



STATE SERVICES COMMISSION  
Te Komihana O Ngā Tari Kāwanatanga



# Annual Report

Year ended 30 June 2017

We are pleased to present the Annual Report of the State Services Commission for the year ended 30 June 2017. The report comprises:

- the Annual Report of the State Services Commissioner on the operations of the Commissioner, provided under the State Sector Act 1988, and
- 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.



**Peter Hughes CNZM**  
**State Services Commissioner**

A blue ink signature of Peter Hughes, consisting of a large, stylized 'P' followed by a horizontal line.



**Debbie Power**  
**Deputy State Services Commissioner and Chief Executive**

A blue ink signature of Debbie Power, written in a cursive style.

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

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# COMMISSIONER'S OVERVIEW

In the past year the State Services Commission has renewed its commitment to leading the Public sector in the service of our nation. We lead. We serve.

To make this happen, we've changed the way we do things to be more effective.

The Deputy State Services Commissioner as Chief Executive is now responsible for running the business, driving results and getting the best from our people.

This allows me, as Head of State Services, to strengthen my focus on the wider Public Service, providing a clear, single point of leadership for all public servants.

This strengthened leadership and governance is underpinned by a significant internal transformation; with a new operating model that is designed to drive active leadership.

We have reorganised into strategic priority areas that include Strategy and Policy, Integrity, Ethics and Standards, System and Agency Performance, Workforce and Talent Management, and our Corporate Services.

To respond to changing needs, senior leaders also report to me on priority work. Currently, these are Auckland issues and System Reform.

Finally, our physical environment is changing to support an agile and collaborative workforce that models best practice.

The Commission is backed by years of policy strength as it steps up to this new challenge of active leadership of the Public sector.

That background positions us well to forge ahead with strength and clarity of purpose.

We are taking a position when required, we're backing public servants and we're protecting the integrity of the Public Service.

Most importantly we're refocusing the system to deliver the services New Zealanders want, need and expect.

The State Services Commissioner is leading the chief executives of New Zealand's Public Service in a major programme of work to drive that transformation successfully.

This is how we lead the Public Service.

At the heart of everything we do is our vision to create a trusted, leading-edge Public Service that makes a difference for New Zealand and New Zealanders.



**Peter Hughes CNZM**  
**State Services Commissioner**




# OUR STRATEGIC DIRECTION

In this section:

- Role of the State Services Commission
- Delivering Better Public Services
- Organising for the Future
- Responding to Changing Needs

# The Role of the State Services Commission

The mission of the State Services Commission (SSC, or 'the Commission') is to lead the Public sector to make a difference for New Zealand and New Zealanders. We are committed to leadership where we lead by example, set the course and lead the system. We enable people and we do not accept the status quo – we challenge and we do not limit ourselves or others in the system.



We lead the Public sector in the service of our nation.  
We lead. We serve.

Our leadership role has changed significantly from the role we have played to date. State sector reforms in 2013 enshrined in legislation the role of the State Services Commissioner as the Head of New Zealand's State Services. This change reflected the need for agencies to join up to deliver services and results that New Zealanders need. This requires greater collective leadership and incentives for agencies to work beyond their existing operational and organisational accountabilities.

The Commission's purpose is to lead the State Services chief executives and other leaders to deliver results and services that make the most positive difference for New Zealanders. At the heart of this is measuring and making improvements focused on the needs of customers.

The Commission's role covers:

- the design of the State sector system, and the performance of people, agencies, sectors within it
- engagement with Ministers, and ensuring that the system is performing well and is prepared for the future
- guiding and setting standards of conduct and behaviour for public servants and State Service organisations, and safeguarding the people who work for government, and investigating issues where required
- recruiting, managing and mentoring chief executives to building a team of chief executives who collectively take responsibility for system stewardship, and
- representing the people we serve by understanding the diversity of our customers' needs.

## Delivering Better Public Services

New Zealand has a very good Public Service but we need to lift our performance to a new level to take us into the future. New Zealanders' expectations are rising for better and more accessible public services, and this programme of work will meet those expectations. We aim to deliver services that meet our customers' diverse needs.

A defining feature of the Public Service is the readiness to drive change and provide the quality services New Zealanders expect. Everyone within the Public Service is here because we care about New Zealanders and want to make a difference in their lives.

The chief executives of New Zealand's State Services have agreed to work together as a team to reshape how their system delivers for New Zealanders.

The chief executives have launched a collective multi-year plan of work across six broad categories that will give pace and focus to improvements in trust and confidence in the Public Service, how the Public Service can better organise itself to meet citizens' needs, shared data and analytics, digital services, leadership development, and diversity and inclusion.

Our plan is focused on improving outcomes and results for New Zealanders by taking practical action to deliver a better service.

It builds on the Better Public Services (BPS) reforms of 2011, which sought to re-orient the Public Service around the needs of customers, rather than the convenience of agencies, and reiterates that a better service ends with better results.

The plan reflects the importance of cross-agency coordination and of fostering collaboration. We will build an ambitious, leading-edge, trusted Public Service that makes a difference for New Zealand and New Zealanders.

## Organising for the Future

Over the past 12 months, we have undergone a programme of transformation to be fit for purpose and deliver on our State sector leadership role.

We have reviewed our operating model and are building our capability in key areas where we need to grow in stature and influence across the system, by supporting customer-focused design of our public management system, and lifting the integrity of our agencies and our people.

Our new operating model supports the flexibility required to actively respond to emerging issues, as well as delivering on our priorities across the State sector. Our work programme is now clearly focused around the State Sector Reform programme, and we have focused our work with chief executives so we can better support them in their work as stewards of our public management system.

We have established two new Deputy Commissioner roles in priority areas (Strategy and Policy, and Integrity, Ethics and Standards).

We are also thinking strategically about how we respond to the changing needs of New Zealanders through our operating model. Our operating model provides for a more flexible and responsive approach to managing emerging issues within the Public Service by using senior leaders to manage particular assignments as required.

We are organised into four business groups that provide strategic leadership over the work we do:

- Strategy and Policy
- Integrity, Ethics and Standards
- System and Agency Performance, and
- Workforce and Talent Management.

These groups are supported by corporate functions such as legal services, and other specialist functions.

# Responding to Changing Needs

To support our focus on responding to changing needs, system leaders who report to the State Services Commissioner are leading two further programmes of work.

## **Achieving the Auckland that New Zealand needs**

There is a large number of public servants based in Auckland, and as the city continues to grow, there is an increased need to coordinate government agencies in order to tackle the big issues such as transport and housing.

Delivering our goal of achieving the Auckland that New Zealand needs, is led by the Deputy Commissioner for Auckland from the Auckland Policy Office, and supported by an Auckland chief executives group. Together they are responsible for determining and coordinating government efforts in Auckland and providing advice to the Commissioner and Minister of the State Services.

## **Supporting system reform**

The State Services Commissioner is focused on bringing real change to the system via the State Services Leadership Team. Supported by the Better Public Services work stream leads, a Deputy Commissioner is leading work to identify and make fit for purpose the legislative and institutional artefacts that support or create barriers to agencies working together.



# OUR SUCCESS IN 2016/17

In this section:

- Strategy and policy
- Integrity, Ethics and Standards
- System and Agency Performance
- Workforce and Talent Management
- Corporate Services
- Report on Strategic Intentions



# Strategy and Policy

The strategy function incorporates data collection, management, analysis and reporting, to produce strategic insights to inform work on thinking about the Public Service as a system and enabling design around customer needs. The policy function leads the system reform work, providing advice and innovative tools to support the future architecture of the Public sector.

This year these aligned functions were brought together in one team to lift our capability to better lead the future redesign of our public management system. We have led a plan that has Public sector chief executives working collectively together as the State Services Leadership Team, to deliver a multi-year programme of work that will give pace and focus to achieve a system that meets the needs of New Zealanders.

## Public sector reform

The plan contains six priority areas: digital services; shared data and analytics; leadership development; diversity and inclusion across the system; trust and confidence in the Public Service; and how the system can better organise to meet citizens' needs. Each workstream is led by a chief executive and they are directly accountable to the State Services Leadership Team.

## Social system leadership

As part of improving the machinery of government, this year we assisted in establishing the Ministry for Vulnerable Children, Oranga Tamariki. We took a customer focus by leading a number of workshops, with social sector and central agencies, designed to work through the available options to ensure an optimal solution was selected. This resulted in the replacement of the existing Social Sector Board with a new Social Investment Board, which is supported by a new Social Investment Agency. These arrangements focus on helping clients with multiple and complex needs that are best addressed by a coordinated effort from more than one social sector agency.

## Strategic Information

We collect data from across the system and analyse it to inform our strategy. We use this intelligence to understand how parts of the system operate to inform the architecture of the public management system; for example, how to identify and manage talent across our system, and to improve our understanding of issues such as diversity and inclusion, and integrity. We also provide open access to data that other agencies can use to support their planning and decision making.

# Integrity, Ethics and Standards

The State Services Commissioner is responsible for setting standards of integrity and conduct across most of the State Services. A platform of openness, transparency and the spirit of service are critical factors in our mandate to lead the Public sector. The newly established Integrity, Ethics and Standards group provides advice to support public servants to act with the highest levels of integrity, and to build New Zealanders' trust in public services.

This year we have provided visible leadership for the Public Service on important integrity issues, including Official Information Act practices.

## Supporting integrity in the Public Service

A top priority for the Commission is that public servants know how to act with integrity and in the spirit of service. In 2016/17 we supported this foundational pillar of the Public Service by acting decisively when issues of integrity arose, working with practitioners to build system capability and supporting international research into whistleblowing.

In the coming year, we are expanding our programme of integrity work, which includes setting specific expectations in key areas. The 'Speaking Up' standards have been delivered to agencies. The standards focused on encouraging staff to raise any concerns of possible wrongdoing, and in 2017/18 we will focus on proactively supporting agencies to achieve good practice. A high integrity environment will enable public servants to act confidently to deliver better public services to New Zealanders.

## Code of Conduct for ministerial staff

The Commissioner has issued a Code of Conduct for ministerial staff. Ministerial staff are a small group of State servants with an important role providing direct support and advice to Ministers. They take political considerations into account, which helps maintain the distinction between the executive and political aspects of the Minister's role.

The new code recognises the unique role that Ministerial staff have. It replaces the principle of being 'Impartial' in the State Services Code of Conduct with the principle of being 'Professional'. This new principle requires ministerial staff to recognise the authority of the government of the day and the role of the Parliament. It also sets out the need to respect the duty of an independent State Services to provide free and frank advice and carry out their responsibilities free from inappropriate influence.

The new code will be supported with access to practical and relevant development and training for ministerial staff.

## Official Information Act programme

This year we worked across the system to improve:

- access to official information
- openness and transparency by providing guidance on and publishing OIA statistics
- establishing good practice on requesting and responding to requests
- championing proactive release of information, and
- establishing a community of practice for leaders and practitioners.

## Open government

Open government is one of the foundational pillars of the Public Service. One way the Commission encourages open government is through our coordination of New Zealand's contribution to the multilateral Open Government Partnership (OGP). In October 2016 New Zealand's second National Action Plan for the OGP was published, and it includes cross-department commitments designed to increase transparency, accountability and public participation in the Public Service.





# System and Agency Performance

The State Services Commissioner's role includes the appointment of Public Service chief executives and managing the process for certain other State sector appointments. This group takes a continuous improvement approach to supporting the performance of our chief executives, and it is responsible for integrating the future evolution of our Performance Improvement Framework (PIF) and Continuous Improvement (CI) tools with that approach.

This year we have refocused resources in this area away from regulatory matters to the leadership role of the Commission. We have moved from a focus on recruitment and performance management processes to succession planning and leadership development.

## Mobility of senior leaders within the system

Our aim is to ensure that available leadership talent is best used to help to progress the Government's programme. To achieve this we are moving senior leaders around the system to put the right people with the right skills where the system needs them most.

## Working with the wider State sector

The Commission's role extends beyond the core Public Service to Crown agents, Crown entities and their boards. We support Crown board chairs to make employment decisions and we provide guidance and advice on Crown entity chief executive remuneration. We also work closely with their monitoring agencies. Future work will focus on providing further support in terms of oversight, high-level expectation setting and ensuring public transparency.

## Health and safety functional lead

We are leading an interagency initiative to connect physical security with the broader context of health and safety. This balanced approach aims to make employees and customers feel safe while also allowing customers to access services in a welcoming environment. One way we are assisting smart health and safety practice in the delivery of government services is by establishing a Functional Lead for Health and Safety – a two-year role which will be filled by Mr Ray Smith, the Chief Executive of Corrections. Guidance will be published shortly to assist agencies to take a practical and risk-based approach to physical security in their workplaces.

# Workforce and Talent Management

We support agencies to develop workforce strategies that address current needs and align service priorities and targets. These workforce strategies are a key part of the planning process and have been successful in lifting agencies' focus and capability.

This year we have taken a more holistic view of the Public service workforce and appropriate directional development required to support increased mobility and succession planning for senior leaders.

## Diversity and inclusion

We have improved understanding of diversity and inclusion across the State Services by working with agencies to identify, develop and invest in data and analytics, research and evidence-based advice. This includes building system-wide tools, facilitating networks of practice and developing strategic advice or thought leadership.

The Commission is supporting the employment of disabled people. Resources are now available through the Ministry of Social Development and the Commission. In the coming year our focus will be increasing the accessibility of information, increasing the provision of paid internships and seeking our chief executives' commitment to lifting the employment of disabled people and their voice in related strategy and service delivery.

## Gender pay gap

We published for the first time, data on the gender pay gap for all Public Service agencies. This successfully raised the profile of the issue and provided a baseline measure for corrective action. The data provide agencies with better understanding of what drives their gender pay gap and supports the delivery of remedial action. We are also supporting each agency to implement their action plans to decrease their pay gap.

## Employment relations

The Commission leads on strategic employment relations issues such as implementation of the pay equity principles that were announced by the Government in November 2016. At a whole-of-system level, we encourage collaboration and effective communications between agencies to build consistency and capability across the system. We work with agencies to ensure that their overall workforce strategy guides their approach to employment relations to achieve good outcomes for agencies, and for current and future employees.

## Leadership Development Centre

As of 1 July 2017, the Leadership Development Centre (LDC) will join the Commission as a branded business unit. This will encourage better alignment, integration and delivery of talent and leadership development across the system. In joining the Commission, the LDC will continue to provide a focus on the development of people to ensure that the right people, with the right skills, are placed into the right roles at the right time.

# Corporate Services

Our Corporate Services group is focused on organisational health and resilience within the Commission. We aim to be an exemplar for the State sector, by implementing best practice ourselves.

## Workforce

The Commission has committed to understanding the context behind our gender pay gap. Knowing the drivers that cause the gender pay gap will support us in closing the gap at the Commission. The current gender pay gap is 18%, and we are committed to being below the Public Service average in three years.

Through our work so far, we have identified that a primary driver of the Commission's pay gap is that there are more women than men in lower paid jobs. More analysis is required to fully understand the root causes of the gender pay gap at the Commission. While the gap has reduced in the past 12 months more solutions will be implemented as the insights are gained from the data analysis. During the last remuneration round, budget was allocated to taking a gender pay lens to the remuneration review.

## Realigning to meet our goals

Our operating model has been reviewed and reorganised to enable a more agile and flexible way of working. Cross-Commission teams are used widely as a way to increase collaboration and information sharing.

## Workspace

Our workplace must enable the new operating model, reflect the respect we have for our stakeholders and demonstrate the best practice in terms of agency performance. We are redesigning our workspace to enhance our collaboration, adopt an activity-based way of working, while making the most efficient and effective use of our property footprint. The proposed changes in the workplace are in line with both the Government Chief Information Officer's (GCIO) strategy for IT and Government Property Group's (GPG) strategy for workplace effectiveness. Both strategies support digital transformation and paper independence and reduction.

## Risk and assurance

We are in the process of refreshing our risk framework and supporting tools, which will allow us to better apply risk-based thinking over the work we do. This will bring the Commission's standard up to reflect best practice and ISO 31000. Our internal policies and control procedures are being reviewed and updated to reflect an agile work environment and new standards in a modern workplace.

## New Zealand Business Number<sup>1</sup>

The New Zealand Business Number (NZBN) is a universal identifier that will help businesses to easily update, share key information and interact with each other. This has been introduced to streamline all essential business information, and over time will become the only number businesses will need to use to interact with a range of other businesses and government agencies. The Commission is a tier three agency and must implement NZBN requirements by 31 December 2018. We will work collaboratively with the other central agencies and this project has been added to the Central Agencies Shared Services' (CASS) work programme for the 2017/18 financial year.

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1 <http://www.mbie.govt.nz/info-services/business/better-for-business/nzbn>



# Report on Strategic Intentions

As part of our transformation we will be realigning our performance measures to our refreshed strategy. We have made a first step in updating the measures we use in both our Strategic Intentions and our Estimates. The table below maps the old measures from our Strategic Intentions 2016–20 against those we have used in 2016/17.

Strategic Intentions 2016–20 measure	Target 2016/17	Result 2016/17
Public Service chief executives who have been in the role for one year or more meet or exceed the State Services Commissioner’s performance expectations	95%	These three results can be found in the <i>Management of the Public Management System</i> section of this report.
Deployment of senior leaders through Career Boards	12 deployments	
Career Board cohort have been assessed using a standard framework and have agreed development objectives	90%	
Stakeholders agree that NZ Public Service chief executives are effective leaders of the Public Service	Average score of 4 out of 5, or better	These five measures were assessed using a single annual survey of our chief executives. This survey has been replaced by a regular survey that focuses on qualitative feedback as well as obtaining quantitative ratings. The results of the survey can be found in the <i>Management of the Public Management System</i> section of this report.
Stakeholders agree that agencies are working together more effectively than two years ago to deliver results	Average score of 4 out of 5, or better	
Stakeholders agree that tier 2 and tier 3 capability in the NZ Public Service is fit-for-purpose	Average score of 3.3 out of 5, or better	
Stakeholders are satisfied that SSC’s oversight role of State sector employment relations achieves solutions within government expectations and provides for effective management of risk within and across agencies	Average score of 3.6 out of 5, or better	
Chief executives agree that PIF reviews have led to changes that improve agency performance	Average score of 4 out of 5, or better	

Strategic Intentions 2016–20 measure	Target 2016/17	Result 2016/17
Chief executives surveyed within three months of the PIF review respond that they gained valuable insights	100%	The survey we use to measure the value of the PIF and CI tools has been improved. Results for the value obtained from these tools can be found in the <i>Management of the Public Management System</i> section of this report.
SSC's 'Better Every Day' CI engagements result in agencies reporting customer or performance benefits	100%	
Administrative and support service costs reduce	Less than 15% of total running costs	This result is reported in the annual BASS (Benchmarking Administration and Support Services) report. The most recent results can be found on our website: <a href="http://www.ssc.govt.nz/bass">http://www.ssc.govt.nz/bass</a>
SSC employee engagement improves	Above Public sector benchmark	As part of our transformation we are developing a new method for managing organisational health that includes monitoring and improving employee engagement. This will include new benchmarking. As such, we have not reported results this year.

# END-OF-YEAR REPORTING

This section includes:

- Statement of Responsibility
- Independent Auditor's Report
- Statement of Performance
  - Policy Advice and Management of the Public Management System MCA
  - State Services Commission – Capital Expenditure PLA
- Statement of Expenses and Capital Expenditure against Appropriation



# Statement of Responsibility

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

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

In my opinion:

- the financial statements fairly reflect the financial position of SSC as at 30 June 2017 and its operations for the year ended on that date, and
- the forecast financial statements fairly reflect the forecast financial position of SSC as at 30 June 2018 and its operations for the year ending on that date.



**Debbie Power | Deputy State Services Commissioner & Chief Executive**

27 September 2017



# Independent Auditors Report

## To the readers of State Services Commission's annual report for the year ended 30 June 2017

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

- the financial statements of SSC on pages 34 to 44, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2017, the statement of comprehensive revenue and expense, statement of changes in equity, and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information;
- the performance information prepared by SSC for the year ended 30 June 2017 on page 15 and 16, and 23 to 29; and
- the statements of expenses and capital expenditure of SSC for the year ended 30 June 2017 on pages 30 and 31; and
- the schedules of non departmental activities which are managed by SSC on behalf of the Crown on pages 38 and 39, and 45 and 46 that comprise:
  - the schedules of assets; liabilities; commitments; and contingent liabilities and assets as at 30 June 2017;
  - the schedules of expenses; and revenue for the year ended 30 June 2017; 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 34 to 44:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2017; and
    - its financial performance and cash flows for the year ended on that date; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards with reduced disclosure requirements.
- the performance information of SSC on page 15 and 16, and 23 to 29:
  - presents fairly, in all material respects, for the year ended 30 June 2017:
    - what has been achieved with the appropriation; and
    - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
  - complies with generally accepted accounting practice in New Zealand.
- the statements of expenses and capital expenditure of SSC on pages 30 and 31 are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989.
- the schedules of non departmental activities which are managed by SSC on behalf of the Crown on pages 38 and 39, and 45 to 46 present fairly, in all material respects, in accordance with the Treasury Instructions:
  - the assets; liabilities; commitments; and contingent liabilities and assets as at 30 June 2017; and
  - expenses; and revenue for the year ended 30 June 2017; and

Our audit was completed on 27 September 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Chief Executive and our responsibilities relating to the information to be audited, we comment on other information, and we explain our independence.

## **Basis for our opinion**

We carried out our audit in accordance with the Auditor General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor General's Auditing Standards.

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

## **Responsibilities of the Chief Executive for the information to be audited**

The Chief Executive is responsible on behalf of SSC for preparing:

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

The Chief Executive is responsible for such internal control as is determined is necessary to enable the preparation of the information to be audited that is free from material misstatement, whether due to fraud or error.

In preparing the information to be audited, the Chief Executive is responsible on behalf of SSC for assessing SSC's ability to continue as a going concern. The Chief Executive is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of SSC, or there is no realistic alternative but to do so.

The Chief Executive's responsibilities arise from the Public Finance Act 1989.

## **Responsibilities of the auditor for the information to be audited**

Our objectives are to obtain reasonable assurance about whether the information we audited, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of the information we audited.

For the budget information reported in the information we audited, our procedures were limited to checking that the information agreed to SSC's information on strategic intentions/statement of intent, Estimates of Appropriation and as updated in the Supplementary Estimates.

We did not evaluate the security and controls over the electronic publication of the information we audited.

As part of an audit in accordance with the Auditor General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the information we audited, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive.
- We evaluate the appropriateness of the reported performance information within SSC's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Chief Executive and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on SSC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the information we audited or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause SSC to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the information we audited, including the disclosures, and whether the information we audited represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Chief Executive regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

#### **Other information**

The Chief Executive is responsible for the other information. The other information comprises the information included on pages 2 to 47, but does not include the information we audited, and our auditor's report thereon.

Our opinion on the information we audited does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

Our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the information we audited or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Independence**

We are independent of SSC in accordance with the independence requirements of the Auditor General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor, we have no relationship with, or interests, in SSC.

*Karen Young*

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



# Statement of Performance

## Place-based initiatives – South Auckland Social Investment Board

The overarching purpose of this appropriation is to deliver services as part of the Social Investment Plan for South Auckland and for the operational support of the South Auckland Social Investment Board.

This appropriation is limited to the delivery of services as part of the Social Investment Plan for South Auckland and to the operational support of the South Auckland Social Investment Board.

2016 Actual \$000		2017 Actual \$000	2017 Budget \$000	2017 Supp. Estimates \$000	2018 Unaudited Forecast Group \$000
-	Expenses	1,155	-	1,250	2,750
-	Revenue Crown	1,250	-	1,250	2,750
-	<b>Total revenue</b>	<b>1,250</b>	<b>-</b>	<b>1,250</b>	<b>2,750</b>

### What was achieved

Performance Measure	Actual 2015/16	Budgeted Standard Target 2016/17	Actual 2016/17
Establish the South Auckland Social Investment Board and the Implementation Office	New measure	Established	Established July 2016
<p>The South Auckland Social Investment Board is a place-based initiative that involves local social sector officials who understand local needs and circumstances and work collaboratively. The Board was established to put at-risk children and their families at the heart of investment decisions, and to improve the quality of service provision. The resulting services are more flexible, coordinated and targeted to improve outcomes for children at risk of poor social and health outcomes.</p> <p>The initial focus is on children under six years old (and their families), who live in Mangere, and are at risk of poor social and health outcomes. It aims to reduce the number of children experiencing physical abuse, reduce the number of child hospitalisations for illnesses and increase the number of children participating in early childhood education.</p> <p>The interventions that support these goals are:</p> <ul style="list-style-type: none"> <li>• improved family harm response and social service delivery;</li> <li>• better access to health services for vulnerable mothers and children;</li> <li>• increased quality of early childhood education;</li> <li>• availability of alcohol/drug and mental health services; and</li> <li>• working with people in vulnerable tenancies.</li> </ul>			
Hold four Board meetings	New measure	4	5



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

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

### Multi-category Appropriation (MCA)

	Public Management System Policy Advice MCA		Management of the Public Management System MCA		Total MCA	
	2016 Actual \$000	2017 Actual \$000	2016 Actual \$000	2017 Actual \$000	2016 Actual \$000	2017 Actual \$000
Expenses	5,166	6,542	22,759	22,005	27,925	28,547
Revenue Crown	5,107	5,524	20,089	19,479	25,196	25,003
Revenue Department and Other	234	413	3,234	3,813	3,468	4,226
<b>Total revenue</b>	<b>5,341</b>	<b>5,937</b>	<b>23,323</b>	<b>23,292</b>	<b>28,664</b>	<b>29,229</b>

### What was achieved

Performance Measure	Actual 2015/16	Budgeted Standard Target 2016/17	Actual 2016/17
Respondents in the Kiwis Count survey agree or strongly agree that, based on their last service experience, they could trust public servants to do what is right	80%	80%	79% <sup>2</sup>
In 2016, trust in public services based on personal experience was high at 79%, 12 percentage points higher than when first measured in 2007. The 2016 result is two percentage points lower than in 2015, but still higher than in 2014. It may be that the 2015 result is an outlier. The fall in 2016 was driven by a fall back from record 2015 trust levels in the health and tertiary education sectors. See <a href="http://www.ssc.govt.nz/kiwis-count">http://www.ssc.govt.nz/kiwis-count</a> for further detail.			
Overall Kiwis Count service quality score (SQS)	75 points	75 points	74 points <sup>2</sup>
New Zealanders' satisfaction with the quality of public services has increased over the past decade. The overall service quality score has increased six points from 68 in 2007 to 74 in 2016. However, the 2016 result shows a levelling off, with a decrease of one point on 2015. The 2016 result is still higher than 2014, and it may be that the 2015 result is an outlier. The decline over 2016 reflects that more individual services experienced declines in their SQSs than increases. The number and diversity of individual services means that achieving continuous improvement on the cumulative result is a challenge (and it is difficult to maintain consistent continuous improvements when the baseline is already quite high). See <a href="http://www.ssc.govt.nz/kiwis-count">http://www.ssc.govt.nz/kiwis-count</a> for further detail.			
Percentage of results on track to achieve their targets	54.5%	80%	Not reported – result published elsewhere <sup>3</sup>

<sup>2</sup> Kiwis Count reporting schedule has moved to a calendar (December) year basis, whereas in previous reports June years were used. This result is for December 2016.

<sup>3</sup> We removed the measure for the percentage of Public Service Results on track during 2016/17 as part of our ongoing work to improve the alignment between our output performance measures and our strategic impacts. This result is reported elsewhere, and we removed it to avoid duplication in reporting. More information on the Better Public Results is available here: <http://www.ssc.govt.nz/bps-snapshot>.

## What was achieved

Performance Measure	Actual 2015/16	Budgeted Standard Target 2016/17	Actual 2016/17
<p>The 10 Better Public Services (BPS) Results have been successful in delivering better outcomes for New Zealanders. The BPS Results have brought about change in the way the Public sector operates, and have improved outcomes for New Zealanders in some difficult areas. We investigated the BPS Results approach, and found that its success lies in having clear and meaningful results, ambitious targets with measures of impact within six months, and transparent public reporting of progress.<sup>4</sup></p> <p>With such great progress over the five years to 2017, we led a refresh of the BPS Results so that they remain a powerful driver of performance improvement into the future. The refresh strongly focused on improving the lives of New Zealanders by basing investment decisions on evidence. We also took a life course approach and focused on outcomes where interventions early in life often reduce the need for more expensive and less effective interventions later in life. The BPS Results are now a series of coordinated interventions along a life course, rather than separate interventions by multiple agencies.</p>			
The Labour Cost Index indicates that central government wage growth does not exceed private sector wage growth.	Achieved	Less than or equal to private sector	Not reported – result published elsewhere <sup>5</sup>

## Public Management System Policy Advice (Category)

This category 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.

2016 Actual \$000		2017 Actual \$000	2017 Budget \$000	2017 Supp. Estimates \$000	2018 Unaudited Forecast Group \$000
5,166	Expenses	6,542	5,532	6,931	5,527
5,107	Revenue Crown	5,524	5,532	5,524	5,527
234	Revenue Department	413	-	1,407	-
<b>5,341</b>	<b>Total revenue</b>	<b>5,937</b>	<b>5,532</b>	<b>6,931</b>	<b>5,527</b>

Expenditure in this category increased in 2016/17. This is because the Commission has adopted a more active leadership role in the Public sector which has meant a reprioritisation of resources towards policy advice while we shape up the Public sector reform agenda. Given this direction change was implemented during the financial year the change resulted in actual costs being less than budgeted for in the Management of the Public Management System appropriation and an increase in costs in the policy advice appropriation.

<sup>4</sup> Our research findings can be found at <https://www.ssc.govt.nz/interagency-performance-targets-case-study-new-zealands-results-programme>.

<sup>5</sup> We removed this measure during 2016/17 as part of our ongoing work to improve the alignment between our output performance measures and our strategic impacts. This result is reported elsewhere, and we removed it to avoid duplication in reporting. More information on the Labour Cost Index is available here: [http://m.stats.govt.nz/browse\\_for\\_stats/income-and-work/employment\\_and\\_unemployment/labour-market-statistics-information-releases.aspx](http://m.stats.govt.nz/browse_for_stats/income-and-work/employment_and_unemployment/labour-market-statistics-information-releases.aspx).

## What was achieved

Performance Measure	Actual 2015/16	Budgeted Standard Target 2016/17	Actual 2016/17
<b>Public Management System Policy Advice</b>			
Technical quality of policy advice papers <sup>6</sup> assessed by a survey <sup>7</sup> with a methodical robustness of 90% <sup>8</sup>	65%	70%	75%
The improved score against target for 2016/17 reflects improvements in stronger customer focus, improved clarity about the decisions required, better management of risks and clearer explanation of the wider context. This improvement may have been partly driven by expectations and tone set by senior leaders, and reinforced by pre-sign-out review processes that were in place for part of the review period.			
Minister of State Services has satisfaction with policy advice <sup>9</sup>	72%	80%	90%
The improved score against target for 2016/17 reflects the repositioning work done at the Commission during the financial year, which resulted in better end-to-end accountability in teams responsible for policy advice to the Minister of State Services. This has resulted in better business processes and quality assurance around the provision of policy advice.			
The total cost per hour of producing outputs	\$167	\$160	\$179
The higher cost per hour for 2016/17 reflects the creation during the financial year of a new Strategy and Policy group to provide greater capacity and activity to support our leadership role in system reform.			

## Management of the Public Management System (Category)

This category 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)

2016 Actual \$000		2017 Actual \$000	2017 Budget \$000	2017 Supp. Estimates \$000	2018 Unaudited Forecast Group \$000
22,759	Expenses	22,005	21,665	22,060	24,188
20,089	Revenue Crown	19,479	18,745	19,479	17,968
3,233	Revenue Department	3,218	2,910	2,010	2,910
1	Revenue Other	595	10	571	3,310
<b>23,323</b>	<b>Total Revenue</b>	<b>23,292</b>	<b>21,665</b>	<b>22,060</b>	<b>24,188</b>

Expenditure in this category increased in 2016/17 compared to budget owing to in principle expense transfers from the 2015/16 financial year to the 2016/17 financial year, gross up of expenses due to higher secondment out recoveries and delays to a few work programmes.

<sup>6</sup> Quality of policy advice is a performance measure set by the Treasury as part of the 'Review of Policy Expenditure and Advice'.

<sup>7</sup> The Commission runs its review using a methodology developed by Department of Prime Minister and Cabinet's (DPMC) Policy Project. In the scoring scale devised by the Treasury, 5 and 6 are 'satisfactory' scores while 7 and 8 are 'good' scores. The scoring is out of 10, and is converted to a percentage for overall final rating. The scoring is a judgement based on all three areas of the Treasury's policy quality framework – analytical quality, strategic perspective and customer focus.

<sup>8</sup> The statistical robustness reflects the quality of the review process as set out in the Treasury's guidance.

<sup>9</sup> Ministerial satisfaction with the Commission'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.

## What was achieved

Performance Measure	Actual 2015/16	Budgeted Standard Target 2016/17	Actual 2016/17
<b>Management of the Public Management System</b>			
State Services chief executives agree that the State Services Commission provides the leadership required to support them in their agencies.	New measure	Average score of 4 out of 5, or better	4.2 out of 5
<p>The Commission is focused on strengthening leadership across the Public Service. We are working with chief executives and agencies to recruit, develop and deploy the leadership and talent we need for a skilled and diverse workforce. This year, the State Services Commissioner hosted the first Annual Public Service Leaders Summit, as part of our wider strategy to engage and build strong leadership. The Summit was focused on building a spirit of service, working together to deliver better public services and being ambitious for New Zealand and New Zealanders.</p> <p>These leaders hold the most senior and complex roles across the Public Service, and this is the first time such a large group of senior leaders have been brought together. They are integral to working across agency and sector boundaries to lead the changes across the system that will deliver better public services for New Zealanders.</p> <p>A strong theme of the day was building pride in Public Service and talking about what drove leaders to serve New Zealanders in their work every day. We also focused on how to work together to achieve the ambitious goals of this work programme.</p>			
Deployment of senior leaders through Career Boards	25	12	27
<p>We work across agencies to identify and develop people who can step into system leadership roles in the future, and to draw from broader pools of talent in the wider public sector and private sector. This includes the deployment of talented leaders between agencies to develop them for senior Public Service leadership roles and to address system-critical needs.</p> <p>The number of senior leaders deployed is higher than the target for 2016/17 owing to an increased emphasis of brokering deployments at the Career Boards during 2016/17, and more tier 2 and high potential tier 3 leaders with information in Talent Exchange (including Leadership Insight results). This enabled better talent searches that have led to more deployments.</p>			
Career Board cohort have been assessed using a standard framework and have agreed development objectives	Not measured	90%	91%
<p>Our assessment tools, such as Leadership Insight, benchmark an individual's capability against common standards described in the Leadership Success Profile. This makes it easier for leaders to compare information about roles across the wider system that might be a good next career step for them and provides tools to allow leaders to self-assess and recruit for effective leadership. Senior leaders share information in the Talent Exchange system about what they have to offer and how they would like to extend their contribution. This increases the chance of being matched to a career opportunity that's right for them. When a career opportunity arises the leaders that are a good match show up in a search for talent. Furthermore, being able to see the detail of potential future roles gives leaders the opportunity to target their own development with a real job in mind at the end of it.</p>			

Performance Measure	Actual 2015/16	Budgeted Standard Target 2016/17	Actual 2016/17
<b>Management of the Public Management System</b>			
Public Service chief executives who have been in the role for one year or more meet or exceed the State Services Commissioner's performance expectations	91%	95%	96%
<p>The State Services Commissioner is the employer of New Zealand's Public Service chief executives. Chief executive performance management focuses on the delivery of system results and services, as well as core expectations related to maintaining the trust and confidence of Ministers, financial management, people leadership, and core business delivery.</p> <p>We do this by:</p> <ul style="list-style-type: none"> <li>recruiting, developing and planning for succession of chief executive roles</li> <li>setting expectations that have clear line of sight to results</li> <li>providing timely and practical performance feedback to the chief executives on their performance, and</li> <li>managing our senior leaders as system assets and deploying them where their skills are best utilised for the best outcomes.</li> </ul> <p>During 2016/7 we appointed seven new chief executives:</p> <ul style="list-style-type: none"> <li>Andrew Crisp, Chief Executive, Land Information New Zealand</li> <li>Peter Mersi, Chief Executive and Secretary for Transport, Ministry of Transport</li> <li>Iona Holsted, Chief Executive and Secretary for Education, Ministry of Education</li> <li>Renee Graham, Chief Executive, Ministry for Women</li> <li>Nick Pole, Chief Executive and Chief Review Officer, Education Review Office</li> <li>Grainne Moss, Chief Executive, Ministry for Vulnerable Children, Oranga Tamariki</li> <li>Laulu Mac Leauanae, Chief Executive, Ministry for Pacific Peoples</li> </ul> <p>We also farewelled two chief executives:</p> <ul style="list-style-type: none"> <li>Pauline Winter, Ministry for Pacific Peoples: 23 October 2012 to 22 June 2017</li> <li>David Smol, Ministry of Business, Innovation and Employment: 1 July 2008 to 30 June 2017</li> </ul>			
Following their agency's PIF review, chief executives responded that they valued the review process	New measure	Average score of 4 out of 5, or better	4 out of 5
<p>PIF reviews help agencies to understand and improve performance, and to drive change for better services and results. A PIF review asks what the country needs from the agency in the future, what success would look like and the agency's challenges to getting there. Over the past seven years, the Commission has delivered 50 PIF reviews and 25 follow ups across the Public Service departments and many of the major Crown entities.</p> <p>This past year, four full reviews were delivered including: Ministry of Foreign Affairs and Trade, Crown Law Office, Ministry for Pacific Peoples and Callaghan Innovation; with follow-up reviews of three agencies: Accident Compensation Corporation, Ministry of Business, Innovation and Employment and Ministry of Culture and Heritage. Of particular note this year is the work done across the Education sector in completing of the joint Blueprint for the Education System, which involved the seven education agencies.</p>			
Agency sponsors agree that the State Services Commission's Continuous Improvement engagements deliver value.	New measure	Average score of 4 out of 5, or better	4.3 out of 5



Performance Measure	Actual 2015/16	Budgeted Standard Target 2016/17	Actual 2016/17
<b>Management of the Public Management System</b>			
<p>The Continuous Improvement process (CI) sits alongside the PIF as part of the Commission's end-to-end performance improvement support for agencies. The CI unit provides practical assistance to agencies in building and improving services from a customer perspective. We do this by transferring, through a team of business coaches, capability to leaders and staff in agencies.</p> <p>This year we have continued focus on systems improvement. An example is Inbound Passenger Targeting, where we assisted both New Zealand Customs and Immigration New Zealand to align their work systems, in order to prevent harm from entering New Zealand. Another significant engagement this year has been with the New Zealand Intelligence Community, around security vetting processes as well as multi-agency coordination of intelligence to their customers.</p>			

## State Services Commission – Capital Expenditure PLA

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

Financial Information	2017 Actual \$000	2017 Budget \$000	2017 Supp. Estimates \$000	2018 Unaudited Forecast Group \$000
Property, plant and equipment	209	245	1,205	100
Intangibles	-	-	178	-
<b>Total appropriation</b>	<b>209</b>	<b>245</b>	<b>1,383</b>	<b>100</b>



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

(for the year ended 30 June 2017)

	2017 Actual \$000	2017 Budget \$000	2017 Supp. Estimates \$000	2018 Unaudited Forecast \$000	Location of End-of-year Performance Information
<b>Departmental Capital Expenditure</b>					
State Services Commission – Capital Expenditure under Permanent Legislative Authority	209	245	1,383	100	SSC Annual Report
<b>Departmental Output Expenses</b>					
Place-based initiatives – South Auckland Social Investment Board	1,155	-	1,250	2,750	SSC Annual Report
<b>Non-departmental Other Expenses</b>					
Open Government Partnership	200	240	200	200	Exempt in accordance with s.15D(2)(b) (ii) of the Public Finance Act
Remuneration and Related Employment Costs of Chief Executives	13,881	13,900	13,940	13,940	
Settlement of Legal Liabilities	-	7	7	7	
<b>Total Non-departmental Other Expenses</b>	<b>14,081</b>	<b>14,147</b>	<b>14,147</b>	<b>14,147</b>	
<b>Multi-category Expenses and Capital Expenditure</b>					
Policy Advice and Management of the Public Management System MCA	28,547	27,197	28,991	29,715	SSC Annual Report
<b>Departmental Output Expenses</b>					
Public Management System Policy Advice	6,542	5,532	6,931	5,527	SSC Annual Report
Management of Public Management System	22,005	21,665	22,060	24,188	
<b>Total Multi-category Expenses</b>	<b>28,547</b>	<b>27,197</b>	<b>28,991</b>	<b>29,715</b>	
<b>Total Annual and MYA Expenses</b>	<b>43,992</b>	<b>41,589</b>	<b>45,771</b>	<b>46,712</b>	

## **Statement of Departmental and Non-departmental Expenses and Capital Expenditure Incurred Without, or in Excess of, Appropriation or Other Authority for the year ended 30 June 2017**

### **Expenses and capital expenditure incurred in excess of appropriation**

Nil (2016: Nil).

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

Nil (2016: Nil).

There was no unappropriated expenditure in relation to the activities that SSC administers on behalf of the Crown for the year ended 30 June 2017 (2016: Nil).

## **Statement of Departmental Capital Injections Without, or in Excess of, Authority for the year ended 30 June 2017**

SSC has not received any capital injections during the year without, or in excess of, authority (2016: Nil).





# FINANCIAL STATEMENTS AND SCHEDULES

In this section:

- Departmental Financial Statements
  - Statement of Comprehensive Revenue and Expenses
  - Statement of Changes in Equity
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  - Statement of Cash Flows
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# Departmental Financial Statements

(for the year ended 30 June 2017)

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

## Statement of Comprehensive Revenue and Expenses

for the year ended 30 June 2017

2016 Actual \$000		Notes	2017 Actual \$000	2017 Budget \$000	2018 Unaudited Forecast Group \$000
<b>Revenue</b>					
25,545	Revenue Crown	2	26,253	24,277	33,241
3,468	Revenue other	2	4,226	2,920	6,220
<b>29,013</b>	<b>Total revenue</b>		<b>30,479</b>	<b>27,197</b>	<b>39,461</b>
<b>Expenditure</b>					
17,847	Personnel costs	3	17,346	16,821	16,556
420	Capital charge	4	313	420	169
441	Depreciation and amortisation expense	6	437	493	319
9,536	Other operating expenses	5	11,606	9,463	22,417
<b>28,244</b>	<b>Total expenditure</b>		<b>29,702</b>	<b>27,197</b>	<b>39,461</b>
769	Surplus/(deficit)		777	-	-
-	Other comprehensive revenue and expense		-	-	-
769	Total comprehensive revenue and expense		777	-	-

Explanations of major variances against budget are detailed in note 11.

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

## Statement of Changes in Equity

for the year ended 30 June 2017

2016 Actual \$000		Notes	2017 Actual \$000	2017 Budget \$000	2018 Unaudited Forecast Group \$000
5,251	Balance as at 1 July		5,116	5,116	2,413
769	Total comprehensive revenue/(expense)		777	-	-
<b>Owner transactions</b>					
-	Capital contribution		-	-	1,500
(135)	Capital withdrawal		(2,703)	(2,703)	-
(769)	Return of operating surplus to the Crown		(777)	-	-
<b>5,116</b>	<b>Balance as at 30 June</b>		<b>2,413</b>	<b>2,413</b>	<b>3,913</b>

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

# Statement of Financial Position

as at 30 June 2017

2016 Actual \$000		Notes	2017 Actual \$000	2017 Budget \$000	2018 Unaudited Forecast Group \$000
<b>Assets</b>					
<b>Current assets</b>					
2,272	Cash and cash equivalents		2,049	1,721	2,597
5,732	Debtor Crown		3,029	2,273	3,029
388	Debtors and other receivables		786	808	389
247	Prepayments		30	265	246
8,639	Total current assets		5,894	5,067	6,261
<b>Non-current assets</b>					
684	Property, plant and equipment	6	324	530	280
186	Intangible assets	6	113	393	180
870	Total non-current assets		437	923	460
9,509	Total assets		6,331	5,990	6,721
<b>Liabilities</b>					
<b>Current liabilities</b>					
2,350	Creditors and other payables		2,051	2,460	1,620
769	Return of operating surplus		777	-	-
45	Provisions		-	-	-
825	Employee entitlements	7	873	918	879
3,989	Total current liabilities		3,701	3,378	2,499
<b>Non-current liabilities</b>					
119	Provisions	8	119	119	119
285	Employee entitlements	7	98	80	190
404	Total non-current liabilities		217	199	309
4,393	Total liabilities		3,918	3,577	2,808
5,116	Net assets		2,413	2,413	3,913
<b>Equity</b>					
5,065	Taxpayers' funds		2,362	2,362	3,862
51	Artwork revaluation reserves		51	51	51
5,116	Total equity		2,413	2,413	3,913

Explanations of major variances against budget are detailed in note 11.

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

## Statement of Cash Flows

for the year ended 30 June 2017

2016 Actual \$000		Notes	2017 Actual \$000	2017 Budget \$000	2018 Unaudited Forecast Group \$000
<b>Cash flows from operating activities</b>					
25,545	Receipts from Crown		28,956	27,601	22,816
3,678	Receipts from other revenue		3,728	2,573	2,919
(9,663)	Payments to suppliers		(11,645)	(8,918)	(9,055)
(17,764)	Payments to employees		(17,382)	(17,055)	(16,511)
(420)	Payments for capital charge		(313)	(420)	(169)
(194)	Goods and services tax (net)		114	(905)	-
1,182	Net cash flows from operating activities		3,458	2,876	-
<b>Cash flows from investing activities</b>					
(17)	Purchase of property, plant and equipment		(209)	(245)	(50)
(144)	Purchase of intangible assets		-	-	-
(161)	Net cash flows from investing activities		(209)	(245)	(50)
<b>Cash flows from financing activities</b>					
(986)	Repayment of operating surplus		(769)	-	
(135)	Capital (withdrawal)/injection		(2,703)	(2,703)	1,500
(1,121)	Net cash flows from financing activities		(3,472)	(2,703)	1,500
(100)	Net (decrease)/increase in cash		(223)	(72)	1,450
2,372	Cash at the beginning of the year		2,272	1,793	1,147
2,272	Cash at the end of the year		2,049	1,721	2,597

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

## Statement of Commitments

as at 30 June 2017

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

2016 Actual \$000		2017 Actual \$000
<b>Non-cancellable operating lease commitments</b>		
629	Not later than one year	412
419	Later than one year and not later than 5 years	-
1,048	Total non-cancellable operating lease commitments	412
1,048	Total commitments	412

There are no capital commitments for 2016/17 (nil:2016).

## Statement of Contingent Liabilities and Contingent Assets

as at 30 June 2017

### **Unquantifiable Contingent Liabilities**

SSC has an unquantifiable contingent liability relating to a matter as at 30 June 2017. Disclosure of further information may prejudice SSC's position. (SSC had an unquantifiable contingent liability relating to a matter as at 30 June 2016).

There are no unquantifiable assets as at 30 June 2017 (2016: Nil).

### **Quantifiable Contingent Liabilities and Assets**

SSC has no quantifiable contingent liabilities or assets as at 30 June 2017 (2016: Nil).

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



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

(for the year ended 30 June 2017)

## 1 – Statement of accounting policies

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

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

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 (PBE) for financial reporting purposes.

The Financial Statements of SSC are for the year ended 30 June 2017. The Forecast Financial Statements are for the year ending 30 June 2018. These Financial Statements were authorised for issue by the Chief Executive on 27 September 2017.

The Departmental Financial Statements and the financial information reported in the Non-departmental Schedules are consolidated into the Financial Statements of the Government and, therefore, readers of these schedules should also refer to the Financial Statements of the Government for the year ended 30 June 2017.

### Statement of compliance

The Departmental Financial Statements and unaudited Departmental Forecast 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), Treasury Instructions and Treasury Circulars. These Financial Statements comply with PBE accounting standards as appropriate for Tier 2 entities. These Financial Statements have been prepared in accordance with Tier 2 NZ PBE accounting standards as the departmental expenditure for SSC is below \$30 million. Measurement and recognition rules applied in the preparation of the Non-departmental Supplementary Financial Schedules are consistent with NZ GAAP and Crown accounting policies and are detailed in the Financial Statements of the Government.

### Basis of preparation

The Departmental Financial Statements and Non-departmental Schedules have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the period.

### Measurement base

The Departmental Financial Statements and Non-departmental Schedules have been prepared on an historical cost basis with the exception of Artwork.

### Functional and presentation currency

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



## **Changes in accounting policies**

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

## **Budget figures**

The budget figures are those included in the Department's Budget Estimates for the year ended 30 June 2017, which are consistent with the financial information in the Main Estimates. The budget figures are unaudited.

## **Forecast figures**

### *Basis of preparation*

Forecast Departmental Financial Statements and Non-departmental Schedules have been prepared in accordance with the accounting policies expected to be used in the future for reporting historical general purpose financial statements and based on a group basis including the Social Investment Agency, which is a Departmental Agency.

These Forecast Financial Statements are unaudited and have been prepared in accordance with, and comply with, FRS 42 Prospective Financial Statements.

These financial forecasts are based on Budget Economic Fiscal Update 2017 (BEFU) and have been prepared on the basis of assumptions as to future events that SSC 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 main assumptions were as follows:

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

Additional factors that could lead to material differences between the Forecast Financial Statements and the 2017/18 Actual Financial Statements include changes to the baseline budget through new initiatives, transfer of funding across financial years or technical adjustment.

### *Authorisation statement*

These Forecast Financial Statements were authorised for issue by the Chief Executive of SSC on 26 April 2017. The Chief Executive is responsible for the Forecast Financial Statements presented, including the appropriateness of the assumptions underlying the Forecast Financial Statements and all other required disclosure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual financial results achieved for the period covered are likely to vary from the information presented, and the variations may be material.

## Statement of cost allocation policies for Departmental Financial Statements

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

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

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

### Critical accounting estimates and assumptions

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

## 2 – Revenue

### Revenue Crown – non-exchange

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

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

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

### Other revenue

#### PIF reviews – exchange

Revenue from reviews is recognised based on percentage completed.

#### Recovery of rental costs and secondments – exchange

Recovery of rental costs and secondments from participating agencies is recognised as revenue on a straight line basis.

### Breakdown of other revenue and further information

2016 Actual \$000		2017 Actual \$000
1,292	Agency contribution towards PIF reviews	1,175
2,176	Other revenue (including recoveries)	3,051
3,468	Total other and departmental revenue	4,226

### 3 – Personnel costs

2016 Actual \$000		2017 Actual \$000
16,894	Salaries and wages	16,767
45	Performance pay	12
158	Staff training and development	86
602	Superannuation contributions to defined contribution plans	534
23	Increase/(decrease) in employee entitlements	(204)
(55)	Redundancy <sup>10</sup>	(45)
-	- Allowance	35
180	Other	161
17,847	Total personnel costs	17,346

### 4 – Capital charge

SSC pays a capital charge to the Crown based on its equity as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2017 was 7% from 1 July 2016 to 31 December 2016 and 6% from 1 January 2017 (2016: 8.0%).

### 5 – Other operating expenses

2016 Actual \$000		2017 Actual \$000	2017 Budget \$000	2018 Unaudited Forecast Group \$000
1,779	Consultancy	1,690	697	720
200	Leadership Development Centre funding	50	-	-
441	Chief executives' recruitment costs	532	638	400
332	Legal fees	142	220	70
67	Fees to Audit New Zealand for audit of financial statements	69	80	80
859	Rental and operating lease costs	838	838	838
262	Other occupancy costs	236	337	302
170	IT and communication costs	348	522	524
259	Travel	236	229	213
14	Loss on disposal of property, plant and equipment	205	-	-
270	Sponsorship	240	444	224
3,478	Costs paid to the Treasury for CASS	3,686	3,949	3,920
1,405	Other operating costs	3,334	1,509	15,126
9,536	Total operating costs	11,606	9,463	22,417

<sup>10</sup> Negative redundancy payment resulted from the release of a provision in prior years.

## 6 – Property, plant and equipment and intangible assets

	Office Equipment \$000	Leasehold Improve- ments \$000	Works of Art \$000	Furniture and Fittings \$000	Intangible Assets \$000	Total \$000
<b>Cost</b>						
Balance at 1 July 2015	172	1,463	106	995	170	2,906
Balance at 1 July 2016	189	1,463	92	995	314	3,053
Additions	15	-	-	194	-	209
Disposals/transfers	-	(1,463)	-	(74)	(170)	(1,707)
<b>Balance at 30 June 2017</b>	<b>204</b>	<b>-</b>	<b>92</b>	<b>1,115</b>	<b>144</b>	<b>1,555</b>
<b>Accumulated depreciation and impairment losses</b>						
Balance at 1 July 2015	95	816	-	739	92	1,742
Balance at 1 July 2016	115	1,035	-	905	128	2,183
Depreciation expense	22	310	-	45	60	437
Elimination on disposal	-	(1,345)	-	-	(157)	(1,502)
<b>Balance at 30 June 2017</b>	<b>137</b>	<b>-</b>	<b>-</b>	<b>950</b>	<b>31</b>	<b>1,118</b>
<b>Carrying amounts</b>						
At 1 July 2015	77	647	106	256	78	1,164
At 1 July 2016	74	428	92	90	186	870
<b>At 30 June 2017</b>	<b>67</b>	<b>-</b>	<b>92</b>	<b>165</b>	<b>113</b>	<b>437</b>

Asset Type	Useful Life	Depreciation/Amortisation Rate	Method
Office equipment	1 – 5 years	20% – 25%	Straight line
Leasehold improvements	5 years	20%	Straight line
Works of art	N/A	N/A	N/A
Furniture and fittings	3 – 5 years	20% – 33.33%	Straight line
Intangible	3 – 5 years	20% – 33.33%	Straight line

## 7 – Employee entitlements (departmental)

2016 Actual \$000		2017 Actual \$000
<b>Current liabilities</b>		
59	Accrued salaries and performance pay	124
738	Annual leave	700
25	Sick leave	28
3	Retirement and long service leave	21
825	Total current portion	873
<b>Non-current liabilities</b>		
190	Retirement leave	-
95	Long service leave	98
285	Total non-current portion	98
1,110	Total employee entitlements	971

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

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

If the discount rate were to differ by 1% from SSC's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$8,000 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 \$8,000 higher or lower.

## 8 – Provisions

SSC is required at the expiry of the lease term in the Reserve Bank on 1 March 2018 to make good the premises. \$0.119 million has been provided for this given that SSC has signed a new lease on 24 August 2017 extending the current lease to 28 February 2021.

	Restructuring \$000	Lease Make Good \$000	Total \$000
Opening balance at 1 July 2016	45	119	164
Additional provisions made	-	-	-
Provisions released	(45)	-	(45)
Closing balance at 30 June 2017	-	119	119

## 9 – Related party transactions

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

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

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

### Key management personnel

2016 Actual \$000		2017 Actual \$000
	<b>Leadership Team, including the State Services Commissioner</b>	
3,334	Remuneration	2,775
8	Full-time equivalent staff	7

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 her 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 Members of Parliament (Remuneration and Services) Act 2013 and are paid under Permanent Legislative Authority, and not paid by SSC.

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

There were no related party transactions involving key management personnel or their close family members. No provision has been required, nor any expense recognised, for impairment of receivables from related parties (2016: Nil).

## **10 – Events after balance date**

On 24 August 2017, SSC entered into a non-cancellable contract to lease the Reserve Bank office effective from 1 March 2018 to 28 February 2021. The annual rental under the agreement is \$0.759 million per annum. The agreement is not included in the statement of commitments as it was entered into after the balance date. Further to this, since balance date SSC has entered into contracts for construction and furniture of \$0.908 million associated with the refurbishment of the office space (2016: Nil).

## **11 – Explanation of major variances against budget**

### **Statement of Comprehensive Revenue and Expense**

The following major budget variations occurred between the 2016/17 Actuals and the 2016/17 Budget:

#### *Other revenue*

Other revenue was greater than originally budgeted by \$1.306 million. This was mainly owing to increased revenue from insurance proceeds, and higher than expected and not budgeted for revenue from recoveries relating to secondment of SSC staff who were seconded to other departments. This was also partly offset by lower Auckland Policy Office membership revenue where a full contingent membership was assumed to take place in July 2016, however did not eventuate.

#### *Other operating expenses*

Other operating costs were \$2.143 million higher than budgeted. This was mainly owing to higher consultancy costs relating to two significant projects. These were the South Auckland Investment Board place-based initiative post budget, and the write-off of existing leasehold improvements owing to a planned fit-out for the current property to occur in 2017/18. The lease has been renewed to 2021, with a further renewal option to 2024.

This was partially offset by lower sponsorship than expected resulting from the refund of unused sponsorship portion and a reduction in training and recruitment costs funded as part of the Treasury shared services during the year.

#### *Statement of Financial Position*

Total assets were higher by \$0.341 million compared to budget. This was mainly owing to the increase in cash and Debtor Crown resulting from higher Crown revenue recognition.

## **12 – Change in organisational form**

On 28 March 2017, the Leadership Development Centre Board of Trustees resolved to be dissolved and that a new branded business unit within SSC be created. Leadership Development Centre staff and assets transferred to SSC from 1 July 2017. The functions previously performed by the Leadership Development Centre Trust will now be performed by Leadership Development Centre as a branded cost centre within SSC. The Trust will be wound up during the 2017/18 financial year.

The Minister Responsible for Social Investment Hon Amy Adams announced on 21 April 2017 that the Social Investment Unit will be replaced by a new Social Investment Agency (SIA). On 1 July 2017, the SIA was created as a departmental agency of SSC. The group accounts forecasted in Financial Statements included the SIA.



# Non-departmental Schedules

(for the year ended 30 June 2017)

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

## Schedule of Non-departmental Expenses

for the year ended 30 June 2017

2016 Actual \$000		2017 Actual \$000	2017 Budget \$000
12,518	Remuneration and related employment costs of chief executives	13,881	13,900
	<b>Consists of</b>		
12,448	Remuneration and leave costs	13,720	12,650
70	Training and development	136	1,250
-	- Relocation costs	25	-
-	- Settlement of Legal liabilities	-	7
297	Open Government Partnership	200	240
130	Panel Costs Associated with Government Inquiries into Matters	-	-
12	GST Input expense	55	-
12,957	Total non-departmental expenses	14,136	14,147

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 2017.

## Schedule of Non-departmental Revenue and Receipts

for the year ended 30 June 2017

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

2016 Actual \$000		2017 Actual \$000	2017 Budget \$000
12,710	Reimbursement of chief executives' remuneration	12,347	13,703
12,710	Total non-departmental revenue	12,347	13,703

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 2017.

## Schedule of Non-departmental Assets

as at 30 June 2017

2016 Actual \$000		2017 Actual \$000	2017 Budget \$000
9,452	Cash	7,062	8,116
159	Prepayment	109	-
-	Debtors and other receivables	75	-
9,611	Total non-departmental assets	7,246	8,116

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 2017.

## Schedule of Non-departmental Liabilities

as at 30 June 2017

2016 Actual \$000		2017 Actual \$000	2017 Budget \$000
163	<b>Creditors and other payables</b>	187	330
	<b>Current liabilities – employee entitlements</b>		
1,347	Performance pay	1,809	540
29	Salaries and wages	163	400
622	Annual leave	516	530
1,998	Total current liabilities – employee entitlements	2,488	1,470
	<b>Long-term liabilities</b>		
-	Retirement leave	578	265
1,998	Total current and long-term provision for employee entitlements	3,066	1,735
2,161	Total non-departmental liabilities	3,253	2,065

## Schedule of Non-departmental Commitments

as at 30 June 2017

There are no non-departmental commitments as at 30 June 2017 (2016: Nil).

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

as at 30 June 2017

There are no non-departmental contingent liabilities and contingent assets as at 30 June 2017 (2016: Nil).

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 2017.

# List of Acronyms

<b>BASS</b>	the Benchmarking Administration and Support Services report
<b>BEFU</b>	Budget Economic and Fiscal Update
<b>BPS</b>	Better Public Services
<b>CASS</b>	Central Agencies Shared Services
<b>CI</b>	Continuous Improvement
<b>CPI</b>	Consumer Price Index
<b>DPMC</b>	Department of the Prime Minister and Cabinet
<b>GCIO</b>	Government Chief Information Officer
<b>GPG</b>	Government Property Group
<b>LDC</b>	the Leadership Development Centre
<b>NZ GAAP</b>	New Zealand generally accepted accounting practice
<b>NZBN</b>	New Zealand Business Number
<b>OGP</b>	Open Government Partnership
<b>PBE</b>	Public Benefit Entity
<b>PIF</b>	Performance Improvement Framework
<b>SIA</b>	Social Investment Agency
<b>SQS</b>	Kiwis Count Service Quality Score
<b>SSC</b>	State Services Commission