# Part 2

## Annual Report of the State Services Commission

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Provided under the Public Finance Act 1989
for the year ended 30 June 2011

## Section 1: Chief Executive's overview

The State Services Commission (SSC) is the Government's lead advisor on New Zealand's public management system and works with government agencies to support the delivery of quality services to New Zealanders.

The State Services Commissioner's statutory roles include appointing and managing Public Service chief executives, reviewing the performance of Public Service departments, providing guidance on integrity and conduct to State servants and reviewing the machinery of government across all areas of government.

### Responding to tragedy

One of the biggest challenges the Public Service faced this year was the earthquakes in Canterbury. SSC's role in the Government's response was to support the rapid establishment of the Canterbury Earthquake Recovery Authority and to appoint both an interim Chief Executive and then a permanent leader for the agency. SSC staff worked extremely hard to meet the Government's expectations around both these challenges and it is a credit to SSC staff that these deadlines were met and the agency was established and operational within the timeframes Ministers and the public expected.

### Focusing on system performance

The Performance Improvement Framework reviews carried out to date are published, along with the initial system analysis, on SSC's website. In addition to the system findings, SSC has reviewed the process itself and identified areas where we can make changes to ensure it continues to assist chief executives and agencies to improve their performance.

SSC's new business strategy, which I cover in more detail in the following pages, is also designed to ensure we have more of a system focus and are working more with agency sector groups to ensure there are bigger and more coordinated lifts in performance.

## Doing more with less

The SSC has continued to refine its operating model and is concentrating on those core activities that can make a real difference to the performance of the State Services in a challenging fiscal environment. This approach is reflected in the departure of the public sector training organisation, Learning State. Learning State now has more opportunities to deliver quality training outcomes to public servants through its new standing as an independent industry training organisation, while the SSC is able to focus its resources more clearly on those areas where we can make a real difference to agency and chief executive performance.

The SSC is increasingly using external capability and relationships with other agencies, in particular with the other central agencies, to achieve more with fewer resources. Some examples include; using external and credible Performance Improvement Framework reviewers; establishing mentoring relationships with experienced leaders for Public Service chief executives; and establishing cross-agency project teams for critical projects.

## Improving the way we work

With a shift to a more system-oriented focus, SSC has developed and been implementing a new business strategy. The strategy focuses on five key areas of SSC's work:

- setting the strategic direction for the system
- building system capability
- driving a step change in agency and sector performance
- trust and integrity of the system
- making the necessary changes to SSC's operating model to effectively support this programme of system change.

In 2009/2010 the SSC began investigating options for shared services and outsourcing of corporate functions with the Treasury and the Department of the Prime Minister and Cabinet; this work will continue over the next two years to ensure SSC has effective, fit for purpose and cost-effective services to support its delivery work.

This year SSC will continue to engage with Ministers, agencies and their chief executives on the issues critical to improving system performance and continue to work across the system to ensure New Zealanders experience the very highest levels of service delivery.

**Iain Rennie** | State Services Commissioner

# Section 2: Performance

## Reporting on operating intentions

This section of the Annual Report sets out the State Services Commission's (SSC's) progress in achieving the objectives set out in the Operating Intentions section of SSC's *Statement of Intent 2010–2015*.

The SSC SOI sets out the operating intentions that contribute to the achievement of its outcomes:

- public receive better services
- State Services are resilient and fit for purpose.

The outcomes support SSC's purpose statement: 'We provide leadership to the State Services so that government works better for New Zealanders'.

The outcomes framework below illustrates how SSC's activities, framed as interventions, collectively have an impact on the performance of chief executives, agencies, sectors and the public management system to contribute to this outcome.

| | | | |
|---|---|---|---|
| **The Government's Strategic Direction** | **Delivering better, smarter public services for less** | | |
| **SSC's Purpose Statement** | **We provide leadership to the State Services so that government works better for New Zealanders** | | |
| **SSC's Outcomes** | **Outcome 1:** **The public receive better services**<br>**Outcome 2:** **The State Services are resilient and fit for purpose** | | |
| **Objectives/Impacts**<br>**What are we seeking to achieve?** | **STATE SERVICES COMMISSION** | | |
| | **Objective 1:**<br>**State Services that are well led**<br>Why: High quality leadership is a driver of improved performance and innovation within and between agencies, particularly in challenging times | **Objective 2:**<br>**State Services that are trusted by the public**<br>Why: High levels of trust enable State servants to work effectively with the public. Institutional integrity supports improved economic performance | **Objective 3:**<br>**A public management system that delivers improving services at a lower cost**<br>Why: The State Services operate in a fiscally constrained environment. System design and operation must evolve and improve over time to meet changing needs |
| **How will we demonstrate success in achieving this?** | Integrity and Conduct Survey<br>Impact evaluations of significant advice (Developing measure) | Public Service wage growth | Kiwis Count – Overall satisfaction with public services is improved by 2 points (Shared with central agencies)<br>Public sector expenditure is consistent with the Government's fiscal strategy (Shared with central agencies) |
| **What will we do to achieve it?** | Across the Public Service:<br>A Appoint chief executives<br>B Manage the employment relationship with chief executives including setting expectations, providing support, assessing performance and where necessary holding chief executives to account<br>C Support the development of current and future senior leaders<br>Across the State Services:<br>D Provide advice and support on effective leadership of Crown entities and other agencies | Across the State Services:<br>E Set standards of integrity and conduct<br>F Provide advice to agencies and individual State servants including chief executives<br>G Investigate issues regarding the integrity and conduct of State servants<br>H Assess the performance of agencies in dealing with integrity and conduct matters | Across the State Services:<br>I Advise Ministers and agencies on pay and employment conditions and employment relations<br>J Advise Ministers and agencies on system design, agency collaboration and governance arrangements<br>K Set standards and expectations on key aspects of agency, sector and system performance<br>L Assess the effectiveness of agency, sector and system performance<br>M Advise Ministers and agencies on achieving agency, sector and system performance improvement |
| **SSC's Output Classes** | **Output Class 1:** Public Management System<br>**Output Class 2:** Chief Executive and Agency Performance Management | | |

## Objective 1: State Services that are well led

High quality leadership is important to drive improved performance and productivity of the State Services, particularly in difficult financial times. SSC has an important role for ensuring sound leadership in the Public Service through the effective recruitment, development and performance management of Public Service chief executives. SSC also identifies and fosters emerging leaders, through and with agencies.

The outputs delivered to achieve Objective 1 include:

- the appointment of Public Service chief executives
- managing the employment relationship with chief executives
- supporting the development of current and future senior leaders
- providing advice and support on effective leadership of Crown entities and other agencies.

### Appoint Public Service chief executives

A well led State Services starts with the appointment of high-calibre chief executives, and continues with strong mechanisms to induct, develop and support chief executives through their tenure.

In 2010/11 the State Services Commissioner appointed four new chief executives and two current chief executives were appointed to new positions. The appointments demonstrate the depth of the talent searches undertaken, with two of the new appointees coming from within and two from outside the New Zealand Public Service (United Kingdom Public Service and New Zealand private sector).

SSC's support of the new chief executives is paramount to their successful integration into their new roles, agencies, sectors, and the wider Public Service. SSC provides individually tailored induction programmes for each chief executive. The induction process is the start of developing a strong relationship with the State Services Commissioner and Deputy Commissioner – going beyond the duties of a good employer, to that of a trusted advisor.

Recognition of the quality of SSC's appointment process is demonstrated through the continued confidence of Ministers using SSC to undertake appointments on their behalf, for appointments SSC is not responsible for.

## Public Service chief executive appointments, reappointments and departures

This section records the changes in Public Service chief executive incumbents for the 2010/11 year.

**Public Service chief executive appointments, reappointments and departures**[67]

During 2010/2011 the following chief executives were appointed under section 35 of the State Sector Act 1988 and commenced in their roles:

| | |
|---|---|
| **Mr Murray Bain** | Ministry of Science and Innovation |
| **Mr Gabriel Makhlouf** | The Treasury |
| **Mr Wayne McNee** | Ministry of Agriculture and Forestry |
| **Ms Rowena Phair** | Ministry of Women's Affairs |
| **Mr Raymond Smith** | Department of Corrections |
| **Mr Roger Sutton** | Canterbury Earthquake Recovery Authority |
| **Dr Kevin Woods** | Ministry of Health |

During 2010/2011 the following chief executives' reappointments took effect under section 36 of the State Sector Act 1988:

| | |
|---|---|
| **Mr John McKinnon** | Ministry of Defence |
| **Mr Robert Russell** | Inland Revenue Department |
| **Mr John Whitehead**[67] | The Treasury |

The following chief executives left their positions during the 2010/2011 year:

| | | |
|---|---|---|
| **Ms Penny Carnaby** | National Library of New Zealand | *Term ended* |
| **Ms Belinda Clark** | Ministry of Justice | *Resigned* |
| **Mr Martyn Dunne** | New Zealand Customs Service | *Resigned* |
| **Mr Barry Matthews** | Department of Corrections | *Term ended* |
| **Mr Stephen McKernan** | Ministry of Health | *Term ended* |
| **Mr Wayne McNee** | Ministry of Fisheries | *Resigned*[68] |
| **Ms Karen Sewell** | Ministry of Education | *Term ended* |
| **Mr Murray Sherwin** | Ministry of Agriculture and Forestry | *Term ended* |
| **Mr John Whitehead** | The Treasury | *Term ended* |

### Manage the employment relationship with chief executives

The State Services Commissioner's expectations for each chief executive are developed in consultation with Ministers. Deputy Commissioners meet with chief executives at least every six weeks to discuss performance, with formal performance reviews conducted annually with the State Services Commissioner.

The provision of professional development is an integral part of the State Services Commissioner's responsibilities as the employer of Public Service chief executives, and reflects the importance government places on ensuring those in chief executive roles are supported to deliver excellent personal and agency performance.

67 Mr Whitehead was reappointed from 1 April 2011 to 31 May 2011.

68 Appointed Chief Executive of the Ministry of Agriculture and Forestry.

The State Services Commissioner reviews chief executive performance annually. Performance is measured against agreed expectations. To form a judgement the State Services Commissioner considers and reviews:

- feedback from Ministers, stakeholders and staff
- achievement against performance expectations
- major issues/events during the past year.

### Support the development of current and future senior leaders

During 2010/11 SSC continued to work on identifying a talent pool of senior leaders within the Public Service who have the ability to move to a chief executive or large tier two role. This process also identifies upcoming roles that could be used for development opportunities.

SSC works with providers to assist with senior leadership development. SSC sets the strategy, coaches and supports chief executives, holds chief executives to account against their annual expectations on this leadership development and succession planning.

The Leadership Development Centre and other providers support the implementation of leadership development and talent management initiatives in agencies. This includes providing training, locating development opportunities and brokering mentoring relationships.

### Provide advice and support on effective leadership of Crown entities and other agencies

SSC provides advice to Ministers on the performance of certain Crown entities, and on the fees of Crown entity board members and remuneration of chief executives.

Advice was provided on 76 Crown entity chief executive remuneration reviews, 14 Crown entity chief executive appointments and 52 exceptional fee proposals. SSC's advice and decisions about remuneration and fees have been clear about the expectation of restraint.

A review of Crown entity reporting to joint Ministers (Finance and State Services) is being conducted. This will result in more timely and effective ways of reporting on the performance of and risks associated with Crown entities, including a review of monitoring department functions and capabilities.

SSC continues to support monitoring departments with advice and guidance, and to convene a six-monthly forum for Crown entity chairs.

## Objective 2: State Services that are trusted by the public

As noted earlier in Part 1: Report of the State Services Commissioner, New Zealand has the one of the most corruption-free public sectors in the world. A trusted State Services is critical for State servants to work effectively with the public. Institutional integrity, a corruption-free bureaucracy and high-quality government institutions are a platform for business investment and economic growth.

SSC has an ongoing role in contributing to these high ethical standards and behaviours by ensuring that standards of integrity and conduct are in place and actively promoted, and that where potential issues have occurred, they are identified and managed appropriately.

The outputs delivered to achieve Objective 2 include:

- setting standards of integrity and conduct
- providing advice to agencies and individual State servants including chief executives
- investigating issues regarding the integrity and conduct of State servants
- assessing the performance of agencies in dealing with integrity and conduct matters.

### Medium term measures of success: Trustworthiness of the State Services – Integrity and Conduct Survey

The State Services Integrity and Conduct Survey (the survey) administered by SSC measures the trustworthiness of State servants by asking State Services employees about integrity-related behaviour they see in their agencies. It is a reflection of how State servants view each other's behaviour in a work setting and plays an important role in monitoring levels of integrity and conduct in the State Services. The survey results provide aggregated statistics for the State Services as a whole and for different agency types.

The first survey was conducted in 2007. Results were largely positive but also identified several areas for improvement. The proportion of State servants who reported witnessing misconduct by their colleagues in the 12 months before the survey was 33%.

The 2010 survey was carried out in March/April 2010, and published in August 2010. The 2010 findings were largely similar to the 2007 findings. However, where there were changes, they were positive, suggesting both a deepening awareness of integrity expectations across the State Services and indicating a strengthening culture of integrity and trustworthiness. Corrupt behaviour remains at very low levels, with most misconduct being 'anti-social' in nature. Twenty nine percent of State servants reported witnessing misconduct in the 12 months prior to the survey. While this figure is not a statistically significant change from 2007 (33%), it is heading in the right direction.

### Set standards of integrity and conduct

SSC continued to promote the code of conduct for the State Services and to assist with its implementation and interpretation, including responding to 'help desk' enquiries and producing advice and guidance.

In 2010/11 the State Services Code of Conduct has been formally applied to seven new departments and Crown entities and induction sessions for newly-appointed departmental chief executives include a presentation on the code and related integrity expectations of senior management.

In addition, SSC, together with the Department of the Prime Minister and Cabinet and the Treasury, is responsible for issuing several pieces of advice to State servants on the general election. SSC's core interest is in safeguarding the political neutrality of the State Services over the election period (three months before the election). To achieve this, SSC prepared and issued two key pieces of advice in May 2011:

- "State servants, political parties and elections: guidance for State servants in the election period", which deals with election-related issues in terms of both State Services agencies and their operations and relationships and the political roles and responsibilities of State servants as individuals. Topics covered include election advertising in the election period, State servants standing for Parliament, and briefings for incoming Ministers.
- "Board members standing for Parliament", which advises State sector board members of the Government's expectations that conflicts of interest must be avoided if members are standing for Parliament.

### Provide advice to agencies and individual State servants including chief executives

SSC provided responses to requests for advice and guidance on integrity matters as promptly and accurately as possible.

In the six months to 30 June 2011, SSC dealt with 95 requests, of varying levels of complexity, for information and advice relating to Code of Conduct matters. There has been no successful challenge to SSC advice and a considerable number of favourable comments were received from requestors.

A work programme to actively promote the Protected Disclosures Act 2000 will be considered in 2011/12.

### Investigate issues regarding the integrity and conduct of State servants

SSC undertook two investigations into integrity and conduct issues culminating in reports on:

- Investigation into the Possible Unauthorised Disclosure of Information from a Cabinet Paper on 'Lifting the Performance and Service Delivery of State Sector Agencies'
- Inquiry into Possible Unauthorised Disclosure of Information from the Cabinet Paper on the 'Stocktake of Schedule 4 of the Crown Minerals Act 1991: Release of Discussion Paper'.

The reports related to the investigations into who might have made unauthorised disclosures of sensitive government information. The reports made a series of recommendations on how to protect and manage the flow of sensitive information. Recommendations included introducing a two step process for machinery of government proposals, clearer definition of Cabinet paper classifications, departments having policies on the handling of Cabinet papers and appropriate training to ensure staff are aware of and follow the policies, increased induction training for ministerial advisers and making better use of information communications technology (ICT) systems. Cabinet has recently approved the development of a new electronic system called CABNET, to be implemented by the Cabinet Office, which will enable much closer control of who has accessed, edited and copied Cabinet papers.

### Assess the performance of agencies in dealing with integrity and conduct matters

When a Public Service chief executive is appointed they are provided with the Commissioner's expectations on integrity and conduct matters. Chief executives are expected to demonstrate the highest level of personal integrity in every aspect of their role and have responsibility to lead the Public Service by example in professional and personal ethics. The State Services Commissioner assesses chief executives' adherence to these expectations as part of the annual performance review, where appropriate.

In 2010 the Commissioner introduced a disclosure regime for chief executive expenses, gifts and hospitality. Chief executives of Public Service departments and statutory Crown entities are expected to disclose their expenses every six months and make this information publicly available on their agency's website and data.govt.nz.

The Commissioner's purpose for introducing this disclosure regime is to show New Zealanders that public funds are being spent judiciously and that senior officials are modelling appropriate behaviours. This requirement is in line with international practice and locally, Ministers, MPs and mayors are all subject to disclosure provisions.

## Objective 3: A public management system that delivers improving services at a lower cost

The State Services operate in a dynamic, and fiscally constrained, operating environment. SSC has a role in ensuring there is the right configuration of agencies working together as a system, delivering the services they are best equipped for, minimising duplication of functions and responding to Ministerial priorities. SSC assesses the performance of both the system and agencies to advise Ministers and agencies on performance improvement, including whole-of-government approaches to fiscal constraint and productivity improvements and approaches, for example pay and employment relations.

SSC's Objective 3: A public management system that delivers improving services at a lower cost, contributed towards the central agency shared objective: State Sector Performance is improved.

The outputs to achieve Objective 3 include:

- advising Ministers and agencies on pay and employment conditions and employment relations
- advising Ministers and agencies on system design, agency collaboration and governance arrangements
- setting standards and expectations on key aspects of agency, sector and system performance
- assessing the effectiveness of agency, sector and system performance
- advising Ministers and agencies on achieving sector and system performance improvement.

## Advise Ministers and agencies on pay and employment conditions and employment relations.

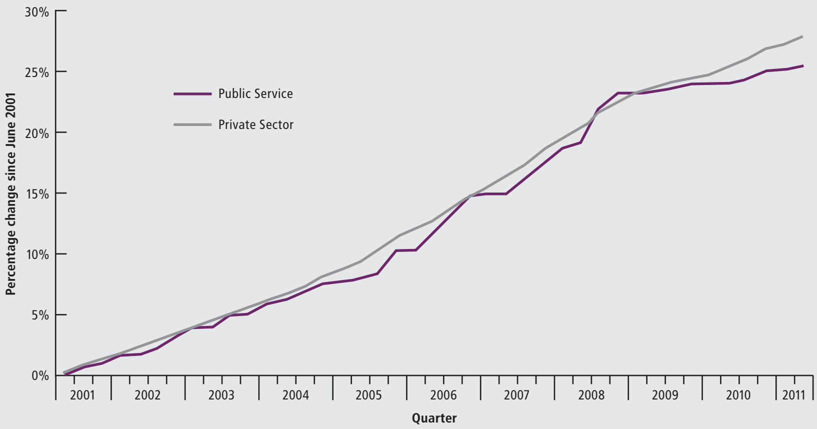
Thirty-six State sector agencies were involved in collective bargaining in 2010/11. SSC has a role to ensure that bargaining is consistent with the Government's Expectations for Pay and Employment Conditions in the State sector. All Bargaining Strategies and Terms of Settlement were approved/endorsed by SSC.

## Medium-term measures of success: Public Service Wage Growth

SSC uses the Labour Cost Index (LCI) published by Statistics New Zealand as an indicator of its success in moderating Public Service wage growth over time. The LCI tracks the salary and wage growth of industries in New Zealand and enables SSC to determine if wage growth in the Public Service is appropriate.

### Salary movements in the Public Service and private sector

**Labour Cost Index – Wages & Salaries**




SSC measures success in this area by growth rate in Public Service wages remaining the same or less than the growth rate in the private sector.

LCI growth in the Public Service for the year ending 30 June 2011 was 1.1%. This compares with growth in the private sector of 2.0% for the same period. This is consistent with last year, and is indicative that Public Service agencies are responding appropriately to the need to show restraint in wage movements.

## Advise Ministers and agencies on system design, agency collaboration and governance arrangements

Advice was provided to Ministers on options for amalgamations, transfers and cessation of functions undertaken by State Services agencies, to reduce costs, improve efficiencies and improve resilience. In 2010/11 advice was provided on proposed structural changes to several Crown entities, a number of sectoral reforms (eg Defence review, Legal Aid system, ACC reforms) and on the merger of the Ministry of Fisheries with the Ministry of Agriculture and Forestry on 1 July 2011.

Legislative and governance advice was provided to assist with the following amalgamations, which occurred on 1 February 2011:

- the National Library, Archives New Zealand and the Department of Internal Affairs
- the Ministry of Research, Science and Technology (RS&T) and the Foundation for RS&T into the new Ministry of Science and Innovation.

SSC provided initial reports on whether the savings targets for the above amalgamations, and that of the NZ Food Safety Authority and the Ministry of Agriculture and Forestry (which occurred on 1 July 2010) were being met.

SSC also provided advice on the appropriate organisational form to deliver the Government's Canterbury earthquakes response. This resulted in the establishment of the Canterbury Earthquake Recovery Authority, a Public Service department.

## Set standards and expectations on key aspects of agency, sector and system performance

### Crown entities

SSC is not directly involved in Crown entity nominations or appointments; However SSC contributes to induction programmes for board members by invitation. Crown entities and monitoring departments can access substantial guidance on board member induction good practice on SSC's website.

SSC and Cabinet Office guidance is to be used by monitoring departments in the support they provide for Ministers and Crown entity boards.

SSC intends to identify ways of ensuring that those involved in board member appointment processes are better aware of the advice and guidance available on SSC's website.

### Common Measurements Tool

As at 30 June 2011, 70% of service delivery agencies were signed up to use the Common Measurement Tool (CMT). These included the Ministry for the Environment, Ministry of Foreign Affairs and Trade and the Department of Conservation. Agencies report that they see the value of having a well tested methodology adapted for New Zealand use that ensures they are measuring what's important to New Zealanders and allows for benchmarking with their peers.

Kiwis Count and the CMT are increasingly gaining traction amongst agencies, both in terms of the numbers using them and their impact on service delivery improvements. A number of agencies now report on their results in their accountability documents and include performance indicators in their Statements of Intent.

### Performance Improvement Framework

The Performance Improvement Framework (PIF) is a tool to evaluate organisational performance and to stimulate performance improvement. It also enables a view of performance of the system as a whole.

SSC has identified opportunities to improve the efficiency and effectiveness of the PIF processes and the need to lift the level of aspiration for improvement expectations of chief executives resulting from a review.

### Review of the Performance Improvement Framework

SSC provides a significant amount of advice to chief executives of the State sector to improve performance of their agencies. One of the major vehicles for the provision of that advice is the Performance Improvement Framework. In 2010/11 SSC undertook a review of the PIF processes to improve the impact of advice to identify more efficient ways of delivering the PIF.

A priority area for improvement was ensuring consistency and comparability between reviews (important for benchmarking, identifying best practice and obtaining a whole-of-system view).

The outcome of the review of the PIF was a new process, with seven significant shifts:

- reviewing agencies against their cluster contribution and stated impact
- working principally with willing chief executives and chairs
- shifting the process cost to where value is the highest
- ensuring peer review and calibration are done in a way, and at a time, when it offers most value
- shifting the ownership for the judgements and ratings from the central agency chief executives to the lead reviewers
- allowing lead reviewers to advise on improvement but ensure the response from chief executives or chairs is strategic and not a compliance obligation
- developing a greater sense of what excellence looks like.

More specifically, the review has enabled the development of a set of high-level rating guidelines and comparison tables that are updated as new reviews are completed. A lead reviewer peer review process has also been introduced.

The completion of a significant number of reviews has also enabled SSC to point agencies to examples of best practice performance in like agencies. It has also led to the identification of areas for improvement that may require a system-wide response.

Measures have been identified to track whether the new PIF product is achieving improved value.

## Information communications and technology (ICT) standards

In October 2010 Cabinet approved the transfer of Government Chief Information Officer and related functions from SSC to the Department of Internal Affairs. The transfer occurred in February 2011, which included the transfer of the information communications and technology standards.

## Assess the effectiveness of agency, sector and system performance

SSC uses a number of tools to measure and understand how well agencies are performing. This informs advice to Ministers on the effectiveness of agency, sector and system performance and helps senior leaders drive performance improvement across the State Services.

### Performance Improvement Framework

Eight reviews were undertaken in 2010/11 (the ministries of Education, Social Development, Women's Affairs and Pacific Island Affairs, the Treasury, Inland Revenue and two Crown entities – New Zealand Transport Agency and New Zealand Trade and Enterprise).

### Common Measurements Tool (CMT)

All chief executive and agency performance assessments in this period included input from the CMT (see page 65). Of the PIF reviews undertaken in 2010/11, three agencies (Ministry of Education, Ministry of Social Development and Inland Revenue Department) had participated in the CMT and the information obtained formed part of the evidence base for those reviews.

### Human Resource Capability survey and Capping

The Human Resource Capability (HRC) survey and capping update survey collected staffing information from Public Service departments and selected Crown entities at 30 June 2010 and 31 December 2010. Information from both surveys was published on the SSC website.

HRC data was reported back to all Public Service departments and formed part of the evidence base for PIF reviews and chief executive performance reviews. The HRC public report provided measures of diversity in senior management and outlined trends over the past five years.

## Advise Ministers and agencies on achieving sector and system performance improvement

### Gateway

An inaugural Lessons Learned[69] report was produced, which highlighted 12 themes that have been distilled from 53 Gateway reviews. This report is aimed at enabling the State sector to benefit from the learnings of Gateway reviews. Without breaching the confidentiality of individual reviews, the Lessons Learned report presents some of the most common and widely applicable recommendations.

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69 www.ssc.govt.nz/gateway-lessons-learned-july11

### Kiwis Count

SSC undertook targeted research into the findings of the 2009 Kiwis Count survey to identify and analyse system issues. A number of reports were published, including:

- 'How New Zealanders access public services'
- 'How different groups of New Zealanders experience public services'
- 'The service experience of New Zealanders with disabilities'
- 'Drivers of satisfaction for public services online'.

Specific sector issues were targeted through analysis of Kiwis Count data to support the ServiceLink/Service Transformation programme and the Office of Ethnic Affairs.

The Kiwis Count data was released to enable individual agencies to produce their own analysis to target issues directly.

### Performance Improvement Framework

All Performance Improvement Framework reviews result in a public report. The report includes areas of good practice worthy of adoption by other agencies.

Two systems analyses were undertaken during the reporting period (in September 2010 and in May 2011) in conjunction with the publication of the two tranches of reports. The first analysis noted that with four formal reports and two pilot reports completed it was too early to draw system-level findings. However, the second system analysis provided a number of findings that have been reported in the State Sector System Performance section of this Annual Report (see page 66).

## Central agencies' shared objective: State sector performance is improved

The central agencies (the State Services Commission, Department of the Prime Minister and Cabinet (DPMC) and the Treasury) have a shared objective: State sector performance is improved. This recognises that the central agencies are jointly responsible for leading performance improvements in the State sector, albeit with distinctive roles and perspectives. The three central agencies are committed to ensuring that better services are delivered to New Zealanders, that the State sector's performance is improving and that State sector expenditure is more disciplined.

The central agencies work individually and collaboratively across agencies, sectors and the public management system. The central agencies' contributions and outputs to deliver on the shared objective are outlined below:

| Central Agency Shared Objective | State sector performance is improved | | |
|---|---|---|---|
| The role of each central agency | STATE SERVICES COMMISSION | THE TREASURY | DEPARTMENT OF THE PRIME MINISTER AND CABINET |
| | The State Services Commission appoints and manages the performance of chief executives in the Public Service. It provides leadership on the capability of agencies, sectors and systems; sets standards; and ensures that state servants focus on delivering the Government's priorities | The Treasury monitors and manages the financial affairs of the government and provides economic and fiscal policy advice. The Treasury also provides advice on and manages the budget process. It provides insight into the efficiency and effectiveness of government agencies and their interventions | The Department of the Prime Minister and Cabinet supports the process of collective decision-making, conveys Cabinet's decisions to the relevant Ministers and officials, and ensures that the Cabinet receives well-conceived and coordinated advice. The department also works to ensure that the State sector responds to the Government's priorities and conveys the Government's priorities to officials |
| What are we seeking to achieve? | A public management system that delivers improving services at a lower cost<br>Why: The State Services operate in a fiscally constrained environment. System design and operation must evolve and improve over time to meet changing needs | A State sector that maximises the contribution of government interventions to the Government's economic and social priorities<br>Why: To enhance the achievement of the Government's economic and social objectives, services and interventions must be well targeted, value for money and consistent with the Government's fiscal strategy | The State sector responds to the Government's priorities to improve performance<br>Why: To ensure that officials respond to Cabinet direction in improving the quality of services within existing baselines – building smarter, better public services for less cost – and that the policy process supports that goal |
| How will we demonstrate success in achieving this? | Our shared measures of success:<br>• Overall satisfaction with public services is improved by 2 points – demonstrated in the biennial Kiwis Count 2011 measure<br>• Public sector expenditure is consistent with the Government's fiscal strategy | | |
| What will we do to achieve it? | Across the State Services, the State Services Commission will:<br>• Advise Ministers and agencies on pay and employment conditions and employment relations<br>• Advise ministers and agencies on system design, agency collaboration and governance arrangements<br>• Set standards and expectations on key aspects of agency, sector and system performance<br>• Assess the effectiveness of agency, sector and system performance<br>• Advise Ministers and agencies on achieving agency, sector and system performance improvement | The Treasury will:<br>• Integrate and improve budget frameworks and tools to enable better identification of priorities and opportunities for doing things better, smarter and for less<br>• Work with departments to provide prioritisation advice and to identify opportunities to provide improvements in quality and 'more for less'<br>• Design budget and financial management systems that create incentives for continuous improvements and support the Government's fiscal strategy | The Department of the Prime Minister and Cabinet will:<br>• Ensure that State sector departments and agencies are clear about the Government's priorities<br>• Coordinate State sector departments and entities in delivering on the Government's priorities<br>• Enhance governance and management arrangements where necessary to improve delivery on the Government's priorities |
| | Specific central agency priority projects are:<br>• Providing joined up central agency support to those agencies most needing it, with the objective of lifting agency performance<br>• Rolling out the Performance Improvement Framework to the majority of Public Service departments and some large Crown entities over the next 3 to 4 years, with the objective of identifying, and following up on, actions that make a material difference to the performance of those agencies | | |

In 2010/2011, among a range of other activities, the central agencies had three critical areas they collaborated on:

### Performance Improvement Framework

The Performance Improvement Framework is a joint initiative. Central agency staff pool their knowledge of reviewed agencies and the context in which they are operating to assist lead reviewers to undertake reviews. Central agencies work together with agency staff to develop responses and to support and review the implementation of those responses. Finally, staff work together to analyse the growing body of knowledge of agency performance to identify and promote best practice and areas where a whole of system response may be required to lift performance.

### Better Public Services

The central agencies share a commitment to build better results from the public services that New Zealanders rely on. DPMC, Treasury and SSC are working together to provide Ministers with advice on the further potential for State sector reform with a view to redefining New Zealand public services for the 21st century. This work was overseen by a Ministerial Group for State sector reform established in January 2011. It was referred to in the Prime Minister's statement at the opening of Parliament and in the Deputy Prime Minister's speech to the Institute of Public Administration (IPANZ) in March. This work has continued under the governance of the Better Public Services Advisory Group which met for the first time on 25 May 2011. This work can also be referenced on the Better Public Service website: www.dpmc.govt.nz/better_public_services.

### Review of Expenditure on Policy Advice

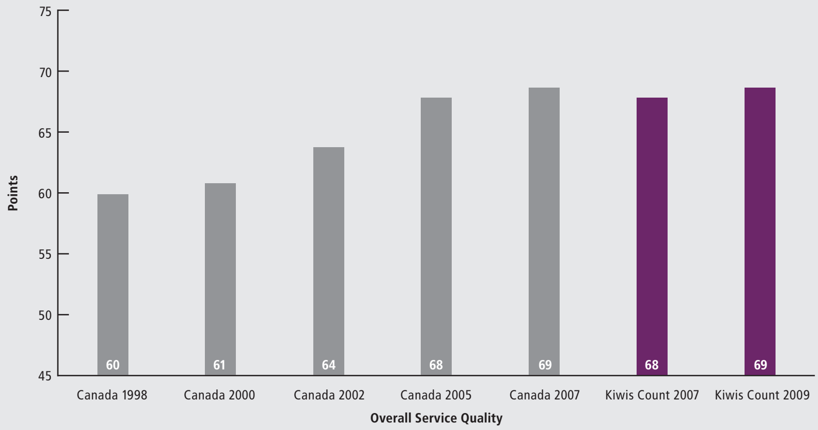
The efficiency and effectiveness of government interventions depends considerably on the design of those interventions. The expenses, management and quality of policy advice therefore matters for improving State sector performance. The Government commissioned the Review of Expenditure on Policy Advice in August 2010 to provide advice on the cost and quality of policy advice, as well as the alignment between policy expenditure and the Government's priorities. The Review's final report was provided to the Government in December 2010.
On 28 April 2011 the Government announced a suite of actions in response to the Review's recommendations. The Treasury, SSC and DPMC led the development of an implementation plan and are responsible for delivering on a number of the recommendations. Most will be completed in the 2011/12 year.

## Demonstrating Success

### Kiwis Count

The Kiwis Count[70] survey was conducted in 2007 and 2009. Further assessments of service quality will be conducted in the 2011–2014 period. In 2007, New Zealanders' overall quality score for public services was 68. In 2009, there was a small but significant improvement to 69. This improvement, in a fiscally challenging environment, is an achievement for the State Services. The results compare favourably with a similar Canadian research programme 'Citizens First'. The results show a comparable increase in satisfaction in its first two years of operation and demonstrates that our target of a further improvement in service quality is both significant and challenging.

**Overall Service Quality**



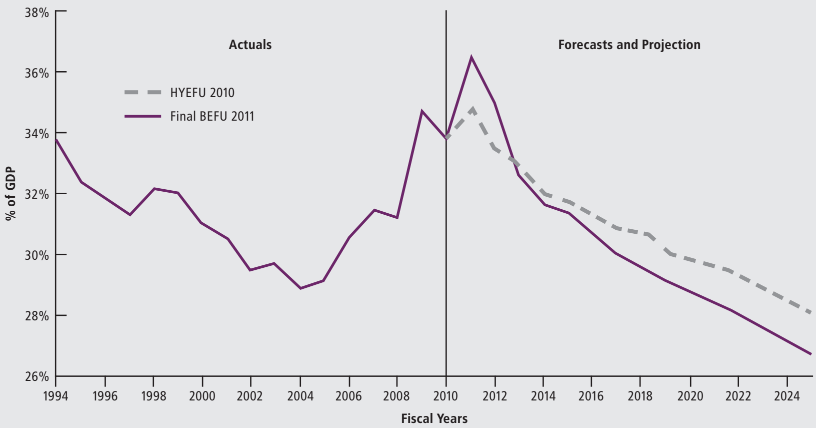

The methodology for Kiwis Count was reviewed in 2010/11 following the successful surveys in 2007 and 2009. Starting in 2011, the Kiwis Count biennial point-in-time survey will be upgraded to a continuous survey with fieldwork 50 weeks of the year and quarterly reporting on a six-month rolling average. This more flexible tool can be adapted to meet future needs and changing priorities. Results will be consistent with previous Kiwis Count surveys and Canadian benchmarks.

70 www.ssc.govt.nz/nzers-experience

## Public Sector Expenditure

One of the central agencies' measures of success regarding improved State sector performance is for Crown spending to remain consistent with the Government's fiscal and economic growth strategies. The long-term objective is for core Crown expenses to ease to around 30% of gross domestic product (GDP). Our intention is to support a return to surplus by controlling the growth in operating expenses so that core Crown expenses fall as a percentage of GDP to around 31% of GDP by June 2015 and current forecasts indicate that we are on track to meet this target.

**Core Crown Expenses as a percentage of GDP**




Core Crown expenses were 33.8% of GDP at June 2010 and forecast to be 35.2% at June 2011. While core Crown expenses increased over this time as a result of the Canterbury earthquakes, they are forecast to fall to 31.3% of GDP by June 2015. This decrease reflects the cessation of 'one-off' expenditure such as costs associated with the Canterbury earthquakes, provision for weathertight homes payments and the Deposit Guarantee Scheme, as well as a decrease in the amount of new spending forecast over this time. The current forecast of core Crown expenses as a proportion of GDP in 2015 is lower than the forecast contained in the *Half Year Economic and Fiscal Update (HYEFU)*. This is primarily as a result of the 2010/11 net savings package and a reduction in new spending in the next two Budgets (source: *Budget Economic and Fiscal Update 2011 (BEFU 2011))*.

# Organisational Health and Capability

## Our Organisation

To successfully provide leadership to the State Services, SSC has to be able to close the gap between what is being asked of us and what we can deliver. Our environment has changed and Ministers are demanding change from the State sector. To ensure SSC helps the State sector deliver in this new environment we have comprehensively reviewed our business strategy and operating model and have identified four key shifts that will underpin the way we operate in the future:

| From | To |
|---|---|
| OUTPUTS | RESULTS |
| REACTIVE | PROACTIVE |
| AGENCY | SECTOR AND SYSTEM |
| BENIGN AND TACTICAL | CONFIDENT, STRATEGIC AND TRANSPARENT LEADERSHIP OF THE SYSTEM |

The new business strategy and operating model will enable SSC to support the delivery of the results that really matter, be proactive in our leadership of the system, support the system to manage through change swiftly and successfully, and be flexible in our ability to deal with a challenging environment and changing ministerial priorities.

To drive change SSC must ensure that the appropriate people, processes and infrastructure are in place to support achievement of our new business strategy.

## Our People

SSC's business strategy establishes a shift in emphasis from providing operational services and technical guidance to exercising stronger leadership around delivering better performance. Work is now underway to ensure that SSC has the capability to achieve this change, which involves:

- ensuring our staff have the skill levels and experience to be persuasive influencers with Ministers and State Services leaders
- making sure that SSC's way of working is characterised by a focus on the big strategic issues facing the system and, working in collaboration with others, a relentless pursuit of innovative solutions
- empowering our staff to make the greatest contribution possible through a work environment characterised by a shared view of our direction, clarity of accountabilities and business systems that support excellent performance.

SSC's People Strategy focuses on development of managerial capability, addressed though ongoing participation in SSC's leadership development programme. SSC's senior leadership team – as individuals and as a cohort – are acting to ensure they have a deliberate, constructive impact on the organisation's culture and that they visibly model the core behaviours of respect, innovation and credibility in their interactions with others. Work on the business strategy supports the development of a culture of personal leadership and accountability.

Since the second half of 2010, SSC's deliberately conservative approach to the management of internal vacancies has provided scope to extend our current range of skill sets. For example, the establishment of the State Sector Results team brings disciplined strategic policy thinking into SSC and the introduction of programme management capability supports better ongoing management of significant project work.

Wider organisation redesign options have also been consulted internally to support implementation of the business strategy. Implementation of the final organisation redesign decisions will be undertaken in 2011/12.

## Our processes

The State Services Commission has investigated options for shared services and outsourcing of corporate functions in the central agencies and more broadly across the Public Service, in particular drawing on the Better Administrative and Support Services (BASS) programme to identify opportunities to achieve efficiencies.

In particular, SSC is continuing to investigate options for a single model of supply across the three central agencies through the Central Agency Shared Services Project. The aim is to improve performance and effectiveness through better coverage of specialist roles and by cutting duplication and waste so we are doing more for less.

During 2010/11, we received the first benchmarking report from the BASS programme. The report identified that, overall, SSC compares favourably in the provision of its support services with other similar agencies in its cohort and with the general BASS average (see table below). We will use benchmarks from annual BASS assessments to inform and direct further improvements in corporate services.

| Initial baseline measures | SSC | NZ Peer Group (median) | NZ Full Cohort (median) |
|---|---|---|---|
| Total amount of running costs directed at administrative and support services functions. | 11.92% | 15.64% | 11.46% |

## Infrastructure

High quality infrastructure is critical to supporting our people to deliver on our work programme.

The results of the BASS process and the fact that our headcount has decreased considerably in the last five years prompted a review of our accommodation needs. As a result, SSC is due to move to new fit-for-purpose and cost-effective premises in early 2012.

As part of the Central Agency Shared Services Project, SSC, the Treasury and the Department of the Prime Minister and Cabinet are progressing the development of common information technology infrastructure and common finance systems. Delivery of these integrated systems is expected to progress across 2011/12.

## Demonstrating our success

### Employee engagement

The annual engagement survey, originally scheduled for August 2011, has been deferred to better align with the SSC business strategy implementation timeframe. However, SSC is committed to building staff engagement as a means to ensure that we are well placed to take a key leadership role in addressing the challenges and opportunities facing the State Services.

While SSC is unlikely to meet the stretch target of staff engagement reaching the 75th percentile of the Gallup Q12 Employee Engagement Survey in 2011, our focus on developing our internal leadership and management capability and our consultative approach to the development of the SSC business strategy demonstrates our resolve to improve staff satisfaction.

SSC has established a staff reference group to support development and implementation of our new business strategy and operating model. The establishment of this group demonstrates our commitment to building engagement by ensuring close and active involvement of committed staff in important decisions.

SSC will continue to measure and report staff engagement levels through both formal (survey) and informal means.

### Stakeholder survey

The 'service' we provide to our stakeholders (Ministers, chief executives and senior managers) is a direct reflection of the health and capability of SSC. We are seeking to increase the proportion of stakeholders who are satisfied with their interactions with SSC – this is a Common Measurements Tool measure that individual agencies can use to benchmark the satisfaction of their stakeholders. A stakeholder survey is due to be conducted in 2011/12.

## Equal employment opportunities and diversity

The Public Service equal employment opportunities policy asserts that equality and diversity in the Public Service workforce, as required by the State Sector Act 1988, will enable the best service to the government of the day and to New Zealanders. SSC supports the implementation of the policy both within SSC and across the State Services.

SSC continues to foster and encourage a diverse workplace and inclusive culture. We are committed to improving retention of key skills, increasing staff engagement and supporting staff to move to a culture of performance. SSC encouraged applications for vacancies from the four groups identified in the equal employment opportunities policy for the Public Service – Māori, ethnic or minority groups, women, and people with disabilities – and to appoint on merit so that, over time, the SSC's workforce better reflects diverse ethnic groups. SSC monitors its workforce by collecting data on gender and ethnicity distribution at each tier of management. When SSC identifies issues that need to be addressed, appropriate response plans are developed.

Targeted development opportunities aimed at increasing SSC's knowledge of tikanga and te reo Māori were delivered as part of SSC's organisation-wide learning and development programme.

## Managing risk

Our risk management framework includes a set of elements within SSC's management system that we use to identify and manage risk. The framework ensures risks to achieving our outcomes or delivering our outputs are mitigated appropriately.

SSC will continue to regularly refine its risk management framework, identify and manage strategic and operational risks.

### Strategic Risks

Our key risk is that we do not achieve our outcomes and therefore the system does not improve its performance and does not improve the delivery of services to New Zealanders. In addition to monitoring our performance in achieving the outcomes, to mitigate this risk we have identified four key externally focused programmes aligned to our outcomes that must be appropriately managed:

- employment relations (State sector pay and conditions)
- machinery of government and system design
- Public Service chief executive appointment and performance management processes; and
- the Performance Improvement Framework.

Alongside these work programmes, we have identified our internal capability programme as critical to the effective delivery of all SSC programmes, including those above.

To manage these programmes appropriately a Project Delivery Office has been established with risk embedded into the project methodology. A programme director has been established to maintain oversight over the implementation of the SSC business strategy and operating model.

Monitoring of these programmes is part of SSC's internal risk management programme. Their management and risk mitigation strategies are reported regularly to both the Senior Leadership Team and SSC's externally chaired Risk and Audit Committee to ensure that risks are appropriately managed, mitigations are in place and learnings developed and used.

### Operational Risks

SSC has an internal risk sub-committee that reviews operational risks across the organisation. Any emerging operational risks are escalated to the externally chaired Risk and Audit as appropriate. The risk sub-committee also has a role to champion and drive risk practices in SSC.

## Financial and non-financial performance

This section of the Annual Report sets out financial and non-financial performance through a series of statements, as required by the Public Finance Act 1989. The first statement is the statement of responsibility signed by the State Services Commissioner as Chief Executive and countersigned by the Chief Financial Officer.

The second series of statements encompasses the statement of service performance, levels of service achieved and financial information on the costs of the activities undertaken. They are grouped under the two classes of outputs that the SSC produced in the 2010/2011 year.

The third series of financial statements sets out the accounting policies, statements of financial position, movements in taxpayers' equity, comprehensive income and cash flows.

This section of the report has been audited by Audit New Zealand on behalf of the Controller and Auditor-General.

## 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 the 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 2011.

**Iain Rennie** | State Services Commissioner
28 September 2011

**Matthew Valentine** | Chief Financial Officer
28 September 2011

INDEPENDENT AUDITOR'S
# REPORT FOR THE YEAR ENDED 30 JUNE 2011

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

### To the readers of the State Services Commission's financial statements, statement of service performance and schedules of non-departmental activities for the year ended 30 June 2011

The Auditor-General is the auditor of the State Services Commission (the Commission). 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 statement of service performance and the schedules of non-departmental activities of the Commission on her behalf.

We have audited:

- the financial statements of the Commission on pages 71 to 99, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2011, the statement of comprehensive income, statement of changes in taxpayers funds, statement of departmental expenses and capital expenditure against appropriations, statement of departmental 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;
- the statement of service performance of the Commission on pages 59 to 70; and
- the schedules of non-departmental activities of the Commission on pages 100 to 107 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 2011, the statement of non-departmental expenses and appropriations, statement of unappropriated expenditure and capital expenditure and schedule of non-departmental 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 the Commission on pages 71 to 99:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect the Commission's:
    - financial position as at 30 June 2011; and
    - financial performance and cash flows for the year ended on that date;
    - expenses and capital expenditure incurred against each appropriation administered by the Commission and each class of outputs included in each output expense appropriation for the year ended 30 June 2011; and
    - unappropriated expenses and capital expenditure for the year ended 30 June 2011.
- the statement of service performance of the Commission on pages 59 to 70:
  - complies with generally accepted accounting practice in New Zealand; and

- fairly reflects for each class of outputs for the year ended 30 June 2011 the Commission's:
  - service performance compared with the forecasts in the statement of forecast service performance at the start of the financial year; and
  - 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 of non-departmental activities of the Commission on pages 100 to 107, fairly reflect:
  - the assets, liabilities, contingencies and commitments as at 30 June 2011 managed by the Commission on behalf of the Crown; and
  - the revenues, expenditure and capital expenditure against appropriations and unappropriated expenditure for the year ended on that date managed by the Commission on behalf of the Crown.

Our audit was completed on 28 September 2011. 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 statement of service performance and the schedules of non-departmental activities are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements, the statement of service performance and the schedules 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 statement of service performance and the schedules of non-departmental activities. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, the statement of service performance and the schedules of non-departmental activities, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Commission's preparation of the financial statements, the statement of service performance and the schedules 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 the Commission's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the State Services Commissioner;
- the adequacy of all disclosures in the financial statements, the statement of service performance and the schedules of non-departmental activities; and
- the overall presentation of the financial statements, the statement of service performance and the schedules of non-departmental activities.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements, the statement of service performance and the schedules 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 a statement of service performance that:
  - comply with generally accepted accounting practice in New Zealand;
  - fairly reflect the Commission's financial position, financial performance, cash flows, expenses and capital expenditure incurred against each appropriation and its unappropriated expenses and capital expenditure; and
  - fairly reflects its service performance; and
- schedules of non-departmental activities, in accordance with the Treasury Instructions 2010 that fairly reflect those activities managed by the Commission 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, a statement of service performance and schedules of non-departmental activities that are free from material misstatement, whether due to fraud or error.

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 statement of service performance and the schedules 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 New Zealand Institute of Chartered Accountants.

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

Karen Young

**Karen Young**
Audit New Zealand

On behalf of the Auditor-General
Wellington, New Zealand

## Matters relating to the electronic presentation of the audited financial statements and statement of service performance

This audit report relates to the financial statements and statement of service performance of the State Services Commission for the year ended 30 June 2011 included on the State Services Commission's website. The Chief Executive is responsible for the maintenance and integrity of the State Services Commission's website. We have not been engaged to report on the integrity of the State Services Commission's website. We accept no responsibility for any changes that may have occurred to the financial statements and statement of service performance since they were initially presented on the website.

The audit report refers only to the financial statements and statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and statement of service performance. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and statement of service performance and related audit report dated 28 September 2011 to confirm the information included in the audited financial statements and statement of service performance presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

## Statement of objectives and service performance for the year ended 30 June 2011

This statement of service performance records the standards of delivery performance achieved for each class of outputs detailed in the Budget Estimates 2010 documents as required by section 45 of the Public Finance Act 1989. The Performance Information for Appropriations – Vote State Services can be found at: www.treasury.govt.nz/budget/2011/ise/v5

### Statement of quantity, quality and timeliness of service delivery

All work programmes were delivered to the specifications of the State Services Commission's (SSC's) *Statement of Intent 2010–2015* and the Budget Estimates 2010 and set out in the following tables.

All timelines and quality standards were met unless otherwise stated.

All statutory requirements were complied with unless otherwise stated.

Many of SSC's outputs, including policy advice and the delivery of services including Public Service chief executive appointments and reappointments, are non-standard and highly tailored, with a significant degree of variation required in the processes used to complete them. In these circumstances, delivering a quality service depends on competent analysis and the application of professional knowledge and experience. The exercise of discretion and sound professional judgement is frequently required.

## Financial Summary

The departmental output classes were provided at a cost of $27.961 million, which is $2.741 million less than the main estimates. The departmental output expenses increased by $0.796 million in supplementary estimates. This was mainly due to budget carry forwards from 2009/10 to 2010/11 of $1.084 million for Chief Executive recruitment, Performance Improvement Framework, website redevelopment and Kiwis Count survey, and also the impact of a decrease in forecasted third party revenue. The variance between the main estimates and actual relates to a number of unfilled positions across the business unit, and budget carry forwards of $1.552 million being transferred from 2010/11 to 2011/12. The significant carry forwards were for Performance Improvement Framework, State Services Improvement Scorecard, Superannuation Management and Business Strategy development and implementation.

# Output Class: Chief Executive and Agency Performance Management

This appropriation is limited to the State Services chief executive appointment and performance management and advice on governance and performance of agencies in the State Services.

## Statement of cost of services (GST exclusive)

| 2009/10 Actual $000 | | 2010/11 Main Estimates $000 | 2010/11 Supp. Estimates $000 | 2010/11 Actual $000 |
|---|---|---|---|---|
| 16,333 | Revenue – Crown | 15,548 | 16,529 | 16,260 |
| 2,854 | Revenue – Departments | 3,170 | 2,907 | 2,955 |
| 270 | Revenue – Other | 554 | 928 | 874 |
| 19,457 | Income | 19,272 | 20,364 | 20,089 |
| 14,872 | Expenses | 19,272 | 20,364 | 18,350 |
| 4,585 | Net surplus | – | – | 1,739 |

This output class was provided at a cost of $18.350 million, which is $0.922 million less than the main estimates. The appropriation increased by $1.092 million in supplementary estimates, mainly due to budget carry forwards from 2009/10 to 2010/11 of $0.731 million. The variance between the main estimates and actual relates to a number of unfilled positions across the business unit, and budget carry forwards of $0.899 million being transferred from 2010/11 to 2011/12.

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

| 2009/10 Actual $000 | | 2010/11 Main Estimates $000 | 2010/11 Supp. Estimates $000 | 2010/11 Actual $000 |
|---|---|---|---|---|
| 12,171 | Remuneration and Related Employment costs of chief executives | 13,517 | 12,416 | 11,905 |

## Current revenue (non-tax)

| 2009/10 Actual $000 | | 2010/11 Main Estimates $000 | 2010/11 Supp. Estimates $000 | 2010/11 Actual $000 |
|---|---|---|---|---|
| 12,017 | Reimbursement of chief executives' remuneration | 13,150 | 11,410 | 11,337 |

Recoveries are on the basis of the mid-point of $10,000 salary bands.

The Accompanying notes form part of these financial statements. For information on major budget variances against budget, refer to Note 21 on page 98.

# Service Performance – Output Class: Chief Executive and Agency Performance Management

| Output to be delivered | Standard/Target | Comment |
|---|---|---|
| **Appoint Public Service chief executives** | | |
| Chief executives' performance meets the State Services Commissioner's expectations in the 12 and 24 months following appointment. | 80% at 12 months<br>100% at 24 months | Achieved.<br>Three chief executives were in the 12 month category and four in the 24 month category. All have met the Commissioner's expectations. |
| Public Service chief executive appointments are announced within one month or less of the incumbent chief executive leaving. | 70% of appointments were announced within one month | Achieved.<br>A total of six Public Service chief executive appointments were made this year (Ministry of Health, Ministry of Science and Innovation, Ministry of Agriculture and Forestry, Department of Corrections, Canterbury Earthquake Recovery Authority and the Treasury). Two appointments were for new departments which are not applicable to this measure (Ministry of Science and Innovation and Canterbury Earthquake Recovery Authority). Of the four appointments that relate to this measure one was not announced within one month of the incumbent leaving. |
| Number of appointments/ reappointments of Public Service chief executives and appointment processes managed on behalf of Ministers. | 7 to 15 appointments or reappointments are completed in 2010/11 | Achieved.<br>16 appointments or reappointments of Public Service chief executives and appointment processes managed on behalf of Ministers were completed in 2010/11. |

The Accompanying notes form part of these financial statements. For information on major budget variances against budget, refer to Note 21 on page 98.

| Output to be delivered | Standard/Target | Comment |
|---|---|---|

## Manage the employment relationship with chief executives

| | | |
|---|---|---|
| All chief executives have mutually agreed expectations, developed in consultation with Ministers, together with indicators of performance against which they will be assessed. | 100% of chief executives | Achieved.<br>As at 30 June 2011 SSC manages the performance of 29 Public Services chief executives. Performance expectations are developed, in consultation with Ministers, against which chief executives are assessed annually. |
| The stakeholder survey shows that SSC is assisting chief executives and senior management to improve performance. | 34% or more of respondents agree | Not measured.<br>The stakeholder survey was not undertaken in 2010/11. The SSC is developing a new business strategy that, when implemented, will impact on survey results. The stakeholder survey will be carried out in 2011/12 to measure the impact of the new business strategy. |
| Chief executives are satisfied with the support received from SSC. | 90% of chief executives surveyed are satisfied | Not measured.<br>The stakeholder survey was not undertaken in 2010/11. The SSC is developing a new business strategy that, when implemented, will impact on survey results. The stakeholder survey will be carried out in 2011/12 to measure the impact of the new business strategy. |
| Chief executive performance is assessed annually against expectations within two months of their anniversary date. | % of assessments completed within two months. Benchmark year | Of the performance reviews that qualified for this measure 16 of 19 (84%) were completed within two months of the chief executive's anniversary date.<br>Two reviews are purposely out of sync with the chief executives' anniversary dates. One was moved to manage a scheduling issue.<br>Four end-of-term reviews were completed.<br>There were eight new appointees whose first review will not occur until 2011/12. |

The Accompanying notes form part of these financial statements. For information on major budget variances against budget, refer to Note 21 on page 98.

| Output to be delivered | Standard/Target | Comment |
|---|---|---|

## Investigate issues regarding the integrity and conduct of State servants

| | | |
|---|---|---|
| All integrity and conduct investigation reports include an analysis of potential systemic risks and recommendations for mitigation. | 100% | Achieved.<br>Two investigations were completed in 2010/11 relating to the unauthorised disclosure of Cabinet papers. Both investigations addressed potential systemic risks and provided recommendations for mitigation. |

## Assess the performance of agencies dealing with integrity and conduct matters

| | | |
|---|---|---|
| Chief executives' expectation letters and performance reviews include an integrity and conduct dimension. | 100% of chief executives | Achieved.<br>All chief executives have included an integrity and conduct dimension in their letter of expectation. Integrity and conduct in assessed as part of preparing documentation for performance reviews for the Commisssioner, who may or may not discuss this with chief executives. |

## Advise Ministers and agencies on pay and employment conditions and employment relations

| | | |
|---|---|---|
| Bargaining and remuneration strategies approved by SSC are within government expectations. | 100% | Achieved.<br>All 36 settlements were approved/ endorsed as being consistent with government expectations. |

The Accompanying notes form part of these financial statements. For information on major budget variances against budget, refer to Note 21 on page 98.

| Output to be delivered | Standard/Target | Comment |
|---|---|---|

## Set standards and expectations on key aspects of agency, sector, and system performance

| Output to be delivered | Standard/Target | Comment |
|---|---|---|
| Performance Improvement Framework (PIF) Best Practice Indicators are revised annually in line with assessment findings and accepted by agencies as benchmarks for organisational performance. | 100% of agencies assessed | Not achieved.<br>SSC has reviewed our approach to standards relating to PIF performance. As a result SSC has developed guidance for the PIF ratings which will be reviewed annually. The best practice indicator work has been stopped because it does not reflect the emphasis on organisation improvement and is inconsistent with our PIF framework. |
| ICT standards are adopted and implemented by agencies to enable whole-of-system IT management. | 100% of Public Service agencies | Not applicable.<br>The Directions and Priorities for Government ICT Cabinet paper was approved by Cabinet in October 2010.<br>This output has transferred to the Department of Internal Affairs with the Government Chief Information Officer function as of February 2011. |

The Accompanying notes form part of these financial statements. For information on major budget variances against budget, refer to Note 21 on page 98.

| Output to be delivered | Standard/Target | Comment |
|---|---|---|

## Assess the effectiveness of agency, sector and system performance

| | | |
|---|---|---|
| Performance Improvement Framework assessments are carried out with selected Public Service departments and significant Crown entities. | 12 assessments | Not achieved.<br>Eight reviews have been carried out in 2010/11 for the Ministry of Education, Treasury, New Zealand Transport Agency, New Zealand Trade and Enterprise, Ministry of Social Development, Inland Revenue, Ministry of Women's Affairs and Ministry of Pacific Island Affairs.<br>The target of 12 reviews was not achieved as a result of:<br>• disruption caused by significant external events (eg Canterbury earthquakes)<br>• the decision to review the PIF process following the completion of a reasonable number of reviews. |
| Information collected by the Common Measurements Tool (CMT) informs Performance Improvement Framework assessments and chief executive and agency performance assessment. | 100% of assessments | Achieved.<br>All chief executive and agency performance assessments in this period included input from the CMT. The Ministry of Social Development and Inland Revenue had participated in the CMT and the information obtained formed part of the evidence base for those reviews. Other agencies that participated in the PIF had not participated in the CMT and as a result no information was available from the CMT. |

The Accompanying notes form part of these financial statements. For information on major budget variances against budget, refer to Note 21 on page 98.

| Output to be delivered | Standard/Target | Comment |
|---|---|---|

## Advise Ministers and agencies on achieving agency, sector and system performance improvement

| | | |
|---|---|---|
| Regular analysis of Performance Improvement Framework assessments is used to target individual agency, sector and system-level performance issues. | Analysis of assessment tranche is completed in July and January | Achieved.<br>Two systems analyses were undertaken during the reporting period (in September 2010 and in May 2011) in conjunction with the publication of the two tranches of reports. The results have been reported to Cabinet. |
| A Lessons Learned report based on Gateway reviews highlights top issues commonly faced by major investments across the system, with suggestions for system improvements. | Report Completed by 30 June 2011 | Achieved.<br>An inaugural Lessons Learned report was produced which highlighted 12 themes that have been distilled from 53 Gateway reviews. |

The Accompanying notes form part of these financial statements. For information on major budget variances against budget, refer to Note 21 on page 98.

# Output Class: Public Management System

This appropriation is limited to the provision of advice, standards and leadership in relation to the performance, efficiency and effectiveness of the public management system.

## Statement of cost of services (GST exclusive)

| 2009/10 Actual $000 | | 2010/11 Main Estimates $000 | 2010/11 Supp. Estimates $000 | 2010/11 Actual $000 |
|---|---|---|---|---|
| 9,652 | Revenue – Crown | 10,579 | 10,027 | 9,864 |
| 854 | Revenue – Departments | 809 | 927 | 795 |
| 90 | Revenue – Other | 42 | 180 | 176 |
| 10,596 | Income | 11,430 | 11,134 | 10,835 |
| 10,233 | Expenses | 11,430 | 11,134 | 9,611 |
| 363 | Net surplus | – | – | 1,224 |

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

| 2009/10 Actual $000 | | 2010/11 Main Estimates $000 | 2010/11 Supp. Estimates $000 | 2010/11 Actual $000 |
|---|---|---|---|---|
| 99,390 | State Sector Retirement Savings Scheme: State Sector Employer Contributions | 104,606 | 100,000 | 98,719 |
| 65,661 | KiwiSaver: State Sector Employer Contributions | 85,000 | 85,000 | 84,684 |
| – | Settlement of Legal Liabilities | 7 | 7 | – |

This output class was provided at a cost of $9.611 million, which is $1.819 million less than the main estimates. The variance between the main estimates and actual mainly relates to underspends in personnel, consultancy, sponsorship, and budget carry forwards of $0.653 million being transferred from 2010/11 to 2011/12.

The Accompanying notes form part of these financial statements. For information on major budget variances against budget, refer to Note 21 on page 98.

# Service Performance – Output Class: Public Management System

| Performance measure | Budgeted Standard/Target | Comment |
|---|---|---|
| **Support the development of current and future senior leaders** | | |
| A group of senior managers is identified and agreed as potential leaders. | 75 | Not achieved.<br>The 2011 talent identification process is currently underway and to be completed in 2011/12.<br>This work was delayed owing to staff vacancy. |
| Identified potential leaders are pursuing agreed development plans (PDPs). | 100% of identified potential leaders | Not measured.<br>Chief executives have been leading this work with identified leaders, within their own agencies. SSC monitors agency senior leadership development, particularly when explicitly incorporated into chief executive expectations. SSC is reviewing current leadership practice to improve how we identify and develop future leaders. |
| **Provide advice and support on effective leadership of Crown entities and other agencies** | | |
| Minister(s) are satisfied with the quality of advice provided. | 100% | Achieved.<br>The Minister provides his opinion monthly on the quality of advice provided. This is measured using a scale of 1–5 (1= Was not satisfactory and 5= Greatly exceeded my expectations).<br>All responses had a measure of 3 (Met my expectations). |

The Accompanying notes form part of these financial statements. For information on major budget variances against budget, refer to Note 21 on page 98.

| Performance measure | Budgeted Standard/Target | Comment |
|---|---|---|
| **Sets standards of integrity and conduct** | | |
| New Zealand is rated as one of the leading countries in public service probity as measured by the Transparency International Corruption Perceptions Index (CPI). | New Zealand is in the top 3 ranked countries | Achieved.<br>The CPI ranks 178 countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys. The October 2010 index ranks New Zealand 1st equal with Singapore and Denmark. |
| **Provide advice to agencies and individual State servants including chief executives** | | |
| Integrity and conduct advice provided by SSC is not challenged by any stakeholder. | 100% | Achieved.<br>There were no successful challenges to SSC's advice. |
| **Set standards and expectations on key aspects of agency, sector and system performance** | | |
| Standards for Crown entity board nominations, appointments and inductions are used by monitoring agencies to improve the performance of boards. | 100% of monitoring agencies | Not measured.<br>SSC is not involved in Crown entity board nominations or appointments. However, SSC contributes to induction programmes for board members and has developed resources on appointments and inductions for monitoring departments and Crown entities, which are available on the SSC website. SSC and Cabinet Office guidance is available to monitoring departments to support Ministers and Crown entity boards. |
| Agencies use the Common Measurements Tool (CMT) to measure improvements over time and benchmark with each other to improve service delivery. | 70% of service delivery agencies are signed up to use the CMT | Achieved.<br>SSC identified 26 major service delivery agencies. 19 of these have signed up to use the CMT. |

The Accompanying notes form part of these financial statements. For information on major budget variances against budget, refer to Note 21 on page 98.

| Performance measure | Budgeted Standard/Target | Comment |
|---|---|---|

## Assess the effectiveness of agency, sector and system performance

| | | |
|---|---|---|
| Perform the full Human Resource Capability (HRC) survey every year at 30 June. Collect data on FTEs every year at 31 December. Information collected from the HRC informs Performance Improvement Framework (PIF) assessments, informs chief executive and agency performance assessments, and provides a measure of diversity in senior leadership roles. | Data contributes to 100% of assessments | Achieved.<br><br>The HRC survey and capping update survey collected staffing information from Public Service departments and selected Crown entities at 30 June 2010 and 31 December 2010. Information from both surveys was published on the SSC website. HRC data formed part of the evidence base for PIF reviews and chief executive performance reviews. The HRC public report provided measures of diversity in senior management and outlined trends over the past five years. |

## Advise Ministers and agencies on achieving agency, sector and system performance improvement

| | | |
|---|---|---|
| Analysis of service quality scores from the 2009 Kiwis Count survey and the Common Measurements Tool is used to target individual agency, sector and system performance issues directly. | Improvements in service scores in the 2011 Kiwis Count survey | Achieved<br><br>Target – Not measured<br><br>SSC undertook targeted research into the findings of the 2009 Kiwis Count survey to identify and analyse system issues. Four reports were published through 2010/11.<br><br>Kiwis Count analysis targeted specific sector issues through the ServiceLink/Service Transformation programme and the Office of Ethnic Affairs.<br><br>The Kiwis Count survey was not carried out in 2010/11, which is why the target was not measured. The Kiwis Count survey will be carried out in 2011/12. |

The Accompanying notes form part of these financial statements. For information on major budget variances against budget, refer to Note 21 on page 98.

STATEMENT OF
# COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

| 30/6/2010 Actual ($000) | | Note | **30/6/2011 Actual ($000)** | 30/6/2011 Main Estimates ($000) | 30/6/2011 Supp*. Estimates ($000) |
|---|---|---|---|---|---|
| | **CONTINUING ACTIVITIES** | | | | |
| | **INCOME** | | | | |
| 25,985 | Revenue Crown | | **26,124** | 26,127 | 26,556 |
| 4,068 | Revenue other | 2 | **4,796** | 4,575 | 4,939 |
| 5 | Gains | 3 | **4** | – | 3 |
| 30,058 | **Total income** | | **30,924** | 30,702 | 31,498 |
| | **EXPENDITURE** | | | | |
| 14,564 | Personnel costs | 4 | **15,491** | 15,572 | 15,892 |
| 996 | Depreciation, amortisation and impairment expenses | 11,12 | **771** | 1,100 | 801 |
| 638 | Capital charge | 5 | **674** | 557 | 687 |
| 8,907 | Other operating costs | 6 | **11,025** | 13,473 | 12,618 |
| 25,105 | **Total expenditure** | | **27,961** | 30,702 | 29,998 |
| 4,953 | **Net surplus/(deficit) from continuing activities** | | **2,963** | – | 1,500 |
| – | **OTHER COMPREHENSIVE INCOME** | | **–** | – | – |
| 4,953 | **Total Comprehensive Income from continued activities** | | **2,963** | – | 1,500 |
| | **DISCONTINUED ACTIVITIES** | | | | |
| | **Learning State Limited** | | | | |
| 6,330 | Income | 7 | **–** | – | – |
| 5,511 | Expenditure | 7 | **–** | – | – |
| – | Other Comprehensive Income | | **–** | – | – |
| 819 | **Total Comprehensive Income from Learning State Limited** | | **–** | – | – |
| 819 | **Total Comprehensive Income from discontinued activities** | | **–** | – | – |
| 5,772 | **TOTAL COMPREHENSIVE INCOME** | | **2,963** | – | 1,500 |
| | **ALL ACTIVITIES** | | | | |
| 36,388 | Total income | | **30,924** | 30,702 | 31,498 |
| 30,616 | Total expenditure | | **27,961** | 30,702 | 29,998 |
| 5,772 | **TOTAL COMPREHENSIVE INCOME** | | **2,963** | – | 1,500 |

* These are the estimated actuals according to the 2010/11 Supplementary Estimates as shown in the 2011/12 Main Estimates. The individual output statements disclosed with the Statements of Service Performance reflect the appropriation for the 2010/11 Supplementary Estimates.

The Accompanying notes form part of these financial statements. For information on major budget variances against budget, refer to Note 21 on page 98.

STATEMENT OF

# CHANGES IN TAXPAYERS' FUNDS FOR THE YEAR ENDED 30 JUNE 2011

| 30/6/2010 Actual ($000) | | Note | **30/6/2011 Actual ($000)** | 30/6/2011 Main Estimates ($000) | 30/6/2011 Supp*. Estimates ($000) |
|---|---|---|---|---|---|
| 24,878 | Taxpayers' funds as at 1 July | 20 | **9,474** | 10,974 | 9,474 |
| 5,772 | Total comprehensive income | | **2,963** | – | 1,500 |
| (5,772) | Return of operating surplus to the Crown | 8 | **(2,963)** | – | (1,500) |
| | **Capital withdrawal** | | | – | |
| – | – Learning State Limited | 7 | **(979)** | (2,479) | (2,581) |
| – | – Transfer to Crown | | **(1,602)** | – | – |
| (15,404) | – Transfer of Government Technology Services & Government Shared Network to Department of Internal Affairs | | **–** | – | – |
| 9,474 | **TAXPAYERS' FUNDS AS AT 30 JUNE** | | **6,893** | 8,495 | 6,893 |

* These are the estimated actuals according to the 2010/11 Supplementary Estimates as shown in the 2011/12 Main Estimates.

SSC's taxpayers' funds consist entirely of contributed equity.

The Accompanying notes form part of these financial statements. For information on major budget variances against budget, refer to Note 21 on page 98.

STATEMENT OF
# FINANCIAL POSITION AS AT 30 JUNE 2011

| 30/6/2010 Actual ($000) | | Note | **30/6/2011 Actual ($000)** | 30/6/2011 Main Estimates ($000) | 30/6/2011 Supp*. Estimates ($000) |
|---|---|---|---|---|---|
| 9,474 | **TAXPAYERS' FUNDS** | | **6,893** | 8,495 | 6,893 |
| | Represented by: | | | | |
| | **CURRENT ASSETS** | | | | |
| 15,955 | Cash and cash equivalents | 18 | **11,104** | 8,720 | 9,392 |
| 195 | Prepayments | | **121** | 146 | 197 |
| 1,324 | Debtors and other receivables | 9 | **716** | 1,185 | 1,013 |
| 272 | Non-Current assets held for sale or transfer | 10 | **–** | 329 | – |
| 17,746 | ***Total current assets*** | | **11,941** | 10,380 | 10,602 |
| | **NON-CURRENT ASSETS** | | | | |
| 1,322 | Property, plant and equipment | 11 | **899** | 2,862 | 1,293 |
| 112 | Intangible assets | 12 | **64** | 1,249 | 417 |
| 1,434 | ***Total non-current assets*** | | **963** | 4,111 | 1,710 |
| 19,180 | **Total assets** | | **12,904** | 14,491 | 12,312 |
| | **CURRENT LIABILITIES** | | | | |
| 2,082 | Creditors and other payables | 13 | **1,553** | 4,354 | 2,534 |
| – | Provisions | 17 | **358** | – | – |
| 5,772 | Provision for repayment of surplus to the Crown | 8 | **2,963** | – | 1,500 |
| 1,197 | Employee entitlements | 14 | **1,069** | 482 | 922 |
| 389 | Unearned income | 15 | **–** | 598 | 314 |
| 9,440 | ***Total current liabilities*** | | **5,943** | 5,434 | 5,270 |
| | **NON-CURRENT LIABILITIES** | | | | |
| 148 | Employee entitlements | 14 | **68** | 562 | 149 |
| 118 | Provisions | 17 | **–** | – | – |
| 266 | ***Total non-current liabilities*** | | **68** | 562 | 149 |
| 9,706 | **Total liabilities** | | **6,011** | 5,996 | 5,419 |
| 9,474 | **NET ASSETS** | | **6,893** | 8,495 | 6,893 |

* These are the estimated actuals according to the 2010/11 Supplementary Estimates as shown in the 2011/12 Main Estimates.

**Iain Rennie** | State Services Commissioner
28 September 2011

**Matthew Valentine** | Chief Financial Officer
28 September 2011

The Accompanying notes form part of these financial statements. For information on major budget variances against budget, refer to Note 21 on page 98.

STATEMENT OF

# CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

| 30/6/2010 Actual ($000) | | Note | **30/6/2011 Actual ($000)** | 30/6/2011 Main Estimates ($000) | 30/6/2011 Supp*. Estimates ($000) |
|---|---|---|---|---|---|
| | **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| 26,739 | Receipts from Crown | | **26,124** | 26,197 | 26,557 |
| 9,003 | Receipts from other revenue | | **5,083** | 4,575 | 4,941 |
| (18,547) | Payments to employees | | **(15,598)** | (15,292) | (15,119) |
| (12,153) | Payments to suppliers | | **(10,445)** | (13,810) | (13,422) |
| (711) | Payments for capital charge | | **(674)** | (557) | (687) |
| 63 | Goods and Services Tax (net) | | **101** | – | (248) |
| 4,394 | **Net cash from operating activities** | 16 | **4,591** | 1,113 | 2,022 |
| | **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| 248 | Receipts from sale of property, plant and equipment | | **7** | – | 4 |
| (378) | Purchase of property, plant and equipment | | **(296)** | (2,475) | (705) |
| (23) | Purchase of intangible assets | | **(17)** | (500) | (350) |
| (153) | **Net cash from investing activities** | | **(306)** | (2,975) | (1,051) |
| | **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| – | Capital injections | | **–** | – | – |
| (4,386) | Capital withdrawals | | **(1,602)** | (3,070) | (2,581) |
| – | Transfer of cash balance to Learning State Ltd | | **(2,581)** | – | – |
| (381) | Repayment of surplus to Crown | | **(4,953)** | – | (4,953) |
| (4,767) | **Net cash from financing activities** | | **(9,136)** | (3,070) | (7,534) |
| (526) | Net (decrease)/increase in cash | | **(4,851)** | (4,932) | (6,563) |
| 16,481 | Cash at the beginning of the year | | **15,955** | 13,652 | 15,955 |
| 15,955 | **CASH AT THE END OF THE YEAR** | | **11,104** | 8,720 | 9,392 |

The GST (net) component of operating activities reflects the net GST paid and received from the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes and to be consistent with the presentation basis of the other primary financial statements.

* These are the estimated actuals according to the 2010/11 Supplementary Estimates as shown in the 2011/12 Main Estimates.

The Accompanying notes form part of these financial statements. For information on major budget variances against budget, refer to Note 21 on page 98.

STATEMENT OF
# COMMITMENTS AS AT 30 JUNE 2011

## Non-cancellable operating lease commitments

The SSC has a non-cancellable operating lease commitment in respect of its Wellington Molesworth Street Office which runs to 31 March 2012. A make-good provision has been provided in the accounts for the Molesworth Street Ofice. A sublease of Level 2 of the Molesworth Street premises has been entered into with the Office of Auditor-General. The SSC also has a non-cancellable sublease with a Fitness Centre operator until 30 September 2011. The SSC has a new non-cancellable operating lease in respect of its new Wellington Reserve Bank Office effective 1 March 2012 for 6 years. The amounts disclosed below as future commitments are based on the current rental rates.

## Capital commitments

Capital commitments are the aggregate amount of capital expenditure contracted for the acquisition of property, plant and equipment and intangible assets that have not been paid for or not recognised as a liability at the balance date.

| 30/6/2010 Actual ($000) | | **30/6/2011 Actual ($000)** |
|---|---|---|
| | **Non-cancellable operating lease commitments** | |
| 2,381 | Not later than one year | **1,805** |
| 2,150 | Later than one year and not later than five years | **2,313** |
| – | Later than five years | **964** |
| 4,531 | **Total operating lease commitments** | **5,082** |
| | **Non-cancellable contracts for services** | |
| – | Not later than one year | **–** |
| – | Later than one year and not later than five years | **–** |
| – | Later than five years | **–** |
| – | **Total non cancellable contracts** | **–** |
| – | **Capital commitments** – Property, Plant and Equipment | **–** |
| 4,531 | **Total commitments** | **5,082** |

The Accompanying notes form part of these financial statements. For information on major budget variances against budget, refer to Note 21 on page 98.

## STATEMENT OF CONTINGENT LIABILITIES AND CONTINGENT ASSETS AS AT 30 JUNE 2011

The SSC has no contingent liabilities (2010: SSC disputed a personal grievance claim for an unspecified sum by a former employee for wrongful dismissal. The claim was settled in the 2011 financial year).

The SSC has no contingent assets (2010: nil).

## STATEMENT OF DEPARTMENTAL EXPENSES AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS FOR THE YEAR ENDED 30 JUNE 2011

| | **30/6/2011 Expenditure Actual ($000)** | 30/6/2011 Appropriation Voted* ($000) |
|---|---|---|
| **VOTE: STATE SERVICES** | | |
| **Appropriations for output expenses** | | |
| Chief Executive and Agency Performance Management | **18,351** | 20,364 |
| Public Management System | **9,610** | 11,134 |
| **Total expenses per Statement of Financial Performance** | **27,961** | 31,498 |
| **Appropriations for capital expenditure** | | |
| State Services Commission – capital expenditure under permanent legislative authority | **313** | 1,055 |
| **Total departmental and capital expenditure and appropriations** | **28,274** | 32,553 |

* This includes adjustments made in the Supplementary Estimates.

## STATEMENT OF DEPARTMENTAL UNAPPROPRIATED EXPENSES AND CAPITAL EXPENDITURE FOR THE YEAR ENDED 30 JUNE 2011

No expenses and capital expenditure were incurred in excess of appropriation, without appropriation or other authority or outside the scope of appropriation (2010: nil).

### Breach of projected departmental net assets balance

The SSC exceeded its projected net assets balance by $1.270 million due to an error in the preparation of a Cabinet paper. The breach occurred from 11 April to 31 May 2011. On 28 June 2011 the Minister of State Services and the Minister of Finance agreed that the error should be corrected (2010: nil).

The Accompanying notes form part of these financial statements. For information on major budget variances against budget, refer to Note 21 on page 98.

NOTES TO THE
# FINANCIAL STATEMENTS

## Note 1: Statement of accounting policies

### Reporting Entity

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

In addition, the SSC has reported on Crown activities which it administers.

The primary objective of the SSC is to provide services to the public rather than making a financial return. Accordingly, the 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 the SSC are for the year ended 30 June 2011. The financial statements were authorised for issue by the State Services Commissioner on 28 September 2011.

### Basis of preparation

The financial statements of the SSC have been prepared in accordance with section 45B of the Public Finance Act 1989, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP) and Treasury instructions.

The financial statements have been prepared in accordance with, and comply with, NZ IFRS as appropriate for public benefit entities.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The financial statements have been prepared on a going-concern basis and the measurement base applied is historical cost.

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

On 1 July 2010 the Learning State area of the SSC became Learning State Ltd, a not-for-profit Crown-owned company under Schedule 4 of the Public Finance Act. The financial statements recognise this business area as a discontinued operation.

### Early adoption of the revised NZ IAS 24 Related Party Disclosures

The SSC has early adopted NZ IAS 24 *Related Party Disclosures* (Revised 2009). The effect of early adopting the revised NZ IAS 24 is:

- more information is required to be disclosed about transactions between the SSC and entities controlled, jointly controlled, or significantly influenced by the Crown
- commitments with related parties require disclosure, and
- information is required to be disclosed about any related party transactions with Ministers of the Crown with portfolio responsibility for the SSC. An exemption is provided from reporting transactions with other Ministers of the Crown.

NOTES TO THE
# FINANCIAL STATEMENTS (CONTINUED)

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

Standards, amendments, and interpretations issued but not yet effective that have not been early adopted, and which are relevant to the SSC, are:

- 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 or deficit. The new standard is required to be adopted for the year ended 30 June 2014. The SSC has not yet assessed the effect of the new standard and expects it will not be early adopted.
- FRS-44 *New Zealand Additional Disclosures and Amendments to NZ IFRS to harmonise with IFRS and Australian Accounting Standards (Harmonisation Amendments)* – These were issued in May 2011 with the purpose of harmonising Australia and New Zealand's accounting standards with source IFRS and to eliminate many of the differences between the accounting standards in each jurisdiction. The amendments must first be adopted for the year ended 30 June 2012. The SSC has not yet assessed the effects of FRS-44 and the Harmonisation Amendments.

As the External Reporting Board is to decide on a new accounting standards framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS with a mandatory effective date for annual reporting periods commencing on or after 1 January 2012 will not be applicable to public benefit entities. This means that the financial reporting requirements for public benefit entities are expected to be effectively frozen in the short-term. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

### Revenue

The SSC derives revenue through the supply of outputs to the Crown, for services to other government departments and third parties, and from the SSC (as agent for Crown) for the recovery of State Sector Retirement Savings Scheme and KiwiSaver employer contributions. Revenue is measured at the fair value of consideration received and is recognised when earned. Rental income under an operating sub-lease is recognised as income on a straight-line basis over the lease term.

### Taxpayers' funds

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

NOTES TO THE
# FINANCIAL STATEMENTS (CONTINUED)

## Discontinued operations

A discontinued operation is one which has been disposed of or is held for sale, and represents a separate major line of business. Learning State became a Schedule 4 company on 1 July 2010 and was therefore held for transfer at 30 June 2010. All revenue, expenditure, assets, liabilities and cash flows relating to this business area have been disclosed separately in accordance with NZ IFRS 5. For comparative purposes, the 2009/10 Learning State actuals have been excluded from a summary Statement of Financial Position in note 22.

## Capital charge

The capital charge is a levy on the Crown's investment in the SSC. The capital charge is recognised as an expense in the period to which it relates. The capital charge is not a borrowing cost in accordance with NZ IAS 23.

## Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

## 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 recognized in the surplus or deficit.

The present value of the estimated future cash flows: The discount rates used in the calculations were issued by the Treasury. 2011 Discount rates: 1 year 2.84%, 2 years 3.81%, 3 years + 6%; Long term salary inflation rate: 3.5%.

## Debtors and other receivables

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less impairment charges.

Impairment of a receivable is established when there is objective evidence that the SSC will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income. Overdue receivables that are renegotiated are reclassified as current (i.e. not past due).

## Non-current assets held for sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the statement of comprehensive income.

NOTES TO THE
# FINANCIAL STATEMENTS (CONTINUED)

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised. Non-current assets held for sale (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

## Property, plant and equipment

Property, plant and equipment consists of operational assets which are computer equipment, plant, office equipment, furniture, fixtures and fittings, artwork and motor vehicles.

Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.

**Additions**
The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the SSC and the cost of the item can be measured reliably. In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

**Disposals**
Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the statement of comprehensive income.

**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 SSC and the cost of the item can be measured reliably.

## Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

| Asset | Depreciation rate | |
|---|---|---|
| Office furniture | 5 years | (20%) |
| Artwork | 10–100 years | (1% – 10%) |
| Office equipment | 5 years | (20%) |
| Plant | 5 years | (20%) |
| Motor vehicles | 5 years | (20%) |
| Computer equipment | 3–5 years | (33.3% – 20%) |

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

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

NOTES TO THE
# FINANCIAL STATEMENTS (CONTINUED)

## Intangible assets

### Computer software acquisition and development

Acquired computer software licences are 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. Costs that are directly associated with the development of software for internal use by the SSC, are recognised as an intangible asset. Direct costs include the software development, employee costs incurred in the development of software and an appropriate portion of relevant overheads.

Expenditure incurred on research of internally generated software is expensed when it is incurred. Staff training costs are recognised as an expense when incurred.

Website costs are only recognised as an intangible asset if they will provide future service potential.

### 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 the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the statement of comprehensive income.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

| | | |
|---|---|---|
| Computer network design and configuration | 5–7 years | (20% – 14.3%) |
| Other computer software | 3–5 years | (33.3% – 20%) |

## Capitalisation threshold

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

## Impairment of non-financial assets

Non-financial assets are property, plant and equipment and intangible assets.

An intangible asset that is not yet available for use at the balance sheet date is 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 the entity 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 impairment loss is recognised in the statement of comprehensive income.

The reversal of an impairment loss is recognised in the statement of comprehensive income.

NOTES TO THE
# FINANCIAL STATEMENTS (CONTINUED)

## Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

## Employee entitlements

**Short-term employee entitlements**

Employee benefits that the SSC expects 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 accrued up to balance date, annual leave earned but not yet taken at balance date, vested retiring and vested long service leave entitlements expected to be settled within 12 months, and sick leave.

The SSC recognises a liability for sick leave to the extent that 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 the SSC anticipates it will be used by staff to cover those future absences.

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

**Long-term employee entitlements**

These are employee benefits that the SSC expects to be settled beyond 12 months of balance date. These consist of vested retiring leave and unvested long service leave.

The vested retiring leave is measured at nominal value based on accrued entitlements at current rates of pay.

The unvested long service is 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. The discount rates used in the calculations were issued by the Treasury. 2011 Discount rates: 1 year 2.84%, 2 years 3.81%, 3 years + 6%; Long term salary inflation rate: 3.5%.

## Superannuation

Obligations for contributions to the State Sector Retirement Savings Scheme, Kiwisaver and the Government Superannuation Fund are accounted for as defined contribution schemes and are recognised as an expense in the statement of comprehensive income as incurred.

## Provisions

The SSC recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of future economic benefits will be required to settle the obligation and 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 due to the passage of time is recognised as a finance cost.

NOTES TO THE
# FINANCIAL STATEMENTS (CONTINUED)

### Income Tax

Government departments are exempt from the payment of income tax in terms of the Income Tax Act 2007. Accordingly, no charge for income tax has been provided for.

### Goods and Services Tax (GST)

All items in the financial statements, including appropriation statements, are stated exclusive of GST, except for receivables and payables (excluding accrued revenue and expenses respectively), which are stated on a GST inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position. The net GST paid to, or received from the 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.

### Budget figures

The budget figures are those included in the information supporting the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2011, which are consistent with the financial information in the Main Estimates. In adddition, the financial statements also present the updated budget information from the estimated actuals in the 2010/11 Supplementary Estimates as shown in the 2011/12 Main Estimates. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

### Statement of cost accounting policies

The SSC has determined the costs of outputs using the cost allocation system outlined below.

Direct costs are those costs directly attributed to an output. Indirect costs are those costs that cannot be identified in an economically feasible manner, with a specific output.

Direct costs are charged directly to outputs. Indirect costs are allocated to outputs in proportion to the number of full-time equivalents involved in the production of each output. For the year ended 30 June 2011, indirect costs accounted for 37% of SSC's costs (2010: 37%).

There have been no changes in cost accounting policies, since the date of the last audited financial statements.

NOTES TO THE
# FINANCIAL STATEMENTS (CONTINUED)

### Statement of cash flows

The following are definitions of the terms used in the statement of cash flows:

- cash and cash equivalents include cash on hand and funds in bank accounts,
- investing activities are those activities relating to the acquisition and disposal of non-current assets,
- financing activities comprise capital contributions by, or repayment of capital to, the Crown, and
- operating activities include all transactions and other events that are not investing or financing activities.

### Commitments

Expenses yet to be incurred on non-cancellable contracts that have been entered into on or before 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 value of that penalty or exit cost.

### Contingent liabilities

Contingent liabilities are disclosed at the point at which the contingency is evident.

### Accounting estimates and assumptions

In preparing these financial statements the SSC has made estimates and assumptions 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 or future events that are believed to be reasonable under the circumstances.

SSC management has not made any 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.

### Critical judgments in applying the SSC's accounting policies

SSC management has not made any critical judgments in applying the SSC's accounting policies for the year ended 30 June 2011.

NOTES TO THE
# FINANCIAL STATEMENTS (CONTINUED)

## Note 2: Revenue other

| 30/6/2010 Actual ($000) | | **30/6/2011 Actual ($000)** |
|---|---|---|
| 220 | Conferences fees | **1** |
| 332 | State Sector Retirement Saving Scheme (SSRSS) and KiwiSaver funding from Crown | **314** |
| 493 | Emerging Issues Project # | **467** |
| 334 | Leadership Development Corporate Executive Board Memberships | **–** |
| 936 | Gateway reviews of major IT projects | **1,571** |
| 76 | Gateway training and awareness workshop | **55** |
| 717 | Rental income | **713** |
| 462 | Contribution towards Performance Improvement Framework Assessments | **848** |
| 334 | Recovery of Agency recruitment costs | **265** |
| 164 | Other (ad hoc reviews, accounting services etc) | **562** |
| 4,068 | **TOTAL OTHER AND DEPARTMENTAL REVENUE** | **4,796** |

# Contributions from government departments and Crown entities for Victoria University School of Government Institute of Policy Studies to conduct a programme of research, discussion and dissemination on key issues of importance to the State sector.

## Note 3: Gains

| 30/6/2010 Actual ($000) | | **30/6/2011 Actual ($000)** |
|---|---|---|
| 5 | Net gain on disposal of property, plant and equipment | **4** |
| 5 | **TOTAL GAINS** | **4** |

## Note 4: Personnel costs

| 30/6/2010 Actual $000 | | **30/6/2011 Actual $000** |
|---|---|---|
| 14,739 | Salaries and wages | **14,745** |
| 5 | Performance pay | **20** |
| 285 | Staff training and development | **368** |
| 453 | Superannuation contributions to defined contribution plans | **531** |
| (1,024) | Increase/(decrease) in employee entitlements | **(208)** |
| 106 | Severence | **35** |
| 14,564 | **TOTAL PERSONNEL COSTS** | **15,491** |

Employer contributions to defined contribution plans include contributions to the State Sector Retirement Savings Scheme, KiwiSaver, and the Government Superannuation Fund.

NOTES TO THE
# FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2011, SSC had approximately 117 (2010: 162) employees. Twenty eight of the 162 employees at 30 June 2010 were within the public sector training organisation (Learning State) which moved to a separate not for profit Crown owned company from 1 July 2010.

## Note 5: Capital charge

The SSC pays a capital charge to the Crown based on taxpayers' funds as at 30 June and 31 December each year. The capital charge rate for the 2011 financial year was 7.5% (2010: 7.5%).

## Note 6: Other operating costs

| 30/6/2010 Actual[(a)] $000 | | Note | **30/6/2011 Actual $000** |
|---|---|---|---|
| 3,432 | Consultancy | | **3,099** |
| 1,000 | Leadership Development Centre funding | | **850** |
| 483 | Chief Executives recruitment costs | | **1,135** |
| 75 | Research into environmental governance arrangements in New Zealand | | **–** |
| 109 | Legal fees | | **62** |
| | Fees to auditor: | | |
| 65 | - Audit fees to Audit NZ | | **62** |
| 16 | - Audit related fees for assurance and related services[(b)] | | **–** |
| 1 | Debt impairment | 9 | **–** |
| 2,386 | Rental and operating leasing costs | | **2,150** |
| 373 | Other occupancy costs | | **386** |
| 827 | IT and communications costs | | **972** |
| 396 | Travel | | **377** |
| 1 | Loss on disposal of property, plant and equipment | | **11** |
| 697 | Sponsorship | | **648** |
| 32 | Restructuring change management costs | | **314** |
| (2,629) | Indirect costs attributed to discontinued activities | | **–** |
| 1,643 | Other operating costs | | **959** |
| 8,907 | **TOTAL OPERATING COSTS** | | **11,025** |

(a) The 2010 comparitives include Learning State.
(b) The audit fee for related services was for provision of probity assurance over G2009 Microsoft negotiations, NZQA and TEC audits of Learning State and Authentication monitoring.

## Note 7: Discontinued activities

The Learning State (LS) group was transferred to the Learning State Limited (LSL) with effect from 1 July 2010. A net asset transfer of $979,000 was made between the SSC and LSL. LSL's role is to manage workplace learning and assessment across the State sector to develop highly skilled and qualified State sector employees.

Until 30 June 2010, LS was a business group within SSC.

NOTES TO THE
# FINANCIAL STATEMENTS (CONTINUED)

## Note 7: Discontinued activities (continued)

### Statement of Financial Performance for Discontinued Activities
### Learning State Limited

| 30/6/2010 Actual ($000) | | **30/6/2011 Actual ($000)** |
|---|---|---|
| | INCOME | |
| – | Revenue Crown | – |
| 744 | Revenue Department | – |
| 5,583 | Revenue Other | – |
| | Gains | |
| 3 | – Net gain on disposal of property, plant and equipment | – |
| 6,330 | **Total income** | – |
| | **EXPENDITURE** | |
| | *Personnel costs* | |
| 2,596 | – Salaries and wages | – |
| 76 | – Staff training and development | – |
| 42 | – Superannuation contributions to defined contribution plans | – |
| (7) | – Increase/(decrease) in employee entitlements | – |
| 102 | Depreciation, amortisation and impairment expenses | – |
| 73 | Capital charge (refer note 5) | – |
| | *Other operating costs* | |
| 1,375 | – Consultancy | – |
| 18 | – Legal fees | – |
| 273 | – Rental and operating leasing costs | – |
| 67 | – IT and communications costs | – |
| 126 | – Travel | – |
| 770 | – Other operating costs | – |
| 5,511 | **Total expenditure** | – |
| 819 | **Net surplus/(deficit) from discontinued activities** | – |

### Net Cash Flows from Discontinued Activities
### Learning State Limited

| 30/6/2010 Actual ($000) | | **30/6/2011 Actual ($000)** |
|---|---|---|
| 980 | Operating Activities | – |
| (161) | Investing Activities | – |
| 819 | **Total net cash flows from discontinued activities** | – |

NOTES TO THE

# FINANCIAL STATEMENTS (CONTINUED)

## Note 8: Repayment of surplus to the Crown

| 30/6/2010 Actual ($000) | | Note | **30/6/2011 Actual ($000)** |
|---|---|---|---|
| 5,772 | Net surplus/(deficit) | | **2,963** |
| 5,772 | **TOTAL REPAYMENT OF SURPLUS** | | **2,963** |

The repayment of surplus is required to be paid by 31 October each year.

## Note 9: Debtors and other receivables

| 30/6/2010 Actual ($000) | | **30/6/2011 Actual ($000)** |
|---|---|---|
| 1,323 | Trade debtors | **650** |
| – | Less: provision for doubtful debts | **–** |
| 1,323 | Net Trade debtors | **650** |
| 1 | Debtor Crown | **–** |
| – | Accrued revenue and other receivables | **66** |
| 1,324 | **TOTAL DEBTORS AND OTHER RECEIVABLES** | **716** |

The carrying value of debtors and other receivables approximates their fair value.

The ageing profile of receivables at year end is detailed below:

| | | 2010 | | | **2011** | |
|---|---|---|---|---|---|---|
| | Gross | Impairment | Net | **Gross** | **Impairment** | **Net** |
| Not past due | 1,317 | – | 1,317 | **707** | **–** | **707** |
| Past due 31–60 days | – | – | – | **9** | **–** | **9** |
| Past due 61–90 days | 7 | – | 7 | **–** | **–** | **–** |
| Past due > 91 days | – | – | – | **–** | **–** | **–** |
| Total | 1,324 | – | 1,324 | 716 | – | 716 |

The provision for doubtful debts has been calculated based on expected losses for the SSC's pool of debtors. Expected losses have been determined based on an analysis of the SSC's losses in previous periods and review of specific debtors. Those specific debtors that are insolvent are fully provided for.

NOTES TO THE

# FINANCIAL STATEMENTS (CONTINUED)

Movements in the provision for doubtful debts are as follows:

| 30/6/2010 Actual ($000) | | **30/6/2011 Actual ($000)** |
|---|---|---|
| – | Balance at 1 July | – |
| 1 | Additional provisions made during year | – |
| – | Reverse impairment previously expensed | – |
| (1) | Receivables written off during the year | – |
| – | **Balance at 30 June** | – |

## Note 10: Non-current assets held for sale or transfer

The Learning State (LS) group non-current assets transferred to Learning State Limited (LSL) on 1 July 2010.

The carrying value of non-current assets that transferred to Learning State Limited were as follows:

| | Learning State Limited | | | | **Total** |
|---|---|---|---|---|---|
| | Office Equipment ($000) | Furniture and fittings ($000) | Computer hardware ($000) | Acquired software ($000) | **($000)** |
| Cost | 55 | 334 | 197 | 83 | **669** |
| Accumulated depreciation/amortisation and impairment | 28 | 126 | 182 | 61 | **397** |
| **Carrying value at 30 June 2010** | 27 | 208 | 15 | 22 | **272** |

NOTES TO THE

# FINANCIAL STATEMENTS (CONTINUED)

## Note 11: Property, plant and equipment

| | Office Equipment ($000) | Motor Vehicles ($000) | Works of Art ($000) | Furniture and fittings ($000) | Computer hardware ($000) | **Total ($000)** |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at 1 July 2009 | 1,355 | – | 154 | 4,222 | 5,619 | **11,350** |
| Additions | 8 | – | – | 102 | 60 | **170** |
| Derecognition on disposal or write–off | (41) | – | – | (431) | (242) | **(714)** |
| Reclassifications | – | – | – | – | (105) | **(105)** |
| Eliminate on "Held for sale or transfer" | – | – | – | – | – | **–** |
| **Balance at 30 June 2010** | 1,322 | – | 154 | 3,893 | 5,332 | **10,701** |
| Balance at 1 July 2010 | 1,322 | – | 154 | 3,893 | 5,332 | **10,701** |
| Additions | 32 | – | – | 22 | 241 | **295** |
| Derecognition on disposal or write–off | (27) | – | – | (34) | (2,217) | **(2,278)** |
| Reclassifications | – | – | – | – | – | **–** |
| Eliminate on "Held for sale or transfer" | – | – | – | – | – | **–** |
| **Balance at 30 June 2011** | 1,327 | – | 154 | 3,881 | 3,356 | **8,718** |
| **Accumulated depreciation** | | | | | | |
| Balance at 1 July 2009 | 1,013 | – | 29 | 3,437 | 4,599 | **9,078** |
| Depreciation expense | 110 | – | 4 | 343 | 443 | **900** |
| Derecognition on disposal or write–off | (35) | – | – | (278) | (187) | **(500)** |
| Reclassification | – | – | – | – | (99) | **(99)** |
| Eliminate on "Held for sale or transfer" | – | – | – | – | – | **–** |
| **Balance at 30 June 2010** | 1,088 | – | 33 | 3,502 | 4,756 | **9,379** |
| Balance at 1 July 2010 | 1,088 | – | 33 | 3,502 | 4,756 | **9,379** |
| Depreciation expense | 101 | – | – | 246 | 359 | **706** |
| Derecognition on disposal or write–off | (18) | – | – | (33) | (2,215) | **(2,266)** |
| Reclassification | – | – | – | – | – | **–** |
| Eliminate on "Held for sale or transfer" | – | – | – | – | – | **–** |
| **Balance at 30 June 2011** | 1,171 | – | 33 | 3,715 | 2,900 | **7,819** |
| **Carrying amounts** | | | | | | |
| At 1 July 2009 | 342 | – | 125 | 785 | 1,020 | **2,272** |
| At 30 June and 1 July 2010 | 234 | – | 121 | 391 | 576 | **1,322** |
| At 30 June 2011 | 156 | – | 121 | 166 | 456 | **899** |

NOTES TO THE
# FINANCIAL STATEMENTS (CONTINUED)

## Note 12: Intangible assets

| | Acquired software ($000) | Internally generated software ($000) | **Total ($000)** |
|---|---|---|---|
| **Cost** | | | |
| Balance at 1 July 2009 | 4,930 | – | **4,930** |
| Additions | 5 | – | **5** |
| Reclassifications | – | – | **–** |
| Derecognition on disposal or write-off | – | – | **–** |
| Eliminate on "Held for sale or transfer" | – | – | **–** |
| **Balance at 30 June 2010** | 4,935 | – | **4,935** |
| Balance at 1 July 2010 | 4,935 | – | **4,935** |
| Additions | 17 | – | **17** |
| Reclassifications | – | – | **–** |
| Derecognition on disposal or write-off | (3,328) | – | **(3,328)** |
| Eliminate on "Held for sale or transfer" | – | – | **–** |
| **Balance at 30 June 2011** | 1,624 | – | **1,624** |
| **Accumulated amortisation** | | | |
| Balance at 1 July 2009 | 4,727 | – | **4,727** |
| Amortisation expense | 96 | – | **96** |
| Reclassifications | – | – | **–** |
| Derecognition on disposal or write-off | – | – | **–** |
| Impairment losses | – | – | **–** |
| Eliminate on "Held for sale or transfer" | – | – | **–** |
| **Balance at 30 June 2010** | 4,823 | – | **4,823** |
| Balance at 1 July 2010 | 4,823 | – | **4,823** |
| Amortisation expense | 65 | – | **65** |
| Reclassifications | – | – | **–** |
| Derecognition on disposal or write-off | (3,328) | – | **(3,328)** |
| Impairment losses | – | – | **–** |
| Eliminate on "Held for sale or transfer" | – | – | **–** |
| **Balance at 30 June 2011** | 1,560 | – | **1,560** |
| **Carrying amounts** | | | |
| At 1 July 2009 | 203 | – | **203** |
| At 30 June and 1 July 2010 | 112 | – | **112** |
| At 30 June 2011 | 64 | – | **64** |

NOTES TO THE
# FINANCIAL STATEMENTS (CONTINUED)

## Note 13: Creditors and other payables

| 30/6/2010 Actual ($000) | | **30/6/2011 Actual ($000)** |
|---|---|---|
| 763 | Sundry creditors | **180** |
| 1,071 | Accrued expenses | **1,024** |
| 248 | GST payable | **349** |
| 2,082 | **TOTAL CREDITORS AND OTHER PAYABLES** | **1,553** |

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.

## Note 14: Employee entitlements

| 30/6/2010 Actual ($000) | | **30/6/2011 Actual ($000)** |
|---|---|---|
| | **Current liabilities** | |
| 374 | Accrued salaries and performance pay | **299** |
| 768 | Annual leave | **628** |
| 17 | Sick leave | **21** |
| 38 | Retirement and long service leave | **121** |
| 1,197 | **Total current portion** | **1,069** |
| | **Non-current liabilities** | |
| 125 | Retirement leave | **39** |
| 23 | Long service leave | **29** |
| 148 | **Total non-current portion** | **68** |
| 1,345 | **TOTAL EMPLOYEE ENTITLEMENTS** | **1,137** |

The present value of the Retirement and Long Service Leave obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating this liability are the discount rate and salary inflation factor.

The discount rates used in the calculations were issued by Treasury. 2011 Discount rates: 1 year 2.84%, 2 years 3.81%, 3 years + 6%. Long term salary inflation rate: 3.5%.

NOTES TO THE
# FINANCIAL STATEMENTS (CONTINUED)

## Note 15: Unearned income

| 30/6/2010 Actual ($000) | | **30/6/2011 Actual ($000)** |
|---|---|---|
| 80 | Public Sector Training Organisation (PSTO) services | – |
| 247 | Emerging Issues Project | – |
| 62 | Other unearned income | – |
| 389 | **TOTAL REVENUE IN ADVANCE** | – |

## Note 16: Reconciliation of Net Surplus to Net Cash Flows from Operating Activities

| 30/6/2010 Actual ($000) | | Note | **30/6/2011 Actual ($000)** |
|---|---|---|---|
| 5,772 | **Net surplus/(defecit)** | | **2,963** |
| | *Add/(less) non-cash items* | | |
| 1,098 | Depreciation, amortisation and impairment expenses | 11,12 | **771** |
| 1,098 | **Total non-cash items** | | **771** |
| | *Add/(less) items classified as investing or financing activities* | | |
| (8) | Net (Gains)/losses on disposal of property,plant and equipment | | **7** |
| | *Add/(less) movements in deferrals and accruals* | | |
| 261 | (Increase)/decrease in prepayments | | **55** |
| 162 | (Increase)/decrease in debtors and other receivables | | **541** |
| (1,397) | Increase/(decrease) in creditors and other payables | | **338** |
| (797) | Increase/(decrease) in revenue in advance | | **(309)** |
| 6 | Increase/(decrease) in provisions | | **358** |
| (703) | Increase/(decrease) in current employee entitlements | | **(133)** |
| (2,468) | **Total net movements in working capital items** | | **850** |
| 4,394 | **NET CASH FLOW FROM OPERATING ACTIVITIES** | | **4,591** |

NOTES TO THE
# FINANCIAL STATEMENTS (CONTINUED)

## Note 17: Provisions

The restructuring provision arises from an organisational redesign which has impacted on a number of positions across the Commission. Management anticipate that the new structure will be in place by September 2011.

The Commission is required at the expiry of the lease term of its Molesworth Street premises in March 2012 to make good the premises and $44,000 has been provided for this.

Lease make good obligations of $118,000 for premises in Featherston Street were assigned to Learning State Limited on 1 July 2010.

| | Restructuring ($000) | Lease Make Good ($000) | **Total ($000)** |
|---|---|---|---|
| Opening balance 1 July 2010 | – | 118 | **118** |
| Additional provisions made | 314 | 44 | **358** |
| Amounts assigned to Learning State Ltd | – | (118) | **(118)** |
| Unused amounts reversed | – | – | **–** |
| Discount unwind | – | – | **–** |
| **Closing balance 30 June 2011** | 314 | 44 | **358** |

| | Restructuring ($000) | Lease Make Good ($000) | **Total ($000)** |
|---|---|---|---|
| Opening balance 1 July 2009 | – | 112 | **112** |
| Additional provisions made | – | 6 | **6** |
| Unused amounts reversed | – | – | **–** |
| Discount unwind | – | – | **–** |
| **Closing balance 30 June 2010** | – | 118 | **118** |

NOTES TO THE
# FINANCIAL STATEMENTS (CONTINUED)

## Note 18: Financial instruments

The SSC is party to financial instrument arrangements as part of its everyday operations. The SSC's financial assets comprise cash and cash equivalents and debtors and other receivables. Cash and cash equivalents consist of cash on hand (petty cash) and funds held in bank current accounts. The SSC's financial liabilities comprise creditors and other payables. The SSC was not party to any derivative financial instruments as at 30 June 2011.

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

| 30/6/2010 Actual ($000) | | Note | **30/6/2011 Actual ($000)** |
|---|---|---|---|
| | **Loans and receivables** | | |
| 15,955 | Cash and cash equivalents | | **11,104** |
| 1,324 | Debtors and other receivables | 9 | **716** |
| 17,279 | **Total loans and receivables** | | **11,820** |
| | **Financial liabilities measured at amortised cost** | | |
| 2,082 | Creditors and other payables | 13 | **1,553** |

The SSC has 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. The SSC has no material exposure to currency risk.

**Interest rate risk**

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

The SSC has no interest bearing financial instruments and, accordingly, has no exposure to interest rate risk.

**Credit risk**

Credit risk is the risk that a third party will default on its obligations to the SSC, causing the SSC to incur a loss.

In the normal course of its business, the SSC incurs credit risk from debtors and bank deposits.

The SSC is only permitted to deposit funds with Westpac, a registered bank with a high credit rating. For its debtors, the SSC has no significant concentrations of credit risk.

The SSC's maximum credit exposure for its financial instruments is represented by the total carrying amount of cash and bank deposits, and net debtors. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

**Liquidity risk**

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

NOTES TO THE

# FINANCIAL STATEMENTS (CONTINUED)

In meeting its liquidity requirements, the SSC closely monitors its forecast cash requirements with expected cash drawdowns from the New Zealand Debt Management Office. The SSC maintains a target level of available cash to meet liquidity requirements.

The table below analyses the SSC's financial liabilities that will be settled based on the remaining period as at 30 June 2011 and 2010 to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

| | | Less than 6 months | More than 6 months |
|---|---|---|---|
| **2010** | Note | ($000) | ($000) |
| Creditors and other payables | 13 | 2,082 | – |
| **2011** | | | |
| Creditors and other payables | 13 | 1,553 | – |

## Note 19: Related party transactions

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

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

**Significant transactions with government-related entities**

The SSC has received funding from the Crown of $26.124m (2010: $25.985m) for the year ended 30 June 2011.

**Collectively, but not individually, significant transactions with government-related entities**

In conducting its activities, the 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. The SSC is exempt from paying income tax.

The SSC also purchased and sold goods and services with entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2011 totalled $1.55m (2010: $1.09m). These purchases included the purchase of postal services from New Zealand Post, legal services from Crown Law Office, electricity from Meridian Energy and air travel from Air New Zealand. Sales to government-related entities for the year ended 30 June 2011 totalled $4.31m (2010: $3.37m). These sales included the provision of Gateway reviews of major IT projects, Performance Improvement Framework assessments, Emerging Issues, provision of support services to Serious Fraud Office, Ministry for Culture and Heritage and Learning State, and rental income from the sublease of level 2 of the SSC's Molesworth Street premises to the Office of the Auditor-General.

NOTES TO THE

# FINANCIAL STATEMENTS (CONTINUED)

**Transactions with key management personnel**

**Key management personnel compensation**

| 30/6/2010 Actual ($000) | | **30/6/2011 Actual ($000)** |
|---|---|---|
| 2,662 | Salaries and other short-term employee benefits | **3,124** |
| 8 | Long-term employee benefits | **–** |
| 2,670 | **TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION** | **3,124** |

Key management personnel as at 30 June 2011 include the State Services Commissioner and eleven members of the Senior Management Team and the Chief Financial Officer (2010: ten members).

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 at the SSC. The Minister's remuneration and other benefits are set by the Remuneration Authority under the Civil List Act 1979 and are paid under Permanent Legislative Authority, and not paid by the 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.

## Note 20: Capital management

The SSC's capital is its equity (or taxpayer's funds) that represents the Crown's net investment in the SSC.

The SSC manages its income, expenditure (operating and capital), assets, liabilities and general dealings prudently. The SSC's equity is largely managed as a by-product of managing income, expenditure, assets, liabilities, and compliance with the Government Budget processes and with Treasury instructions.

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

NOTES TO THE
# FINANCIAL STATEMENTS (CONTINUED)

## Note 21: Major budget variances

Explanations for major variations between actual results and forecast in the Main Estimates having regard to changes made in the Supplementary Estimates follow.

The significant variance between the Main Estimates and the Supplementary Estimates in the Statement of Comprehensive Income mainly relate to an expected net budget surplus of $1.500 million for 2010/11.

The actual budget surplus of $2.963 million has been achieved mainly due to reduced personnel costs as a result of a number of unfilled positions and an underspend on consultants in 2010/11 financial year.

The significant variance between the Main Estimates and the Supplementary Estimates in the Statement of Financial Position mainly relate to a reduction in the non-current asset budget due to a deferral of capital expenditure to financial year 2011/12 in order to fund both the SSC's accommodation move and its contribution to the Corporate Services integration project.

The major variances between the Supplementary Estimates and the Actuals in the Statement of Financial Position for the financial year 2010/11 are as follows:

- cash and cash equivalents are higher than supplementary estimates due to the result of a higher than expected year end operating surplus and also less expenditure being incurred on the capital programme in financial year 2010/11.
- debtors and other receivables are lower than the Supplementary Estimates due to improved management of the Commission's debtor book in the last quarter of financial year 2010/11
- property, plant and equipment are lower than the Supplementary Estimates due to the SSC requesting a capital budget transfer from 2010/11 to 2011/12 to fund both the accommodation move and it contribution to the Corporate Services integration project
- creditors and other payables were less than supplementary estimates due to a payment run on 30th June 2011.

Further variance information is provided under the Statement of Cost of Services for each output class in the Statement of Objectives and Service Performance section of the Annual Report.

NOTES TO THE

# FINANCIAL STATEMENTS (CONTINUED)

## Note 22: Comparatives

Until 30 June 2010, Learning State (LS) group, the public sector training organisation, was a business group within the SSC. Learning State Limited (LSL) became a not-for-profit Crown-owned company listed under Schedule 4 of the Public Finance Act on 1 July 2010. The LS group operation including assets and liabilities were transferred to LSL at that date. For comparative purposes, the 2010 LS actuals have been excluded from the following table:

| | 30/6/2010 Excluding Learning State Actual $000 | **30/6/2011 Actual $000** | Note |
|---|---|---|---|
| **Statement of Financial Position** | | | |
| Cash and cash equivalents | 13,374 | **11,104** | The cash balance has reduced in 2010/11 due to the result of a capital repayment made in May 2011 and a payment run on the 30th June 2011. |
| Other Current Assets | 1,434 | **837** | A reduction in the final debtors position for 2010/11 is due to an improvement in the management of accounts receivable. |
| Non-Current Assets | 1,434 | **963** | |
| **Total Assets** | 16,242 | **12,904** | |
| Creditors and other payables | 1,215 | **1,553** | |
| Repayment of surplus to the Crown | 5,772 | **2,963** | A reduced surplus of $2.963m for 2010/11 will be repaid to the Crown. |
| Other Current Liabilities | 1,431 | **1,427** | Provisions in 2010/11 of $314,000 have been made for restructuring and $44,000 for make good at the expiry of the lease of SSC's Molesworth Street office. This has been offset by a reduction of $309,000 in unearned income at the end of 2009/10. |
| Non-Current Liabilities | 148 | **68** | |
| **Total Liabilities** | 8,566 | **6,011** | |
| **Net Assets** | 7,676 | **6,893** | |

## Note 23: Post balance date events

There have been no significant events after the balance date.

# STATEMENTS AND SCHEDULES: NON-DEPARTMENTAL

FOR THE YEAR ENDED 30 JUNE 2011

The following non-departmental statements and schedules record the expenses, revenue and receipts, assets and liabilities that the SSC manages on behalf of the Crown. The SSC administered $195.308 million of non-departmental appropriations, $11.337 million of non-departmental revenue and receipts, $2.142 million assets and $58.486 million liabilities on behalf of the Crown for the year ended 30 June 2011. Further details of the SSC's management of these Crown activities is provided in the output performance sections of this report.

## STATEMENT OF NON-DEPARTMENTAL EXPENDITURE AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS

FOR THE YEAR ENDED 30 JUNE 2011

| 30/6/2010 Expenditure after Remeasurements Actual ($000) | | 30/6/2011 Expenditure before Remeasurements Actual ($000) | **30/6/2011 Remeasurements Actual ($000)** | 30/6/2011 Expenditure after Remeasurements Estimates ($000) | 30/6/2011 Appropriation Voted* ($000) |
|---|---|---|---|---|---|
| | **Vote State Services** | | | | |
| | **Appropriations for Other Expenses to be incurred by the Crown** | | | | |
| 12,171 | Payment and Remuneration of Chief Executives | 11,905 | **–** | 11,905 | 12,416 |
| – | Settlement of Legal Liabilities | – | **–** | – | 7 |
| 99,390 | State Sector Retirement Savings Scheme | 98,719 | **–** | 98,719 | 100,000 |
| 65,661 | KiwiSaver: State Sector Employer Contributions | 84,684 | **–** | 84,684 | 85,000 |
| 177,222 | **TOTAL** | 195,308 | **–** | 195,308 | 197,423 |

*This includes adjustments made in the Supplementary Estimates.

The accompanying 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 2011.

STATEMENT OF NON-DEPARTMENTAL

## UNAPPROPRIATED EXPENDITURE AND CAPITAL EXPENDITURE

FOR THE YEAR ENDED 30 JUNE 2011

There was no unappropriated expenditure in relation to the activities that the SSC administers on behalf of the Crown for the year ended 30 June 2011 (30 June 2010: Nil).

SCHEDULE OF NON-DEPARTMENTAL

## REVENUES AND RECEIPTS FOR THE YEAR ENDED 30 JUNE 2011

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

| 30/6/2010 Actual ($000) | | **30/6/2011 Actual ($000)** | 30/6/2011 Main Estimates ($000) | 30/6/2011 Supp. Estimates ($000) |
|---|---|---|---|---|
| | **Vote State Services** | | | |
| | *Non-tax revenue:* | | | |
| 12,017 | Reimbursement of Chief Executives Remuneration | **11,337** | 13,150 | 11,410 |
| 12,017 | **Total Crown Revenue and Receipts: Vote State Services** | **11,337** | 13,150 | 11,410 |

The accompanying 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 2011.

## SCHEDULE OF NON-DEPARTMENTAL ASSETS AS AT 30 JUNE 2011

The Schedule of Non-Departmental Assets summarises the assets that the SSC administers on behalf of the Crown.

| 30/6/2010 Actual ($000) | | Note | **30/6/2011 Actual ($000)** | 30/6/2011 Main Estimates ($000) | 30/6/2011 Supp. Estimates ($000) |
|---|---|---|---|---|---|
| | **Vote State Services** | | | | |
| | **ASSETS** | | | | |
| | *Current assets* | | | | |
| 4,469 | Cash | 5 | **2,031** | 5,207 | 28,229 |
| 111 | Debtors and other receivables | 2 | **111** | – | 111 |
| 4,580 | **Total Non-Departmental Assets** | | **2,142** | 5,207 | 28,340 |

## SCHEDULE OF NON-DEPARTMENTAL LIABILITIES AS AT 30 JUNE 2011

The Schedule of Non-Departmental Liabilities summarises the liabilities that the SSC administers on behalf of the Crown.

| 30/6/2010 Actual ($000) | | Note | **30/6/2011 Actual ($000)** | 30/6/2011 Main Estimates ($000) | 30/6/2011 Supp. Estimates ($000) |
|---|---|---|---|---|---|
| | **Vote State Services** | | | | |
| | **LIABILITIES** | | | | |
| 48,171 | Creditors and other payables | 3 | **56,932** | 23,851 | 24,252 |
| 2,034 | Provision for employee entitlements | 4 | **1,554** | 138 | 50 |
| 50,205 | **Total Non-Departmental Liabilities #** | | **58,486** | 23,989 | 24,302 |

\# Includes performance pay provision of $0.550 million (2010: $0.579 million).

The accompanying 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 2011.

## SCHEDULE OF NON-DEPARTMENTAL COMMITMENTS AS AT 30 JUNE 2011

There are no non-departmental commitments in respect to the activities the SSC administered on behalf of the Crown as at 30 June 2011 (30 June 2010: Nil).

## SCHEDULE OF NON-DEPARTMENTAL CONTINGENT LIABILITIES AS AT 30 JUNE 2011

There are no non-departmental contingent liabilities in respect to the activities the SSC administered on behalf of the Crown as at 30 June 2011 (30 June 2010: Nil).

The accompanying 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 2011.

NOTES TO THE

# NON-DEPARTMENTAL FINANCIAL STATEMENTS

## Note 1: Statement of Accounting Policies

**Reporting entity**

These non-departmental schedules and statements present financial information on public funds managed by the 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 2011. 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 as appropriate for public benefit entities.

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

**Significant accounting policies**

**Revenue**

**Recoveries of Chief Executive's 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 mid-point of $10,000 salary bands.

**Goods and services tax**

All items in the financial statements, 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 initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Impairment of a receivable is established when there is objective evidence that the SSC will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the schedule of non-departmental expenses. When a debt is uncollectible, it is written-off against the allowance 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 initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

NOTES TO THE
# NON-DEPARTMENTAL FINANCIAL STATEMENTS

**Employee entitlements**

*Short-term employee entitlements*

Employee benefits that the SSC expects 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 accrued up to balance date, annual leave earned but not yet taken at balance date, vested retiring and vested long service leave entitlements expected to be settled within 12 months, and sick leave.

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

*Long-term employee entitlements*

These are employee benefits that the SSC expects to be settled beyond 12 months of balance date. These consist of vested retiring leave and unvested long service leave.

The vested retiring leave is measured at nominal value based on accrued entitlements at current rates of pay.

The unvested long service is 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. The discount rates used in the calculations were issued by the Treasury. 2011 Discount rates: 1 year 2.84%, 2 years 3.81%, 3 years + 6%; Long term salary inflation rate: 3.5%.

**Superannuation**

Obligations for contributions to the State Sector Retirement Savings Scheme, Kiwisaver and the Government Superannuation Fund are accounted for as defined contribution schemes and are recognised as an expense in the statement of comprehensive income as incurred.

**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 value of that penalty or exit cost.

**Budget figures**

The budget figures are those included in the information supporting the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2011, 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. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

NOTES TO THE

# NON-DEPARTMENTAL FINANCIAL STATEMENTS

## Note 2: Debtors and other receivables

| 30/6/2010 Actual ($000) | | **30/6/2011 Actual ($000)** |
|---|---|---|
| 111 | Refund owing from IRD | **111** |
| – | Less: provision for doubtful debts | **–** |
| 111 | **Total debtors and other receivables** | **111** |

The carrying value of debtors and other receivables approximates their fair value.

The ageing profile of receivables at year end is detailed below:

| | 2010 | | | **2011** | | |
|---|---|---|---|---|---|---|
| | Gross | Impairment | Net | **Gross** | **Impairment** | **Net** |
| Not past due | – | – | – | **–** | **–** | **–** |
| Past due 31–60 days | – | – | – | **–** | **–** | **–** |
| Past due 61–90 days | – | – | – | **–** | **–** | **–** |
| Past due > 91 days | 111 | – | 111 | **111** | **–** | **111** |
| **Total** | 111 | – | 111 | **111** | **–** | **111** |

The provision for doubtful debts has been calculated based on expected losses for the SSC's pool of debtors. Expected losses have been determined based on an analysis of the SSC's losses in previous periods and review of specific debtors. Those specific debtors that are insolvent are fully provided for.

Movements in the provision for doubtful debts are as follows:

| 30/6/2010 Actual ($000) | | **30/6/2011 Actual ($000)** |
|---|---|---|
| – | Balance at 1 July | **–** |
| – | Additional provisions made during year | **–** |
| – | Reverse impairment previously expensed | **–** |
| – | Receivables written off during the year | **–** |
| – | **Balance at 30 June** | **–** |

## Note 3: Creditors and other payables

| 30/6/2010 Actual ($000) | | **30/6/2011 Actual ($000)** |
|---|---|---|
| 48,171 | Accrued expenses | **56,932** |
| 48,171 | **TOTAL CREDITORS AND OTHER PAYABLES** | **56,932** |

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.

NOTES TO THE
# NON-DEPARTMENTAL FINANCIAL STATEMENTS

## Note 4: Employee entitlements

| 30/6/2010 Actual ($000) | | **30/6/2011 Actual ($000)** |
|---|---|---|
| | **Current liabilities** | |
| 579 | Performance pay | **550** |
| 701 | Annual leave | **514** |
| 671 | Retirement leave | **490** |
| 83 | Long service leave | **–** |
| 2,034 | **TOTAL EMPLOYEE ENTITLEMENTS** | **1,554** |

The present value of the Retirement and Long Service Leave obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating this liability are the discount rate and salary inflation factor.

The discount rates used in the calculations were issued by Treasury. 2011 Discount rates: 1 year 2.84%, 2 years 3.81%, 3 years + 6%. Long term salary inflation rate: 3.5%.

## Note 5: Financial instruments

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

| 30/6/2010 Actual ($000) | | **30/6/2011 Actual ($000)** |
|---|---|---|
| | **Loans and receivables** | |
| 4,469 | Cash and cash equivalents | **2,031** |
| 111 | Debtors and other receivables | **111** |
| 4,580 | Total loans and receivables | **2,142** |
| | **Financial liabilities measured at amortised cost** | |
| 48,171 | Creditors and other payables | **56,932** |

### Credit risk

Credit risk is the risk that a third party will default on its obligation, causing a loss to be incurred. Credit risk arises from debtors and deposits with banks. Funds must be deposited with Westpac, a registered bank.

The maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents and net debtors. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired. Other than Westpac bank, there are no significant concentrations of credit risk.

# Section 3: Further information

## Legal responsibilities

The SSC administers the following Acts and Regulations:

Crown Entities Act 2004 (with the Treasury)

Fees and Travelling Allowances Act 1951

Fees and Travelling Allowances Regulations 1952

Government Service Equal Pay Act 1960

Ministry of Works and Development Abolition Act 1988

Protected Disclosures Act 2000

State Sector Act 1988

Terralink NZ Limited (Transfer of Employees) Act 1996.

## 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: the Department of the Prime Minister and Cabinet, the Treasury and the State Services Commission.

**Crown entities** A generic 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, namely: statutory entities, Crown entity subsidiaries, Crown entity companies, 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 generic term for the departments of the Public Service, as listed in the First Schedule to the State Sector Act 1988 (whether their names may be ministry, department, office or other specific name).

**Public sector** The State sector and all local authorities.

**Public Service** The departments listed in the First Schedule to the State Sector Act 1988.

**State sector** All organisations in the annual financial statements of the Crown (for example, departments, New Zealand Police, New Zealand Defence Force, Offices of Parliament, State-owned enterprises, Crown entities and the Reserve Bank).

**State Services** 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 the education service and the health service, but not including:

- the Governor-General
- any member of the Executive Council
- any Minister of the Crown
- any Member of Parliament
- any corporation listed in the First Schedule to the State-Owned Enterprises Act 1986 (ie any SOE)
- any university, polytechnic or college of education.

New Zealand Government

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