

STATE SERVICES COMMISSION  
Te Komihana O Ngā Tari Kāwanatanga



# State Services Commission

Te Komihana O Ngā Tari Kāwanatanga

## Annual Report

For the year ended 30 June 2014

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 2014.  
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 that reads "Iain Rennie". The signature is written in a cursive style with a large initial 'I' and 'R'.

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**Iain Rennie** | State Services Commissioner

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# The State Services Commissioner's overview

The State Services Commission's focus is "***a higher performing State sector that New Zealanders trust, delivering outstanding results and value for money***". Achieving this outcome requires system-wide change and the Commission has an important leadership role in inspiring and enabling this change. Leading this change is the business, and the only business, of the Commission.

The past year has seen further development of the results approach across the State services and the outcomes-focused collaborative methods of work needed to achieve results. The system overall has been successful in focusing more on the positive impact that we can have on the big and difficult issues of concern to the government and the community. This is seen not only in the progress made on the government's 10 results but more generally in other areas of policy and delivery.

These changes are not yet embedded. Over the past year we have laid the foundations for enduring system change and we are now well positioned to give momentum to the reform agenda. This has recently been encapsulated in our new operating model and in our roadmap to 2018. In the roadmap we set out our core ambitions for the future development of the State services:

- the State sector has the people and institutions its needs to respond to the needs of today and the future (system stewardship)
- we have the system leaders and they are supported to maximise their impact and deliver agreed results to New Zealanders (collective impact)
- we learn about what works best and use this to improve the performance to customers (learning culture).

To achieve these changes in the system, we need to be the best that we can be as an organisation. Our fourth ambition is therefore:

- SSC is sought out as a respected and confident system leader (better every day SSC).

These four ambitions will guide how the Commission works, where we invest resources and effort, and how we carry out our activities and work programmes. By achieving the ambitions we will build the system's ability to deliver on the results sought by the government and New Zealanders now and into the future.

Over the past year we have moved to change the way we work in support of these ambitions. Our systems for the appointment and management of chief executives have been recently modernised. We have set chief executive expectations to better support government priorities, and we have changed the performance review and remuneration process to help build strong and well led departments. Four-year Plans will give Ministers confidence that chief executives are continuing to build the capability of their agencies to deliver priorities. Talented successors for current chief executives can be in short supply, and we are working with agencies on improved succession planning to mitigate risks in this area.

The Commission works to develop people capability across the system. Increasingly prominent over the last year has been the Leadership and Capability Development and Deployment programme which supports the development of leadership and expert capability on a system-wide basis. We have also begun the process of renewing our integrity programmes so that traditionally high standards of trustworthiness and integrity are reinforced and maintained.

We have a leadership role in building collaboration between agencies and therefore increasing their collective impact. We are integrally involved in work to achieve better results on key issues across the system. We have focused on developing common functions across the system such as functional leadership and we have strengthened professional leadership in key areas.

Several aspects of the work of the Commission are central to the growth of a learning culture in our State services. External reviews of agencies through the Performance Improvement Framework are now a core part of how departments learn to develop the results focus of their work. We have worked to pilot continuous improvement methodologies in a number of agencies across the system. These provide agencies with key tools and methods for reducing waste improving value for customers, and hence lifting performance.

These developments are key to ensuring that the Commission, which is a small agency, is able to exercise the 'reach' and influence to perform a significant leadership role. In this connection, we have also focused on expanding and developing the wider leadership group driving system reform. We have moved to work more effectively with our central agency partners, the Treasury and the Department of the Prime Minister and Cabinet. And we are in the process of assisting the wider chief executive group in the Public Service to develop its leadership role. This year I hosted the first of what will be biannual two-day meetings for Public Service and key Crown entity chief executives. The chief executives concluded their meeting by making a collective declaration that they would assume the role of being the leadership team of the State services. They committed to being champions of reform, to improve system performance and to organise and operate better around the issues and opportunities that require collective impact to make the biggest difference for New Zealanders. This is a crucially important development for building momentum and impact in the change process.

Finally, I wish to acknowledge the work done by Commission staff to date and the work that I know will be done in the coming year. Our achievements would not have been possible without dedicated and committed people.

We all come to work every day to make a difference.

I trust you enjoy reading this report and find it informative.



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**Iain Rennie** | State Services Commissioner

# Part A: State Services Commission's strategic direction

This section outlines our outcome and the indicators we use to measure progress towards the outcome. We introduce the impacts that we sought from our interventions and what we wanted to achieve. We touch on the funding that provided the platform for achieving these impacts. We describe how we will work to deliver system reform and how this is reflected in our new strategic direction outlined in our 2014-18 *Statement of Intent*.

## Our outcome and achievements

### What we aimed for during 2013/14

SSC works towards a single outcome, which is shared by all three central agencies<sup>1</sup>: a higher performing State sector that New Zealanders trust, delivering outstanding results and value for money. Two outcome indicators are shared by the central agencies: the Kiwis Count<sup>2</sup> overall service quality score and progress on Better Public Services result areas<sup>3</sup>.

Achieving this shared outcome requires a system-wide change to lift the performance of the State services. The biggest difference SSC can make with our interventions is to lead this transformation, by assisting other agencies to deliver fit-for-purpose, cost effective services to New Zealanders. During 2013/14, we worked with chief executives across the State services to provide collective leadership on system reform, as well as with our central agency partners, functional leaders and heads of profession.

### The impacts that we sought and what we wanted to achieve

The impacts that we sought and what we wanted to achieve during 2013/14 to help transform the system were:

- To lead the system so that the State service is innovative, efficient and focused on results that matter to New Zealanders
- To set the standards for performance excellence so that the State service is performing
- To build system capability so that the State service is resilient, responsive and adaptable
- To strengthen trust and integrity so that the State service is trusted by New Zealanders.

### Our services and interventions

During 2013/14, our services and interventions were targeted at the wider State service, agencies, chief executives and New Zealanders. Our services and interventions help us to progress towards our impacts.

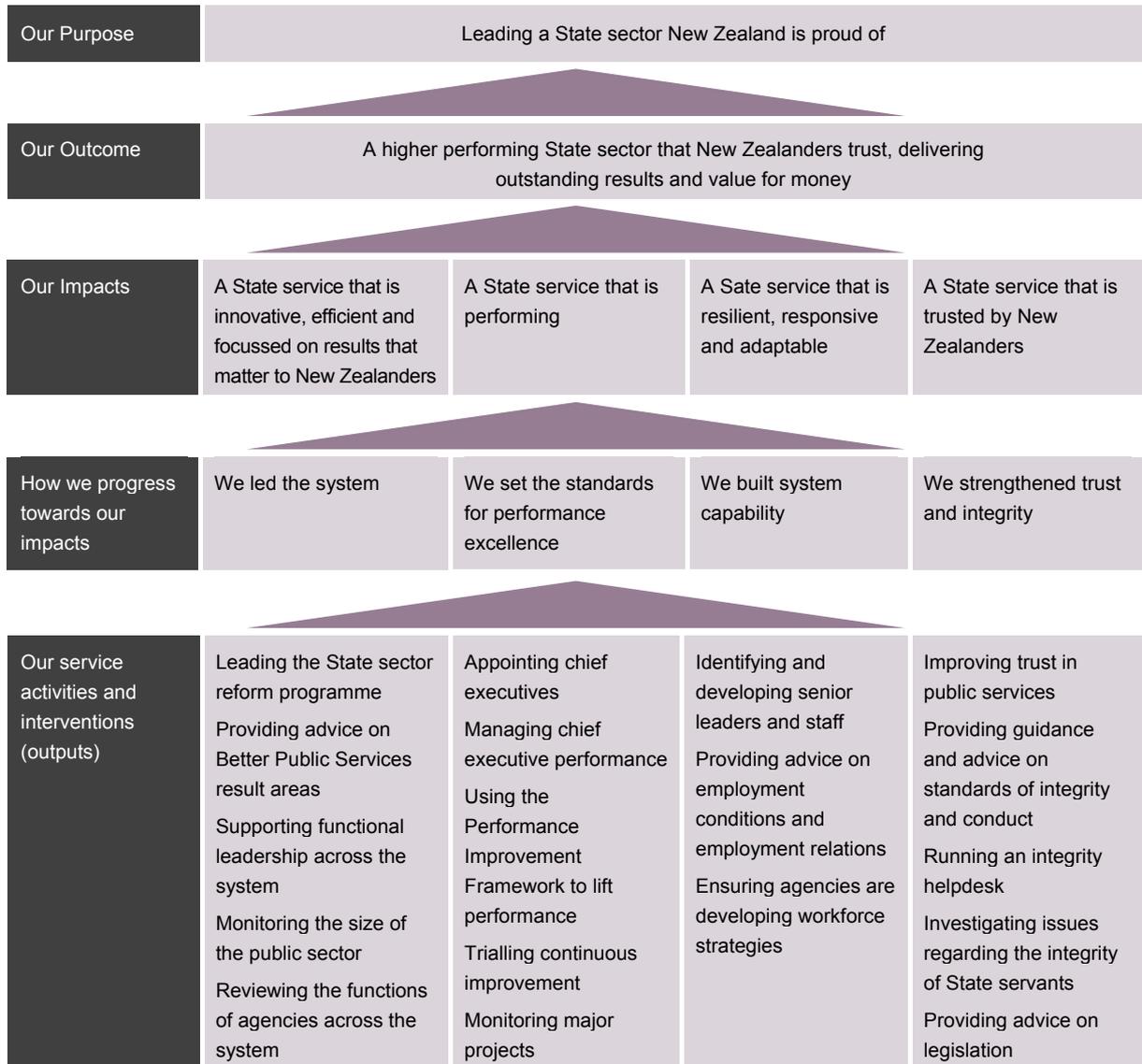
The diagram on the following page illustrates the linkages between our outcome, the impacts we seek, how we progress towards our impacts and the services we provide and the interventions we use.

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<sup>1</sup> Central agencies are SSC, the Treasury and the Department of the Prime Minister and Cabinet.

<sup>2</sup> Kiwis Count is a comprehensive survey that measures New Zealanders' perceptions of the quality of 42 frequently used public services.

<sup>3</sup> The Government set challenging targets for the Better Public Services result areas (10 specific results have been identified, across five result areas) to be achieved over the next few years, with progress publicly reported every six months.



## The funding we utilised

SSC delivers through one multi-class output appropriation (MCOA)<sup>4</sup>: Policy Advice and Management of the Public Management System. This is supported by two sub-categories:

- Management of the Public Management System – \$25.1 million<sup>5</sup>
- Public Management System Policy Advice – \$3.2 million<sup>6</sup>.

This funding provided the platform for achieving our impacts.

<sup>4</sup> 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 had to be either transitioned into an MCA or disestablished and reverted to single category appropriations. These changes are reflected in the financial statements.

<sup>5</sup> 2014 Actual Income.

<sup>6</sup> 2014 Actual Income.

The sub-category Management of the Public Management System accounts for 89% of our funding and therefore funds the majority of our services. It is used to ensure that the system has the design, capability and performance to deliver public services. The sub-category Public Management System Policy Advice accounts for 11% of our funding and is used to provide advice to support decision-making by Ministers on government policy matters relating to the public management system.

## Our strategic direction

In August 2013, SSC's Performance Improvement Framework (PIF) review was published. It provoked a long, hard look at our strategy, governance, culture, systems and processes. The PIF feedback was timely, and challenged us to define our priorities clearly and focus on work that delivers the greatest impact throughout the system.

This year we began a renewal of our business strategy by developing a roadmap to 2018 which describes how we will work with State service leaders to deliver system reform for a better New Zealand. Over the next four years, SSC will be focusing its effort on three outward facing ambitions (we call them portfolios), each of which represents a co-ordinated set of services and interventions to lead system change:

- 1 System stewardship – the State sector has the people and institutions its needs to respond to the needs of today and the future
- 2 Collective impact – we have the system leaders and they are supported to maximise their impact and deliver agreed results to New Zealanders
- 3 Learning Culture – we learn about what works best and use this to improve the performance to customers.

These three portfolios provide the framework for everything SSC does to lift system performance.

The fourth portfolio represents the key initiatives SSC will be taking within the organisation to implement an operating model that supports delivery of the business strategy.

- 4 Better every day SSC – SSC is sought out as a respected and confident system leader.

This is discussed in the section on organisational health and capability.

Our 2014-18 *Statement of Intent* describes our ambitions and what we will do to achieve them. Progress on all four portfolios will be reported on in the 2015 *Annual Report*.

## Part B: State Services Commission's services and our performance

In this section we tell our performance story. It has been structured around the four impacts described in the 2013-17 *Statement of Intent*. We describe what we did, how we did it and what we delivered; in some cases we illustrate with case studies showing achievement made in the State service during the year.

By providing a description of the service activity (outputs) we provided during the year, we explain how we progressed towards our impacts.

We describe performance against the impact measures set at the beginning of the year. In some cases we did not achieve the standards that we set and in those areas we explain what we are doing to address this.

We also describe the progress made during 2013/14 on aspects of our organisational health and capability.

## Impact: a State service that is innovative, efficient and focused on results that matter to New Zealanders

### How we progressed towards this impact: we led the system

Priority: delivery of better services to the public

SSC's role is to lead a system that can deliver better services to the public. We are also driving an approach across the system that is centred on the customer. SSC, in our leadership capacity, is able to organise the system to:

- work collaboratively to address the Better Public Services areas
- improve the effectiveness and reduce the overall costs to government of common business functions.

The purpose of this is to lift the collective impact of the system to meet the needs of New Zealanders.

#### Measuring progress towards this impact

An indicator we<sup>7</sup> use to measure success in leading the system is the score given to the quality of public services in the Kiwis Count survey<sup>8</sup>. The Kiwis Count annual overall score was 73<sup>9</sup> in June 2014. Since 2007, when the overall score was 68, the score has increased steadily. However, the rate of progress appears to have slowed since 2012. This period includes the global financial crisis and the subsequent constraint in fiscal expenditure. We believe that the score of 73 indicates public services working hard to improve services. The Kiwis Count score can only continue to increase if New Zealanders' satisfaction with the services they receive continues to increase. We are aiming for improved services that meet the needs of New Zealanders by continuing to encourage agencies, through our Performance Hub<sup>10</sup>, to focus on delivering Better Public Services.

Performance measure	Actual 2012/13	Performance standard 2013/14	Actual 2013/14
Impact measure			
Overall service quality of public services improves over time	72 <sup>11</sup>	Improvement in the overall service quality score	73

<sup>7</sup> Along with the other central agencies, the Treasury and the Department of the Prime Minister and Cabinet.

<sup>8</sup> For more detail, refer to [www.ssc.govt.nz/kiwis-count](http://www.ssc.govt.nz/kiwis-count)

<sup>9</sup> From a list of 42 commonly used public services, the Kiwis Count survey asks New Zealanders to rate the quality of services they used in the past year on a scale from 1 (very poor) to 5 (very good). An overall service quality score of 73 means that the average rating New Zealanders gave the services they used over the past year was very near to 4 on the 5 point scale.

<sup>10</sup> A joint SSC, the Treasury and the Department of the Prime Minister and Cabinet team.

<sup>11</sup> A new continuous survey methodology for *Kiwis Count* began in January 2012. For comparability purposes the 2013 *Annual Report* used the January – June data points for the overall annual service quality scores for 2012 and 2013. Now there are two full years of data since the continuous survey methodology began, the *Annual Report* uses the July – June data points for the overall annual service quality scores for 2013 and 2014. The first six months of data are still being used for the 2012 data point. In the June 2013 report, the overall service quality score for 2013 was 73 and was based on the six months of data from January – June. Calculating the figure using the whole year's data, from July – June, sees this figure drop to 72.

We know that to succeed in delivering Better Public Services, agencies need to work together, and are working together, to remove barriers to collaboration between agencies and sectors. We actively work with agencies to improve collaboration through our work in the Performance Hub. We<sup>12</sup> use the 10 result area reports to track and demonstrate achievement in this area. The central agencies are jointly responsible for this aspect of the State sector reform programme working effectively. Chief executives in each result area are responsible for the achievement of results in their particular areas. There are 10 results within five areas: reducing welfare dependence, supporting vulnerable children, boosting skills and employment, reducing crime and improving interaction with government. Eight out of 11 (73%) targets were reported as on track in July 2014<sup>13</sup>. This report showed progress against some challenging targets. It was expected that nine of the 11 targets (81%) would be on track for 2013/14.

Performance measure	Actual 2012/13	Performance standard 2013/14	Actual 2013/14
Impact measure			
Increasing percentage of results areas is on track to achieve their targets	73%	81%	73%
SSC is not solely responsible for this measure, as it is shared by the central agencies. Different agencies are driving different result areas. SSC works with those agencies and with the central agencies by providing assistance, advice and whatever support is needed. Details of what agencies <sup>14</sup> and central agencies are doing are available in the mid-2014 progress report to Cabinet <sup>15</sup> . Results 3 <sup>16</sup> (increase infant immunisation and reduce rheumatic fever), 4 <sup>17</sup> (reduce assaults on children) and 9 <sup>18</sup> (New Zealand businesses have a one-stop online shop for all government advice and support) are not yet on track to achieve their targets. More is being done to get these three results on track.			

On the following page, we have provided the latest snapshot of result at July 2014. Additionally, the case studies outlined below are examples of innovation and efficiency in the State services through providing functional leaders and improving collaboration.

<sup>12</sup> Along with the other central agencies, the Treasury and the Department of the Prime Minister and Cabinet.

<sup>13</sup> For more detail, refer to [www.ssc.govt.nz/better-public-services](http://www.ssc.govt.nz/better-public-services)

<sup>14</sup> For example, for result 9, (NZ businesses have a one-stop online shop for all government advice and support) improvements have yet to show through in the data. The Chief Executive of the Ministry of Business, Innovation and Employment holds the detail on reasons for the delay and what exactly is being done to address this, as it is his core responsibility.

<sup>15</sup> For more detail, refer to [www.ssc.govt.nz/better-public-services](http://www.ssc.govt.nz/better-public-services)

<sup>16</sup> For rheumatic fever, higher levels of detection may be causing an increase in cases in the short term.

<sup>17</sup> For assaults on children, higher levels of detection may be causing an increase in cases in the short term.

<sup>18</sup> Improvements have yet to show through in the data.

**SNAPSHOT OF PROGRESS ON BETTER PUBLIC SERVICES RESULTS JULY 2014**

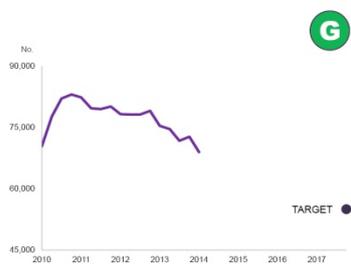
The delivery of better public services is squarely focused on getting the State sector to deliver better results and improved services for New Zealanders. The Government has set 10 challenging results and targets to achieve over five years. This snapshot presents progress as at February 2014. See more information about the delivery of better public services and these 10 results on [www.ssc.govt.nz/better-public-services](http://www.ssc.govt.nz/better-public-services)

- G** ON TRACK
- Y** ON TRACK, BUT CHANGES NOT YET EMBEDDED
- A** PROGRESS, BUT ISSUES TO RESOLVE
- R** URGENT ATTENTION REQUIRED

**REDUCING WELFARE DEPENDENCE**

**1 REDUCING LONG-TERM WELFARE DEPENDENCE**

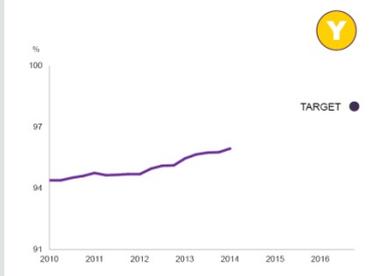
JOB SEEKER SUPPORT BENEFITS - 12 MONTHS +



**SUPPORTING VULNERABLE CHILDREN**

**2 INCREASE PARTICIPATION IN ECE**

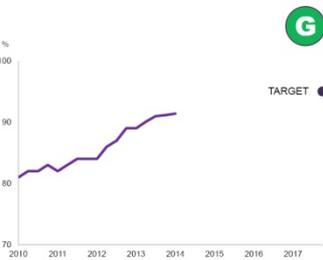
EARLY CHILDHOOD EDUCATION PARTICIPATION



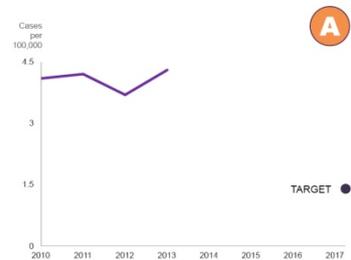
**SUPPORTING VULNERABLE CHILDREN**

**3 INCREASE INFANT IMMUNISATION AND REDUCE RHEUMATIC FEVER**

INFANT IMMUNISATION

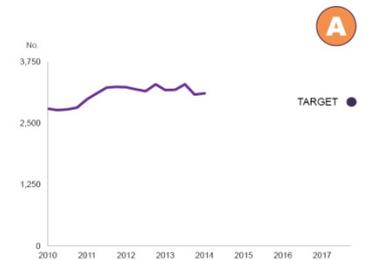


RHEUMATIC FEVER



**4 REDUCE ASSAULTS ON CHILDREN**

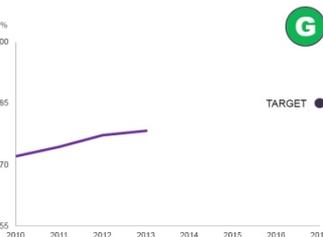
CHILDREN EXPERIENCING PHYSICAL ABUSE



**BOOSTING SKILLS AND EMPLOYMENT**

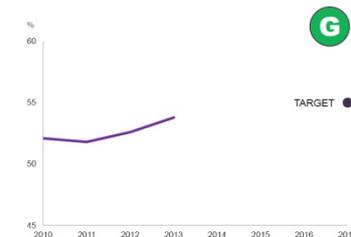
**5 INCREASE PROPORTION OF 18-YEAR-OLDS WITH NCEA L2**

18-YEAR-OLDS ACHIEVEMENT OF NCEA L2



**6 INCREASE PROPORTION OF 25- TO 34-YEAR-OLDS WITH NZQF L4 OR ABOVE**

25- TO 34-YEAR-OLDS WITH NZQF L4 QUALIFICATIONS



**REDUCING CRIME**

**7 REDUCE THE RATES OF TOTAL CRIME, VIOLENT CRIME AND YOUTH CRIME**

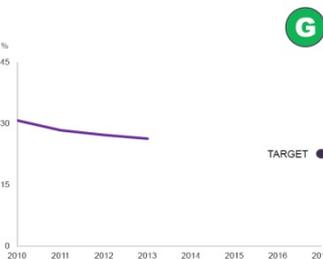
CRIME RATE



**REDUCING CRIME**

**8 REDUCE RE-OFFENDING**

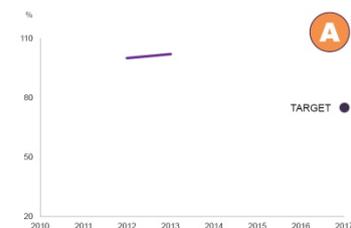
RE-OFFENDING RATE



**IMPROVING INTERACTION WITH GOVERNMENT**

**9 NZ BUSINESSES HAVE A ONE-STOP ONLINE SHOP FOR ALL GOVERNMENT ADVICE AND SUPPORT**

REDUCTION IN COST TO BUSINESS FROM DEALING WITH GOVERNMENT



**10 NEW ZEALANDERS CAN COMPLETE THEIR TRANSACTIONS WITH GOVERNMENT EASILY IN A DIGITAL ENVIRONMENT**

AVERAGE RATE OF TRANSACTIONS COMPLETED IN A DIGITAL ENVIRONMENT



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### What we delivered to achieve this impact

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The section outlines we detail SSC service activities (outputs) and what we achieved during the year. These services are how we progressed towards this impact. The service activities were:

- Leading the State sector reform programme
  - Providing advice on Better Public Services result area
  - Supporting functional leadership across the system
  - Monitoring the size of the public sector
  - Reviewing the functions of agencies across the system.
- 

### Leading the State sector reform programme

During 2013/14, SSC led the State sector performance reform programme. We focused on optimising the operation of the State services to deliver results, and on system-focused leadership.

A new group – the State Sector Reform Leadership Group – was established as a driving force for system reform. It includes chief executives and has private sector and Crown entity representation. The group's role is to ensure the strategic issues that are central to setting the direction of change and maintaining momentum are considered and auctioned, and progress is monitored and reported.

One area of focus over the past year has been to implement the legislative changes made to the State Sector Act 1988 to support the State sector reform programme. These changes were about improving the operation of the system, by organising it around government results and functional leadership. This included changing behaviours, lifting the focus to a system level and improving how agencies work together with a strong theme of stewardship being embedded.

The system is responding to these expectations, which are reinforced through our work with senior leaders, and we are seeing encouraging improvements. Examples are outlined in the following case studies.

### **Case studies:**

#### ***Connecting you with government***

The first stage in the development of the new, all-of-government website to provide better online services was launched in August 2013. The Government Chief Information Officer said the new website will be “a fantastic place to access government services...designed with users in mind...in plain language”.

#### ***Putting the law online***

From January 2014, the New Zealand legislation website became the source of official legislation, making New Zealand one of the few comparable jurisdictions to provide free, official, up-to-date online legislation to the public.

#### ***More Work and Income clients find jobs***

A programme that is helping Work and Income clients find jobs was recognised in May 2014 by the State Services Commissioner, Iain Rennie. In partnership with Te Whangai Trust and employers like Fonterra and New Zealand Steel, Work and Income has helped over 400 clients find meaningful and sustainable jobs by training them in various skills. The programme gives the clients, who are new to the workforce or with low qualifications, the opportunity to gain knowledge and work experience. It helps the clients develop life and work skills in a safe, disciplined work environment. Iain Rennie recognised that “This is what happens when public services are designed and delivered around the needs of New Zealanders and not around organisational boundaries. This is another of the growing number of examples of government agencies working with other organisations and coming up with innovative solutions to deliver truly better public services for New Zealanders.”

## **Providing advice on Better Public Services result areas**

SSC has organised the system to support the delivery of Better Public Services results. This has included working with chief executives to identify barriers to achieving the results, and then working with the system to remove those barriers. This includes improving collaboration between the agencies that contribute to the results.

Our other key function is to provide advice and assurance to Ministers on the progress in achieving the results. SSC publishes the progress<sup>19</sup> of the results publicly every six months.

## **Supporting functional leadership across the system**

SSC established the mandate for functional leaders across the system as part of our focus on system reform. The aim was to improve the effectiveness of common business functions and reduce their overall costs to government. The functional leaders are a key pillar of the Better Public Services change programme in the areas of property, procurement and ICT.

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<sup>19</sup> For more detail, refer to [www.ssc.govt.nz/better-public-services](http://www.ssc.govt.nz/better-public-services)

During 2013/14, costs in the functional leadership areas reduced significantly. Examples are provided in the case studies below.

### **Case studies:**

#### ***On track to achieve \$109m<sup>20</sup> annual savings in government accommodation footprint***

The latest Crown Office Estate Report<sup>21</sup> shows that State services are continuing to reduce their nationwide office floor space, delivering considerable annual savings of an estimated \$109 million in the government accommodation footprint. For example, as part of a five-agency deal in Wellington, the Ministry of Business, Innovation and Employment achieved a footprint reduction of 36% and the Ministry of Health achieved a 19% reduction. Additionally, the Property Management Centre of Expertise is developing a number of practical efficiency tools, including standard government leases, building performance specifications and a website where property managers can share best practice.

#### ***Procurement savings and efficiencies***

Fourteen all-of-government contracts have saved \$128.5 million in the 2013/14 year. From December 2013 to February 2014, the Ministry of Business, Innovation and Employment surveyed businesses to understand their perceptions of government procurement activity<sup>22</sup>. The Ministry received invaluable feedback from 666 businesses in New Zealand and offshore. The survey revealed a number of areas where government agencies can improve their practices to better support the business community. Since the survey was conducted, businesses have told the Ministry that the new Government Rules of Sourcing launched in October 2013 address some of their main concerns about tender lengths, early engagement and recognition of innovative procurement processes such as competitive dialogue.

#### ***ICT savings***

Transforming the way government departments buy, access and use ICT won the Department of Internal Affairs a 2014 Institute of Public Administration New Zealand Award<sup>23</sup>. Infrastructure as a Service<sup>24</sup> (IaaS) was recognised in the Digital Government category. There has been robust uptake of IaaS by government agencies, with 53 having joined. The cost savings are estimated to be \$18.8 million.

In April 2014, the Minister of State Services and the Minister of Finance issued directions to apply whole of government approaches to procurement, ICT and property. SSC issued guidance on our website to assist the implementation of the new directions. Additionally, the Performance Hub<sup>25</sup> worked with functional leaders as they developed budget bid proposals for sustainable funding of their operations.

<sup>20</sup> For more detail, refer to [www.msd.govt.nz/about-msd-and-our-work/about-msd/our-structure/pmcoe/publications/](http://www.msd.govt.nz/about-msd-and-our-work/about-msd/our-structure/pmcoe/publications/)

<sup>21</sup> The Crown Office Estate Report is the annual report on the Government's property portfolio, as required by Cabinet. It has an assessment of the current state of the national property portfolio to be used as a baseline to measure progress against key performance indicators.

<sup>22</sup> For more detail, refer to [www.business.govt.nz/procurement/procurement-reform/government-procurement-business-survey](http://www.business.govt.nz/procurement/procurement-reform/government-procurement-business-survey)

<sup>23</sup> For more detail, refer to [ict.govt.nz/news-and-updates/government-ict-updates/infrastructure-as-a-service-iaas-wins-ipanz-award/](http://ict.govt.nz/news-and-updates/government-ict-updates/infrastructure-as-a-service-iaas-wins-ipanz-award/)

<sup>24</sup> Infrastructure as a Service (IaaS) enables government departments to buy their information technology from approved vendors and pay on demand on a "per use, per month" basis. It frees up resources, lowers the overall costs to government and will lead to better public services for all New Zealanders.

<sup>25</sup> A joint SSC, the Treasury and the Department of the Prime Minister and Cabinet team.

## Monitoring the size of the public sector

SSC monitors the cap<sup>26</sup> on the size of the public sector on behalf of the Government and reports the results<sup>27</sup> to the Government every six months. We regularly engaged with organisations on their workforce numbers to ensure they were managing within their cap responsibilities. As at 31 December 2014, positions in core government administration were 65<sup>28</sup> below the cap.

## Reviewing the functions of agencies across the system

SSC reviewed the allocation of functions within the State sector and the need for new or different agencies. A compelling example during 2013/14 was the review conducted by SSC in November/December 2013 and consequent decision to transfer Civil Defence and Emergency Management from the Department of Internal Affairs to the Department of the Prime Minister and Cabinet. This move strengthened the alignment of Civil Defence and Emergency Management with national security and intelligence priorities and the Department of the Prime Minister and Cabinet's broader risk and resilience approach. Another benefit was to strengthen capacity to plan and manage across government for large-scale events such as the Canterbury earthquakes. A staged transition began on 1 April 2014. These changes also enabled the Chief Executive of the Department of Internal Affairs to focus more sharply on delivering the technology and information leadership required to carry out effectively the Government Chief Information Officer role and mandate.

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<sup>26</sup> The cap is managed at a system level and currently stands at 36,475 full-time equivalent positions.

<sup>27</sup> For more detail refer to [www.ssc.govt.nz/capping-dec13](http://www.ssc.govt.nz/capping-dec13)

<sup>28</sup> As at 31 December 2013, there were 36,410 full-time equivalent positions in core government administration.

## Impact: a State service that is performing

### How we progressed towards this impact: we set the standards for performance excellence

Priority: assessing and lifting performance

SSC sets the standards for performance excellence and supports sectors and agencies in meeting the standards. Leadership is a key component of a higher performing system. Therefore, a key strategy for SSC is to focus on appointing leaders who are capable of operating across the system. During 2013/14, we worked with chief executives and agencies to help them to succeed. For example, we provided system interventions such as the piloting of a continuous improvement approach that gives chief executives a new suite of tools to improve performance within their agencies. SSC plays a critical role in working with leaders across State services to set the direction for the system, to lift performance and improve capability across the system, and to provide leadership on issues management and assurance on the delivery of core government priorities. We detail this later in this section.

Measuring progress towards this impact

Our impact during 2013/14 has been measured using the PIF assessment of agencies that were “well placed” or “strong” in their overall rating<sup>29</sup>. It is clear that agencies can do more to lift their performance.

Performance measure	Actual 2012/13	Performance standard 2013/14	Actual 2013/14
Impact measure			
PIF assessments over the next three to five years assess an increasing proportion of agencies as being “well placed” or “strong” <sup>30</sup>	46% of overall ratings are “strong” or “well placed” for 2012/13 (10 reviews)	Improvement on previous year	35%
Two significant PIF upgrades, and chief executives increasing the standards for which they hold themselves accountable, saw a lifting of the performance bar. We saw improvements in some agencies’ performance, but the overall performance did not meet our expectations.			

<sup>29</sup> For the dimensions of performance that the PIF review covers, refer to [www.ssc.govt.nz/pif-agency-model](http://www.ssc.govt.nz/pif-agency-model) and [www.ssc.govt.nz/pif-six-dimensions](http://www.ssc.govt.nz/pif-six-dimensions)

<sup>30</sup> For a description of the current system-level rating, refer to [www.ssc.govt.nz/pif-factsheet5](http://www.ssc.govt.nz/pif-factsheet5)

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### What we delivered to achieve this impact

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Outlined in this section are the various ways that we assessed performance and embedded performance expectations during 2013/14. These services and interventions (outputs) show how we progressed towards this impact. The service activities were:

- Appointing chief executives
  - Managing chief executive performance
  - Using the Performance Improvement Framework to lift performance
  - Trialling continuous improvement
  - Monitoring major projects.
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### Appointing chief executives<sup>31</sup>

During the 2013/14 year, four chief executives of Public Service departments were recruited. The process incorporated the system-wide talent identification process. Two current chief executives were reappointed for a further term. SSC also managed appointments on behalf of Ministers at their request. This role reflects the significant level of trust in the quality of SSC recruitment practices and appointments.

SSC continues to focus on fostering diversity in the State sector. With the appointment of Iona Holsted as Chief Executive of the Education Review Office, more than a third of Public Service chief executives are women.

During 2013/14, the following chief executives were appointed under section 35 of the State Sector Act 1988 and commenced in their roles.

Ms Liz MacPherson	Statistics New Zealand
Mr Lou Sanson	Department of Conservation
Ms Julie Read	Serious Fraud Office
Mr Martyn Dunne	Ministry for Primary Industries

The following chief executive's reappointment took effect under section 36 of the State Sector Act 1988:

Mr John Allen	Ministry of Foreign Affairs and Trade
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The following chief executive was reappointed by the Governor-General in Council on the recommendation of the Prime Minister under section 3 of the State Sector Act 1988 and commenced his term:

Mr Iain Rennie	State Services Commission
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<sup>31</sup> For performance against the standard we set at the beginning of the year, refer to page 42.

The following chief executives left their positions during the year:

Mr Wayne McNee	Ministry for Primary Industries
Mr Al Morrison	Department of Conservation
Dr Kevin Woods	Ministry of Health
Dr Graham Stoop	Education Review Office

The State Services Commissioner has a role<sup>32</sup> in managing the appointment process for a range of other chief executives and senior officers in the executive and legislative branches of the State sector, beyond those for which the Commissioner has responsibility for managing under the State Sector Act 1988. For the 2013/14 year, the State Services Commissioner managed the appointment process for the following senior roles:

Ms Rebecca Kitteridge	Director, New Zealand Security Intelligence Service
Mr Mike Bush	Commissioner, New Zealand Police
Mr David Stevenson	General Manager, Parliamentary Service
Lieutenant General Tim Keating	Chief of Defence Force, New Zealand Defence Force
Mr Michael Webster	Secretary of the Cabinet/Clerk of the Executive Council
Air Vice-Marshal Kevin Short	Vice Chief of Defence Force, New Zealand Defence Force
Air Vice-Marshal Michael Yardley	Chief of Air Force, New Zealand Defence Force

## Managing chief executive performance<sup>33</sup>

In 2013/14, we embedded and refined the performance management of chief executives, the redesign of which had started in 2012. We set measurable performance expectations aligned with a Four-year Excellence Horizon<sup>34</sup>, provided ongoing support and advice throughout the year, and held chief executives to account for achievement against these performance expectations. There was a change<sup>35</sup> in the performance management system for Public Service chief executives in 2013/14. Under the old system (in effect between July and December 2013), of the 20 chief executives whose performance reviews were conducted, two (10%) were judged as not meeting expectations<sup>36</sup>. A revised performance management system was introduced from January 2014. We are unable to confirm performance outcomes for the January to June 2014 period until the completion of all performance reviews in October 2014.

Under the new performance management approach, we aligned chief executives' performance expectations more closely with their stewardship obligations and the priorities of government. We changed the system for chief executive remuneration to support this. We clarified with chief executives that they hold this stewardship role and need to focus on system-wide results. This approach will be the basis of the reviews that will occur during 2014/15.

<sup>32</sup> Paragraphs 3.24 and 3.25 of the Cabinet Manual. The level of the Commissioner's involvement varies according to the requirements of the role.

<sup>33</sup> For performance against the standard we set at the beginning of the year, refer to page 42.

<sup>34</sup> For information on this, refer to [www.ssc.govt.nz/pif-factsheet4](http://www.ssc.govt.nz/pif-factsheet4)

<sup>35</sup> This led to performance being reviewed under two systems in six-month blocks.

<sup>36</sup> For performance against the standard we set at the beginning of the year, refer to page 42.

We focused on improving the capability of leadership. For example, in the second *Getting to Great* report<sup>37</sup> we made clear what constitutes good practice in internal leadership. SSC partnered with chief executives to introduce a system-focused approach to leadership development and deployment. This is supported through the Leadership Development Centre.

## Using the Performance Improvement Framework to lift performance

The Performance Improvement Framework (PIF) programme is a key intervention to lift the performance of the State services so the system achieves outstanding results for New Zealanders. The programme works at both system and agency levels. At a system level, analysis is done to trace the outcome of interactions – for example, the importance of strategy and role to workforce development and engagement. The programme also provides insight into where the system is strong, where more work needs to be done, and how to do that work well. At an agency level, PIF reviews consider agencies against their own future context.

### PIF Reviews<sup>38</sup>

A PIF review articulates what excellence looks like over a four-year horizon. The review identifies the current state of the agency, its performance challenges and how well placed it is to deal with the issues that confront it in the medium term. PIF reports also identify where the focus will be to respond to the issues raised. A follow-up review is usually conducted about 18 months after a full PIF review to consider progress towards the four-year horizon.

For the 2013/14 year, SSC published six full PIF reviews by June 2014. This is lower than the standard of 15 reviews set at the beginning of the year. However, we published a further seven full PIF reviews in the next month and also published six follow-up reviews.

After each PIF review is published, SSC seeks out feedback from chief executives so we can continually improve the PIF design and practice. In 2013/14, the most common positive comments we received in this feedback related to engagement with the PIF lead reviewers, the discipline of agencies doing a self-review before the PIF, and the development of the Four-year Excellence Horizon, which we are told assists agencies with their own strategic planning. Agencies incur significant costs in terms of time and resources devoted to the PIF review. That the agencies express that they got value from the review indicates they are seeing benefits from the costs incurred. Chief executives have requested follow-up and second PIF reviews for their agencies. They would not have done so unless they saw benefits from the PIF process<sup>39</sup>.

The main area for improvement identified was the length of time from the diagnostic to publication, including how the agencies, lead reviewers and central agencies can best understand and address the complexity of issues in the review and responses.

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<sup>37</sup> A report produced within the PIF framework published in February 2014.

<sup>38</sup> For performance against the standard we set at the beginning of the year, refer to page 43.

<sup>39</sup> An impact evaluation of the PIF programme is planned for 2015/16.

### System-level analysis and capability building

System-level analysis relies on two key data points: ratings and findings. Ratings are updated every time a PIF review is released, and are made available to Ministers as well as the public, via the SSC website. During 2013/14, the ratings were updated for all six published PIF reviews. The findings are a narrative prepared by lead reviewers.

This year the second *Getting to Great*<sup>40</sup> report was released. The first report, released in 2012/13, made the case for the importance of public institutions that can manage immediate issues and implement the priorities of the government of the day, as well as build strong and enduring institutions whose purpose and roles are clear and whose core business effectiveness and efficiency are as strong as their ability to manage issues and respond to events. One of the key findings of the first *Getting to Great* report was that the best performing agencies are clear about their role and purpose, enjoy strong internal leadership, and as a result can enlist the active support of all those outside the agency who are necessary to that agency delivering the most it can for New Zealanders.

In the second *Getting to Great* report, the lead reviewers focused on successful approaches to internal leadership that could be shared with leaders and aspiring leaders. The report and website provide specific examples and case studies of what can be achieved when authentic leadership is strongly focused on building enduring public institutions. The report was delivered via a combination of master-classes, seminars and workshops to over 225 State servants in 2013/14. This constitutes about a quarter of the planned delivery schedule. The overwhelming feedback has been that people get significant value from the opportunities to hear from the lead reviewers about good practice.

The ratings and the findings also assist SSC to upgrade the PIF agency model. During 2013/14, the third upgrade of the agency model was completed. The upgrades took the recent changes to the State sector legislation a step further by placing more importance on stewardship and results. They also improved the dynamic element of learning, together with the information and risk management elements. During the previous year and 2013/14, just over 120 State servants were involved in designing, developing and prototyping the upgrades. The overwhelming feedback is that people get immense value from being involved in the design and development of new expectations.

### Trialling continuous improvement

The use of continuous improvement was identified in the Better Public Services review as something that could sharply improve public sector performance for the benefit of customers. Better Public Services seed funding was allocated to investigate embedding continuous improvement throughout the State services. During 2013/14, SSC began working in partnership with six agencies to determine how continuous improvement can drive a culture of innovation and improvement where customers receive the services they need uninterrupted by agency boundaries. In this period, two proofs of concept<sup>41</sup> were applied to the customer journey across the private and public sectors – for customers departing from the Auckland international airport, involving Customs, Auckland Airport, the Aviation

<sup>40</sup> For more detail, refer to [www.ssc.govt.nz/getting-to-great-internal-leadership](http://www.ssc.govt.nz/getting-to-great-internal-leadership)

<sup>41</sup> When and if the proof of concept is successful, a business case will be developed to integrate and expand work across the system to introduce approaches to continuous improvement, service design and innovation. The proposed approach will include establishing an expanded centre of expertise, a virtual academy, and a community of practice to build system capability and standards.

Security Service and Statistics New Zealand, and for customers at the Survey and Titles office of Land Information New Zealand in Hamilton.

The continuous improvement approach involves putting customers at the heart of State sector services. It means helping leaders to understand their role in creating a culture within which continuous improvement can thrive; introducing continuous improvement methods to help people understand about providing value to customers by using the experience of the people working closest to them; and equipping people to solve problems and make decisions based on data and then identify and measure the benefits of those decisions. We are delivering a common approach and methodology built for the system by teams from within it. This includes an initial suite of 24 tools, supporting learning material, and content for a training academy to develop continuous improvement practitioners. Fifty-four senior leaders were engaged in building their continuous improvement capability and establishing it in their agencies. Over 400 people in agencies have been made aware of continuous improvement and what it means. They have been coached in continuous improvement principles and the use of a number of tools and approaches to improve services for their customers. In 2014/15, we will be making decisions about whether and how this work will be embedded into the State sector as a whole.

## Monitoring major projects

Between July and December 2013, SSC facilitated seven Gateway reviews and monitored major projects prior to the transfer of this function to the Treasury in December 2013<sup>42</sup>. We ensured the Gateway review process was effective and we provided assurance to Ministers that major projects were performing as expected. A major achievement prior to the transfer to the Treasury was the publication of the second *Gateway Reviews – Lessons Learned Report*<sup>43</sup>. The report provided an analysis of 45 Gateway reports on 34 projects and programmes involving 18 agencies between March 2011 and March 2013. The lessons learned highlighted opportunities to improve projects and programmes.

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<sup>42</sup> For performance against the standard we set at the beginning of the year, refer to page 43–44.

<sup>43</sup> For more detail, refer to [www.ssc.govt.nz/gateway-lessons-learned](http://www.ssc.govt.nz/gateway-lessons-learned)

## Impact: a State service that is resilient, responsive and adaptable

### How we progressed towards this impact: we built system capability

Priority: develop current and future leaders and work with agencies on workforce strategies

As already outlined, leadership is seen as critical in improving the performance of the system. SSC has invested significantly in a new Leadership and Capability Development and Deployment programme over the last year. The focus of this is to lift current and future leadership capability within the system. There has also been a focus on helping agencies to improve how they manage their workforce, by ensuring the development of quality workforce strategies, which are reflected in an agency's Four-year Plan. We are also looking at critical areas to improve capability, with initiatives for policy advice and information technology under way. Over the next 18 months, a number of significant employment relations negotiations are being undertaken across the system, which SSC will monitor and support.

Measuring progress towards this impact

As at 30 June 2014, 33% of agencies were "well placed" or "strong" in the PIF people development categories, a key indicator for building system capability.

Performance measure	Actual 2012/13	Performance standard 2013/14	Actual 2013/14
Impact measure			
PIF assessments over the next three to five years assess an increasing proportion of agencies as "well placed" or "strong" for people development	35%	Improvement on previous year	33%
There has been a slight decrease from 35% in 2012/13 to 33% in 2013/14. The bar has been raised by the expectations set out in the PIF Four-year Excellence Horizons. Additionally, what the lead reviewers expect to find to give ratings of "well placed" and "strong" has increased.			

The attributes of resilience, responsiveness and adaptability are demonstrated in the score given to the quality of public services in the Kiwis Count survey.

What we delivered to achieve this impact

In this section we outline the services and interventions (outputs) we provided and what we achieved during the year. This shows how we progressed towards this impact. The service activities were:

- Identifying and developing senior leaders and staff
- Providing advice on employment conditions and employment relations
- Ensuring agencies are developing workforce strategies.

## Identifying and developing senior leaders and staff

With only 33% of PIF assessments for people development resulting in ratings of “well placed” or “strong”, we have not yet created consistently successful and productive workplaces that State servants love to work in. The second *Getting to Great* report<sup>44</sup>: *Your map to navigating the straits of internal leadership*<sup>45</sup> notes that of the 29 agencies whose PIF reviews were published by February 2014, only two agencies came close to achieving excellence in people development as well as achieving the “strong” institution status described in the first *Getting to Great* report. The results below show that while engagement with staff has remained stable from 2011/12, the category of leadership and workforce development has declined as has management of people performance. It is evident that agencies can do more.

	2011/12	2012/13	2013/14
Leadership and Workforce Development	38%	35%	31%
Management of People Performance	38%	31%	31%
Engagement with Staff	38%	38%	38%

Our analysis of the PIF findings on the people dimensions tells us that the secret to engaged and productive public servants is agency leadership<sup>46</sup>. Where we have agencies with a galvanising collective purpose and ambition, leaders who create a strong line of sight between that purpose and day-to-day work, and leaders who model the behaviours required to achieve the ambition, we have strong performance on the people dimensions and, we theorise, strong service to clients and citizens as a result.

Effective leadership is at the heart of delivering better public services for New Zealanders and this was highlighted by the changes to the State Sector Act 1988 in 2013. The changes to the Act were designed to strengthen leadership at the system, sector and agency levels and they gave the State Services Commissioner a clear role of oversight of the State service and the development of its leaders. This has been reinforced through improvements to our performance management system for chief executives. The Leadership and Capability Development and Deployment programme was established to integrate system-wide capability development and leadership initiatives into a single culture change programme. To further help focus and embed these initiatives, the Government Chief Talent Officer was appointed in May 2014 to oversee the delivery of the Leadership and Capability Development and Deployment programme and to act as the head of profession for human resources in the Public Service.

SSC worked in partnership with State services chief executives and agencies to improve the development of leadership talent across the system. During 2013/14, the Career Boards<sup>47</sup> matured their approach to the identification of senior talent and succession planning for roles that are critical to the delivery of government priorities (key positions). SSC worked with chief executives, senior leaders

<sup>44</sup> For more detail, refer to [www.ssc.govt.nz/getting-to-great-internal-leadership](http://www.ssc.govt.nz/getting-to-great-internal-leadership)

<sup>45</sup> Published in February 2014.

<sup>46</sup> For more detail, refer to [www.ssc.govt.nz/getting-to-great-internal-leadership](http://www.ssc.govt.nz/getting-to-great-internal-leadership)

<sup>47</sup> The Senior Leader Career Development Programme, including the current Career Boards, identifies and develops senior leaders. The new leadership development approach will support the work of the Career Boards by providing a stronger focus on improving senior leadership and capability development for the State services as a whole.

and the Leadership Development Centre to ensure that senior leaders identified by the Career Boards as possible successors had appropriate and targeted development plans in place. The work of the Leadership and Capability Development and Deployment programme will continue over the next three years, culminating in leaders who can work across the State services, within communities and into the private sector to deliver the best services for New Zealand.

Research shows that the movement of talent is the most effective way for leaders to gain new skills and broaden their experience. As a result of a greater focus on supporting the development of senior leaders to take on system roles, during 2013/14 SSC facilitated moves by senior leaders from one agency to another. This included two leaders, one from Statistics New Zealand and one from the Ministry of Education, moving to SSC to gain central agency experience, a senior leader from the Ministry of Justice moving to a regional director role at the Ministry of Education and a senior leader at SSC moving to head Veteran Affairs for the New Zealand Defence Force. The movement of talent will continue to be a focus for the foreseeable future.

## Providing advice on employment conditions and employment relations

SSC provides advice to Public Service and some wider State sector agencies on employment relations matters, bargaining strategies and approaches to remuneration. SSC uses the Labour Cost Index published by Statistics New Zealand to assess our effectiveness in moderating public sector wage growth to the same as or less than that of the private sector<sup>48</sup>. Salary and wage rates in the public sector continued to move more slowly than those in the private sector, as has been the case since the September 2010 quarter. The June 2014 Labour Cost Index confirmed that wages in the public sector grew by 2.7% and wages in the private sector by 3.4%.

## Ensuring agencies are developing workforce strategies

In 2013/14, SSC and the Treasury led the development of Four-year Plans for Public Service agencies, with 24 Public Service departments submitting plans in 2013/14. SSC both advised and provided feedback to agencies on their workforce strategies as they were developed. We provided a series of workshops to assist agencies to share expertise and to build their workforce strategy capability. This approach will continue in 2014/15 with the development focus moving to more technical aspects of workforce planning and metrics.

System-level analysis of Four-year Plans informs ongoing capability building needs and provides information on workforce gaps and pressures across agencies. Analysis of Four-year Plans highlighted capability gaps for two key workforce groups – ICT and policy. We aimed to implement system-level interventions for both<sup>49</sup>. Survey analysis of both ICT and policy workforces was completed in October 2013 and the Department of the Prime Minister and Cabinet is now leading an initiative on policy capability. The ICT workforce capability implementation has not commenced by June 2014.

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<sup>48</sup> For performance against the standard we set at the beginning of the year, refer to page 45.

<sup>49</sup> For performance against the standard we set at the beginning of the year, refer to page 45.

## Impact: a State service that is trusted by New Zealanders

### How we progressed towards this impact: we strengthened trust and integrity

Priority: maintaining high levels of integrity and remaining vigilant with information

SSC investigated a number of integrity matters over the past year. Release of sensitive information was a focus for both the Government Chief Information Officer and SSC. Preparing for a General Election always brings a focus on impartiality of the public services, and our video guidance provided a new way of getting the integrity message out.

The New Zealand State services continue to be seen as among the least corrupt and most trusted State services in the world. The changing nature of how we manage information highlights that we need to remain vigilant. SSC commenced work on an Integrity Strategy for the State services from 2015 to 2020. It will not be sufficient to produce a strategy for the next five years and then sit back. New Zealand society is changing in a rapidly evolving and interconnected world. We must strive to be on the front foot in the face of new or emerging risks or challenges to the integrity of our system. It is vitally important, therefore, that the Integrity Strategy itself is subject to regular review, evaluation, and revision.

#### Measuring progress towards this impact

We use the Kiwis Count<sup>50</sup> level of trust in the public services as an indicator of success in achieving this impact of a State service that is trusted by New Zealanders. The Kiwis Count survey separately measures New Zealanders trust in public services based on their perceptions and their experience. Both measures have increased over time, with trust in public services based on experience consistently higher than trust based on perception. In 2014 trust based on experience was 77% (compared with 67% in 2007) and trust based on perception was 45% (compared with 29% in 2007)<sup>51</sup>.

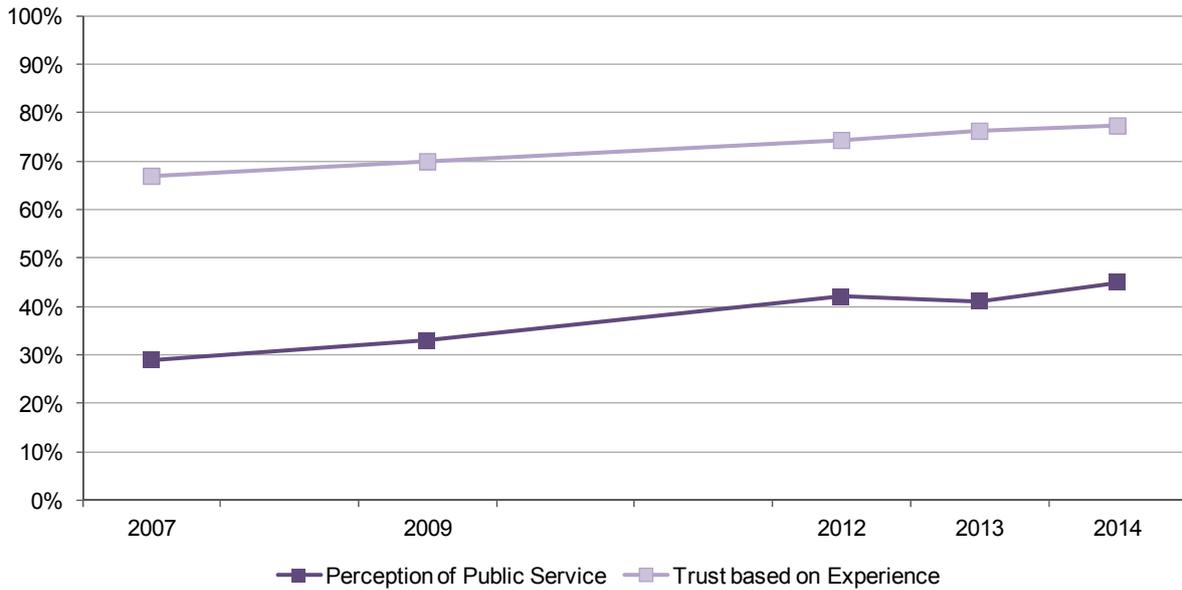
The trend is shown in the chart on the following page.

Performance measure	Actual 2012/13	Performance standard 2013/14	Actual 2013/14
Impact measure			
Kiwis Count levels of "trust in the public services are maintained or improved"	76%	At least 70% of respondents agree or strongly agree that, based on their last service experience, you can trust public servants to do what is right	77%

<sup>50</sup> For more detail, refer to [www.ssc.govt.nz/kiwis-count](http://www.ssc.govt.nz/kiwis-count)

<sup>51</sup> The numbers have changed very slightly from 2012/13 due to a technical change in how annual statistics are calculated from the Kiwis Count survey quarterly data.

## Experience and Perception of Trust of Public Services



### What we delivered to achieve this impact

This section outlines the various services directed towards this impact during 2013/14 and what we achieved. These services and interventions (outputs) show how we progressed towards this impact. The service activities were:

- Improving trust in public services
- Providing guidance and advice on standards of integrity and conduct
- Running an integrity helpdesk
- Investigating issues regarding the integrity of State servants
- Providing advice on legislation.

### Improving trust in public services

Sustaining New Zealand's high international standing for integrity requires us to work constantly to maintain and strengthen our performance as a politically neutral, high integrity, and professional State services. Our national integrity system remains fundamentally strong, as indicated in the findings of the *Integrity Plus 2013 New Zealand National Integrity System Assessment* (NIS) report<sup>52</sup> from Transparency International New Zealand released in December 2013 and the 2013 Integrity and Conduct Survey of the State Services<sup>53</sup> released in August 2014.

<sup>52</sup> For more detail, refer to [www.transparency.org.nz/2013/Integrity-Plus-2013-New-Zealand-National-Integrity-System-Assessment](http://www.transparency.org.nz/2013/Integrity-Plus-2013-New-Zealand-National-Integrity-System-Assessment)

<sup>53</sup> For more detail, refer to [www.ssc.govt.nz/integrity-and-conduct-survey-2013-report](http://www.ssc.govt.nz/integrity-and-conduct-survey-2013-report)

The NIS takes stock of the integrity with which entrusted authority is exercised in New Zealand. New Zealand was ranked first-equal with Denmark for having the lowest perceived level of corruption, scoring 90 out of 100. The report acknowledged the progress made by the State services through the operation of some key initiatives introduced in the last five years, including PIF and Better Public Services.

The Integrity and Conduct Survey of the State Services<sup>54</sup> looks at factors that directly and indirectly influence integrity and behaviour in State services' agencies today and shape how our agencies perform into the future. State servants were asked about their perceptions of the integrity and behaviours of colleagues, leaders and managers, the attributes of their workplace that support a high integrity culture, access to advice and guidance and the promotion of integrity in their agency. The survey's results affirmed the high standards of integrity and conduct that the New Zealand State services are known for, while also identifying areas for improvement. New Zealanders benefit from these high standards in all sorts of ways. These include ease of interaction with public services, helping to attract foreign investment, and maintaining the integrity and high value of the New Zealand export sector.

While the 2013 survey results affirmed the high standards of integrity and conduct for which the New Zealand State services are known, we acknowledge that reputations like ours are hard won and easily lost. We work deliberately to maintain and strengthen our standing as a politically neutral, high performing and professional State services. During 2013/14 we focused on the following areas:

- managing behaviours, including good and poor performance, and breaches of the Standards of Integrity and Conduct
- leading agency integrity, including systems and processes such as staff induction and building a sound and supportive culture
- managing change more effectively
- ensuring transparent and fair appointment processes with appropriate opportunities for career development.

Sustaining and improving performance in these areas requires strong leadership and this is why SSC puts considerable emphasis on developing and supporting agency leaders. We believe this is critical for achieving high integrity, as well as a higher performance culture. We did this through working with chief executives to implement the State Sector Leadership Strategy<sup>55</sup>. The strategy emphasises and reinforces the behaviours that are critical to building strong leadership.

Importantly, there is still a clear need for State sector agencies to better prevent bullying in our workplaces. Once again, the survey found that we must improve our systems and culture for reporting bullying and other breaches. The Ministry of Business, Innovation and Employment and WorkSafe NZ have recently published comprehensive guidance on how to deal with bullying. Existing practices

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<sup>54</sup> The Survey's findings are drawn from 13,395 State servants in 40 randomly selected agencies including Public Service Departments, District Health Boards, Crown agents and Crown Entities and Crown Entity companies. Previous Integrity and Conduct surveys were conducted by the Commission in 2010 and 2007.

<sup>55</sup> The aim of the strategy is to maintain the high levels of integrity we currently have and to explore new and innovative ways to improve further. The strategy is being developed by a group of agencies with specific interests in promoting integrity, drawing from each agency's own specialist knowledge as well as drawing on information provided from research and surveys.

have been changed to support early attention to and resolution of bullying complaints by WorkSafe NZ's inspectorate. The Ministry of Business, Innovation and Employment is also now promoting its employment mediation service to support staff and managers in building better workplace behaviours.

Positively responding to these challenges requires us to continue to improve our information about integrity and behaviours. The survey provides us with invaluable insights into the current state of the system. SSC will continue to focus attention on how to ensure that we have the right information to meet the integrity challenges of the future.

## Providing guidance and advice on standards of integrity and conduct

During 2013/14, SSC promoted the Standards of Integrity and Conduct for the State services and assisted with their implementation and interpretation. Induction sessions for newly appointed departmental chief executives included a component on expectations of them under the integrity and conduct functions. Planning has begun to apply the code of conduct to a range of other agencies due to amendments to the State Sector Act 1988 in 2013/14.

SSC worked during 2013/14, and is continuing to work, with senior human resources leaders across agencies, to ensure that human resources teams are sharing best practice and fostering awareness of the integrity and conduct obligations of State servants. We ensured agencies are aware of the support available to enhance agency practices, in areas such as staff induction and promotion of integrity. Eighty-two percent of public servants say they are familiar with their agency's code of conduct<sup>56</sup>, and this is a sound result. However, there appear to be good opportunities to strive for greater consistency of awareness across agencies, particularly in the health sector.

Of all of the survey respondents, the staff of district health boards gave the highest rating for their sense of personal accomplishment in their work. However the 2013 results continued a worrying trend apparent in the 2007 and 2010 survey results. Just over half of district health boards' staff considered that their agency promotes integrity and conduct matters and only 38% rated their induction in integrity, conduct, and ethics as good. These sector results are disappointing in comparison with those of the other types of agencies. We will be ensuring that the Ministry of Health works with the district health boards and chief executives to support them to take a deliberate and conscientious approach to strengthening the systems and culture that drive high standards of behaviour.

In 2013/14, SSC initiated another disclosure of chief executive expenses, gifts and hospitality. Requiring chief executives of Public Service departments and statutory Crown entities to publish their incurred expenses, gifts and hospitality promotes transparency of and accountability for public spending. During the year, the reporting regime was amended from six monthly to yearly, although guidance and advice continued to be provided during the transitional phase as some agencies elected to continue to report at six monthly intervals. Pleasingly, all chief executives made the disclosures.

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<sup>56</sup> In the 2013 Integrity and Conduct Survey of the State Services.

In November 2013 changes to the Department of Internal Affairs functions were announced to create a Government Chief Privacy Officer. This role was established in the first quarter of 2014 to meet the need for ensuring privacy leadership across public services. SSC provided advice and resources to progress this role and embed it into the Department of Internal Affairs. Agencies were required to provide security assessments to the Government Chief Information Officer in July 2013 and March 2014 along with reports about the steps they had taken to address privacy and security issues.

## Running an integrity helpdesk

SSC runs an integrity helpdesk that responds to queries from State servants and members of the public about matters of integrity and conduct. The numbers of queries received in 2013/14 are shown in the table below.

Queries	Jul-Dec 2013	Jan-Jun 2014	2013/14 Total
Conduct and integrity queries (non-election related)	72	74	146
Conduct and integrity queries (election related)	9	124	133
Total	81	198	279

Traditionally, during the period preceding a General Election queries about elections increase significantly. In February 2014, video guidance for State servants was released to supplement the written guidance and this was followed up with a number of presentations throughout New Zealand. The new methods of distributing election guidance may have contributed to the increase in queries. By comparison, the total number of queries received in relation to the 2011 General Election was 114.

## Investigating issues regarding the integrity of State servants

In May 2012 there was unauthorised disclosure of a series of Cabinet papers relating to the restructuring of the Ministry of Foreign Affairs and Trade. The unauthorised release of Cabinet material or any other confidential information is a breach of the State services' 'Standards of Integrity and Conduct and can affect perceptions of the integrity of all other public servants.

The State Services Commissioner launched an inquiry to establish the facts with a view to highlighting any areas where improvements could be made and to see what lessons could be learned for the future. The inquiry report was a reminder of the need to be constantly vigilant and to ensure that internal security systems and processes are operating effectively and Cabinet information is held securely. SSC has made changes to improve our work in this area, and throughout the State services work is being done to improve the secure handling of Cabinet papers and citizens' private information.

## Providing advice on legislation

SSC helped to implement the amendment to the State Sector Act 1988 which came into effect in July 2013. This included providing advice and guidance to other agencies on the implementation of the new provisions, such as the provisions relating to delegations by public services chief executives. We also provided advice to the functional leaders for procurement, property and ICT during the development of ministerial directions under the Crown Entities Act to extend certain functional leadership requirements to selected Crown entities.

## Organisational health and capability

### Our organisation – Better every day SSC

In the latter part of the year we started to renew the business strategy and roadmap that support our purpose of “leading a State sector New Zealand is proud of”. We did this to step up the pace of progress and to work more effectively with leaders in the system to change the way agencies organise and operate to make a bigger difference for New Zealanders. An operating model to support this was developed and is now being implemented. It will ensure that we direct our effort to those interventions that make the most difference for our customers and that in undertaking our role we exemplify the behaviours we ask of others.

In response to the 2012 PIF Review of the SSC, work in the following four areas was prioritised for 2013/14:

- strengthening leadership within the State services, including talent identification, leadership development and succession planning
- improving the way SSC recruited, developed performance expectations for, remunerated and appraised the performance of chief executives
- supporting the delivery of Better Public Services results and functional leadership
- completing SSC’s workforce strategy and fast-tracking its implementation.

The first three areas are commented on earlier in this report. The PIF Action Plan, which was put in place following the review, provided the impetus for lifting our attention to organisational health and capability, including workforce strategy. In 2014, actions from this plan were incorporated into our ongoing work programme, and good progress has been made. We have used 90-day planning to ensure focus is kept on these key priorities. The workforce strategy is discussed in the “Our people” section on the following page.

### Operating model

A portfolio based operating model was agreed by the SSC senior leadership team and implementation commenced late in the 2013/14 year. The model is based on a number of principles including:

- Investment approach – ensuring we are investing in the right areas to get the system changes needed
- Customer focus – ensuring services are designed for and with our customers
- Being exemplary – being fit for purpose and actively improving our practice in core organisation functions
- Continuous improvement – building a continuous improvement approach into the way things are done at SSC.

## Our people

We continued to build our capability to support our present and future needs for an agile, competent and engaged workforce. The renewed business strategy and operating model will require sustained focus in this area, including focus on culture and appropriate behaviours.

### Employee engagement

In September 2013, we measured employee engagement using the TeamTalk survey<sup>57</sup>. The overall grand mean result was 3.96, placing SSC at the 65th percentile for the Gallup New Zealand State sector. TeamTalk coaching was provided to managers and team action plans have been developed and undertaken. During the year, we fostered more interaction across SSC through both work-related and social whole-of-organisation activities. We will continue to measure and report on employee engagement, with the next survey scheduled for April 2015.

Performance Measure	Actual 2012/13	Performance standard 2013/14	Actual 2013/14
A high proportion of SSC staff participate in the SSC employee engagement survey	97%	Continued high levels of participation	90%
The SSC employee engagement survey shows meaningful improvement in grand mean results	3.91	Grand mean of 4.11 or above	3.96

### Workforce strategy

A workforce strategy and an action plan were put in place in 2014, and a number of initiatives are completed or will be completed early in the 2014/15 year. These include a competency framework built on the three principles of own, mobilise, and deliver that is being included in job descriptions, recruitment and performance management. Complementing this is our Employee Value Proposition to attract and retain high performing staff. Working in SSC is a valuable part of an individual's career development. Work on scoping a talent management programme started in 2014, and a medium-term workforce capability plan will be prepared in the coming year.

### Staff development

We are committed to making sure that our people have the necessary skills and competencies to be successful in their roles. Alongside training courses and on-the-job learning opportunities, this year has seen increased and successful use of individual and group coaching. A number of action learning groups have been established.

### Equal employment opportunities and diversity

SSC remains committed to the four groups identified in the Equal Employment Opportunities policy for the public services – Māori, ethnic or minority groups, women and people with disabilities – and to appointment on merit. We have continued to balance our business needs with providing staff with flexible working arrangements to meet their personal needs.

<sup>57</sup> Based on the Gallup Q12.

## Central Agency Shared Services

The Central Agency Shared Services (CASS) continued to develop the finance, information technology, information management and human resources services it provides to SSC, the Treasury and the Department of the Prime Minister and Cabinet. Over the past year SSC has benefited from a more effective CASS resulting from a stable and up-skilled workforce with greater experience. This has been complemented by the automation of processes such as recruitment and invoice approvals. CASS focused on building stronger customer relationships with business partners in place, hot desking in SSC and engaging with SSC leaders. The costs of service provision to SSC have been held, with CASS absorbing cost increases through efficiency initiatives such as On-Boarding, a Lean Six Sigma continuous improvement project.

In late June 2014, the Office of the Auditor-General tabled in the House its report *Setting up Central Agency Shared Services*<sup>58</sup> which reviewed the establishment of CASS. SSC, as a member of the CASS governing Partnership Board, along with the other central agencies, noted that actions were already being taken to address the recommendations in the report. CASS has articulated its vision for the future, updated the Partnership Board's terms of reference to clarify decision-making processes and created an Information Services Strategic Plan. CASS is in the process of reviewing the composition of the human resources team so that it is able to cater for the future needs of the central agencies.

## Our processes

SSC uses the Audit Management Report as an indicator of the effectiveness of our processes.

Performance Measure	Actual 2012/13	Performance standard 2013/14	Actual 2013/14
In Audit's Management report for SSC, SSC systems and controls are rated as at least "good"	<p>Very good: Financial information systems and controls</p> <p>Good: Management control environment</p> <p>Needs improvement: Service performance information and associated systems and controls</p>	"Good" rating for all three assessment areas	<p>Very good: Financial information systems and controls</p> <p>Good: Management control environment</p> <p>Needs improvement: Service performance information and associated systems and controls</p>

<sup>58</sup> For more detail, refer to [www.oag.govt.nz/2014/cass](http://www.oag.govt.nz/2014/cass)

## Our costs

The running costs of administration and support services reduced from 22.84% in 2011/12 to 15.6% in 2012/13.

Performance Measure	Actual 2011/12	Performance standard 2013/14	Actual 2012/13 <sup>59</sup>
Reduce the running costs directed at administrative and support services functions	22.84%	Less than 23%	15.6%

## Managing risk

SSC reports organisational risk to the Risk and Audit Committee, which includes independent members and an independent Chair. The committee’s role is to challenge and to provide assurance to SSC that risk management practices, particularly at the strategic level, are appropriate. It provides advice to ensure that SSC has an effective and comprehensive framework for corporate governance, and that a process is in place to ensure that significant risks are identified and mitigated.

Proactive management of risks within the system is a priority for SSC to collectively improve performance of the State services. We assess the system as a whole to look for risks and opportunities to improve performance, and we review risks within sectors and agencies with our central agency partners.

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<sup>59</sup> The result for 2012/13 is provided as the 2013/14 result is not available until around February/March 2015.

# Part C: State Services Commission summary of performance during 2013/14

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

## Statement of responsibility

In terms of the Public Finance Act 1989, I am responsible, as Chief Executive of the State Services Commission, for the preparation of SSC's financial statements and statement of service performance, and the judgements made in the process of producing those statements.

I have the responsibility of establishing and maintaining, and I have established and maintained, a system of internal control procedures that provides reasonable assurance as to the integrity and reliability of financial reporting.

In my opinion:

- these financial statements and statement of service performance fairly reflect the financial position and the operations of the State Services Commission for the year ended 30 June 2014.
- the forecast financial statements fairly reflect the forecast financial position and operations of the department for the financial year to which they relate.



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**Iain Rennie** | State Services Commissioner

30 September 2014



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**Sara Brownlie** | Chief Financial Officer

30 September 2014

## Independent auditor's report



### **To the readers of State Services Commission's financial statements, non-financial performance information and schedules and statements of non-departmental activities for the year ended 30 June 2014**

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 of the financial statements, the non-financial performance information and the schedules of non-departmental activities of SSC on her behalf.

We have audited the:

- financial statements of SSC on pages 50 to 74, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2014, the statement of comprehensive income, statement of changes in equity, statement of departmental expenses and capital expenditure against appropriations, statement of unappropriated expenditure and capital expenditure 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;
- non-financial performance information of SSC that comprises the statement of service performance on pages 41 to 48 and the report on the State Service Commission's services and its performance on pages 5 to 30; and
- schedules and statements of non-departmental activities of SSC on pages 75 to 83 that comprise the schedule of non-departmental assets, schedule of non-departmental liabilities, schedule of non-departmental commitments and schedule of non-departmental contingent liabilities and contingent assets as at 30 June 2014, the schedule of non-departmental expenses, statement of non-departmental expenditure and capital expenditure against appropriations, statement of non-departmental unappropriated expenditure and capital expenditure, schedule of revenue and receipts for the year ended on that date and the notes to the schedules that include accounting policies and other explanatory information.

#### Opinion

In our opinion:

- The financial statements of SSC on pages 50 to 74:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect SSC's:
    - financial position as at 30 June 2014;
    - financial performance and cash flows for the year ended on that date;

- expenses and capital expenditure incurred against each appropriation administered by SSC and each class of outputs included in each output expense appropriation for the year ended 30 June 2014; and
- unappropriated expenses and capital expenditure for the year ended 30 June 2014.
- The non-financial performance information of SSC on pages 5 to 30 and 41 to 48:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects SSC's service performance and outcomes for the year ended 30 June 2014, including for each class of outputs:
    - its service performance compared with the forecasts in the statement of forecast service performance at the start of the financial year; and
    - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.
- The schedules and statements of non-departmental activities of SSC on pages 75 to 83 fairly reflect, in accordance with the Treasury Instructions:
  - the assets, liabilities, contingencies and commitments as at 30 June 2014 managed by SSC on behalf of the Crown; and
  - the revenues and receipts, expenses, expenditure and capital expenditure against appropriations and unappropriated expenditure and capital expenditure for the year ended on that date managed by SSC on behalf of the Crown.

Our audit was completed on 30 September 2014. 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 financial statements, the non-financial performance information and the schedules and statements of non-departmental activities are 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 financial statements, the non-financial performance information and the schedules and statements of non-departmental activities. 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 financial statements, the non-financial performance information and the schedules and statements of non-departmental activities. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, the

non-financial performance information and the schedules of non-departmental activities, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to SSC's preparation of the financial statements, the non-financial performance information and the schedules and statements of non-departmental activities that fairly reflect the matters to which they relate. We consider internal control 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;
- reasonableness of the significant accounting estimates and judgements made by the State Services Commissioner;
- appropriateness of the reported non-financial performance information within SSC's framework for reporting performance;
- adequacy of all disclosures in the financial statements, the non-financial performance information and the schedules and statements of non-departmental activities; and
- overall presentation of the financial statements, the non-financial performance information and the schedules and statements of non-departmental activities.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements, the non-financial performance information and the schedules and statements of non-departmental activities. Also we did not evaluate the security and controls over the electronic publication of the financial statements, the non-financial performance information and the schedules and statements of non-departmental activities.

We have obtained all the information and explanations we have required and 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 and non-financial performance information that:
  - comply with generally accepted accounting practice in New Zealand;
  - fairly reflect SSC's financial position, financial performance, cash flows, expenses and capital expenditure incurred against each appropriation and its unappropriated expenses and capital expenditure; and
  - fairly reflect its service performance and outcomes.
- Schedules and statements of non-departmental activities, in accordance with the Treasury Instructions, that fairly reflect those activities managed by SSC on behalf of the Crown.

The State Services Commissioner is also responsible for such internal control as is determined is necessary to enable the preparation of financial statements, non-financial performance information and schedules of non-departmental activities that are free from material misstatement, whether due to

fraud or error. The State Services Commissioner is also responsible for the publication of the financial statements, non-financial performance information and schedules and statements of non-departmental activities, whether in printed or electronic form.

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

#### Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements, the non-financial performance information and the schedules and statements of non-departmental activities and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

#### 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 signature is written in a cursive, flowing style.

**Karen Young**

Audit New Zealand

On behalf of the Auditor-General

Wellington, New Zealand

## Statement of Service Performance

This statement of service performance reflects the one multi-class output appropriation (MCOA): Policy Advice and Management of the Public Management System. This has two sub-categories:

- Management of the Public Management System
- Public Management System Policy Advice

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

Multi-class output expense appropriations (MCOA) allow departments the flexibility of having one appropriation across a number of output classes. To maintain transparency, the PFA requires departments to report on actual expenses and performance for each output class within a MCOA, as well as reporting actual expenses and performance for the entire appropriation.

#### Output Class: Management of the Public Management System

This appropriation 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)

2013 Actual \$000	2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
- Expenses	24,473	24,477	26,281	-
- Revenue Crown	22,148	20,672	22,148	-
- Revenue Department	2,905	3,035	3,783	-
- Revenue other	4	770	21	-
- Income	25,057	24,477	25,952	-

Output classes Public Management System and State Services Performance Management were discontinued from 2012/13 with functions now delivered through MCOA – Management of the Public Management System. The combined cost of these two output classes 2012/13 was \$23.573 million. 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). The cost of Management of the Public Management System for 2014/15 is now reclassified as MCA: Output Category – Management of the Public Management System.

## Service performance

Performance measure	Actual 2012/13	Budgeted standard target 2013/14	Actual 2013/14
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Impact: A state service that is performing

*Service activity: appointing chief executives*<sup>60</sup>

Vacancies for Public Service 'key positions', as listed by SSC, are filled by senior leaders identified through the Career Board process	Not applicable	50% are filled by identified senior leaders	There were no key position vacancies during the period, but a review of some key positions did see the reappointment of senior leaders to these roles
Number of appointments/re-appointments of Public Service chief executives, and appointment processes managed on behalf of ministers	16	8 to 15 appointments or reappointments are completed in 2013/14	12
Public Service chief executive recruitment processes successfully completed within 16 weeks of vacancy being declared	Not applicable	70% of appointments	25%

This is the first year reporting on the 16-week target for the whole of the recruitment process. This target is challenging and will only be met if everything progresses as planned. Often progress is delayed due to complexities in the candidate search and selection process, additional assessment requirements, or Cabinet or Minister availability and possibly delays may also be attributable to the candidates. We are in the process of reviewing and improving our recruitment processes.

*Service activity: managing chief executive performance*<sup>61</sup>

Public Service chief executives' performance meets the State Services Commissioner's expectations, including implementation of PIF recommendations	At least 80% of new chief executives met the Commissioner's expectations (the standard for 2012/13 was 80%)	95% of chief executives meet or exceed expectations	90% Two (10%) of the 20 chief executives whose performance was assessed were judged as not meeting expectations
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Performance reviews were completed in six-month blocks in 2013/14. This was a change from last year. Of the 20 chief executives whose performance reviews for the July-December 2013 period were completed, two (10%) were judged as not meeting expectations.

Identified high potential leaders are pursuing agreed Professional Development Plans	Not applicable	100% of identified potential leaders	50%
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Career Boards<sup>62</sup> had a change in focus during the year to progress development planning for successors to key positions as opposed to high potential leaders only. Fifty-three successors have been identified, 8 of whom are identified high potential leaders. Of the 23 development plans received, four were identified high potential leaders. With the change in focus this year, having development plans in place was elective, although they are continuing to be followed up. With the maturing of our approach in 2014/15, they will be a requirement.

<sup>60</sup> For more detail, refer to pages 18-19.

<sup>61</sup> For more detail, refer to pages 19.

<sup>62</sup> Career Boards aim to enable and support chief executives to develop a system-wide and deep pool of senior leaders who can ascend to and succeed in system-critical key positions and future chief executive roles.

Performance measure	Actual 2012/13	Budgeted standard target 2013/14	Actual 2013/14
<i>Service activity: using the Performance Improvement Framework to lift performance</i> <sup>63</sup>			
Performance Improvement Framework (PIF) reviews are completed with selected Public Service agencies and significant Crown entities	10	15	6 published These reviews were of the Serious Fraud Office, the Ministry of Culture and Heritage, Careers New Zealand, the State Services Commission, Land Information New Zealand and the Ministry of Transport

Six PIF reviews were published in the year ended June 2014. This means we were well short of our standard of 15. However, in July 2014 another seven PIF reviews were published. These were all started and largely completed in the 2013/14 year, and publication was within one month of year end.

Performance Improvement Framework (PIF) reviews are completed with selected Public Service agencies and significant Crown entities	50%	70% of all PIF reviews completed within six months	50%
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The time taken to publish a PIF review is affected by the availability of lead reviewers, reviewed agencies, central agencies and Ministers to discuss the issues raised in the reviews and agree to ways forward. This includes drafting the lead reviewers' report and the responses of the reviewed agency and the central agencies. The time taken for publication is improving, with 57% of the reports published in July 2014 published within six months and 100% of the PIF follow-up reviews published in early 2014/15 published within four months.

<i>Service activity: monitoring major projects</i> <sup>64</sup>			
Maintain Gateway as the essential assurance methodology for major capital investments in the system <sup>65</sup>	99% agreement	85% of Senior Responsible Owners agree "Review was beneficial and will impact positively on the outcome of the programme/project" and "Report's recommendations will enable me to achieve improvements in the project's outcomes" <sup>66</sup>	100% of surveyed Senior Responsible Owners who responded (6 out of 8) agreed with these statements <sup>67</sup>

<sup>63</sup> For more detail, refer to page 20-21.

<sup>64</sup> For more detail, refer to page 22.

<sup>65</sup> Until the transfer of the function to the Treasury.

<sup>66</sup> The standard of 85% was set for inclusion in the 2013 Main Estimates. 100% of respondents in 2013/14 agreed with the statements that the reviews would positively impact on the outcome of the project and the recommendations would enable improvements in the project's outcomes.

<sup>67</sup> 100% of respondents in 2013/14 agreed with the statements that the reviews would positively impact on the outcome of the project and the recommendations would enable improvements in the project's outcomes.

Performance measure	Actual 2012/13	Budgeted standard target 2013/14	Actual 2013/14
Maintain Gateway as the essential assurance methodology for major capital investments in the system	24 Gateway reviews	Complete at least 7 Gateway reviews <sup>68</sup> in 2013/14	7
Provide advice to Ministers on the risk status of major monitored projects and options for mitigation of those risks, through the tri-annual reporting process for all monitored projects and through interim briefings as required	Not applicable	100% of advice and reports are provided	100% of advice and reports were provided <sup>69</sup>
<i>Service activity: across all service activities for this impact</i>			
The stakeholder interviews show that SSC is assisting sectors and agencies to improve performance	SSC did not undertake a separate survey in 2013	60% agree or strongly agree	SSC did not undertake a specific survey in 2014 We sought feedback on our services and their impact in a number of areas

Although we did not undertake a specific survey during 2014, we sought feedback on our services and their impact in a number of areas. Examples are:

- Feedback from reviewed agencies on the value of the PIF review and any areas for improvement. After each PIF review is published, SSC seeks out feedback from chief executives so we can continually improve the PIF design and practice. In 2013/14, the most common positive comments we received in this feedback related to engagement with the PIF lead reviewers, the discipline of agencies doing a self-review before the PIF, and the Four-year Excellence Horizon. The main area for improvement identified was the length of time from the diagnostic to publication, including how the agencies, lead reviewers and central agencies can best understand and address the complexity of issues in the review and responses.
- A review of the Career Boards in late 2013 involved interviews with Career Board chairs, chief executives, human resources general managers, SSC, the Leadership Development Centre and senior leaders. This stakeholder feedback indicated that the Career Boards process is universally seen as important and part of a larger talent management and development process; however, many interviewees believe that the process to ensure a system-wide and deep pool of senior leaders will take up to three years to completely embed. Feedback from some stakeholders on improving the process focused on gaining greater clarity on the roles, responsibilities, process and scope of the Career Boards. The feedback was analysed and reported on in December 2013. Since then we have looked to provide the clarity stakeholders were seeking.
- Ongoing feedback has been a feature of our continuous improvement programme and the development of the new approach to chief executive performance management and remuneration,
- When Senior Responsible Owners<sup>70</sup> of projects and programmes monitored under the Gateway programme were surveyed, 100% of them agreed with the following statements "Review was beneficial and will impact positively on the outcome of the programme/project" and "Report's recommendations will enable me to achieve improvements in the project's outcomes".

<sup>68</sup> This was reduced from 20 to 7 for 2013/14 as the function was transferred to the Treasury in December 2013.

<sup>69</sup> The reports were tabled and accepted by the Cabinet Committee on State Sector Reform and Expenditure Control and were signed off by the Minister of State Services to the Cabinet committee. These are measures of acceptable quality.

<sup>70</sup> Six out of eight (75%) Senior Responsible Owners responded to the survey.

Performance measure	Actual 2012/13	Budgeted standard target 2013/14	Actual 2013/14
Impact: A state sector that is resilient, responsive and adaptable			
<i>Service activity: providing advice on employment conditions and employment relations</i> <sup>71</sup>			
The Labour Cost Index indicates that Public Service wage growth does not exceed private sector wage growth <sup>72</sup>	2.8% for public service 3% for private sector	Public Service wage growth is the same or less than the rate of growth in the private sector	2.7% for Public Service 3.4% for private sector
<i>Service activity: ensuring agencies are developing workforce strategies</i> <sup>73</sup>			
Four-year Plans submitted by agencies demonstrate credible intentions around the operating models, organisational capability, and financial and workforce strategies required to deliver on Government priorities and organisational strategy	Not applicable	95% meet expectations	44%
In their second year of development, Four-year Plans are providing a more integrated, medium-term view of agencies' strategies and the challenges to be addressed. However, agencies need to improve their identification of the activities and choices that will realise their strategies within baselines. SSC will continue to support agencies to develop robust strategies.			
Analysis of agencies' workforce strategies results in identification, prioritisation and implementation of system-level interventions to address gaps in Public Service workforce capability	Not applicable	Implementation has commenced on at least two system-level interventions	1 Survey analysis of the policy workforce was completed in October 2013. The Department of the Prime Minister and Cabinet is now leading an established initiative on policy capability
Analysis of Four-year Plans highlighted capability gaps for two key workforce groups – ICT and policy. ICT implementation had not commenced by June 2014. In partnership with the Government Chief Information Officer, a cross-agency survey was undertaken by SSC to investigate ICT workforce capability and possible system-level interventions required to address gaps. Survey analysis was completed for the ICT workforce in October 2013. However it took longer than expected to develop an action focus. Therefore SSC assisted lead agencies to build connections, and the Government Chief Information Officer is now actively progressing this work.			

<sup>71</sup> For more detail, refer to page 25.

<sup>72</sup> As measured by the Labour Cost Index.

<sup>73</sup> For more detail, refer to page 25.

## Output Class: Public Management System Policy Advice

This appropriation 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.

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

2013 Actual \$000	2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
- Expenses	3,051	3,150	3,150	-
- Revenue Crown	3,150	3,150	3,150	-
- Revenue Department	62	-	-	-
- Revenue other	-	-	-	-
- Income	3,212	3,150	3,150	-

Output class State Services Policy Advice was discontinued from 2012/13 with functions now delivered through MCOA – Public Management System Policy Advice. The cost of State Services Policy Advice in 2012/13 was \$2.965 million. 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). The cost of Public Management System Policy Advice for 2014/15 is now reclassified as MCA: Output Category – Public Management System Policy Advice.

### Service performance

Performance measure	Actual 2012/13	Budgeted standard target 2013/14	Actual 2013/14
<b>Quality measure</b>			
Technical quality of policy advice <sup>74</sup> papers assessed by a survey <sup>75</sup> with a methodical robustness of 90% <sup>76</sup>	64%	At least 70%	59%

We targeted an average score of 7/10 for SSC's documents in this process. The result was an average score of 5.9/10 (down from 6.4 in 2013). The definition of "satisfactory", which is where SSC advice is currently placed, 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.

A number of interventions are proposed to lift the quality for next year. These include providing feedback from the survey to authors, engaging with Ministers on briefing requirements and templates, and facilitating training and communications.

<sup>74</sup> Quality of policy advice is a performance measure set by the Treasury as part of the "Review of Policy Expenditure and Advice".

<sup>75</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 Treasury's policy quality framework – analytical quality, strategic perspective and customer focus.

<sup>76</sup> The statistical robustness reflects the quality of the review process as set out in the Treasury's guidance. SSC runs its review process with the Treasury, using a methodology developed by the Treasury.

Performance measure	Actual 2012/13	Budgeted standard target 2013/14	Actual 2013/14
The satisfaction of the Minister of State Services with the policy advice service, as per the common satisfaction survey <sup>77</sup>	Verbal feedback	At least 70%	73%
Cost efficiency measure			
The total cost per hour of producing outputs	\$143	\$160	\$160

These figures have taken into account the new formula as per Treasury guidance to exclude non-policy advice hours. Agencies with significant policy costs were asked to complete a survey to help them calculate their true cost per hour of policy advice. As ours costs are not significant in size, we did not complete the survey. The reason for the increase from \$143 in 2012/13 to \$160 in 2013/14 was that although policy costs fell by \$133,000, the work was carried out by two fewer FTEs resulting in a higher average cost per hour.

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

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.

### Output Category: – Management of the Public Management System

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

2013 Actual \$000	2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
- Expenses	-	-	-	24,984
- Revenue Crown	-	-	-	22,549
- Revenue Department	-	-	-	2,425
- Revenue other	-	-	-	10
- Income	-	-	-	24,984

<sup>77</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.

Output Category: – Public Management System Policy Advice

Statement of Cost of Services (GST exclusive)

2013 Actual \$000	2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
- Expenses	-	-	-	3,230
- Revenue Crown	-	-	-	3,230
- Revenue Department	-	-	-	-
- Revenue other	-	-	-	-
- Income	-	-	-	3,230

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## Statements: Departmental

for the year ended 30 June 2014

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

### Statement of Comprehensive Income

for the year ended 30 June 2014

2013 Actual \$ 000		Notes	2014 Actual \$ 000	2014 Main Estimates \$ 000	2014 Supp. Estimates \$ 000	2015 Unaudited Forecast (as per BEFU 2014) \$000
<b>Income</b>						
23,836	Revenue Crown	2	25,298	23,822	25,298	25,779
4,191	Revenue other	3	2,971	3,805	3,804	2,435
6	Gains		-	-	-	-
28,033	Total income		28,269	27,627	29,102	28,214
<b>Expenditure</b>						
15,339	Personnel costs	5	16,058	16,429	15,994	16,939
403	Capital charge	6	407	416	416	390
409	Depreciation and amortisation expense	11	433	358	427	204
10,387	Other operating expenses	7	10,626	10,424	12,594	10,681
26,538	Total expenditure		27,524	27,627	29,431	28,214
1,495	Net surplus /(deficit)		745	-	(329)	-
<b>Other comprehensive income</b>						
51	Gain on revaluation of artwork	4	-	-	-	-
1,546	Total comprehensive income		745	-	(329)	-

Explanations of major variances against budget are detailed in note 21.

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

## Statement of Changes in Equity

for the year ended 30 June 2014

2013 Actual \$ 000	Notes	2014 Actual \$ 000	2014 Main Estimates \$ 000	2014 Supp. Estimates \$ 000	2015 Unaudited Forecast (as per BEFU 2014) \$000
4,872	Balance as at 1 July	4,923	5,201	4,923	4,923
	<b>Comprehensive income/(expense)</b>				
1,495	Net surplus / (deficit) for the year	745	-	-	-
329	Other	328	-	329	-
51	Gain on revaluation of artwork	-	-	-	-
(1,824)	Return of operating surplus to the Crown	(745)	-	(329)	-
4,923	Balance as at 30 June	5,251	5,201	4,923	4,923

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

## Statement of Financial Position

as at 30 June 2014

2013 Actual \$000		Notes	2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
<b>Assets</b>						
Current Assets						
7,140	Cash and cash equivalents	19	1,741	3,870	5,890	6,103
-	Debtor Crown	2, 19	5,273	-	-	-
1,124	Debtors and other receivables	8, 19	1,428	1,004	300	300
14	Prepayments		-	-	-	-
8,278	<b>Total current assets</b>		<b>8,442</b>	<b>4,874</b>	<b>6,190</b>	<b>6,403</b>
Non-current assets						
1,806	Property, plant and equipment	9	1,407	2,913	1,513	1,393
146	Intangible assets	10	112	57	136	102
1,952	<b>Total non-current assets</b>		<b>1,519</b>	<b>2,970</b>	<b>1,649</b>	<b>1,495</b>
10,230	<b>Total assets</b>		<b>9,961</b>	<b>7,844</b>	<b>7,839</b>	<b>7,898</b>
<b>Liabilities</b>						
Current liabilities						
2,162	Creditors and other payables	12, 19	2,447	1,521	1,935	1,835
1,824	Provision for repayment of surplus	13	745	-	(329)	-
149	Provisions	15	157	-	119	119
1,102	Employee entitlements	14	1,122	1,054	1,111	941
5,237	<b>Total current liabilities</b>		<b>4,471</b>	<b>2,575</b>	<b>2,836</b>	<b>2,895</b>
Non-current liabilities						
70	Employee entitlements	14	239	68	80	80
70	<b>Total non-current liabilities</b>		<b>239</b>	<b>68</b>	<b>80</b>	<b>80</b>
5,307	<b>Total liabilities</b>		<b>4,710</b>	<b>2,643</b>	<b>2,916</b>	<b>2,975</b>
4,923	<b>Net assets</b>		<b>5,251</b>	<b>5,201</b>	<b>4,923</b>	<b>4,923</b>
<b>Equity</b>						
4,872	Taxpayers' funds		5,200	5,201	4,872	4,872
51	Artwork revaluation reserves		51	-	51	51
4,923	<b>Total equity</b>		<b>5,251</b>	<b>5,201</b>	<b>4,923</b>	<b>4,923</b>

Explanations of major variances against budget are detailed in note 21.

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

## Statement of Cash Flows

for the year ended 30 June 2014

2013 Actual \$000		Notes	2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
<b>Cash flows from operating activities</b>						
23,836	Receipts from Crown		20,025	23,822	25,298	25,779
5,301	Receipts from other revenue		2,664	3,795	4,628	2,435
(10,976)	Payments to suppliers		(9,953)	(10,068)	(12,578)	(10,071)
(15,318)	Payments to employees		(16,311)	(16,384)	(15,599)	(17,055)
(403)	Payments for capital charge		(407)	(416)	(416)	(390)
(184)	Goods and services tax (net)		79	(382)	(988)	(894)
2,256	Net cash flows from operating activities	16	(3,903)	367	345	(196)
<b>Cash flows from investing activities</b>						
6	Receipts from sale of property, plant and equipment		-	-	-	-
-	Purchase of property, plant and equipment		-	(625)	(100)	(100)
(68)	Purchase of intangible assets		-	-	-	-
(62)	Net cash flows from investing activities		-	(625)	(100)	(100)
<b>Cash flows from financing activities</b>						
(223)	Repayment of operating surplus		(1,496)	(748)	(1,495)	-
(223)	Net cash flows from financing activities		(1,496)	(748)	(1,495)	-
1,971	Net (decrease)/increase in cash		(5,399)	(1,006)	(1,250)	(296)
5,169	Cash at the beginning of the year		7,140	4,876	7,140	6,399
7,140	Cash at the end of the year		1,741	3,870	5,890	6,103

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

## Statement of Commitments

as at 30 June 2014

At 30 June 2014 the Commission has no capital commitments (2013: nil).

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

2013 Actual \$000		2014 Actual \$000
	<b>Non-cancellable operating lease commitments</b>	
578	Not later than one year	578
2,120	Later than one year and not later than five years	1,543
-	Later than five years	-
2,698	Total non-cancellable operating lease commitments	2,121
2,698	Total commitments	2,121

## Statement of Contingent Liabilities and Contingent Assets

as at 30 June 2014

### Unquantifiable Contingent Liabilities

SSC has no unquantifiable contingent liabilities as at 30 June 2014 (2013: nil).

### Quantifiable Contingent Liabilities and Assets

SSC has no quantifiable contingent liabilities and assets as at 30 June 2014 (2013: nil).

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

## Statement of Departmental Expenditure and Capital Expenditure Against Appropriations

for the year ended 30 June 2014

2013 Actual \$000		2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
<b>Appropriations for output expenses</b>					
9,456	Public Management System	-	-	-	-
2,965	State Services Policy Advice	-	-	-	-
14,117	State Services Performance Management	-	-	-	-
	<i>Policy Advice and Management of the Public</i>				
-	<i>Management System – Multi-class output expense appropriation (MCOA)</i>	27,524	27,627	29,431	-
-	Public Management System Policy Advice	3,051	3,150	3,150	-
-	Management of Public Management System	24,473	24,477	26,281	-
	<i>Policy Advice and Management of the Public</i>				
-	<i>Management System – Multi-category appropriation (MCA)</i>	-	-	-	28,214
-	Public Management System Policy Advice	-	-	-	3,230
-	Management of Public Management System	-	-	-	24,984
26,538	Total appropriations for output expenses	27,524	27,627	29,431	28,214
<b>Appropriations for capital expenses</b>					
68	State Services Commission – Capital Expenditure under permanent legislative authority	-	625	100	100
26,606	Total departmental and capital expenditure and appropriations	27,524	28,252	29,531	28,314

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

## Statement of Departmental Unappropriated Expenditure and Capital Expenditure

for the year ended 30 June 2014

Expenses and capital expenditure incurred in excess of appropriation

Nil. (2013: nil)

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

Nil. (2013: nil)

Breaches of projected departmental net asset schedules

Nil. (2013: nil)

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

## Notes to the Departmental Financial Statements

for the year ended 30 June 2014

### 1 – Statement of accounting policies

#### Reporting entity

SSC is a government department as defined by section 2 of the Public Finance Act 1989.

The primary objective of SSC is to provide services to the public rather than making a financial return. Accordingly, SSC has designated itself as a public benefit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements of SSC are for the year ended 30 June 2014. The unaudited Forecast Financial Statements were prepared on the 14 April 2014 (BEFU). The financial statements were authorised for issue by the State Services Commissioner on 30 September 2014.

#### Basis of preparation

##### Statement of compliance

The financial statements of SSC 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), and Treasury Instructions.

These financial statements have been prepared in accordance with NZ GAAP as appropriate for public benefit entities and they comply with NZ IFRS.

##### Measurement base

The financial statements have been prepared on an historical cost basis.

##### Functional and presentation currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of SSC is New Zealand dollars.

##### Changes in accounting policies

There have been no changes in accounting policies during the financial year.

##### Critical accounting estimates and assumptions

In preparing these financial statements, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are referred to below.

##### Retirement and long service leave

An analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long service leave liabilities is disclosed in note 14.

### Standards, amendments, and interpretations issued that are not yet effective and have not been early adopted

There is one standard, amendment, or interpretation issued but not yet effective that has not been early adopted, and that is relevant to the Commission. NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus/deficit. The new standard is required to be adopted for the year ended 30 June 2016. However, as a new Accounting Standards Framework will apply before this date, there is no certainty when an equivalent standard to NZ IFRS 9 will be applied by public benefit entities.

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, the Commission will be required to apply the Public Benefit Entity (Tier 2 reporting entity but adopting Tier 1 standards) of the public sector Public Benefit Entity Accounting Standards (PAS). The effective date for the new standards for public sector entities is for reporting periods beginning on or after 1 July 2014. Therefore, SSC will transition to the new standards in preparing its 30 June 2015 financial statements. SSC has assessed the implications of the new Accounting Standards Framework and does not expect any material changes.

Due to the change in the Accounting Standards Framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, the XRB has effectively frozen the financial reporting requirements for public benefit entities up until the new Accounting Standard Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

### Significant accounting policies

The following significant accounting policies, which materially affect the measurement of financial results and financial position, have been applied consistently to all periods presented in these financial statements.

#### Revenue

Revenue is measured at the fair value of consideration received or receivable.

#### Revenue Crown

Revenue earned from the supply of outputs to the Crown is recognised at budgeted level as recognition of revenue earned.

#### Cost recoveries

SSC recovers costs it incurs on behalf of other agencies by invoicing for the service provided.

### Capital charge

The capital charge is recognised as an expense in the period to which the charge relates.

### Operating leases

SSC leased office premises during the year ended 30 June 2014. Substantially all the risks and benefits of ownership were retained by the lessor, and therefore these leases were classified as operating leases. Operating lease costs are recognised as an expense in the statement of comprehensive income on a straight-line basis over the period of the lease.

### Financial instruments

Financial assets and liabilities are initially measured at fair value plus transaction costs, unless they are carried at fair value through surplus or deficit, in which case the transaction costs are recognised in the surplus or deficit.

### Cash and cash equivalents

Cash and cash equivalents include cash on hand and bank accounts.

### Debtors and other receivables

Short term debtors and other receivables are recorded at their fair value, less any provision for impairment.

Impairment of a receivable is established when there is objective evidence that SSC will not be able to collect amounts due according to the original terms of the receivable.

### Property, plant and equipment

Property, plant and equipment consist of leasehold improvements, artwork, computer hardware, furniture and fittings and office equipment.

Property, plant and equipment (excluding artwork) are measured at cost less accumulated depreciation and impairment losses.

Individual assets, or groups of assets, are capitalised if their cost is greater than \$1,000. The value of individual assets that are less than \$1,000 and are part of a group of similar assets is capitalised.

### Additions

The cost of an item of property, plant and equipment is recognised as an asset if it is probable that future economic benefits or service potential associated with the item will flow to the Commission and if the cost of the item can be measured reliably.

### Disposals

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains and losses on disposal are included in the surplus or deficit.

### Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Commission and the cost of the item can be measured reliably.

### Depreciation

Depreciation of property, plant and equipment is provided on a straight-line basis at rates calculated to allocate the cost or valuation of an asset, less any estimated residual value, over its estimated useful life. The useful life and associated depreciation rates are as follows:

Asset	Useful life	Depreciation rate
Furniture and fittings	5 –10 years	10 – 20%
Artwork	Not depreciated	-
Office equipment	5 years	20%

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful life of the improvements, whichever is the shorter.

### Software acquisition and development

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software are recognised as an expense when incurred.

### Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when an asset is available for use and ceases at the date that an asset is de-recognised. The amortisation charge for each period is recognised in the surplus or deficit. The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Asset	Useful life	Amortisation rate
Acquired computer software	5 years	20%

### Impairment of property, plant, and equipment and intangible assets

Intangible assets that have an indefinite useful life, or are not yet available for use, are tested for impairment annually.

Property, plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where SSC would, if deprived of the asset, replace its remaining future economic benefits or service potential.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

### Creditors and other payables

Creditors and other payables are recorded at their face value.

### Employee entitlements

#### Short-term employee entitlements

Short-term employee entitlements expected to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, vested retiring and long service leave and entitlements expected to be settled in the next 12 months, and sick leave.

A liability for sick leave is recognised to the extent the absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that SSC anticipates it will be used by staff to cover those future absences.

SSC recognises a liability and an expense for performance pay where contractually obligated to pay them or where a past practice has created a constructive obligation.

#### Long-term employee entitlements

Entitlements that are due to be settled beyond 12 months after the end of the reporting period in which the employee renders the related service, such as long service leave and retiring leave, are calculated on an actuarial basis. The calculations are based on:

- likely future entitlements based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual-entitlements information, and
- the present value of the estimated future cash flows.

Expected future payments are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated future cash outflows for entitlements. The inflation factor is based on the expected long-term increase in remuneration for employees.

#### Presentation of employee entitlements

Sick leave, annual leave, vested long service leave, and non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

#### Superannuation schemes

Obligations for contributions to the State Sector Retirement Savings Scheme, KiwiSaver, Government Superannuation and individual retirement funds are accounted for as defined-contribution schemes and are recognised as expenses in the surplus or deficit as incurred.

#### Provisions

The Commission recognises a provision for future expenditure of uncertain amounts or timing when there is a present obligation (either legal or constructive) as a result of a past event, when it is probable that an outflow of future economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision owing to the passage of time is recognised as a finance cost.

#### Equity (taxpayers' funds)

Equity is the Crown's investment in SSC and is measured as the difference between total assets and total liabilities.

#### Commitments

Expenses yet to be incurred on non-cancellable contracts that were entered into on or before balance date are disclosed as commitments to the extent that they are equally unperformed obligations. Cancellable commitments that have penalty or exit costs explicit in the agreement, on exercising that option to cancel, are included in the Statement of Commitments at the lower of the remaining contractual commitment and the value of that penalty or exit cost.

#### Taxes

##### Goods and services tax (GST)

All items in the financial statements, including the appropriation statements, are GST exclusive – except for receivables and payables, which are on a GST-inclusive basis.

The net amount of GST recoverable from or payable to the IRD is included as part of receivables or payables in the Statement of Financial Position.

The net GST paid to or received from IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of Cash Flows.

Commitments and contingencies are disclosed exclusive of GST.

##### Income tax

Government departments are exempt from income tax as public authorities. Accordingly, no charge for income tax has been provided for.

#### Budget figures

The budget figures are those included in the Commission's Budget Estimates for the year ended 30 June 2014, 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

These forecast financial statements have been prepared in accordance with New Zealand Public Benefit Entity (NZ PBE) International Public Sector Accounting Standards (IPSAS). While a detailed impact assessment has yet to be completed, no significant impact is expected on transition from NZ IFRS to IPSAS.

These are the first set of prospective financial statements presented by the department under NZ PBE IPSAS. They are compliant with PBE FRS-42 Prospective Financial Statements and are consistent with Generally Accepted Accounting Practice. The purpose of the forecast financial statements is to facilitate Parliament's consideration of the appropriations for, and planned performance of the department. Use of this information for other purposes may not be appropriate. Readers are cautioned that actual results are likely to vary from the forecast information presented and that the variations may be material.

These financial forecasts are based on Budget Economic Forecast Update (BEFU) and have been prepared on the basis of assumptions as to future events that the department 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 except for:

- the transfer of SSC Gateway activities to the Treasury on 2 December 2013.

Additional factors that could lead to material differences between the forecast financial statements and the 2013/14 actual financial statements include changes to the baseline budget through new initiatives, transfer of funding across financial years, or technical adjustments.

#### Comment on PBE IPSAS accounting policies

Prospective financial statements have been prepared in accordance with the accounting policies expected to be used in the future for reporting historical general purpose financial statements. This is the first set of prospective financial statements prepared under PBE IPSAS accounting policies. While a detailed impact assessment has yet to be completed, no significant impact is expected on transition from NZ IFRS to IPSAS.

#### Authorisation statement

These forecast financial statements were authorised for issue by the Commissioner of the State Services Commission on 14 April 2014. The Commissioner 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 maybe material.

#### Statement of cost allocation policies

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

- Direct costs are expenses incurred from activities in producing outputs. These costs are charged directly to the related output classes.
- Indirect costs are those costs that cannot be identified in an economically feasible manner, with a specific output.
- Indirect costs are allocated to outputs based on a percentage of total personnel costs.

There have been no changes in SSC'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 SSC, the Treasury and the Department of the Prime Minister and Cabinet for the delivery of finance, human resources, information management and information technology functions. Costs for these services are treated as indirect costs.

#### Changes in deliverables

The Gateway and major project monitoring function was transferred to The Treasury on 2 December 2013.

In 2012/13 this activity contributed \$1.7 million of other revenue and cost \$2.080 million. For the five months of activity in 2013/14, the revenue was \$0.553 million and the cost was \$0.860 million.

## 2 – Revenue Crown and Debtor Crown

Revenue earned from the supply of outputs to the Crown is recognised as revenue when earned. The revenue is drawn down from the Crown based on working capital requirements. Any outstanding amount between amount earned and amount drawn down is recognised as Debtor Crown in the Statement of Financial Position.

## 3 – Other revenue

2013 Actual \$000		2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
9	State Sector Retirement Savings Scheme (SSRS) and KiwiSaver funding from Crown	-	-	-	-
2	Emerging Issues Project	39	11	40	-
1,662	Gateway reviews of major IT projects	541	1,478	628	-
38	Gateway training and awareness workshop	12	34	15	-
1,467	Contribution towards PIF reviews	1,584	1,913	2,182	1,793
51	Recovery of agency recruitment costs	335	105	257	-
407	Recovery from secondments	198	100	200	153
555	Other	262	164	482	489
4,191	Total other and departmental revenue	2,971	3,805	3,804	2,435

## 4 – Gains

In 2012/13, artwork was reclassified from furniture and fittings to an asset class that is subject to revaluation and not depreciated. Prior year's depreciation of \$51,000 was written back and recognised as revenue.

## 5 – Personnel costs

2013 Actual \$000		2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
14,716	Salaries and wages	15,091	15,600	15,033	15,850
30	Performance pay	30	-	-	40
99	Staff training and development	193	210	222	299
480	Superannuation contributions to defined contribution plans	509	583	533	533
(25)	Increase/(decrease) in employee entitlements	160	-	91	121
39	Redundancy	75	-	115	-
-	Allowance	-	36	305	96
15,339	Total personnel costs	16,058	16,429	15,994	16,939

## 6 – Capital charge

SSC pays a capital charge to the Crown based on taxpayers' funds at 30 June and 31 December each year. The capital charge rate for the 2014 year was 8% (2013: 8%).

## 7 – Other operating costs

2013 Actual \$000		2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
2,966	Consultancy	3,249	3,892	4,105	2,842
500	Leadership Development Centre funding	200	200	200	200
574	Chief executives recruitment costs	733	606	929	666
243	Legal fees	121	20	140	175
62	Fees to Audit New Zealand for audit of financial statements	62	75	62	62
482	Rental and operating lease costs	529	473	482	482
135	Other occupancy costs	146	203	148	180
279	IT and communication costs	280	163	295	114
163	Travel	249	166	292	327
1	Loss on disposal of property, plant and equipment	-	-	-	-
185	Sponsorship	139	56	140	61
3,614	Costs paid to Treasury for CASS	3,674	3,825	3,985	3,841
1,183	Other operating costs	1,244	745	1,816	1,731
10,387	Total operating costs	10,626	10,424	12,594	10,681

## 8 – Debtors and other receivables

2013 Actual \$000		2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
614	Trade debtors	377	891	300	300
-	Less: provision for doubtful debts	-	-	-	-
614	Net trade debtors	377	891	300	300
510	Accrued revenue and other receivables	1,051	113	-	-
1,124	Total debtors and other receivables	1,428	1,004	300	300

	Gross	2014 Impairment	Net	Gross	2013 Impairment	Net
Cost						
Current	956	-	956	919	-	919
Past due 31 – 60 days	367	-	367	142	-	142
Past due 61 – 90 days	1	-	1	15	-	15
Past due > 91 days	104	-	104	48	-	48
Total	1,428	-	1,428	1,124	-	1,124

## 9 – Property, plant and equipment

	Office equipment \$000	Leasehold improvements \$000	Works of art \$000	Furniture & fittings \$000	Computer hardware \$000	Total \$000
<b>Cost</b>						
Balance at 1 July 2012	146	1,463	55	921	74	2,659
Additions	-	-	-	-	-	-
Revaluations	-	-	51	-	-	51
Disposals/transfers	(53)	-	-	74	(74)	(53)
Balance at 30 June 2013	93	1,463	106	995	-	2,657
Balance at 1 July 2013	93	1,463	106	995	-	2,657
Additions	-	-	-	-	-	-
Revaluations	-	-	-	-	-	-
Disposals/transfers	-	-	-	-	-	-
Balance at 30 June 2014	93	1,463	106	995	-	2,657

	Office equipment \$000	Leasehold improvements \$000	Works of art \$000	Furniture & fittings \$000	Computer hardware \$000	Total \$000
<b>Accumulated depreciation and impairment losses</b>						
Balance at 1 July 2012	116	81	27	293	-	517
Depreciation expense	12	186	-	214	-	412
Depreciation recovered on revaluation	-	-	(27)	-	-	(27)
Elimination on disposal	(51)	-	-	-	-	(51)
Impairment losses	-	-	-	-	-	-
<b>Balance at 30 June 2013</b>	<b>77</b>	<b>267</b>	<b>-</b>	<b>507</b>	<b>-</b>	<b>851</b>
Balance at 1 July 2013	77	267	-	507	-	851
Depreciation expense	8	256	-	135	-	399
Depreciation recovered on revaluation	-	-	-	-	-	-
Elimination on disposal	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
<b>Balance at 30 June 2014</b>	<b>85</b>	<b>523</b>	<b>-</b>	<b>642</b>	<b>-</b>	<b>1,250</b>
<b>Carrying amounts</b>						
At 1 July 2012	30	1,382	28	628	74	2,142
At 30 June/1 July 2013	16	1,196	106	488	-	1,806
At 30 June 2014	8	940	106	353	-	1,407

### Work in progress

The total amount of property, plant and equipment and intangibles in the course of construction is \$nil, (2013: \$nil).

## 10 – Intangible assets

	Acquired software \$000
<b>Cost</b>	
Balance at 1 July 2013	170
Additions	-
Disposals	-
Balance at 30 June 2014	170
<b>Accumulated amortisation and impairment losses</b>	
Balance at 1 July 2013	24
Amortisation expense	34
Disposals/transfers	-
Balance at 30 June 2014	58
<b>Carrying amounts</b>	
At 1 July 2012	102
At 30 June/1 July 2013	146
At 30 June 2014	112

## Work in progress

The total amount of property, plant and equipment and intangibles in the course of construction is \$nil (2013: \$nil).

## 11 – Depreciation and amortisation expense

2013 Actual \$000		2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
2,191	Property, plant and equipment	1,806	3,237	1,906	1,563
170	Intangibles	146	81	160	126
2,361	Carrying amount as at 30 June 2013	1,952	3,318	2,066	1,689
385	Depreciation	399	324	393	170
24	Amortisation	34	24	24	24
409	Depreciation and amortisation expense	433	358	427	204
1,806	Property, plant and equipment	1,407	2,913	1,513	1,393
146	Intangibles	112	57	136	102
1,952	Carrying amount as at 30 June 2014	1,519	2,970	1,649	1,495

## 12 – Creditors and other payables

2013 Actual \$000		2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
462	Sundry creditors	496	-	-	-
1,532	Accrued expenses	1,702	1,034	1,930	1,830
168	GST and other taxes payable	249	487	5	5
2,162	Total creditors and other payables	2,447	1,521	1,935	1,835

## 13 – Provision for repayment of surplus to the Crown

2013 Actual \$000		2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
1,495	Net surplus	745	-	-	-
329	plus retained surplus	-	-	-	-
1,824	Total return of operating surplus	745	-	329	-

The return of operating surplus to the Crown is required to be paid by 31 October of each year.

## 14 – Employee entitlements

2013 Actual \$000		2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
<b>Current liabilities</b>					
485	Accrued salaries and performance pay	514	423	461	261
571	Annual leave	551	552	601	629
28	Sick leave	42	40	25	26
18	Retirement and long service leave	15	39	24	25
1,102	Total current portion	1,122	1,054	1,111	941
<b>Non-current liabilities</b>					
36	Retirement leave	177	35	41	41
34	Long service leave	62	33	39	39
70	Total non-current portion	239	68	80	80
1,172	Total employee entitlements	1,361	1,122	1,191	1,021

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 Commission 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.

## 15 – Provisions

The restructuring provision arises from a commitment made to the Treasury to absorb half of the restructuring costs associated with the transferred functions; Gateway and major project monitoring. These functions transferred in December 2013 but a new structure for managing those functions has only been implemented in June 2014.

SSC is required at the expiry of its lease for its office in the Reserve Bank building in March 2018 to make good the premises and \$119,000 (2013: \$119,000) has been provided for this.

	Restructuring \$000	Lease make good \$000	Total \$000
Opening balance at 1 July 2012	105	144	249
Additional provisions made	-	-	-
Provisions released	(75)	(25)	(100)
Closing balance at 30 June 2013	30	119	149
Opening balance at 1 July 2013	30	119	149
Additional provisions made	8	-	8
Provisions released	-	-	-
Closing balance at 30 June 2014	38	119	157

## 16 – Reconciliation of net surplus to net cash flows from operating activities

2013 Actual \$000		2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
1,495	Net surplus (deficit)	745	-	(329)	-
	Non-cash items:				
409	Depreciation and amortisation	433	358	427	204
409	Total non-cash items	433	358	427	204
	Add/(less) items classified as investing or financing activities				
(5)	Net (Gains)/losses on disposal of property, plant and equipment	-	-	-	-
	Add/less movements in accruals				
1,108	(Increase)/decrease in debtors and other receivables	(5,563)	1,560	1,309	838
108	(Increase)/decrease in prepayments	-	-	-	-
(720)	Increase/(decrease) in creditors and other payables	206	(1,181)	(287)	(388)
-	Increase/(decrease) in GST	79	(382)	(988)	(894)
(100)	Increase/(decrease) in provisions	8	(186)	43	73
(39)	Increase/(decrease) in employee entitlements	189	198	170	(29)
357	Net movement in working capital items	(5,081)	9	247	(400)
2,256	Net cash flow from operating activities	(3,903)	367	345	(196)

## 17 – 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.

SSC has received funding from the Crown of \$25.298 million to provide services to the public for the year ended 30 June 2014 (2013: \$23.836 million).

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.

SSC also purchased and sold goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2014 totalled \$5.652 million (2013: \$5.780 million). These purchases included the purchase of electricity from Genesis, air travel from Air New Zealand, administrative support from CASS, legal services from Crown Law Office, postal services from New Zealand Post and various services from other agencies. They exclude taxes and capital charge payments. Balance owed to government-related entities at year end was \$0.931 million (2013: \$0.751 million). Sales to government-related entities for the year ended 30 June 2014 totalled \$2.338 million (2013: \$4.092 million). These sales included the provision of Gateway review of major IT projects, PIF assessments and emerging issues. Balance owing by government-related entities at year end is \$1.414 million (2013: \$0.790 million).

### Key management personnel

2013 Actual \$000		2014 Actual \$000
3,197	Short-term employee benefits	2,982
138	Post-employment benefits	119
-	Termination benefits	74
3,335	Total key management personnel compensation	3,175

Key management personnel of SSC at 30 June 2014 included the State Services Commissioner and six members of the senior management team, of which three were there for only part of the year, one member acting part of the year (2013: eight members of which three were for only part of the year).

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, 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 (2013: nil).

## 18 – Events after balance date

There have been no significant events subsequent to balance date that require adjustment to the financial statements or disclosure (2013: nil).

## 19 – Financial instruments

The carrying amounts of financial assets and financial liabilities in each of the NZ IAS 39 categories are as follows:

2013 Actual \$000		2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
<b>Loans and receivables</b>					
7,140	Cash and cash equivalents	1,741	3,870	5,890	6,103
-	Debtor Crown	5,273			
1,124	Debtors and other receivables	1,428	1,004	300	300
8,264	<b>Total loans and receivables</b>	<b>8,442</b>	<b>4,874</b>	<b>6,190</b>	<b>6,403</b>
<b>Financial liabilities</b>					
2,162	Creditors and other payables	2,447	1,521	1,935	1,835

### Financial instrument risks

SSC's activities expose it to a variety of financial instrument risks, including market risk, credit risk, and liquidity risk. SSC has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

#### Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. SSC has no material exposure to currency risk.

#### Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, owing to changes in market interest rates.

SSC has no exposure to interest rate risk because it has no interest-bearing financial instruments.

## Credit risk

Credit risk is the risk that a third party will default on its obligation to SSC, causing SSC to incur a loss. In the normal course of its business, credit risk arises from debtors, deposits with banks, and derivative financial instrument assets.

SSC is only permitted to deposit funds with Westpac, a registered bank, and enter into foreign exchange forward contracts with the New Zealand Debt Management Office (NZDMO). These entities have high credit ratings. For its other financial instruments, SSC does not have significant concentrations of credit risk.

SSC's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, net debtors (note 8), and derivative financial instrument assets. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

## Liquidity risk

Liquidity risk is the risk that SSC will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting its liquidity requirements, SSC closely monitors its forecast cash requirements with expected cash draw downs from NZDMO. SSC maintains a target level of available cash to meet liquidity requirements.

All of SSC's financial liabilities (creditors and payables) will be settled in less than six months from the balance date.

The table below analyses SSC's financial liabilities into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

		Contractual Cash flows \$000	Less than six months \$000	More than six months \$000
2013	Creditors and other provisions	2,162	2,162	-
2014	Creditors and other provisions	2,447	2,447	-

## 20 – Capital management

SSC's capital is its equity, which comprises taxpayers' funds, memorandum accounts and revaluation reserves. Equity is represented by net assets.

SSC manages its revenues, expenses, assets, liabilities, and general financial dealings prudently. SSC's equity is largely managed as a by-product of managing income, expenses, assets, liabilities, and compliance with the Government Budget processes, Treasury Instructions, and the Public Finance Act 1989.

The objective of managing SSC's equity is to ensure that SSC effectively achieves its goals and objectives for which it has been established, while remaining a going concern.

Since March 2012, SSC has been party to a shared services model incorporating SSC, the Treasury and the Department of the Prime Minister and Cabinet for the delivery of finance, human resources, information management and information technology functions.

## 21 – Explanation of major variance against budget

### Statement of Comprehensive Income

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

- Revenue other

Other revenue was lower than the Supplementary Estimates budget by \$833,000 (22%) as recoveries for Gateway reviews and PIF reviews were lower than provided for. A contingency is provided for in revenue and expenditure for cost recovered activities which was not required.

- Other operating expenses

Other operating expenses are \$1.968 million (16%) under the Supplementary Estimates budget. This is owing to lower than expected expenditure against PIF reviews and training and design, timing delays in expenditure for leadership development programme, lower CE recruitment costs and dealing with emerging agency issues. Delays in the improvement programme for CASS, have also contributed to this under spend. A contingency is provided for in revenue and expenditure for cost recovered activities which was not required.

### Statement of Financial Position

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

- Cash and cash equivalents is \$4.1 million (77%) lower than Supplementary Estimates budget which was offset by a Debtor Crown of \$5.3 million. The Commission withdrew from the Crown only sufficient cash to manage working capital.
- Debtors and other receivables is \$1.1 million higher than Supplementary Estimates due to a number of PIF reviews being invoiced at the end of the financial year.
- Creditors and other payables is \$0.5 million higher than Supplementary Estimates due to costs associated with a number of PIF reviews being received at end of the financial year and CASS charges higher for month of June.

## 22 – Explanation of changes in Equity

Joint Ministers approved the retention of 2012/13 net surplus so that it could be applied to activities in 2013/14. However as this was not required during 2013/14 for operational costs it has been retained in equity.

## Statements and schedules: Non-departmental

for the year ended 30 June 2014

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

### Statement of Non-departmental Expenditure and Capital Expenditure Against Appropriations

for the year ended 30 June 2014

2013 Actual \$000		2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
	<b>Vote State Services</b>				
	Appropriations for Other Expenses to be incurred by the Crown				
12,083	Remuneration and Related Employment Costs of chief executives	11,583	13,327	13,327	13,602
-	Settlement of Legal Liabilities	-	7	7	7
12,083	Total appropriations for output expenses	11,583	13,334	13,334	13,609

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 2014.

### Statement of Non-departmental Unappropriated Expenditure and Capital Expenditure

for the year ended 30 June 2014

There was no unappropriated expenditure in relation to the activities that SSC administers on behalf of the Crown for the year ended 30 June 2014 (2013: nil).

## Schedule of Non-departmental Expenses

for the year ended 30 June 2014

2013 Actual \$000		2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
<b>Vote State Services</b>					
	Appropriations for other expenses to be incurred by the Crown				
12,083	Remuneration and Related Employment Costs of Chief Executives	11,583	13,327	13,327	13,602
-	Settlement of Legal Liabilities	-	7	7	7
12,083	<b>Total Non-departmental expenses</b>	11,583	13,334	13,334	13,609

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 2014.

## Schedule of Non-departmental Revenue and Receipts

for the year ended 30 June 2014

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

2013 Actual \$000		2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
<b>Vote State Services</b>					
11,169	Reimbursement of chief executives' Remuneration	11,418	13,044	13,044	13,334
678	Other revenue	301	-	-	-
11,847	<b>Total Non-departmental Revenue</b>	11,719	13,044	13,044	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 2014.

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

## Schedule of Non-departmental Assets

as at 30 June 2014

2013 Actual \$000		Notes	2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
<b>Vote State Services</b>						
Assets						
<i>Current Assets</i>						
4,822	Cash	4	6,771	1,550	3,541	4,826
-	Debtors and other receivables		6	-	-	-
-	Prepayments		93	-	-	-
4,822	Total Non-departmental Assets		6,870	1,550	3,541	4,826

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 2014.

## Schedule of Non-departmental Liabilities

as at 30 June 2014

2013 Actual \$000		Notes	2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
<b>Vote State Services</b>						
Liabilities						
<i>Current Liabilities</i>						
332	Creditors and other payables	2,4	229	180	330	330
1,730	Provision for employee entitlements	3	1,834	938	1,735	1,735
2,062	Total non-departmental liabilities		2,063	1,118	2,065	2,065

## Schedule of Non-departmental Commitments

as at 30 June 2014

There are no non-departmental commitments in respect to the activities SSC administered on behalf of the Crown as at 30 June 2014 (2013: nil).

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

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

as at 30 June 2014

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 2014 (2013: nil).

The accompanying accounting policies and notes form part of these financial schedules and 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 2014.

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

### 1 – Statement of accounting policies

#### Reporting entity

These non-departmental schedules and statements present financial information on public funds managed by SSC on behalf of the Crown.

These non-departmental balances are consolidated into the Financial Statements of the Government for the year ended 30 June 2014. For a full understanding of the Crown's financial position, results of operations, and cash flows for the year, refer to the Financial Statements of the Government.

#### Basis of preparation

The non-departmental schedules and statements have been prepared in accordance with the accounting policies of the Financial Statements of the Government, Treasury Instructions, and Treasury Circulars.

Measurement and recognition rules applied in the preparation of these non-departmental schedules and statements are consistent with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as appropriate for public benefit entities.

There have been no changes in accounting policies during the financial year.

#### Significant accounting policies

##### Recoveries of chief executives' remuneration

Recoveries are measured at fair value of consideration and are recognised on a straight line basis over the contract terms of the chief executives using the midpoint of \$10,000 salary bands.

The change in chief executive's remuneration in 2013/14 has had no impact on the recovery process.

##### Goods and services tax (GST)

All items in the financial statements and schedules, including appropriation statements, are stated exclusive of GST, except for receivables and payables, which are stated on a GST-inclusive basis. In

accordance with Treasury Instructions, GST is returned on revenue received on behalf of the Crown, where applicable. However, an input tax deduction is not claimed on non-departmental expenditure. Instead, the amount of GST applicable to non-departmental expenditure is recognised as a separate expense and eliminated against GST revenue on consolidation of the Financial Statements of the Government.

#### Debtors and other receivables

Debtors and other receivables are measured at fair value, less any provision for impairment.

Impairment of a receivable is established when there is objective evidence that SSC will not be able to collect amounts due according to the original terms of the receivable. The carrying amount of the asset is reduced through the use of an allowance for doubtful debtors account, and the amount of the loss is recognised in the Schedule of Non-departmental Expenses. When a debt is uncollectable, it is written-off against the allowance for doubtful debts account for debtors. Overdue receivables that are renegotiated are reclassified as current (that is, not past due).

#### Creditors and other payables

Creditors and other payables are measured at fair value.

#### Employee entitlements

##### Short-term employee entitlements

Short-term employee entitlements expected to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, vested retiring and long service leave and entitlements expected to be settled in the next 12 months, and sick leave.

A liability for sick leave is recognised to the extent the absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that SSC anticipates it will be used to cover those future absences.

SSC recognises a liability and an expense for performance pay where contractually obligated to pay it or where there is a past practice that has created a constructive obligation.

##### Long-term employee entitlements

Entitlements that are due to be settled beyond 12 months after the end of the reporting period in which the employee renders the related service, such as long service leave and retiring leave, are calculated on an actuarial basis. The calculations are based on:

- likely future entitlements based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual-entitlements information, and
- the present value of the estimated future cash flows.

Expected future payments are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated future cash outflows for

entitlements. The inflation factor is based on the expected long-term increase in remuneration for employees.

#### Presentation of employee entitlements

Sick leave, annual leave, vested long service leave, and non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

#### Commitments

Future expenses and liabilities to be incurred on non-cancellable contracts that have been entered into at balance date are disclosed as commitments to the extent that there are equally unperformed obligations. Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are included in the Statement of Commitments at the lower of the remaining contractual commitment and the value of that penalty or exit cost.

#### Budget figures

The budget figures are consistent with the financial information in the Main Estimates. In addition, these financial statements and schedules also present the updated budget information from the Supplementary Estimates.

#### Forecast figures

##### Basis of Preparation

These forecast financial statements and schedules have been prepared in accordance with New Zealand Public Benefit Entity (NZ PBE) International Public Sector Accounting Standards (IPSAS). While a detailed impact assessment has yet to be completed, no significant impact is expected on transition from NZ IFRS to IPSAS.

These are the first set of prospective financial statements and schedules presented under NZ PBE IPSAS. They are compliant with PBE FRS-42 Prospective Financial Statements and are consistent with Generally Accepted Accounting Practice. The purpose of the forecast financial statements and schedules is to facilitate Parliament's consideration of the appropriations for, and planned performance of the department. Use of this information for other purposes may not be appropriate. Readers are cautioned that actual results are likely to vary from the forecast information presented and that the variations may be material.

These financial forecasts are based on Budget Economic Forecast Update (BEFU) and have been prepared on the basis of assumptions as to future events that the department 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.

Additional factors that could lead to material differences between the forecast financial statements and schedules and the 2013/14 actual financial statements and schedules include changes to the baseline budget through new initiatives, transfer of funding across financial years, or technical adjustments.

### Comment on PBE IPSAS accounting policies

Prospective financial statements and schedules have been prepared in accordance with the accounting policies expected to be used in the future for reporting historical general purpose financial statements. This is the first set of prospective financial statements and schedules prepared under PBE IPSAS accounting policies. While a detailed impact assessment has yet to be completed, no significant impact is expected on transition from NZ IFRS to IPSAS.

### Authorisation statement

These forecast financial statements and schedules were authorised for issue by the Commissioner of the State Service Commission on 14 April 2014. The Commissioner is responsible for the forecast financial statements and schedules presented, including the appropriateness of the assumptions underlying the forecast financial statements and schedules 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

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

- Direct costs are expenses incurred from activities in producing outputs. These costs are charged directly to the related output classes.
- Indirect costs are those costs that cannot be identified in an economically feasible manner, with a specific output.
- Indirect costs are allocated to outputs based on a percentage of total personnel costs.

There have been no changes in SSC's general cost accounting policies since the date of the last audited financial statements and schedules.

## 2 – Creditors and other payables

2013 Actual \$000		2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
331	Accrued expenses	229	180	330	330
1	GST payable	-	-	-	-
332	Total Creditors and other payables	229	180	330	330

Creditors and other payables are non-interest-bearing and are normally settled on 30-day terms. Therefore the carrying value of creditors and other payables approximates their fair value.

### 3 – Employee entitlements

2013 Actual \$000		2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
<b>Current liabilities</b>					
632	Performance pay	799	349	640	540
304	Salaries and wages	340	-	300	400
529	Annual leave	590	273	530	530
1,465	<b>Total current liabilities</b>	1,729	622	1,470	1,470
<b>Long-term liabilities</b>					
265	Retirement leave	105	316	265	265
1,730	<b>Total employee entitlements</b>	1,834	938	1,735	1,735

### 4 – Financial instruments

The carrying amounts of financial assets and financial liabilities in each of the NZ IAS 39 categories are as follows:

2013 Actual \$000		2014 Actual \$000	2014 Main Estimates \$000	2014 Supp. Estimates \$000	2015 Unaudited Forecast (as per BEFU 2014) \$000
<b>Loans and receivables</b>					
4,822	Cash and cash equivalents	6,771	1,550	3,541	4,826
-	Debtors and other receivables	6	-	-	-
4,822	<b>Total loans and receivables</b>	6,777	1,550	3,541	4,826
<b>Financial liabilities</b>					
332	Creditors and other payables	229	180	330	330

#### Financial instrument risks

SSC's activities expose it to a variety of financial instrument risks, including market risk, credit risk, and liquidity risk. SSC has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

#### Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. SSC has no material exposure to currency risk.

#### Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, owing to changes in market interest rates. SSC has no exposure to interest rate risk because it has no interest-bearing financial instruments.

### Credit risk

Credit risk is the risk that a third party will default on its obligation to SSC, causing SSC to incur a loss. In the normal course of its business, credit risk arises from debtors, deposits with banks, and derivative financial instrument assets.

SSC is only permitted to deposit funds with Westpac, a registered bank, and enter into foreign exchange forward contracts with NZDMO. These entities have high credit ratings. For its other financial instruments, SSC does not have significant concentrations of credit risk.

SSC's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, net debtors (note 2), and derivative financial instrument assets. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

### Liquidity risk

Liquidity risk is the risk that SSC will encounter difficulty raising liquid funds to meet commitments as they fall due. In meeting its liquidity requirements, SSC closely monitors its forecast cash requirements with expected cash draw downs from NZDMO. SSC maintains a target level of available cash to meet liquidity requirements. All of the financial liabilities (creditors and payables) will be settled in less than six months from the balance date.

### Contractual maturity analysis of financial liabilities, excluding derivatives

The table below analyses SSC's financial liabilities into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

		Contractual Cash flows \$000	Less than 6 months \$000	More than 6 months \$000
2013	Creditors and other provisions	332	332	-
2014	Creditors and other provisions	229	229	-

## 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>