Commission is below \$30 million.

### Basis of preparation

The principal accounting policies applied in the preparation of the Departmental Financial Statements and Non-departmental Schedules are set out in the notes.

### Measurement base

The Departmental Financial Statements and Non-departmental Schedules have been prepared on an historical cost basis, modified by the revaluation of derivative financial instruments to fair value.

### Functional and presentation currency

The Departmental Financial Statements and Non-departmental Schedules are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of the Commission is New Zealand dollars.

### Changes in accounting policies

There are no changes resulting from this adoption of policy. These Financial Statements are the first Financial Statements presented in accordance with the new PBE accounting standards. There are no material adjustments arising from this transition.

### Revenue Crown – non-exchange

Revenue from the Crown is measured based on the Commission's funding entitlement for the reporting period as reported in the Departmental Financial Statements.

The funding entitlement is established by Parliament when it passes the Appropriation Acts for the financial year. The amount of revenue recognised takes into account any amendments to appropriations approved in the Appropriation (Supplementary Estimates) Act for the year and certain other unconditional funding adjustments formally approved prior to balance date. There are no conditions attached to the funding from the Crown. However, the Commission can incur expenses only within the scope and limits of its appropriations.

The fair value of Revenue Crown has been determined to be equivalent to the funding entitlement.

### PIF reviews – exchange

Revenue from reviews is recognised to the extent that the review has been completed by the Commission at balance date.

### Budget figures

The budget figures are those included in the department's Budget Estimates for the year ended 30 June 2015, which are consistent with the financial information in the Main Estimates. In addition, the Financial Statements also present the updated budget information from the Supplementary Estimates.

### Forecast figures

#### *Basis of preparation*

Forecast Departmental Financial Statements and Non-departmental Schedules have been prepared in accordance with the accounting policies expected to be used in the future for reporting historical general purpose financial statements.

These Forecast Financial Statements have been prepared in accordance with NZPBE IPSAS and are unaudited.

These financial forecasts are based on Budget Economic Fiscal Update (BEFU) and have been prepared on the basis of assumptions as to future events that the Commission reasonably expects to occur, associated with the actions it reasonably expects to take. They have been compiled on the basis of existing government policies and ministerial expectations at the date that the information was prepared.

The actual results will remain substantially the same as the previous year. The main assumptions were as follows:

- The Commission's activities and output expectations will remain substantially the same as the previous year focusing on the Government's priorities.
- Personnel costs were based on current wages and salary costs, adjusted for anticipated remuneration changes.
- Operating costs were based on historical experience and other factors that are believed to be reasonable in the circumstances and are the Commission's best estimate of future costs that will be incurred.

Additional factors that could lead to material differences between the Forecast Financial Statements and the 2015/16 Actual Financial Statements include changes to the baseline budget through new initiatives, transfer of funding across financial years or technical adjustment.

#### Authorisation statement

These Forecast Financial Statements were authorised for issue by Chief Executive of the Commission on 7th April 2015. The Chief Executive is responsible for the Forecast Financial Statements presented, including the appropriateness of the assumptions underlying the Forecast Financial Statements and all other required disclosure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual financial results achieved for the period covered are likely to vary from the information presented, and the variations may be material.

#### Statement of cost allocation policies for Departmental Financial Statements

The Commission has determined the cost of outputs and categories using the following cost allocation system:

- Direct costs are expenses incurred from activities in producing outputs. These costs are charged directly to the related appropriations.
- Indirect costs are expenses incurred by corporate services functions that cannot be identified with a specific output. Indirect costs are allocated to each appropriation based on full-time equivalent personnel.

There have been no changes in the Commission's general cost accounting policies since the date of the last audited Financial Statements.

Since March 2012, SSC has been party to receiving shared services from CASS incorporating the Treasury, SSC and DPMC for the delivery of finance, human resources, information management and information technology functions. Costs for these are treated as indirect costs.

#### Critical accounting estimates and assumptions

There are no critical accounting estimates and assumptions made in preparing these Financial Statements.

## 2 – Other revenue

2014 Actual \$000		2015 Actual \$000	2015 Main Estimates \$000	2015 Supp. Estimates \$000	2016 Unaudited Forecast (as per BEFU 2015) \$000
39	Emerging Issues Project	-	-	-	-
541	Gateway reviews of major IT projects	-	-	-	-
12	Gateway training and awareness workshop	-	-	-	-
1,584	Contribution towards PIF reviews	1,045	1,793	2,372	1,684
335	Recovery of agency recruitment costs	102	-	7	26
198	Recovery from secondments	624	153	43	163
262	Other	190	489	13	92
2,971	Total other and departmental revenue	1,961	2,435	2,435	1,965

## 3 – Personnel costs

2014 Actual \$000		2015 Actual \$000	2015 Main Estimates \$000	2015 Supp. Estimates \$000	2016 Unaudited Forecast (as per BEFU 2015) \$000
15,091	Salaries and wages	16,863	15,850	16,540	15,643
30	Performance pay	33	40	40	40
193	Staff training and development	302	299	299	262
509	Superannuation contributions to defined contribution plans	587	533	538	486
160	Increase/(decrease) in employee entitlements	142	121	45	100
75	Redundancy	167	-	-	-
-	Allowance	-	96	50	5
16,058	Total personnel costs	18,094	16,939	17,512	16,536

## 4 – Other operating expenses

2014 Actual \$000		2015 Actual \$000	2015 Main Estimates \$000	2015 Supp. Estimates \$000	2016 Unaudited Forecast (as per BEFU 2015) \$000
3,249	Consultancy	2,138	2,842	3,522	2,562
200	Leadership Development Centre funding	245	200	260	270
733	Chief executives recruitment costs	619	666	499	718
121	Legal fees	270	175	380	71
	Fees to auditor:				
62	- Fees to Audit New Zealand for audit of financial statements	62	62	62	62
529	Rental and operating lease costs	483	482	504	482
146	Other occupancy costs	127	180	177	140
280	IT and communication costs	112	114	146	96
249	Travel	212	327	383	224
139	Sponsorship	22	61	1	270
3,674	Costs paid to Treasury for CASS	3,708	3,841	3,961	3,841
1,244	Other operating costs	1,281	1,731	914	696
10,626	Total operating costs	9,279	10,681	10,809	9,432

## 5 – Property, plant and equipment

	Office equipment \$000	Leasehold improvements \$000	Works of art \$000	Furniture and fittings \$000	Intangible Assets \$000	Total \$000
<b>Cost</b>						
Balance at 1 July 2013	93	1,463	106	995	170	2,827
Balance at 1 July 2014	93	1,463	106	995	170	2,827
Additions	79	-	-	-	-	79
<b>Balance at 30 June 2015</b>	<b>172</b>	<b>1,463</b>	<b>106</b>	<b>995</b>	<b>170</b>	<b>2,906</b>
<b>Accumulated depreciation and impairment losses</b>						
Balance at 1 July 2013	77	267	-	507	24	875
Balance at 1 July 2014	85	523	-	642	58	1,308
Depreciation expense	10	293	-	97	34	434
<b>Balance at 30 June 2015</b>	<b>95</b>	<b>816</b>	<b>-</b>	<b>739</b>	<b>92</b>	<b>1,742</b>
<b>Carrying amounts</b>						
At 1 July 2013	16	1,196	106	488	146	1,952
At 1 July 2014	8	940	106	353	112	1,519
At 30 June 2015	77	647	106	256	78	1,164



## 6 – Employee entitlements (departmental)

2014 Actual \$000		2015 Actual \$000	2015 Main Estimates \$000	2015 Supp. Estimates \$000	2016 Unaudited Forecast (as per BEFU 2015) \$000
<b>Current liabilities</b>					
514	Accrued salaries and performance pay	39	261	450	-
551	Annual leave	662	629	601	833
42	Sick leave	48	26	25	34
15	Retirement and long service leave	15	25	24	33
1,122	Total current portion	764	941	1,100	900
<b>Non-current liabilities</b>					
177	Retirement leave	208	41	41	41
62	Long service leave	56	39	39	39
239	Total non-current portion	264	80	80	80
1,361	Total employee entitlements	1,028	1,021	1,180	980

The present value of the retirement and long-service leave obligations depends on a number of factors. Two key assumptions used in calculating this liability include the discount rate and the salary-inflation factor. Any changes in these assumptions will impact on the carrying amount of the liability.

In determining the appropriate discount rate, the Department adopts the central table of risk-free discount rates and Consumer Price Index (CPI) assumptions provided by the Treasury to all departments.

If the discount rate were to differ by 1% from SSC's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$22,000 higher or lower.

If the salary inflation factor were to differ by 1% from SSC's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$4,000 higher or lower.

## 7 – Provisions

SSC is required at the expiry of the lease term in the Reserve Bank in March 2018 to make good the premises and \$119,000 (2014: \$119,000) has been provided for this.

	Restructuring \$000	Lease make good \$000	Total \$000
Opening balance at 1 July 2013	30	119	149
Additional provisions made	8	-	8
Provisions released	-	-	-
<b>Closing balance at 30 June 2014</b>	<b>38</b>	<b>119</b>	<b>157</b>
Opening balance at 1 July 2014	38	119	157
Additional provisions made	129	-	129
Provisions released	-	-	-
<b>Closing balance at 30 June 2015</b>	<b>167</b>	<b>119</b>	<b>286</b>

Redundancy provision is for the review of analytical staffing resources in the Commission.

## 8 – Related party transactions

All related party transactions have been entered into on an arm's-length basis.

SSC is a wholly-owned entity of the Crown. The Government significantly influences the roles of SSC as well as being its major source of revenue.

In conducting its activities SSC is required to pay various taxes and levies (such as GST, FBT, PAYE, and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. SSC is exempt from paying income tax.

### Key management personnel

2014 Actual \$000		2015 Actual \$000
<b>Leadership Team, including the State Service Commissioner</b>		
3,175	Remuneration	2,265
8	Full-time equivalent staff	6

The above key management personnel compensation excludes the remuneration and other benefits the Minister of State Services receives. The Minister's remuneration and other benefits are not received only for his role as a member of key management personnel of SSC. The Minister's remuneration and other benefits are set by the Remuneration Authority under the Civil List Act 1979 and are paid under Permanent Legislative Authority, and not paid by SSC.

### Related party transactions involving key management personnel (or their close family members)

There were no related party transactions involving key management personnel or their close family members. No provision has been required, nor any expense recognised, for impairment of receivables from related parties (2014: nil).

## 9 – Events after balance date

There have been no significant events subsequent to balance date that require adjustment to the Financial Statements or disclosure (2014: nil).

## 10 – Explanation of major variances

### Statement of Comprehensive Income

The following major budget variations occurred between the 2014/15 Actuals and the 2014/15 Supplementary Estimates budgets:

- Other revenue

Other revenue was lower than the supplementary estimates budget by \$474,000 (19%) due to lower expenditure on PIF reviews which was therefore not recovered.

- Other operating expenses

Other operating expenses are \$1.530 million (14%) under the Supplementary Estimates budget. This is due to lower than expected expenditure against PIF reviews and change in timing for some costs associated with the improvement programme for CASS.

### Statement of Financial Position

The following major budget variations occurred between the 2013/14 Actuals and the 2013/14 Supplementary Estimates budgets:

- Total current assets are lower than supplementary estimates budget by \$4.7 million (35%). This is due to lower levels of debtors with the transfer of Gateway functions to Treasury and more prompt invoicing activity during 2014/15.
- Total current liabilities are higher than supplementary estimates budget by \$0.845 million (23%) due to higher amount owed to the Treasury for June CASS costs and a higher than anticipated payment of surplus to the Crown.

## Non-departmental Schedules

for the year ended 30 June 2015

The following Non-departmental Schedules record the income, expenses, assets, liabilities, commitments, contingent liabilities and contingent assets that SSC manages on behalf of the Crown.

### Schedule of Non-departmental Expenses

for the year ended 30 June 2015

2014 Actual \$000		2015 Actual \$000	2015 Main Estimates \$000	2015 Supp. Estimates \$000	2016 Unaudited Forecast (as per BEFU 2015) \$000
11,583	Remuneration and Related Employment Costs	12,189	13,602	13,602	14,000
-	- Settlement of Legal Liabilities	-	7	-	7
-	- Open Government Partnership	67	-	67	240
-	- MCA: Panel Costs Associated with Government Inquiries into Matters	161	-	361	-
11,583	Total Non-departmental expenses	12,417	13,609	14,030	14,247

The accompanying accounting policies and notes form part of these Financial Statements.

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2015.

## Schedule of Non-departmental Revenue and Receipts

for the year ended 30 June 2015

The Schedule of Non-departmental Revenue and Receipts summarises Non-departmental revenues and receipts that SSC administers on behalf of the Crown.

2014 Actual \$000		2015 Actual \$000	2015 Main Estimates \$000	2015 Supp. Estimates \$000	2016 Unaudited Forecast (as per BEFU 2015) \$000
11,418	Reimbursement of chief executives' Remuneration	12,292	13,334	11,944	13,334
301	Other revenue	2	-	-	-
11,719	Total Non-departmental Revenue	12,294	13,334	11,944	13,334

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2015.

## Schedule of Non-departmental Assets

as at 30 June 2015

2014 Actual \$000		2015 Actual \$000	2015 Main Estimates \$000	2015 Supp. Estimates \$000	2016 Unaudited Forecast (as per BEFU 2015) \$000
6,771	Cash	8,225	4,826	6,872	4,826
93	Prepayment	-	-	-	-
6	Debtors and other receivables	-	-	-	-
6,870	Total Non-departmental Assets	8,225	4,826	6,872	4,826

The accompanying accounting policies and notes form part of these financial statements.

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2015.

## Schedule of Non-departmental Liabilities

as at 30 June 2015

2014 Actual \$000		2015 Actual \$000	2015 Main Estimates \$000	2015 Supp. Estimates \$000	2016 Unaudited Forecast (as per BEFU 2015) \$000
229	<b>Creditors and other payables</b>	313	330	330	330
	<b>Current liabilities – employee entitlements</b>				
799	Performance pay	1,350	682	640	540
340	Salaries and wages	36	-	300	400
590	Annual leave	418	535	530	530
1,729	Total current liabilities – employee entitlements	1,804	1,217	1,470	1,470
	<b>Long-term liabilities</b>				
105	Retirement leave	57	619	265	265
1,834	Total Current and Long-term Provision for employee entitlements	1,861	1,836	1,735	1,735
2,063	Total Non-departmental liabilities	2,174	2,166	2,065	2,065

## Schedule of Non-departmental Commitments

as at 30 June 2015

There are no Non-departmental commitments in respect to the activities SSC administered on behalf of the Crown as at 30 June 2015 (2014: nil).

## Schedule of Non-departmental Contingent Liabilities and Contingent Assets

as at 30 June 2015

There are no Non-departmental contingent liabilities and contingent assets in respect to the activities SSC administered on behalf of the Crown as at 30 June 2015 (2014: nil).

The accompanying accounting policies and notes form part of these Financial Statements.

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2015.

# Glossary of Terms

The following terms are used throughout this report:

Agencies	A general term for organisations, used most often to refer to organisations in the State sector.
Central agencies	The collective term for three departments – SSC, the Treasury and the Department of the Prime Minister and Cabinet.
Crown entities	A general term for a diverse range of entities within one of the five categories referred to in section 7(1) of the Crown Entities Act 2004 – statutory entities, Crown entity companies, Crown entity subsidiaries, school boards of trustees and tertiary education institutions. Crown entities are legally separate from the Crown and operate at arm's length from the Responsible or shareholding Minister(s); they are included in the annual Financial Statements of the Government.
Departments	The general term for the departments of the Public Service, as listed in Schedule 1 of the State Sector Act 1988 (whether their names are Ministry, Department, Office or any other specific name).
Public sector	The State sector and all local authorities.
Public Service	The departments listed in Schedule 1 of the State Sector Act 1988.
State sector	All organisations in the annual Financial Statements of the Government (for example, departments, New Zealand Police, New Zealand Defence Force, Offices of Parliament, State-owned enterprises, Crown entities and the Reserve Bank).
State Services	<p>State Services are defined in the State Sector Act 1988 as meaning: all instruments of the Crown, whether departments, corporations, agencies or other instruments; and including Crown entities, those organisations named or described in Schedule 4 of the Public Finance Act 1989, companies named in Schedule 4A of the Public Finance Act 1989, Crown research institutes and the education service, but not including:</p> <ul style="list-style-type: none"> <li>• the Governor-General</li> <li>• any member of the Executive Council</li> <li>• any Minister of the Crown</li> <li>• any member of Parliament</li> <li>• any corporation listed in Schedule 1 of the State-owned Enterprises Act 1986 (i.e. any State-owned enterprise), or</li> <li>• any tertiary education institution.</li> </ul>