



5 July 2018



Dear 

### Official Information Request

Our ref: 2018/0089

I refer to your official information request received on 11 June 2018 for:

*"the extent of contractors in the public service and the possibility that this is being used to keep the number of public servants under the cap imposed by the former National-led government.*

*Please provide me with any reports undertaken by the SSC or provided to the SSC on this subject".*

### Information publicly available

The following information is covered by your request and is publicly available on the State Services Commission (SSC) website:

Item	Date	Document Description	Website Address
1	24 November 2017	SSC Report: Capping of Core Government Administration	<a href="http://www.ssc.govt.nz/proactiv e-releases">http://www.ssc.govt.nz/proactiv e-releases</a>
2	1 March 2018	Aide Memoire: Capping the size of core government administration – update at 30 June 2017	<a href="http://www.ssc.govt.nz/proactiv e-releases">http://www.ssc.govt.nz/proactiv e-releases</a>
3	2 March 2018	SSC Report: Capping of Core Government Administration	<a href="http://www.ssc.govt.nz/proactiv e-releases">http://www.ssc.govt.nz/proactiv e-releases</a>

Accordingly, I have refused your request for the documents listed in the above table under section 18(d) of the OIA – the information requested is publicly available.

Also available on the SSC website, at the same link above are two Cabinet Papers and Cabinet Minutes that were proactively released by the Minister of State Services.

### Information being released

There is one additional documents covered by your request that was provided to the Minister of State Services to assist with his understanding of the work in the Commission following his appointment to the role.

Item	Date	Document Description	Decision
4	27 October 2017	SSC Report: Capping of Core Government Administration	Released in full

If you wish to discuss this decision with us, please feel free to contact [Ministerial.Services@ssc.govt.nz](mailto:Ministerial.Services@ssc.govt.nz).

You have the right to seek an investigation and review by the Ombudsman of this decision. Information about how to make a complaint is available at [www.ombudsman.parliament.nz](http://www.ombudsman.parliament.nz) or freephone 0800 802 602.

Please note that we intend to publish this letter (with your personal details removed) and enclosed documents on the State Services Commission's website.

Yours sincerely

  
A handwritten signature in blue ink, appearing to read 'J Masson', is positioned above the printed name and title.

Josh Masson  
**Manager, Strategy and Policy**  
**State Services Commission**

# Capping of Core Government Administration

**Security classification:** In confidence

**File reference:** SSC-PDC-4-5-10-1

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## Key Points

- The cap on the core government administration was introduced in 2009 to limit growth of 'back office' public service employees and give priority to front-line services that directly benefit New Zealanders.
- The cap was reset in 2012, using June 2011 figures, from 38,859 to 36,475.
- Numbers for the core government administration have dropped by 2,481, while number of the frontline staff excluded from the cap have risen by 3,542.
- Current forecast for June 2018 is to exceed the cap by 343 positions, and then decrease back under the cap in 2019 on the back of Inland Revenue downsizing.
- There is upward pressure being applied on the cap, particularly as budget constraints have been lifted and the population has increased placing more pressure on government services.
- In addition there are other issues that have arisen in the application of the cap. We welcome further discussion on the future of the capping policy.

## Background

- 1 The State Services Commission leads the design and implementation of the Government's cap on core government administration, monitors the impact and reports annually to Cabinet.
- 2 The cap was introduced by the incoming National led government in 2009 as part of National's Manifesto commitment to cap core government administration, with priority given front-line services that directly benefit New Zealanders.
- 3 There are two ways to stop the growth in numbers of back-office staff – through restricting funding through the operating allowance in the Budget (a funding lever); or by placing a physical cap on staff numbers (a regulatory lever). The government decided to do both to demonstrate their commitment to stopping the year-on-year growth of the public sector.
- 4 The cap is administered over all government departments plus five of the larger Crown entities, but exclusions were made on a case by case basis for Child Youth and Family, Corrections services and Work and Income. The cap is managed at a global level, but agencies are required to notify the State Services Commissioner if their staff numbers exceed the level indicated at the time the cap was established.
- 5 In 2009, Cabinet set the cap at 38,859 core government administration full-time equivalent (FTE) positions. This comprised the total of FTE staff and unfilled vacancies at that time.
- 6 By the beginning of their second term, the combination of near zero baseline increases and the numerical cap had considerably reduced the size of the core government administration. In March 2012, Cabinet agreed that the cap be reset at the lower level of 36,475 FTE positions.
- 7 By mid 2016 the number of positions had reduced further to 36,280, but then increased by 403 FTEs to stand at 36,378 FTE positions in June 2017, 98 positions under the reset cap.

- 8 The number of positions is forecast to increase and exceed the cap (by 343) by June 2018. In June 2019 this is then forecast to decrease to 35,469, back under the cap, largely due to downsizing of Inland Revenue. The forecast does not factor in the changes proposed in the manifestos of parties comprising the new Government.
- 9 The number of communications and public relations advisors employed in the Public Service is also monitored. At December 2008 there were 321 FTE staff. This dropped to 271.9 FTEs in 2016, but increased again to 310.9 FTEs by June 2017.

#### **The policy in action**

- 10 Numbers for the core government administration have dropped by 2,481 since the cap was introduced, while number of the frontline staff excluded from the cap have risen by 3,542. These figures suggest that the cap has been effective over this period.
- 11 But there have been other significant factors at play, most notably the global financial crisis which triggered an extended period of fiscal restraint by the Government. More recently as budget pressures have relaxed and demand for services risen, there have been incremental increases to the number of public servants in the core government administration. This has led to increased pressure to manage under the cap.

#### **Issues arising from the cap**

- 12 The negative consequences of a cap include:
  - *Reduced new staff* - there are indications that the cap has encouraged a preference for hiring senior staff over junior staff as more senior staff are seen to carry a greater workload. This creates risks around capability pipelines in the medium-longer term.
  - *Poor business decisions* - the cap is focused on FTE numbers rather than costs. This may be inhibiting sensible business decisions, for example, agencies may be using more expensive contractors rather than employing people to avoid any impact on capping numbers.
  - *The coverage of the cap is inconsistent* in the way that it caps some areas while not capping others.
  - *The cap reduces responsiveness* – the cap has caused issues for agencies with user pays services, which have not been able to adjust for increased demand due to the cap, causing delays in processing time and a stressful environment for staff.
  - *The cap is costing more* - administration of the cap is becoming resource intensive with significant amounts of effort needed across all agencies to come in below the cap.

#### **Upward pressure on the cap**

- 13 Pressures include new initiative development, economic growth and population increase. In particular, high net migration has increased the demand for public services.
- 14 Much of the easy tradeoffs and reprioritisation has been completed, and further reprioritisation of existing programmes or initiatives is becoming difficult, particularly where this is seen by the public as service cuts.
- 15 Pressure on the cap is also growing from business transformation and state sector reform, which requires agencies to bring in the new skills required to deliver successful change while managing business as usual.

Contact: Andrew Burns - Deputy Commissioner, Strategy and Policy

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## Appendix one: Current Position & Forecasts

**Figure 1:** Trends in Public Service and Core Government Administration Staff Numbers

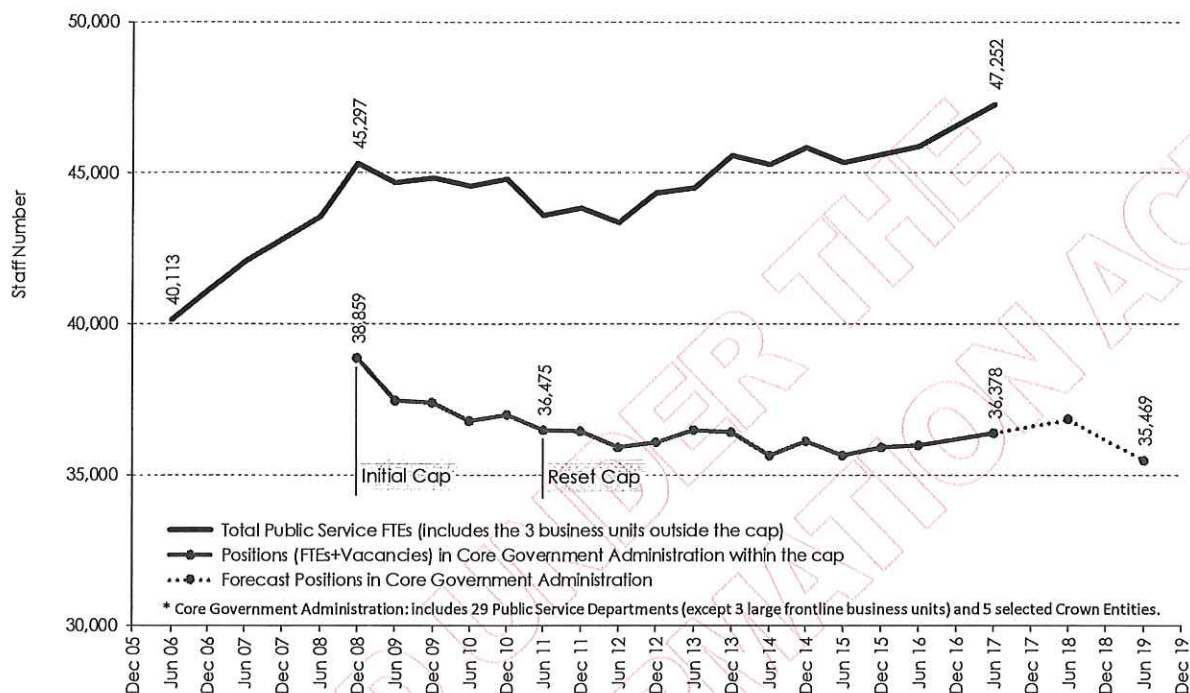


Figure 1 shows the long term staffing trends within the cap. The bottom (blue) line shows total FTE positions for core government administration under the cap. The overall capping number is trending downward and remains under the reset cap. The top line shows the total FTE staff numbers employed in the Public Service. This includes the three large frontline business units (the Corrections Service, Work and Income, and Child Youth and Family<sup>1</sup>) which are excluded in the cap.

<sup>1</sup> re-established as the Ministry for Vulnerable Children, Oranga Tamariki on 1 April 2017