Administrative & Support Services Benchmarking Report for the Financial Year 2012/13

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New Zealand Government

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Foreword by the Minister of Finance

Hon Bill English, Minister of Finance, Deputy Prime Minister

Public sector agencies have made real progress over the past five years in responding to New Zealanders' demands for better public services in a fiscally constrained environment.

This is reflected in at least three areas.

First, New Zealanders generally believe that public services have improved.

Second, the Government has achieved its fiscal objectives and we are on track to return to surplus next year. In fact, we have found that what works for communities in terms of better services, also works for the Government in reducing waste and unnecessary costs.

Finally – and most importantly – we are seeing encouraging and measurable improvements in dealing with some of New Zealand's most complex problems.

The crime rate is falling. Educational achievement is improving. We are performing more operations in hospitals. And we're supporting more people off welfare and into work.

Even in areas where we are not making as much progress as we would like – for example, in the area of vulnerable children - public service agencies are working hard and coming up with new ways of addressing problems.

Rather than embarking on a disruptive restructuring of the public service, the Government has chosen an adaptive model of change, so we can become clearer about what we are trying to achieve. The public service has responded positively.

For most New Zealanders, the public faces of our government services are on the front line. However, our administrative and support services teams play a crucial role in delivering better services for New Zealanders who rely on them.

This Benchmarking Administrative and Support Services (BASS) report confirms that while public agencies are making good progress in a number of areas, there is room for further improvement in other areas. In particular, ICT remains a challenge.

The Government Chief Information Officer (GCIO) is implementing the Government's ICT Strategy and Action Plan, which identifies areas that need to change for ICT to move from supporting business operations to enabling business transformation by 2017.

The BASS report helps us to better understand areas like this. By publicly identifying where improvements can be made, we are providing transparency around costs and service standards and helping to retain a focus on the areas that really make a difference to the way services are delivered.

Given the progress made to date I am optimistic about what the public sector can achieve for communities across New Zealand. Public servants have shown they can adapt to fiscal constraint and, at the same time, adopt new ways of working to deliver improved results. Providing this continues, I expect we will all see identifiable and positive change in our communities.

Statement by the Secretary to the Treasury

Gabriel Makhlouf, Secretary to the Treasury

This is the Treasury's fourth Benchmarking Administrative and Support Services (BASS) report. It is an important part of the Treasury's ongoing work with State sector agencies to deliver sustainable performance improvements and value for money. (This report is supported by the Property Management Centre of Expertise's (PMCoE's) Crown Office Estate Report for 2012/13 which is also being released today.)

The Treasury believes that the State sector should aim to reach the upper quartile result against comparators for BASS by 2022. I encourage agencies to continue to explore how they will make further progress towards this goal. Current performance shows that progress is being made but we have some way to go before we can achieve that benchmark. This report shows significant increases in costs for participating agencies over the previous year, the vast proportion of which is attributed to the ICT costs of a small number of agencies undergoing significant change projects and organisational restructuring.

The Treasury remains committed to supporting a better understanding of state sector performance and will continue to develop BASS – including the complementary data on property – with the input of agencies.

I would like to thank colleagues across the State sector for their continued efforts and partnership in helping to improve the performance of the State sector and deliver greater value to the taxpayer.

Executive summary

Purpose of the report

This report provides information on the cost, efficiency, and effectiveness of administrative and support (A&S) services in the State sector. Consistent performance information across agencies gives transparency over a significant area of expenditure and provides an evidence base for assessing performance. This information would otherwise be hidden as agencies include overhead within output costs, and they typically do not report externally on A&S service efficiency and effectiveness.

This report responds to government demands for better, smarter public services for less. The current economic climate drives the Government's focus on delivering services more efficiently and effectively, making sure money is not spent unnecessarily on A&S services when directing it to front line services would yield higher results. The performance information in this report helps agencies better understand the cost and quality of their internal services and make sound resource allocation decisions.

This report also responds to government demands for stronger management practices in the State sector. A&S services are fundamental to establishing and maintaining high performing organisations, which is why this report measures not only cost and efficiency, but also the effectiveness of these services.

Scope of the report

Twenty-seven agencies participated in the Financial Year (FY) 2012/13 benchmarking exercise. Agencies that provided data for this reporting period are listed in Appendix 3.

Results cover five A&S service functions. This report features commentary and key findings for each of the following functions: Human Resources (HR); Finance; Information and Communications Technology (ICT); Procurement; and Corporate and Executive Services (CES). The latter includes but is not limited to Legal Services, Communications, and Information Management.

Data for the Property function is not collected as part of the A&S benchmarking exercise from FY 2012/13. Property Management is now being managed by the Property Management Centre of Expertise (PMCoE), and is reported annually in the Crown Office Estate Report. A summary of Property Management findings for FY 2012/13 can be found in Appendix 5. Detailed findings and data for FY 2012/13 can be found at:

http://www.msd.govt.nz/about-msd-and-our-work/about-msd/our-structure/pmcoe/publications/pmcoe-publications.html Metric definitions for each function are in Appendix 4.

Measurement and benchmarking approach

The Treasury is responsible for providing an annual benchmarking service across the public service and for compiling this report. This role involves providing practical support to measurement agencies during data collection, validating and analysing data, producing a summary report, and working with practitioners to strengthen the metric set based on lessons learned. The Treasury completes most work in-house and draws on third parties such as the American Productivity & Quality Center (APQC) and The Hackett Group for comparator data and specialist analysis as required. It also liaises with other governments to access comparator data and lessons learned from similar exercises overseas.

The Treasury's approach to benchmarking is adapted from established international methodologies. Rather than building a bespoke methodology, the New Zealand agency benchmarking exercise adopted metrics and methods from the UK Audit Agencies (UKAA) and two leading international benchmarking organisations: APQC and The Hackett Group. From FY 2011/12, the exercise also includes working with an Australian jurisdiction to measure the ICT function.

Quality of management information

Caveat to time series: The Ministry of Business Innovation and Employment (MBIE) merger, effective from 1 July 2012, has impacted on the comparative metrics across cohorts, with Department of Building and Housing (DBH) moving out of the small agency cohort, and Department of Labour (DOL) and Ministry of Economic Development (MED) out of the medium agency cohort, to now be included in the large agency cohort as MBIE.

Findings

Highlights of cost findings

Agencies spent nearly $2 billion on A&S services in FY 2012/13. The 27 measured agencies spent $1.659 billion in FY 2012/13, with ICT making up the bulk (67 percent) of expenditure.

Overall, A&S service expenditure has been flat in previous years but there has been a significant increase from FY 2011/12 to FY 2012/13. Agencies and functions measured for the past three fiscal years show a nominal spending increase of $173.5 million since FY 2010/11 (11.7 percent). $143.1 million (9.4 percent) of this increase is from FY 2011/12. When adjusted for inflation, there is a $150.1 million (or 10.0 percent) increase since FY 2010/11.

From a functional perspective, nominal spending increases are mainly driven by rising ICT expenditure. The overall $173.5 million nominal net increase in A&S services since FY 2010/11 is based on an $11.5 million spending reduction in Finance, and Procurement and a $185.0 million spending increase in HR, ICT and Corporate and Executive services. Of the reported $185.0 million spending increase, $158.3 million (86 percent) is attributable to the ICT function.

The trend of increasing ICT expenditure can be positive if it drives service improvements and takes non-ICT costs out of agencies. However, agencies must be clearer about the business value of ICT investments and provide a better evidence base for benefits realisation after new technology is implemented. The Treasury is working with the GCIO to improve measurement of the value of ICT investment in both the BASS programme and its Government Project Portfolio work.

Highlights of efficiency findings

There are significant opportunities to improve A&S service efficiency:

- About $47 million in A&S service spending could be saved annually by reducing variability in efficiency around the median for the Finance and HR functions alone. This amount could be saved if agencies with efficiency levels below the median in their cohort met that level of efficiency.
- Approximately $83 million to $127 million could be saved annually if agencies achieved more aggressive efficiency targets for the Finance and HR functions. This amount could be saved if agencies below the upper quartile in their cohort met that level of efficiency or if agencies met international benchmarks.

Overall, there is significant variability in the efficiency of A&S services across agencies and opportunities for improvement. These results are not surprising for two reasons:

- Participating agencies are of different sizes, and smaller agencies are generally less efficient because they have to bear the fixed costs of service delivery on a lower base of service users than larger agencies.
- Participating agencies function within a duplicative and fragmented service delivery model where, for the most part, each agency makes its own service arrangements and builds and operates its own enabling technology.

Although the larger agencies are generally more efficient, the greatest opportunities to realise gross savings through efficiency gains are in the medium and large agency cohorts. The small agency cohort is not the major source of potential gross savings because they make up only 3.8 percent ($62.3 million) of A&S service expenditure.

Potential gross savings should not be confused with potential net savings. Experience indicates that significant efficiency gains require upfront investment. More investigation into options for lifting efficiency is required, as well as balancing costs, benefits, and risks of those options.

Highlights of effectiveness findings

HR effectiveness indicators show opportunities for improvement. The HR management practice indicators (MPIs) have been replaced by a Capability Maturity Model (CMM). The CMM will reflect clearer assessments of current capability and changes over time. However, HR effectiveness as measured by new hires in the same role after 12 months continues to decline, and agency results show lower effectiveness than international benchmarks. These findings, together with continued reduction in

efficiency levels for HR since FY 2010/11, highlight the need for cross-agency transformation programmes to improve performance.

Finance management practices lag leading practices but agencies have aspirations to improve. Assessed maturity levels for the Finance CMM introduced last year have improved, but agencies continue to aspire to make significant improvement to the effectiveness of this function, highlighting the need for cross-agency financial management transformation programmes to improve performance.

ICT departments are effective at supporting systems, but are less efficient than international comparators. The median time to resolve a service commitment disruption and the mean ICT MPI score are similar to international comparators, and reported system reliability remains high. NZ agencies continue to report a higher cost per internal end user than international comparators.

We need a better understanding of how well ICT departments support overall agency performance. ICT has the potential to modernise service delivery and make a strong contribution to agency strategies for achieving "better for less." The Treasury is working with the GCIO to determine how to measure the strategic contribution of ICT departments – not just their effectiveness at supporting systems.

This FY 2012/13 report set a baseline for new procurement effectiveness metrics for which no international comparator data is available. The overall result of 5% of procurement staff being qualified, as well as a closer look at individual agency results, shows significant room for improvement. Effectiveness results regarding the percentage of contracts >$100K that have plans or business cases or that are reviewed annually also show room for improvement. The overall results for these are approximately 43% and 37% respectively, which is well below the level of adherence to good practice pursued in Procurement Functional Leadership.

Spend against pre-established contracts and the reported use of collaborative procurement arrangements is similar to international comparators for FY 2012/13. Although there is variation within cohorts, actual spend against pre-established contract arrangements as a percentage of the total purchase value has remained relatively constant, but is above international benchmarks. The revised definition of 'commodity' Procurement spend channelled through 'collaborative' Procurement arrangements is now more aligned with the UKAA comparator definition. Trend data for FY 2010/11 is not shown for this metric as it is no longer comparable. The result of 17.5 percent is now comparable to the UKAA cohort median of 18 percent.

Overall, agencies aspire to significantly improve the maturity of their Procurement practices over the next two years. The CMM for Procurement introduced last year shows that agencies lag leading practice and have aspirations to improve.

Capability Maturity Models have been introduced to assess the effectiveness of the Communications and Legal functions within CES. Similar to other functions where a CMM has been introduced, the CMM will provide a stronger basis for monitoring capability improvement over time.

Next steps

The findings in this report underscore the importance of a range of A&S service improvement initiatives underway across government, including but not limited to the following:

- the Government ICT Strategy and Action Plan
- Procurement Functional Leadership
- the Property Management Centre of Expertise
- the Government Legal Services programme
- individual agency improvement initiatives.

The Treasury works with practitioners each year to improve indicators and data quality. The focus of improvement efforts next year will be to get a better understanding of the strategic contribution of ICT, including the development of a capability maturity model and volumetric data to enable understanding of cost changes and the value of ICT.

The Treasury continues to share data and methods with other jurisdictions. Management information is widely and increasingly recognised as fundamental to meeting the expectations of Ministers and the public regarding the transparency of costs and ongoing improvement in public service management, efficiency, and effectiveness. This year, methods were again shared with seven regional councils, which have now implemented the BASS methodology for three reporting periods. Methods were also shared with up to eight other government agencies to enable self assessment using the BASS methodology.

Introduction

Background

This is the fourth annual administrative and support (A&S) service benchmarking report for the New Zealand (NZ) State sector. In December 2010, Cabinet directed selected larger agencies to undertake an annual A&S service benchmarking exercise.[1] Measurement agencies are a mix of larger departments and Crown Entities. The first report was published in April 2011, the second in March 2012, and the third in April 2013. This fourth report has similar metrics as the previous reports to enable time series analysis.

Findings are based on data from three reporting periods (financial years 2010/11, 2011/12, and 2012/13), and results cover five A&S service functions across 27 agencies. Functions include Human Resources (HR); Finance; Information and Communications Technology (ICT); Procurement; and Corporate and Executive Services (CES).

Data for the Property function is not collected as part of the A&S benchmarking exercise from FY 2012/13. Property Management is now being managed by the Property Management Centre of Expertise (PMCoE), and is reported annually in the Crown Office Estate Report. A summary of Property Management findings for FY 2012/13 can be found in Appendix 5. Detailed findings and data for FY 2012/13 can be found at:

http://www.msd.govt.nz/about-msd-and-our-work/about-msd/our-structure/pmcoe/publications/pmcoe-publications.html

This report responds to government demands for better, smarter public services for less. The current economic climate drives the Government's focus on delivering services more efficiently and effectively, making sure money is not spent unnecessarily on A&S services when directing it to front line services would yield higher results. The performance information in this report helps agencies better understand the cost and quality of their internal services and make sound resource allocation decisions.

This report also responds to government demands for stronger management practices in the State sector. A&S services are fundamental to establishing and maintaining high performing organisations, which is why this report measures not only cost and efficiency, but also the effectiveness of these services.

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[1] The Treasury, *Better Administrative and Support Services Programme: Report on Phase One findings and proposal for Phase Two*, Wellington CAB Minute (10) 38/4B directed departments with more than 250 FTEs to submit performance data to the Treasury each year.

Purpose of the report

This report provides information on the cost, efficiency, and effectiveness of A&S services in the State sector. Consistent performance information across agencies gives transparency over a significant area of expenditure and provides an evidence base for assessing performance. This information would otherwise be hidden as agencies include overhead within output costs, and they typically do not report externally on A&S service efficiency and effectiveness.

This report identifies gross savings possible by reaching efficiency targets. It outlines the gross savings possible if agencies reach a range of efficiency targets by function. For example, for the Finance function, $24 million could be saved if agencies below the upper quartile level met that level within their cohorts. Over $38 million could be saved if agencies met the international comparator upper quartile level. It is important to note that these scenarios use illustrative targets, that agency-specific targets may differ from these, and that gross savings should not be confused with net savings.

This report does not make agency-specific findings or recommendations, and it does not prescribe targets for agencies. Agencies across the State sector are working to lower the cost and strengthen the efficiency and effectiveness of A&S services. While this report identifies general opportunities across agencies, agencies set their own targets based on their understanding of their operations, including the costs, benefits, and risks of pursuing specific targets. Participating agencies each receive individual reports on their specific results to support them in briefing their responsible Ministers. Only the agencies themselves have operational context information needed to support meaningful briefings at an individual agency level.

This report provides a cross-agency view on costs and performance in FY 2012/13 as well as trends. It includes whether costs and quality are increasing or decreasing and why, and whether overall A&S service quality is judged to be adequate to support overall agency performance.

Scope of the report

Twenty-seven agencies participated in the FY 2012/13 benchmarking exercise. Agencies that provided data for this reporting period are listed in Appendix 3.

Findings regarding performance changes over time are based on data from three reporting periods. The three reporting periods are FY 2010/11, FY 2011/12 and FY2012/13; and Appendix 3 has information on the scope of each benchmarking study. Information for the FY 2009/10 measurement exercise is not used in this report because a time series of three years is reported on.

Results cover five A&S service functions. This report features commentary and key highlights for each of the following functions: Human Resources (HR); Finance; Information and Communications Technology (ICT); Procurement; and Corporate and Executive Services (CES). The latter includes but is not limited to Legal Services, Communications, and Information Management. Metric definitions for each function are in Appendix 4.

Highlights of findings are provided by function. Detailed findings can be found in separate documents for each function on the Treasury's website along with a spreadsheet providing results by agency for each metric.

Leading State sector practitioners provide insight into the findings for each function. They are in a unique position to observe the key trends in findings across agencies and provide an update on current improvement initiatives that can have an impact on future performance.

Insights are also provided regarding the quality of management information. The quality of management information varies across the functions because of underlying data quality and the maturity of measurement methods. For each function, this report describes the quality of management information and opportunities for improvement.

Measurement and benchmarking approach

The Treasury is responsible for providing an annual benchmarking service across the public service and for compiling this report. This role involves providing practical support to agencies during data collection and validation, providing individual agency reports, producing cross-agency summary reports, and working with practitioners to strengthen the metric set based on lessons learnt. The Treasury completes most work in-house and draws on third parties for comparator data and specialist analysis as required.

The Treasury's approach to benchmarking is adapted from established international methodologies. Rather than building a bespoke methodology, the New Zealand agency benchmarking exercise adopted metrics and methods from the UK Audit Agencies (UKAA) and two leading international benchmarking organisations: APQC and The Hackett Group. From FY 2011/12, the exercise also included working with an Australian jurisdiction to measure the ICT function.

Work with agencies is guided by five principles:

1. **Metrics are selected with practitioners across government**. Selection is based on three criteria:
    - Metrics reflect performance – they provide meaningful management information that can support business decisions.
    - Results can be compared – they are comparable across New Zealand agencies and comparator groups.
    - Data is accessible within agencies – the measurement costs are reasonable.
2. **Methods and results are transparent.** The Treasury makes its metric calculation methods and underlying definitions publicly available along with the results of individual measurement agencies to promote transparency, facilitate discussion and debate, and to support collaboration with other jurisdictions undertaking similar exercises.

3. **Performance results should be understood within the operational context of each agency.** While agencies have common features and results are broadly comparable, some agencies have unique functions and cost drivers. For example, large service delivery agencies are expected to have higher ICT costs than smaller policy agencies, especially if they have more expensive requirements such as specialised line-of-business applications or a distributed network. Benchmarking results are a guide to relative performance, and conclusions regarding efficiency and effectiveness should be made in light of each agency's operational context.

4. **Results should be used constructively, not punitively.** In leading practice organisations, performance information supports discussion, decision making, and learning.

5. **The quality of management information should improve each year.** Metric sets and data collection methods are refined and improved year-to-year based on lessons learned by the benchmarking team, the insights of practitioners in agencies, and trends and innovations in measurement around the world. Improvements in accuracy will lead to some increases and reductions in reported numbers, through either greater inclusion or exclusion of A&S service information.

Quality of management information

Measurement practice was consistent across agencies and international comparator groups. Agencies used common definitions and data collection practices, and these definitions and practices are aligned with those used by three main sources of comparator data: UKAA, APQC, and The Hackett Group. This consistency is fundamental to the comparability of results and usefulness of management information.

Caveat to time series: The Ministry of Business, Innovation and Employment (MBIE) merger, effective from 1 July 2012, has impacted on the comparative metrics across cohorts, with Department of Building and Housing (DBH) moving out of the small agency cohort, and Department of Labour (DOL) and Ministry of Economic Development (MED) out of the medium agency cohort, to now be included in the large agency cohort as MBIE.

This report reflects measurement improvements developed with practitioners. Highlights of these improvements are as follows:

- **Introduction of Capability Maturity Models (CMMs):** This year's BASS report features CMMs for the HR, Communications and Legal functions; as well as Finance and Procurement introduced last year. This measure allows agencies to assess key components of capability on a multi-point scale, set priorities and targets for improvement, and identify and learn from leaders. It replaces the Management Practice Indicators (MPIs) for these functions. Practitioners have indicated interest in also using CMMs for ICT and Enterprise Portfolio Management Offices (EPMOs)

- **Alignment with other measurement exercises and methods across government**: The Procurement CMM is the same used by Procurement Functional Leadership in MBIE. BASS definitions are also aligned with common performance indicators being trialled across agencies for the policy function and for transactional service delivery to the public.
- **Measuring by Service Towers for ICT**: This change provides more useable management information for decision making because it organises cost information around how ICT services are delivered. This method was piloted last year with larger agencies and is implemented across all agencies for this year's report.
- **Measuring Enterprise Portfolio Management Offices (EPMOs) as part of the CES function:** Measuring EPMOs is important to understanding agency capability for investment decision-making and strategy execution. EPMO costs were featured in the FY 2011/12 report for the first time but are not included in FY 2010/11 costs.

Where there are concerns with data quality, the underlying problems are based in the maturity of measurement methods and are common in the private and public sectors around the world. Two functions in the benchmarking exercise are particularly difficult to measure:

- **Procurement:** The highly devolved nature of the Procurement function makes it hard to measure expenditure consistently because measurement only captures costs where procurement activities make up more than 20 percent of a person's time. While these data collection practices are consistent with international practice, they lead to an understatement of the cost of Procurement, which precludes useful efficiency measurement.
- **CES:** Organisations around the world undertake a wide range of activities within this function without standard definitions, and it is not common for them to benchmark these services. When they do benchmark, the quality of management information is impaired by data inconsistency and a limited pool of reliable comparator data in New Zealand or internationally.

Some A&S costs may be understated. Agencies were asked to only include function activity costs for staff that spend more than 20 percent of their time on the relevant function. The implication of this data collection practice is that, if agencies have highly devolved processes for a specific function, the true cost of the activity is likely to be understated as the data excludes line managers' time and effort.

Management Practice Indicator (MPI) and Capability Maturity Model (CMM) scores are self reported. It should be noted that MPI and CMM scores are self reported by agencies, and the responses have not been checked for accuracy. This has raised some concerns about possible inconsistencies across scores.

While results are broadly comparable, they need to be understood within the context of each organisation. While agencies have common features, each has their own unique functions and cost drivers. Benchmarking results are a guide to relative performance, and conclusions regarding efficiency and effectiveness should be made in light of each agency's operational context.

Overview of findings

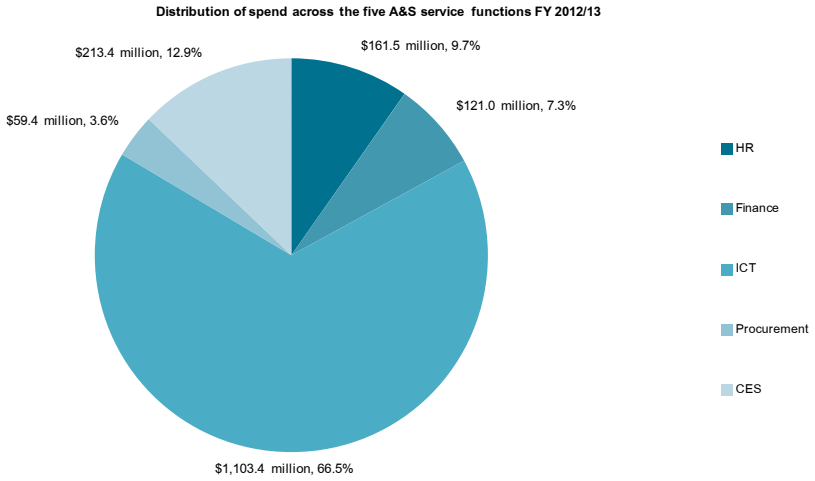
Findings

Highlights of cost findings

Cost findings include total spending overall and by cohort.[2] They also provide information regarding changes in spending since the previous reporting period both in nominal and inflation-adjusted terms.

Agencies spent nearly $2 billion on A&S services in FY 2012/13. The 27 measured agencies spent $1.659 billion in FY 2012/13, with ICT making up the bulk of expenditure. Figure 1 shows the distribution of spend across the five A&S service functions for FY 2012/13.

Figure 1 | Distribution of spend across the five A&S service functions

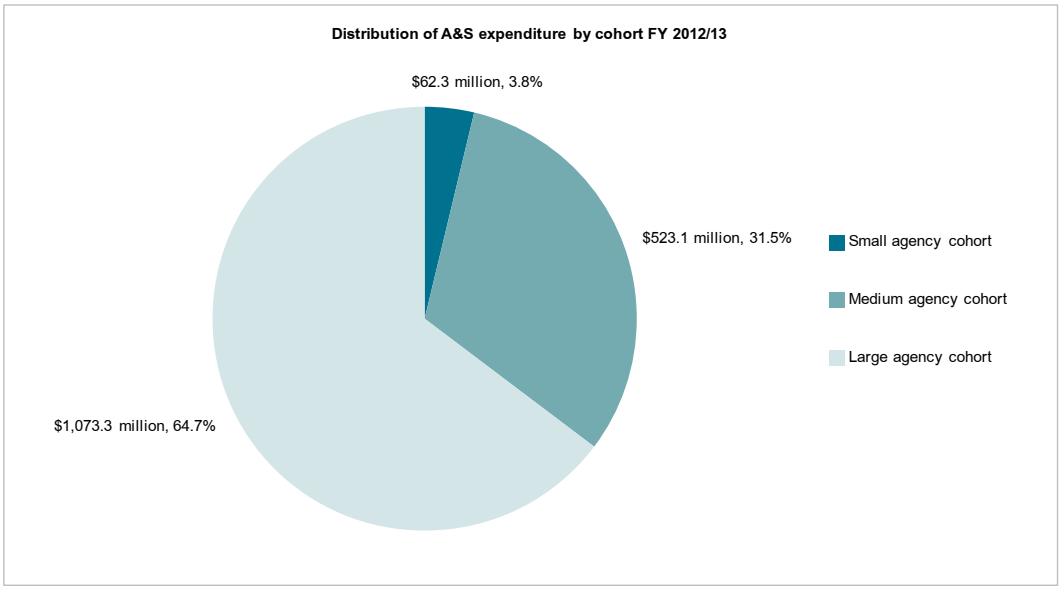


This figure shows that ICT at $1,103.4 million is 66.5 percent of A&S service expenditure; CES at $213.4 million is 12.9 percent; HR at $161.5 million is 9.7 percent; Finance at $121.0 million is 7.3 percent; and reported Procurement spending of $59.4 million is 3.6 percent.

[2] The 27 agencies that participated in this exercise have, for the purposes of comparison, been organised into four cohorts – 'NZ full cohort' refers to all 27 agencies; 'small agency cohort' refers to agencies with <500 FTEs and/or organisational running costs (ORC) of <$95 million; 'medium agency cohort' refers to agencies with 500 to 2,500 FTEs and/or ORC of $95 million to $300 million; and 'large agency cohort' refers to agencies with >2,500 FTEs and/or ORC of >$300 million.

The medium and large agency cohorts make up over 96 percent of A&S service expenditure. Figure 2 shows the proportion of A&S expenditure by cohort.

Figure 2 | Distribution of A&S expenditure by cohort



The small agency cohort spending of $62.3 million is 3.8 percent of A&S spending; medium agency cohort spending of $523.1 million is 31.5 percent; and large agency cohort spending of $1,073.3 million is 64.7 percent.

Overall, A&S service expenditure has been flat in previous years but there has been a significant increase from FY 2011/12 to FY 2012/13. Agencies and functions measured for the past three fiscal years show a nominal spending increase of $173.5 million since FY 2010/11 (11.7 percent). $143.1 million (9.4 percent) of this increase is from FY 2011/12. When adjusted for inflation, there is a $150.1 million (or 10.0 percent) increase since FY 2010/11.[3] Changes in costs both nominally and when adjusted for inflation are shown in Figure 3.

Figure 3 | Nominal and inflation-adjusted changes in A&S service expenditure since FY 2010/11

Function	Expenditure					Changes in nominal expenditure (FY 2010/11 to FY 2012/13)		Changes in expenditure when adjusted for inflation (FY 2010/11 to FY 2012/13)	
	FY 2010/11 nominal expenditure	FY 2010/11 expenditure in FY 2012/13 dollars	FY 2011/12 nominal expenditure	FY 2011/12 expenditure in FY 2012/13 dollars	FY 2012/13 expenditure	Dollar change	Percentage change	Dollar change	Percentage change
	$m	$m	$m	$m	$m	$m	%	$m	%
ICT	945.1	960.0	980.6	987.5	1,103.4	158.3 ↑	16.8% ↑	143.3 ↑	14.9% ↑
HR	158.0	160.5	156.4	157.5	161.5	3.5 ↑	2.2% ↑	1.0 ↑	0.6% ↑
Finance	121.9	123.8	118.7	119.5	121.0	(0.9) ↓	(0.7%) ↓	(2.8) ↓	(2.3%) ↓
CES	190.2	193.2	197.5	198.9	213.4	23.3 ↑	12.2% ↑	20.2 ↑	10.5% ↑
Procurement	70.0	71.1	62.4	62.8	59.4	(10.6) ↓	(15.1%) ↓	(11.7) ↓	(16.5%) ↓
All functions	**1,485.0**	**1,508.6**	**1,515.6**	**1,526.2**	**1,658.7**	**173.7 ↑**	**11.7% ↑**	**150.1 ↑**	**10.0% ↑**

[3] Inflation adjustment based on the annual average percent change of the CPI Index for year end June 2011 to year end June 2013, excluding the Goods and Services Tax (GST) increase.

From a functional perspective, nominal spending increases are mainly driven by rising ICT expenditure. The overall $173.5 million nominal net increase in A&S services since FY 2010/11 is based on an $11.5 million spending reduction in Finance, and Procurement and a $185.0 million spending increase in HR, ICT and Corporate and Executive services. Of the reported $185.0 million spending increase, $158.3 million (86 percent) is attributable to the ICT function.

The trend of increasing ICT expenditure can be positive if it drives service improvements and takes non-ICT costs out of agencies. However, agencies must be clearer about the business value of ICT investments and provide a better evidence base for benefits realisation after new technology is implemented. The Treasury is working with the GCIO to improve measurement of the value of ICT investment in both the BASS programme and its Government Project Portfolio work.

Highlights of efficiency findings

Efficiency is the ratio of an agency's outputs to its inputs, or the use of resources in a manner that minimises cost, effort, and time. This highlights section focuses on efficiency findings for the HR and Finance functions. These functions have the most reliable and comparable efficiency findings within A&S services due to more mature measurement practices and better data quality.

A&S service spending could be reduced by over $47 million annually for the 27 agencies measured in FY 2012/13 by reducing variability in agency efficiency across two functions. Figure 4 illustrates gross savings if all agencies with efficiency below their cohort median met that level of efficiency for HR and Finance.[4]

Figure 4 | Scenario for saving $47 million with illustrative efficiency targets

Function	Reported annual cost	Selected efficiency metric	Efficiency target			Total potential gross saving (p.a.)
			Small agency cohort	Medium agency cohort	Large agency cohort	
HR	$161.5m	Cost of HR per employee	$4304	$3081	$1761	**$33.2m**
Finance	$121.0m	Cost of Finance as a % of ORC	1.46%	1.22%	0.82%	**$14.1m**
TOTALS	**$282.5m**					**$47.3m**

[4] This savings scenario is based on the Finance and HR functions, which have robust efficiency data. Efficiency data quality is not as strong for ICT, CES and Procurement, so these functions are not included in savings scenarios.

A&S service spending across two functions could be reduced by between approximately $83 million to $127 million annually by achieving upper quartile performance in each cohort or international benchmarks for efficiency. Figure 5 below illustrates gross savings if all agencies with efficiency below their cohort upper quartile met that level of efficiency for HR and Finance.

Figure 5 | Scenarios for saving $83.0 million to $126.9 million with illustrative efficiency targets

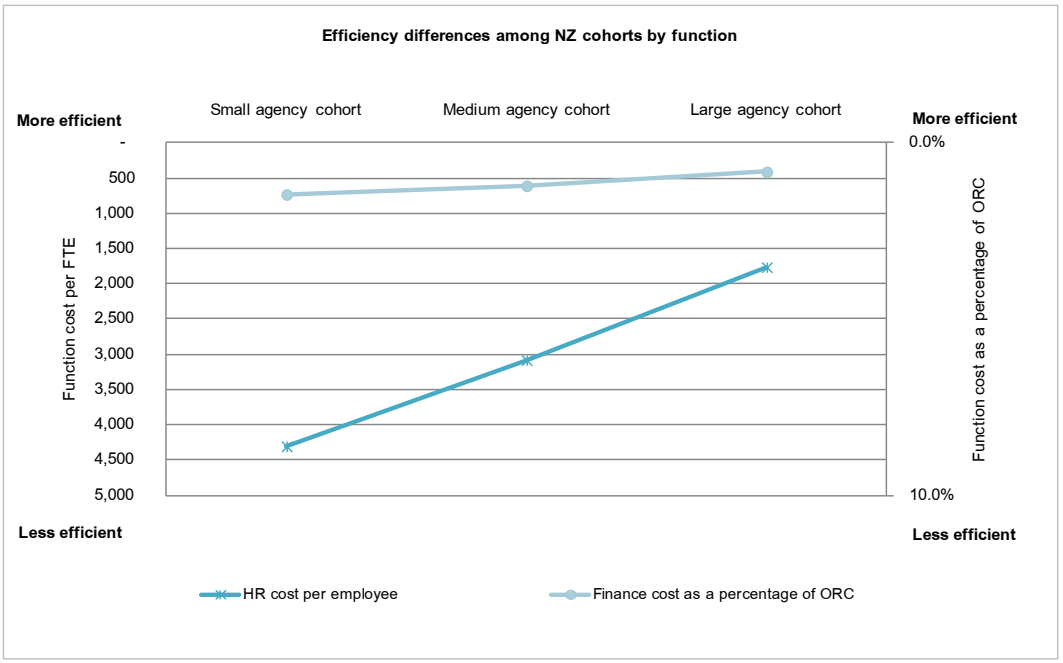
Function	Reported annual cost	Key efficiency metric	Efficiency target	Total potential gross saving (p.a.)
HR	$161.5m	Cost of HR per employee	Upper quartile for each NZ cohort ($1,241, $2,343, and $2,894) or APQC similar industries top performer benchmark ($1001)	$58.9m – $88.7m
Finance	$121.0m	Cost of Finance as a % of ORC	Upper quartile for each NZ cohort (1.12%, 0.88%, and 0.73%) or APQC similar industries top performer benchmark (0.62%)	$24.1m – $38.2m
TOTALS	**$282.5m**			**$83.0m – $126.9m**

Overall, there is significant variability in the efficiency of A&S services across agencies and opportunities for improvement. These results are not surprising for two reasons:

- Participating agencies are of different sizes, and smaller agencies are generally less efficient because they have to bear the fixed costs of service delivery on a lower base of service users than larger agencies.
- Participating agencies function within a duplicative and fragmented service delivery model where, for the most part, each agency makes its own service arrangements and builds and operates its own enabling technology.

Overall, the large agency cohort is significantly more efficient than the small and medium agency cohorts. For example, as shown in Figure 6 below, which shows efficiency differences among the cohorts by function, the HR function is more efficient for the large agency cohort ($1,761 per FTE) than it is for medium ($3,081 per FTE) and small agency ($4,304 per FTE) cohorts.

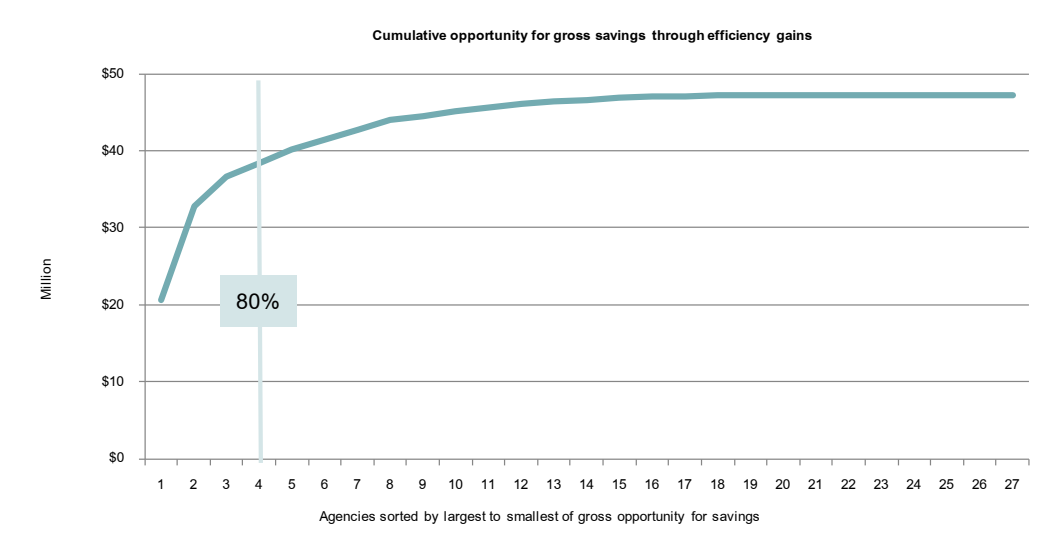
Figure 6 | Efficiency differences among NZ cohorts by function



This finding shows the impact of fixed costs and suggests opportunities to improve efficiency by leveraging scale.

Although the larger agencies are generally more efficient, the greatest opportunities to realise gross savings through efficiency gains are in the medium and large agency cohorts. The small agency cohort is not the major source of potential gross savings because they make up only 3.8 percent ($62.3 million) of A&S service expenditure. Figure 7 shows the cumulative gross savings possible through efficiency improvements for the HR and Finance functions alone, with agencies ordered from largest to smallest of potential reductions.

Figure 7 | Cumulative opportunity for gross savings through efficiency gains



This graph shows that 80 percent of the total potential gross savings of approximately $47 million would be realised by moving the four large and medium agencies not performing at illustrative targets to those targets. By contrast, moving the entire small agency cohort to those targets would only realise 2.5 percent of potential gross savings. The illustrative targets for this $47 million gross savings scenario are set out in Figure 4.

Caveats regarding efficiency findings

Agencies should set targets appropriate to their operational context. The targets in the scenarios provided above are for illustrative purposes only and may not feature appropriate targets for each agency.

Gross savings should not be confused with net savings, as experience indicates that significant efficiency gains require upfront investment. More investigation into options for lifting efficiency is required, as well as balancing costs, benefits, and risks of those options.

Findings may not reflect the current performance of agencies if significant improvements have been made in FY 2013/14, and some improvements may be realised by initiatives already underway within agencies or cross-agency improvement programmes. These programmes include:

- the Government ICT Strategy and Action Plan
- Procurement Functional Leadership
- the Property Management Centre of Expertise
- the Government Legal Services programme
- individual agency improvement initiatives.

Highlights of effectiveness findings

Effectiveness findings report on the extent to which A&S service activities achieve targeted results. They compare NZ agency effectiveness with international comparators and examine changes in effectiveness since the previous reporting period.

HR effectiveness indicators show opportunities for improvement. The HR management practice indicators (MPIs) have been replaced by a Capability Maturity Model (CMM). The CMM will reflect clearer assessments of current capability and changes over time. Results this year show that agencies aspire to make significant improvement to the effectiveness of this function, highlighting the importance of cross-agency transformation programmes to improve performance.

Agencies rated two areas as the highest priority for capability development:

1. Developing people skills of managers
2. Staff engagement.

However, HR effectiveness as measured by new hires in the same role after 12 months continues to decline, and agency results show lower effectiveness than international benchmarks. These findings, together with continued reduction in efficiency levels for HR since FY 2011/12, highlight the need for cross-agency transformation programmes to improve performance.

Figure 8 | Summary of HR effectiveness metric result changes over time

Key effectiveness metrics for HR function	FY 2010/11 (NZ full cohort)	FY 2012/13 (NZ full cohort)	Increase/ Reduction/ No change	International benchmark
Retention of new hires in the same role after 12 months (where a higher percentage is considered more effective)	80.1% (median)	71.0% (median)	9.1%↓	92% (APQC full cohort median)

Finance management practices lag leading practices but agencies have aspirations to improve. Assessed maturity levels for the Finance CMM introduced last year have improved, but agencies continue to aspire to make significant improvement to the effectiveness of this function, highlighting the need for cross-agency financial management transformation programmes to improve performance.

Agencies rated two areas as the highest priority for capability development:

1. Historical versus proactive forward looking reporting and analysis
2. Extent to which finance staff have skill set and business acumen to partner with operations management.

ICT departments are effective at supporting systems, but are less efficient than international comparators. The median time to resolve a service commitment disruption and the mean ICT MPI score are similar to international comparators, and reported system reliability remains high. New Zealand agencies continue to report a higher cost per internal end user than international comparators.

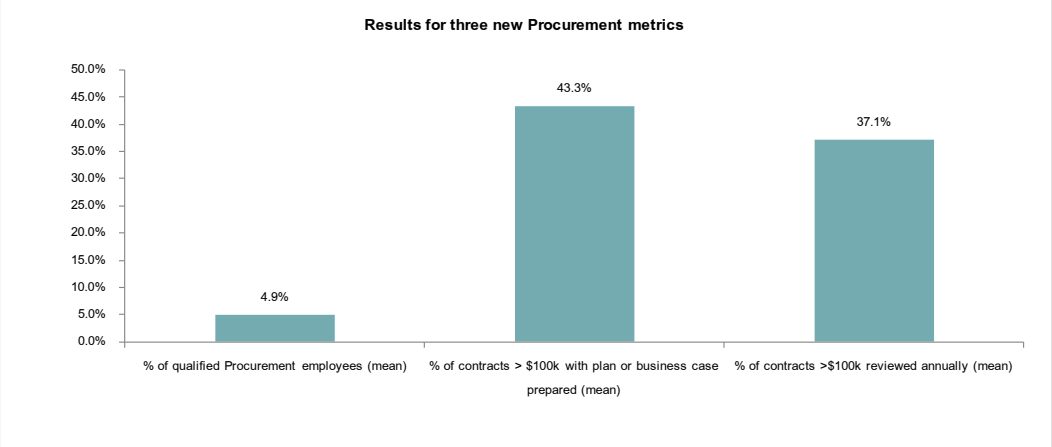
Figure 9 | Summary of ICT effectiveness metric result changes over time

Key effectiveness metrics for ICT function	FY 2010/11 (NZ full cohort)	FY 2012/13 (NZ full cohort)	Increase/ Reduction/ No change	International benchmark	
Average time to resolve a service commitment (where less time is considered more effective)	1.3 hours (median)	1.5 hour (median)	0.2 hours ↑	1.5 hours (APQC all participants cohort median)	1.0 hours (APQC similar industries cohort median)
ICT MPI (where a higher score is considered more effective)	69% (mean)	72% (mean)	3% ↑	70% (UKAA full cohort mean)	
System reliability (where a higher percentage is considered more effective)	99.91% (median)	99.86% (median)	0.05% ↓	Not available	

We need a better understanding of how well ICT departments support overall agency performance. ICT has the potential to modernise service delivery and make a strong contribution to agency strategies for achieving "better for less." The Treasury is working with the GCIO to determine how to measure the strategic contribution of ICT departments – not just their effectiveness at supporting systems.

This FY 2012/13 report set a baseline for new procurement effectiveness metrics for which no international comparator data is available. New metrics regarding the level of experience and capability of Procurement staff have been introduced this year which indicate opportunities for improvement.

Figure 10 | Results for three new Procurement metrics



The overall result of 5% of procurement staff being qualified, as well as a closer look at individual agency results, shows significant room for improvement. Effectiveness results regarding the percentage of contracts >$100K that have plans or business cases or that are reviewed annually also show room for improvement. The overall results for these are approximately 43% and 37% respectively, which is well below the level of adherence to good practice pursued by Procurement Functional Leadership.

Spend against pre-established contracts and the reported use of collaborative procurement arrangements is similar to international comparators for FY 2012/13. Although there is variation within cohorts, actual spend against pre-established contract arrangements as a percentage of the total purchase value has remained relatively constant, but is above international benchmarks. The revised definition of 'commodity' Procurement spend channelled through 'collaborative' Procurement arrangements is now more aligned with the UKAA comparator definition. Trend data for FY 2010/11 is not shown for this metric as it is no longer comparable. The result of 17.5 percent is now comparable to the UKAA cohort median of 18 percent.

Figure 11 | Summary of Procurement effectiveness metric result changes over time

Key effectiveness metrics for Procurement function	FY 2010/11 (NZ full cohort)	FY 2012/13 (NZ full cohort)	Increase/ Reduction/ No change	International benchmark
Percentage of 'commodity' Procurement spend channelled through syndicated Procurement arrangements (where a higher percentage is considered more effective)	Not available	17.5% (median)	N/A	18% (UKAA full cohort median)
Actual spend against pre-established contract arrangements as a percentage of the total purchase value (where a higher percentage is considered more effective)	77% (median)	80% (median)	3%↑	69% (APQC similar cohort median) 80% (UKAA full cohort median)

Overall, agencies aspire to significantly improve the maturity of their Procurement practices over the next two years. The CMM for Procurement introduced last year shows that agencies lag leading practice and have aspirations to improve. Agencies rated two areas as the highest priority for capability development:

1. Alignment with policy and process
2. Supplier relationship management.

Capability Maturity Models have been introduced to assess the effectiveness of the Communications and Legal functions within CES. Similar to other functions where a CMM has been introduced, the CMM will provide a stronger basis for monitoring capability improvement over time. The CMM will reflect clearer assessments of current capability and changes over time. Results this year show that agencies aspire to make significant improvement to the effectiveness of these functions.

Agencies rated two areas as the highest priority for capability development in Communications:

1. Linkage of Communications strategy and activity to broader business goals
2. Effective organisational influence.

Agencies rated three areas as the highest priority for capability development in Legal Services:

1. Alignment of legal function objectives with agency objectives
2. Influence of legal function at CE and leadership team level
3. Individual development plans in place for legal team members.

There are opportunities to develop and implement more meaningful performance indicators for the CES function. Due to low maturity globally in measuring these services relative to other A&S functions, ongoing discussion with practitioners is essential to develop a more useful indicator set and make annual CES benchmarking more relevant and useful to the management of these functions.

Human Resources

Commentary

Lynley Sinclair, Group Manager, Human Resources, Corporate and Governance, Ministry of Education

The management truism that "people are our most important asset" resonates strongly in government. Knowledge-based activities make up such a high proportion of day-to-day business and staff costs are a major component of overall expenditure. Therefore, attracting and retaining the right people is crucial to our financial and non-financial performance.

Research indicates that high performing organisations have substantially better talent management practices than poor performing ones.[5] Not surprisingly, chief executives around the world say that strengthening talent management is their number one priority and most likely near-term investment in organisational change.[6] New central agency requirements for workforce plans to accompany Four Year Budget Plans reflect the need for people strategies that underpin medium-term plans.

Too often, strategic HR activities like talent management are displaced by transactional HR activities. Cumbersome routine processes and low levels of automation give HR staff limited time for HR business partnering, or activities that support and challenge line managers to execute the agency's people strategy. In some cases, HR staff lack not only the time, but also the capability, to partner with the business. This work is being considered further to provide common capability across government. An example of this is the scoping of an RFI to the market for a cloud based HRMIS which MBIE is leading.

BASS results this year continue to show the need for transformational change in HR services. HR BASS results show that our HR services are not particularly efficient or effective by international standards, and we have the opportunity to contribute more to our agencies. These improvements require transforming HR service delivery models: an expanding body of evidence shows that incremental change on an agency-by-agency basis is an inadequate response to our HR service performance challenges. Working across agencies to leverage knowledge and scale, streamlining and automating processes, and building the capability of staff within the HR function will be fundamental to being successful.

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[5] High performers are those in the top 10 percent of companies by profit margin and revenue growth, and low performers are those in the bottom 10 percent of companies by profit margin and revenue growth. Strack, R. (et al.). (2012). Realising the Value of People Management: From Capability to Profitability. Retrieved from https://www.bcgperspectives.com/content/articles/people_management_human_resources_leadership_from_capability_to_profitability/?chapter=2> (accessed 15 March 2013).

[6] PricewaterhouseCoopers. (2012). 15th Annual Global CEO Survey. Delivering results: Growth and value in a volatile world. Retrieved from http://www.pwc.com/gx/en/ceo-survey/index.jhtml (accessed 15 March 2013).

BASS results are consistent with PIF cross-agency findings, which see only a minority of agencies as either "strong" or "well placed" for the following dimensions of people management:

- Leadership and governance (43 percent)
- Values, behaviour and culture (33 percent)
- Leadership and workforce development (38 percent)
- Management of people performance (29 percent)
- Engagement with staff (38 percent).[7]

Summary of findings

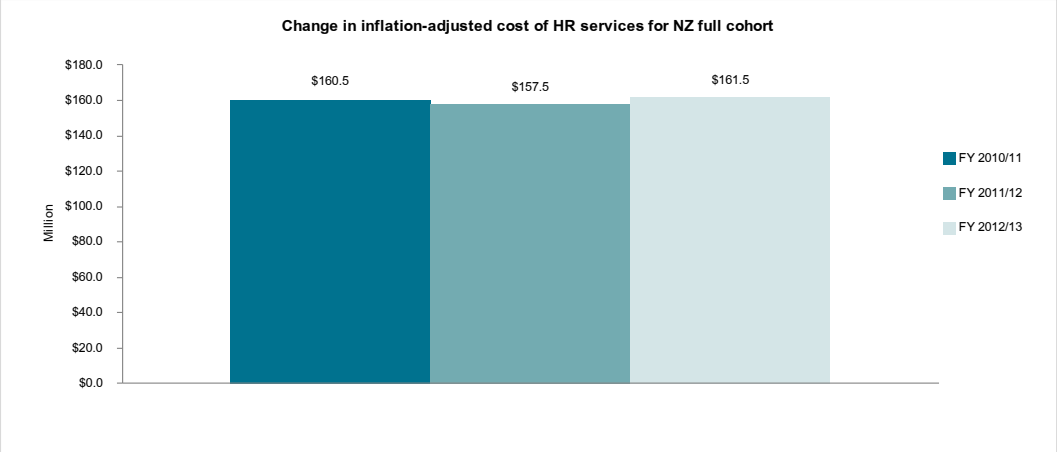
Detailed findings and data are not provided in this report. Detailed findings and data for FY 2012/13 are located on the Treasury website via the following documents:

- HR performance findings FY 2012/13: http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2012-13
- FY 2012/13 BASS metric results and data points: http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2012-13

Highlights of findings

The $161.5 million spent on HR in FY2012/13 is up $1 million (or 0.6 percent) from FY 2010/11 when adjusted for inflation.

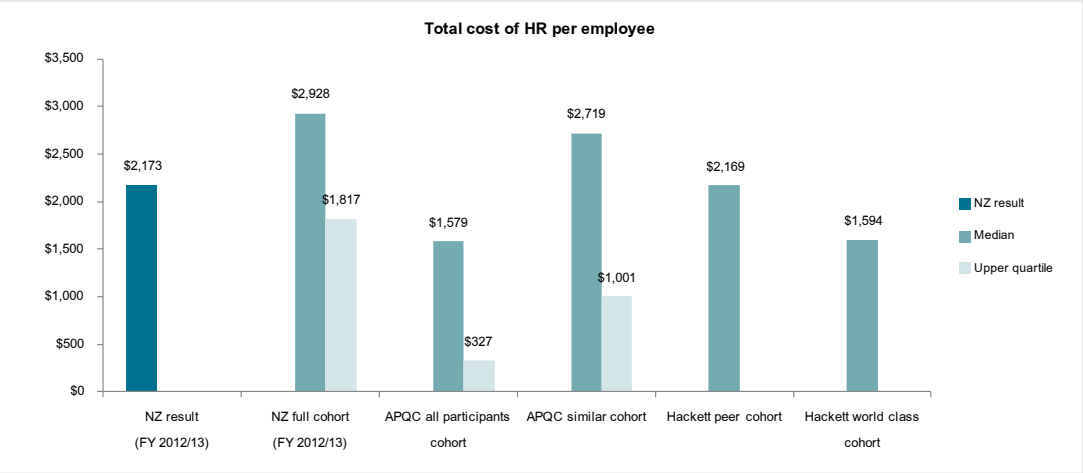
Figure 12 | Change in inflation-adjusted cost of HR services for NZ full cohort



[7] Core Guide 3: Getting to Great; Lead Reviewer insights from the Performance Improvement Framework, State Services Commission, the Treasury and the Department of the Prime Minister and Cabinet, April 2013

The cost of HR per employee is $2,173, and median efficiency shows significant room for improvement when compared with top performers.

Figure 13 | Total cost of HR per employee

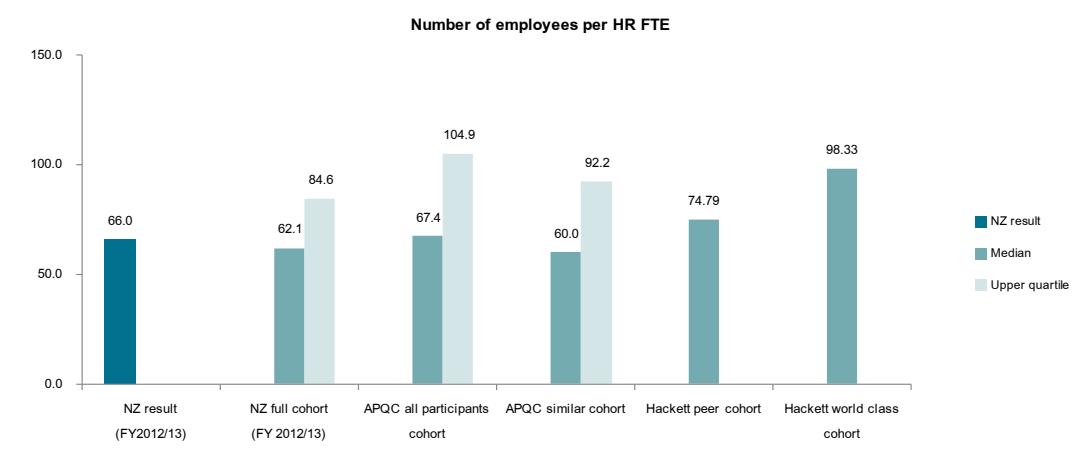


This graph shows that while the New Zealand result is lower than the APQC similar and aligned to Hackett peer cohorts, it is higher than APQC all participants and Hackett world class cohorts, and higher than upper quartile performers. In addition:

- At the median, the New Zealand full cohort ($2,928) is 85 percent more expensive than the APQC all participants cohort ($1,579) and 84 percent more expensive than the Hackett world class cohort ($1,594).
- At the upper quartile, the New Zealand full cohort ($1,817) is 456 percent more expensive than the APQC all participants cohort ($327) and 82 percent more expensive than the APQC similar cohort ($1,001).

The number of employees per HR FTE in FY 2012/13 is 66.0, showing lower efficiency than international benchmarks, especially at the upper quartile.

Figure 14 | Number of employees per HR FTE

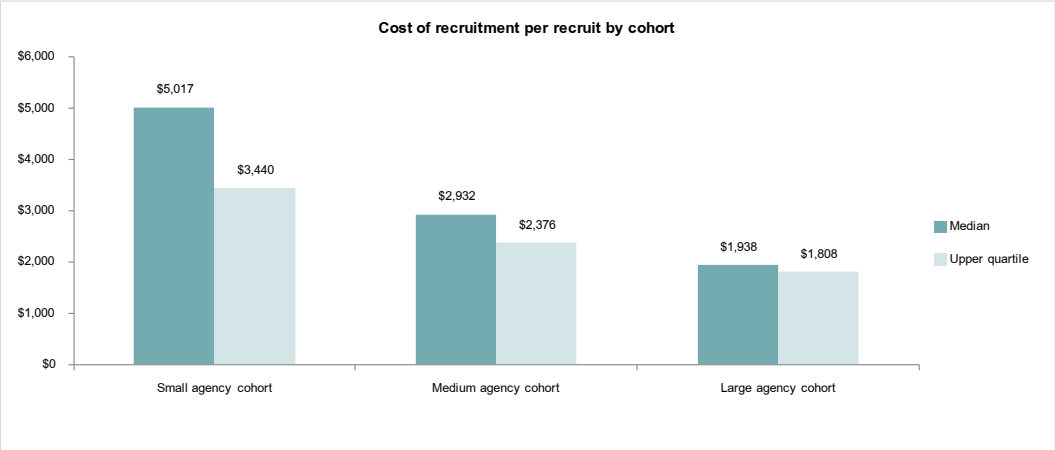


This graph shows that the New Zealand result is higher than the APQC similar cohort, but it is lower than APQC all participants and Hackett peer and world class cohorts, and lower than all upper quartile performers. In addition:

- At the median, the New Zealand full cohort (62.1) is 8 percent lower than the APQC all participants cohort (67.4) and 37 percent lower than the Hackett world class cohort (98.3).
- At the upper quartile, the New Zealand full cohort (84.6) is 19 percent lower than the APQC all participants cohort (104.9) and 8 percent more expensive than the APQC similar cohort (92.2).

The relationship between scale and efficiency can also be seen in the different costs of recruitment among the NZ cohorts.

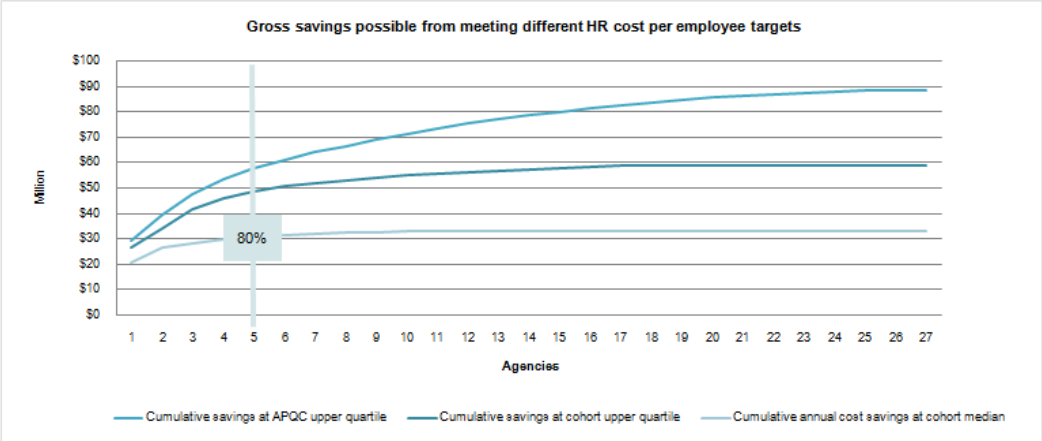
Figure 15 | Cost of recruitment per recruit by cohort



At the median the small agency cohort costs are 159 percent higher than the large agency cohort, and at the upper quartile they are 90 percent higher.

Annual gross savings of about $33 to $60 million are possible if agencies below median or upper quartile efficiency met those levels in their cohorts.

Figure 16 | Gross savings possible from meeting different HR cost per employee targets



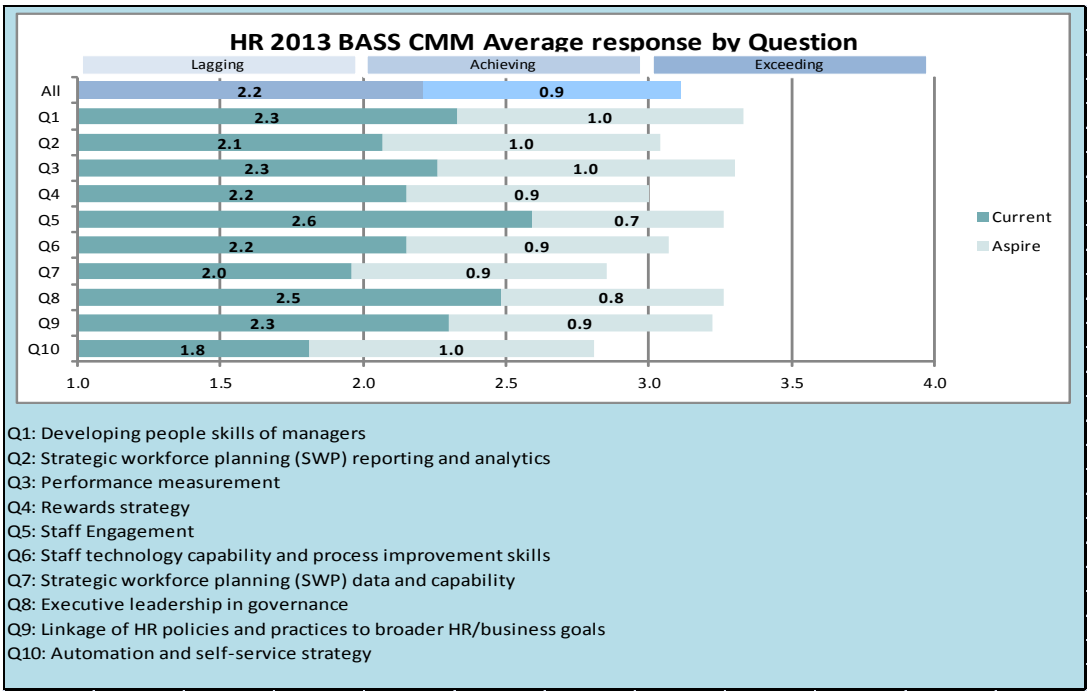
Annual gross savings of $58.9 million are possible if agencies below upper quartile efficiency for their cohort (17 of 27 agencies) reached upper quartile efficiency.

Annual gross savings of $33.2 million are possible if agencies below median efficiency for their cohort reached median efficiency.

If New Zealand agencies met the APQC upper quartile level this would result in significantly greater savings of $88.7 million.

Overall, agencies aspire to significantly improve the maturity of their HR management practices over the next two years.

Figure 17 | HR 2013 BASS CMM Average response by Question



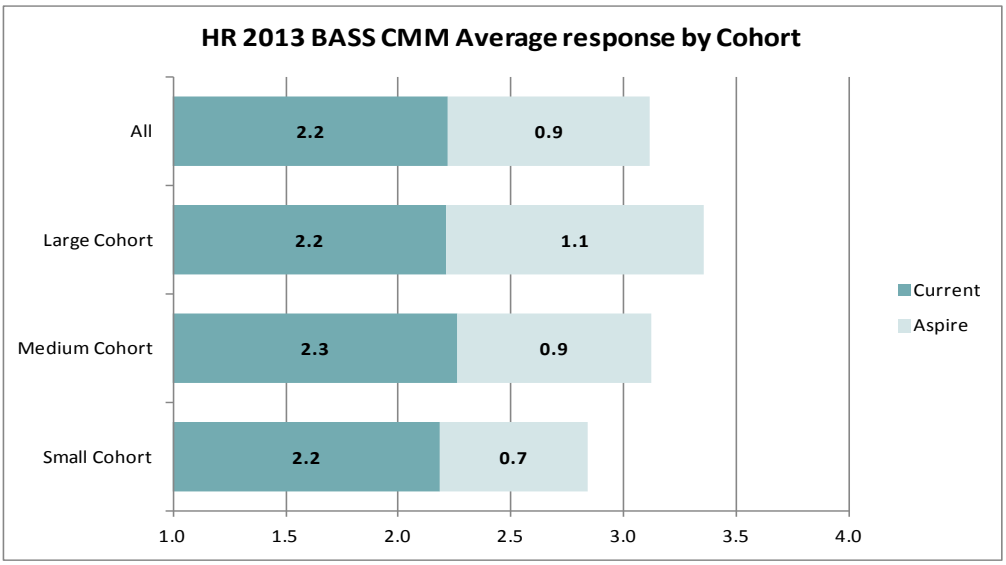
Overall agencies rated their most mature areas of the HR function as:

- Staff Engagement (Q5)
- Executive leadership in governance (Q8).

These areas also have higher future aspiration. The least mature areas were Automation and self-service strategy (Q10), and SWP data and capability (Q7).

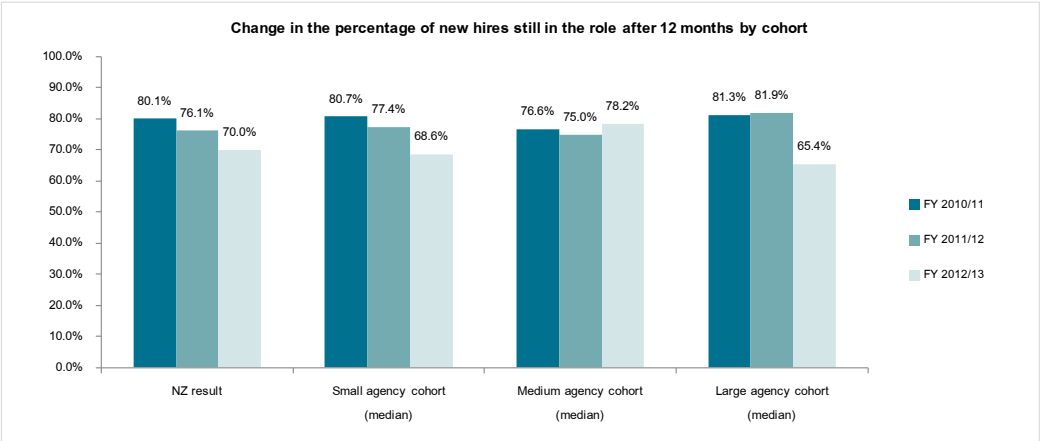
All cohorts report similar current maturity levels, but the small cohort reports lower future aspiration than the other cohorts.

Figure 18 | HR 2013 BASS CMM Average response by Cohort



All NZ cohorts have reported reduced retention of new hires in the same role after 12 months since FY 2010/11.

Figure 19 | Change in the percentage of new hires still in the role after 12 months by cohort



The percentage of new hires in the same role after 12 months has dropped year on year overall, while the agency cohorts have mixed results:

- The small cohort has dropped year on year.
- The medium cohort has remained relatively consistent across the three years.
- The large cohort has remained steady over FY 2010/11 and FY 2011/12, but dropped by 16.5 percent to 65.4 percent in FY 2012/13.

Quality of management information

These findings report on known HR data quality issues, limitations of the indicator set in providing insight into HR service performance, and opportunities for improvement. The introduction includes common quality of management information findings across all functions that are not repeated in this section.

The quality of the data underlying the metrics is of a high standard, and information can be meaningfully compared. HR data is collected and stored centrally by agencies, making high-quality data readily available. Agencies aligned data returns with common definitions and data collection practices.

Payroll costs are not included. In this report, the payroll process is included within the Finance function for comparability with international benchmarks. However, operationally, most agencies consider the payroll process to be part of the HR function.

While results are broadly comparable, they need to be understood within the context of each organisation. While agencies have common features, each has its own functions and cost drivers. For example, some agencies may have higher recruitment costs due to the need for more specialised skills or higher training costs due to greater need for specialist technical knowledge. Agencies should use the benchmarking results as a guide to relative performance, and conclusions regarding efficiency and effectiveness should be made in light of each agency's operational context.

Improvements have been made to the effectiveness measures for FY 2012/13. The HR MPI has been amended to the HR Management Capability Maturity Model (CMM), moving from a straight 'yes/no' assessment to a framework that enables agencies to indicate current and future levels of maturity, their priorities and any initiatives in progress. The CMM is based on The Hackett Group's model, but given this is the first year of results, the quality of data may vary due to self-assessment and self reporting. No peer review was undertaken in FY 2012/13.

The Number of Days Absence metric has been removed. This information will now only be reported on by the State Services Commission (SSC) through the HRC Survey. SSC have aligned their definition to BASS.

Caveat to time series: The Ministry of Business, Innovation and Employment (MBIE) merger, effective from 1 July 2012, has impacted on the comparative metrics across cohorts, with the Department of Building and Housing (DBH) moving out of the small agency cohort, and the Department of Labour (DOL) and Ministry of Economic Development (MED) out of the medium agency cohort, to now be included in the large agency cohort as MBIE.

Finance

Commentary

Fergus Welsh, Acting Chief Government Accountant, The Treasury

Successful organisations need their Finance functions to look beyond the traditional core functions of Finance and use their financial acumen and insight to drive new value and higher levels of business transformation and performance.

Expectations have increased and financial management by entities has had to move beyond compliance to active management of resources, not just in the short term but also over the medium to long term. The Finance function must play a key role in delivering strong financial management support rather than taking a predominantly operational focus. This requires an efficient Finance function that drives agency performance, cost consciousness, and focuses on value creation. It includes ensuring that:

- routine finance processes are more streamlined, automated, and efficient, freeing Finance resources for strategic finance activities
- the Finance function balances the competing demands of providing strategic insight, efficiency and compliance and control
- planning processes are underpinned by strategic financial advice and enable strategic financial management decisions.

The most significant benefit we can gain from improving the efficiency of transactional finance activity is to reduce the time dedicated to it and to help create an environment where finance staff are freed-up to concentrate on strategic, value-add analysis and decision support. Having a cheaper finance function will not necessarily correlate to an effective finance function as some of the skills sets and technologies required to support improved decision making will require a greater reinvestment, more than current spend. However, addressing low automation rates across the transactional process and low degrees of standardization would net off the cost of improving effectiveness.

This is the second year of reporting on the assessed effectiveness of agencies' Finance function using the capability maturity model (CMM). Agencies are aware that there is still some way to go to achieve their aspirations of being the Finance function we all aspire to be, but they are aware that this will not occur over night and progress is being made to ensure those aspirations are achieved.

A step change in Finance requires both establishing effective working relationships with the business and building a broader understanding of how the Finance function can add value. The CMM is also a mechanism the Chief Financial Officer (CFO) can use to discuss with their senior management colleagues what the priorities and business value of changes in the Finance function are, as well as helping to determine the development opportunities for members of the team to ensure they continue to build the capability to close the gap between current and future aspirations.

More importantly, we anticipate a further jump in performance through the ongoing work to strengthen strategic finance across the public sector. A stronger focus on strategic financial management and value management needs to be supported by an increase in capability across the State sector. In particular, the role of the CFO and the finance team that support the role continue to move from a financial control mindset to having a more strategic focus on value. The Treasury has recently established a new unit known as the Office of the Government Accountant (OGA), whose role will include responsibility for the Financial Statements of the Government as well as leading the finance profession across the public sector. The OGA is partly a response to many in the profession who see the size and scope of finance roles in the State services as being limited and transactional. The OGA will focus on enhancing the impact of the CFO role and deepening financial management accountability and capability for chief executives and second tier managers.

I look forward to seeing the impact of our finance function improvement work in future BASS results.

Summary of findings

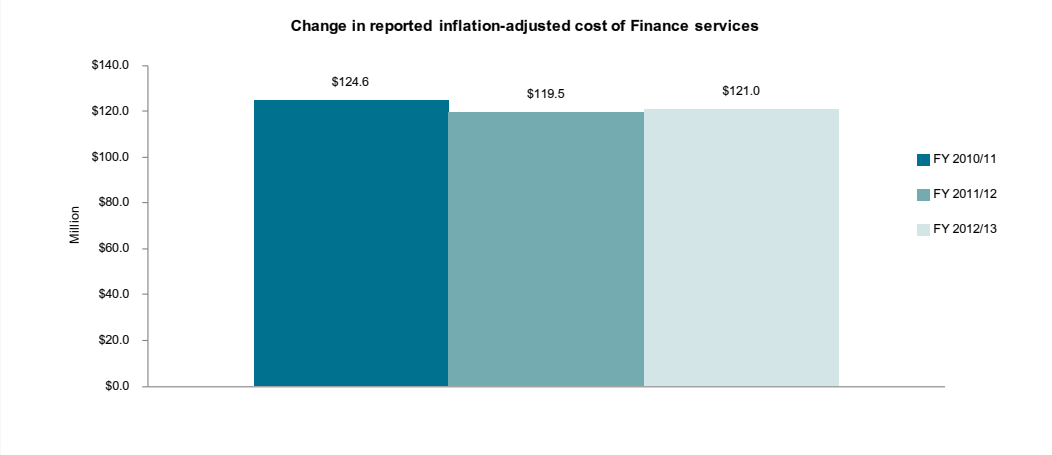
Detailed findings and data are not provided in this report. Detailed findings and data for FY 2012/13 are located on the Treasury website via the following documents:

- Finance performance findings FY 2012/13:
- FY 2011/12 BASS metric results and data points:

Highlights of findings

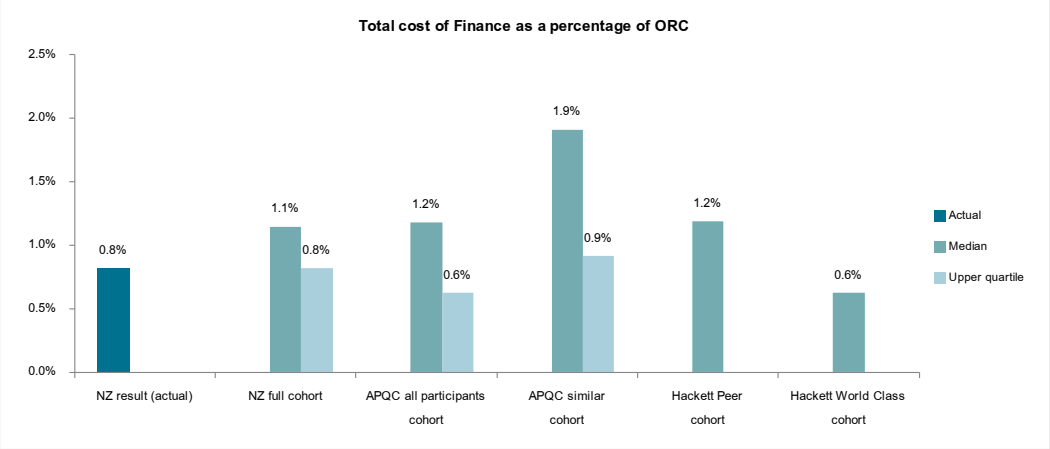
The $121 million spent on Finance in FY 2012/13 is down $3.6 million (or 2.9 percent) since FY 2010/11 when adjusted for inflation.

Figure 20 | Change in reported inflation-adjusted cost of Finance services



Finance cost as a percentage of ORC shows strong efficiency against benchmarks, but there are reasons to be cautious with this assessment.

Figure 21 | Total cost of Finance as a percentage of ORC

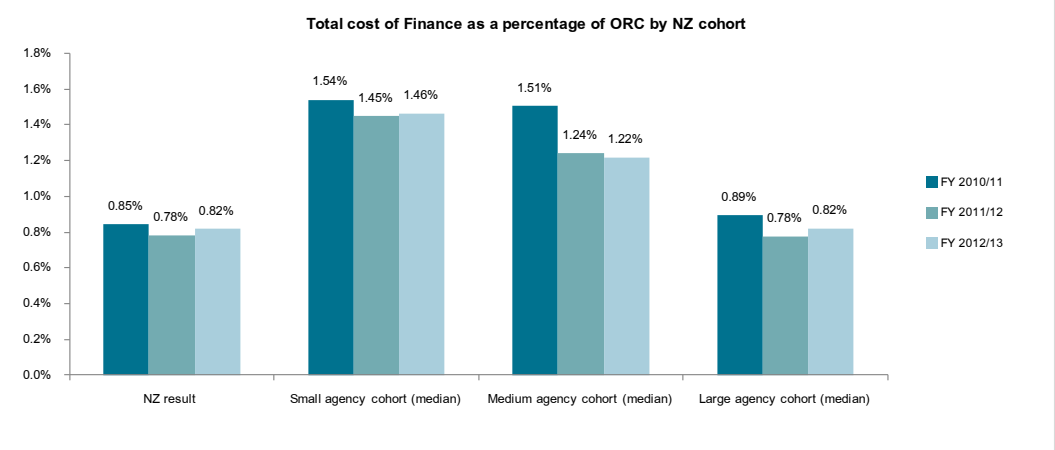


Other studies of the Finance function raise questions about the actual relative efficiency for two reasons:

- In many agencies, the strategic end of the Finance function is not being performed effectively, and these activities are being completed (and costed) for international comparators.
- NZ remuneration for the Finance function is lower than international comparator organisation countries, which has a material impact on the efficiency findings. Efficiency measurement exercises undertaken by the Hackett Group outside of BASS over the same period show a large number of FTEs performing this function compared to top quartile comparators.

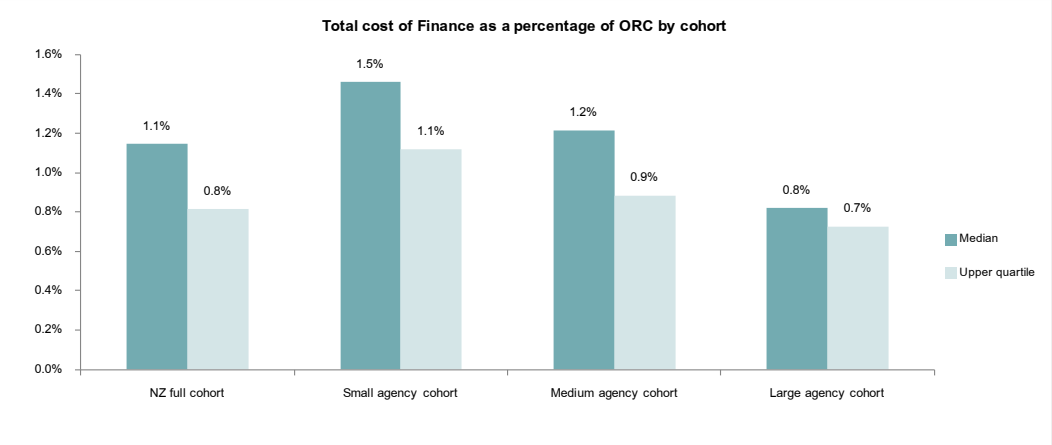
Small efficiency gains since FY 2010/11 can be seen overall and in each cohort.

Figure 22 | Total cost of Finance as a percentage of ORC for full NZ cohort



As with previous years, the small agency cohort is less efficient than the other cohorts.

Figure 23 | Total cost of Finance as a percentage of ORC by cohort

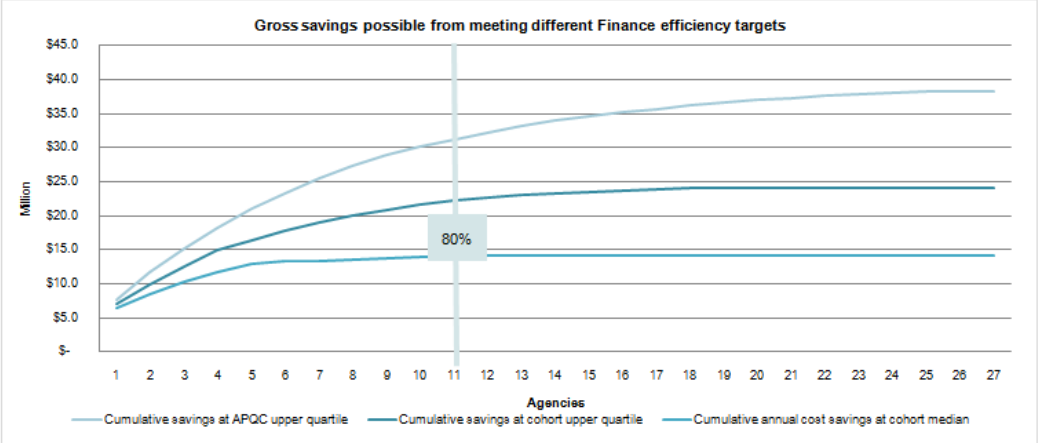


Three factors are likely to have contributed to this result:

- Fixed costs have a greater impact on smaller organisations;
- A number of small agencies may have older financial management information systems with limited automation and self-service capabilities, resulting in manual processes that are labour-intensive and inefficient; and
- Small agencies often have relatively high personnel costs as senior staff often perform a broad range of tasks, including routine administrative tasks that in large agencies would be delegated to junior staff on lower salaries.

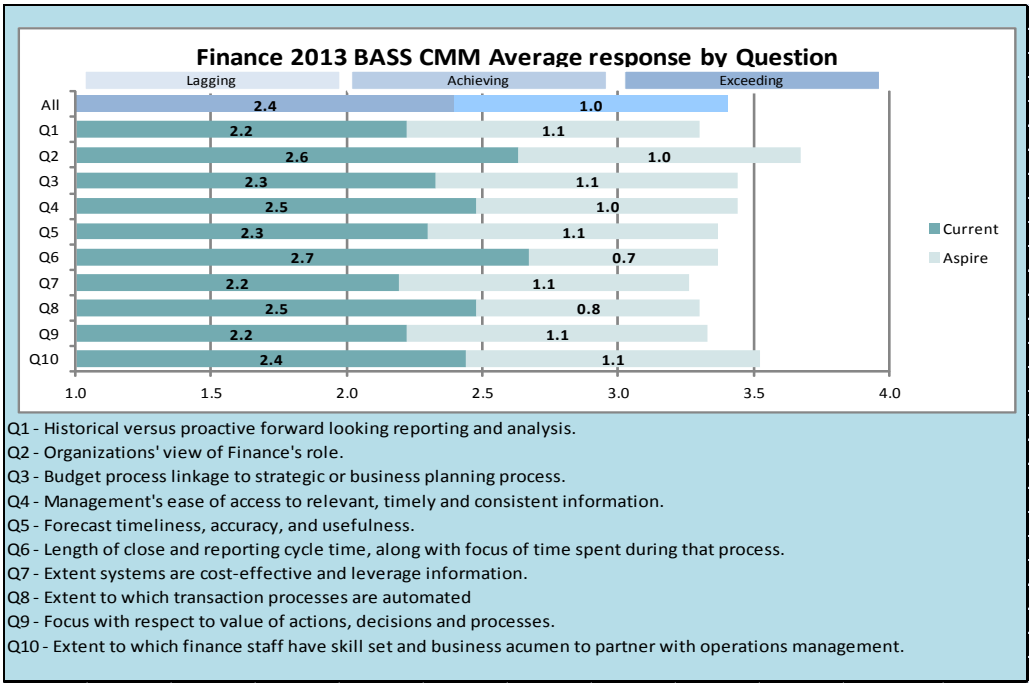
Annual gross savings of between $14 and $24 million are possible if agencies below median or upper quartile efficiency meet those levels in their cohorts.

Figure 24 | Gross savings possible from meeting different Finance efficiency targets



Overall, agencies aspire to significantly improve the maturity of their financial management practices over the next two years.

Figure 25 | Finance 2013 BASS CMM Average response by Question



Q1 - Historical versus proactive forward looking reporting and analysis.
Q2 - Organizations' view of Finance's role.
Q3 - Budget process linkage to strategic or business planning process.
Q4 - Management's ease of access to relevant, timely and consistent information.
Q5 - Forecast timeliness, accuracy, and usefulness.
Q6 - Length of close and reporting cycle time, along with focus of time spent during that process.
Q7 - Extent systems are cost-effective and leverage information.
Q8 - Extent to which transaction processes are automated
Q9 - Focus with respect to value of actions, decisions and processes.
Q10 - Extent to which finance staff have skill set and business acumen to partner with operations management.

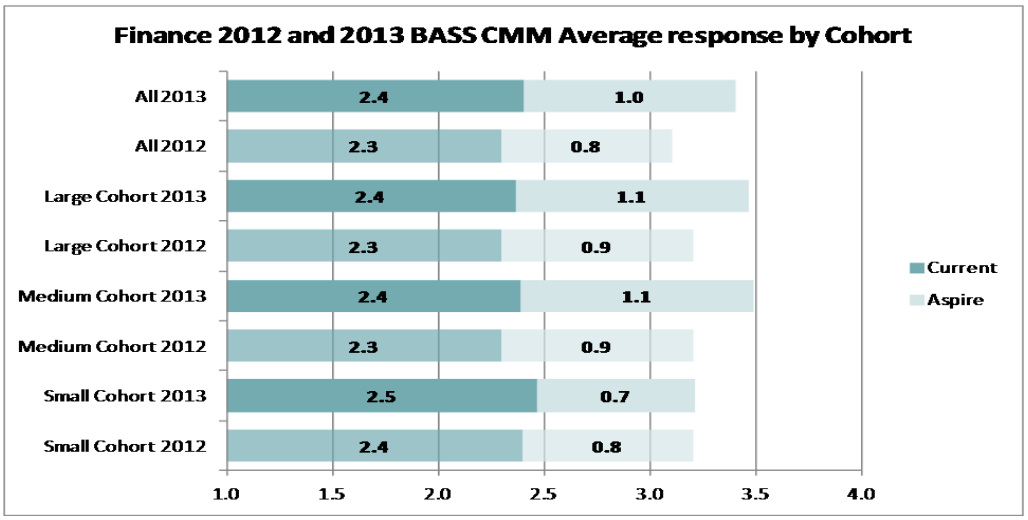
Overall, agencies rated their most mature areas of the finance function as:

- Length of close and reporting cycle time, along with focus of time spent during that process (Q6)
- Organisations' view of Finance's role (Q2).

Organisations' view of Finance's role (Q2) also has the highest future aspiration.

Overall and in each cohort, agencies reported limited improvement in their practice maturity levels since FY 2011/12.

Figure 26 | Finance 2013 BASS CMM Average response by Cohort



The future aspiration for the medium and large cohorts has increased, whereas the small cohort's future aspiration has remained consistent across the two years.

Quality of management information

These findings report on known Finance data quality issues, limitations of the indicator set in providing insight into Finance service performance, and opportunities for improvement. The introduction includes common quality of management information findings across all functions that are not repeated in this section.

The quality of the data underlying the metrics is of a high standard, and information can be meaningfully compared. Finance data is collected and stored centrally by agencies, making high-quality data readily available for metric calculation.

For this exercise, the payroll process is included within the Finance function for comparability with international benchmarks. However, operationally, most New Zealand agencies consider payroll to be part of the HR function.

While results are broadly comparable, they need to be understood within the context of each organisation. While agencies have common features, each has their own functions and cost drivers. Agencies should use the benchmarking results as a guide to relative performance, and conclusions regarding efficiency and effectiveness should be made in light of each agency's operational context.

Agencies have improved the consistency of reporting ORC. Treasury has worked with agencies to help them refine measurement of ORC in FY 2012/13.

Capability Maturity Model (CMM) assessment by agencies may vary. Quality of data may vary due to self-assessment and self reporting. No peer review was undertaken in FY 2011/12 or FY 2012/13.

Caveat to time series: The Ministry of Business, Innovation and Employment (MBIE) merger, effective from 1 July 2012, has impacted on the comparative metrics across cohorts, with Department of Building and Housing (DBH) moving out of the small agency cohort, and Department of Labour (DOL) and Ministry of Economic Development (MED) out of the medium agency cohort, to now be included in the large agency cohort as MBIE.

Information and Communications Technology

Commentary

Duncan Reed, General Manager, Systems Transformation, Department of Internal Affairs

The Government ICT Strategy and Action Plan to 2017 describes a vision in which:

- Government ICT functions as a cohesive set of capabilities and resources.
- ICT units have moved from supporting business operations to enabling business transformation, with capabilities focused on: strategy, architecture and planning; information management; collaboration and innovation; business transformation; business intelligence; capability management; supply, sourcing and service chain management; and where appropriate, customer services.
- ICT units have clear business models and focus on co-creating value with partners and customers; 'open' innovation, collaboration and partnership are the norm.
- ICT units act as brokers of capability, focused on sourcing capabilities from the most appropriate provider (including other agencies) to ensure the full breadth of capabilities to deliver business outcomes is available and accessible to agencies.
- Operationally-oriented capabilities are consolidated into service centres and expertise-oriented services are reorganised into centres of expertise. These reorganised capabilities are leveraged and integrated by ICT units and delivered as services to their customers.

The NZ cohort spent more on ICT than last year. In both nominal and real (i.e. inflation adjusted) terms government spent more on ICT in FY 2012/13 than in the previous two fiscal years. However, this does not reflect the changing environment in which ICT operates. The business drives demand for ICT services and initiatives, and whilst reductions in ICT transaction costs have been achieved, the increased service demand has exceeded those cost savings. Similarly, the business holds the budget and receives the benefits of ICT services and change initiatives. These are global trends. Agency ICT units should expect continued pressure to find savings in ICT expenditure – especially in common service areas such as infrastructure and telecommunications. Flat ICT spending is potentially something to be concerned about, as it may indicate deferred investment in ICT.

A trend of increasing ICT expenditure can be positive if it creates value for the end-customer and agency. Despite fiscal constraint, there is a strong appetite for invest-to-save initiatives and widespread acceptance that technology is a key enabler for business transformations that improve service delivery, strengthen productivity, and support better information for decision making.

BASS continues to be an important measurement exercise as an indicator of progress and alignment to the Government ICT Strategy and Action Plan to 2017 e.g. Reported cost time series changes, changes in Opex / Capex spend, and change to spend profiles.

The accelerated adoption of shared capabilities – common (All-of-Government) and cluster – will change actual spend and the profile of that spend. It is expected that overtime and in line with agency adoption the:

- proportion of Opex relative to Capex would increase;
- continued adoption of Infrastructure-as-a-Service (IaaS) will reduce overall spending in the infrastructure-related Service Towers – Facilities, Storage, and Mainframe / Midrange;
- strategies to aggregate governments overall telecommunications and managed security service requirement scale and scope via initiatives such as one.govt and Telecommunications-as-a-Service (TaaS) will drive greater value across this service set, reflected in reduced overall spend in the telecommunications-related Service Towers – Voice , WAN and Gateway and LAN & RAS;
- recently introduced Desktop-as-a-Service (DaaS) common capability will reduce overall spending in the End User Infrastructure service tower;
- spend profiles within the infrastructure-related, telecommunications-related, and End User Infrastructure Service Towers will change; reflecting greater outsourcing, including sourcing from another agency; and
- size and profile of spend in the ICT Management Service Tower will increase, reflecting capability shift outlined on the previous slide; however, increases should be able to be offset / outweighed by cost savings from capability re-organisation.

In this year's BASS report, the Treasury made progress in getting a better understanding of our ICT costs and our cost drivers. The quality of cost information was strengthened by: aligning measurement with benchmarks in other jurisdictions; collecting cost information across all agencies by Service Tower and sub-tower, and Cost Elements; and introducing a total end users data point and metric to reflect that some agencies deliver ICT services to external parties acting in partnership with the agency.

Further improvements planned for next year are:

- collecting volumetric data to provide greater insight into the reasons for changes in expenditure;
- improving measurement of the capability of ICT units in terms of services and service delivery by replacing the management practice indicators; and
- collecting personnel costs that have been capitalised to provide greater insight on the impacts on personnel, outsourcing and Capex.

Summary of findings

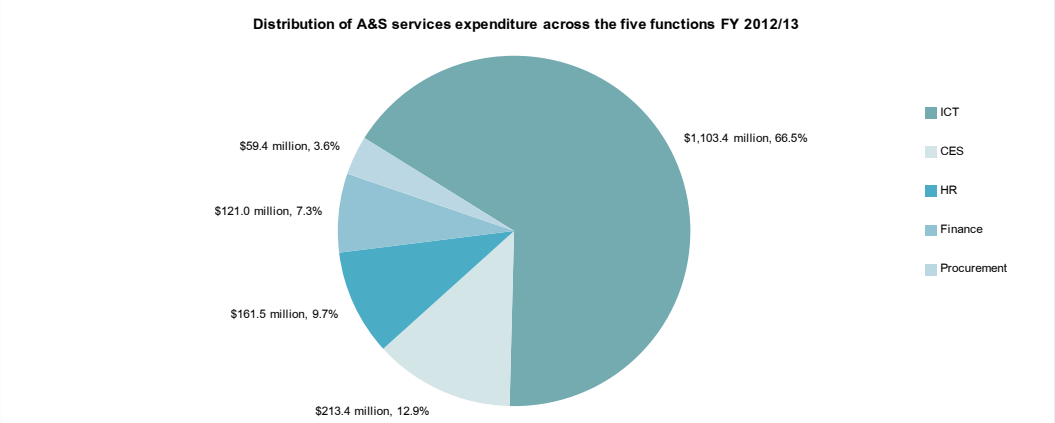
Detailed findings and data are not provided in this report. Detailed findings and data for FY 2012/13 are located on the Treasury website via the following documents:

- ICT performance findings FY 2012/13:
- FY 2012/13 BASS metric results and data points:

Highlights of findings

ICT expenditure of $1,103.4 million in FY 2012/13 made up 66.5 percent of A&S service spending, making it the largest A&S function by expenditure

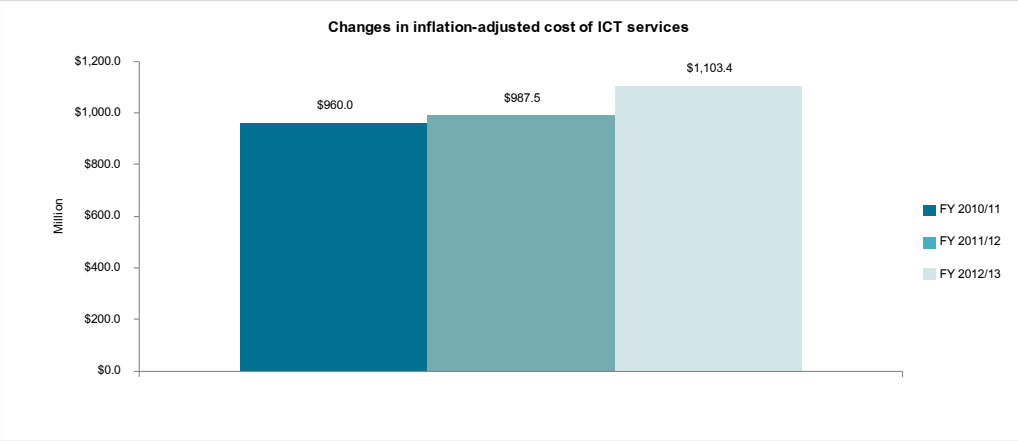
Figure 27 | Distribution of A&S services expenditure across the five functions



The relative distribution of spending across A&S functions in FY 2012/13 has remained relatively the same as in FY 2011/12

ICT expenditure of $1,103.4 million is up $143.4 million (or 14.9 percent) since FY 2010/11 when adjusted for inflation.

Figure 28 | Changes in inflation-adjusted cost of ICT services

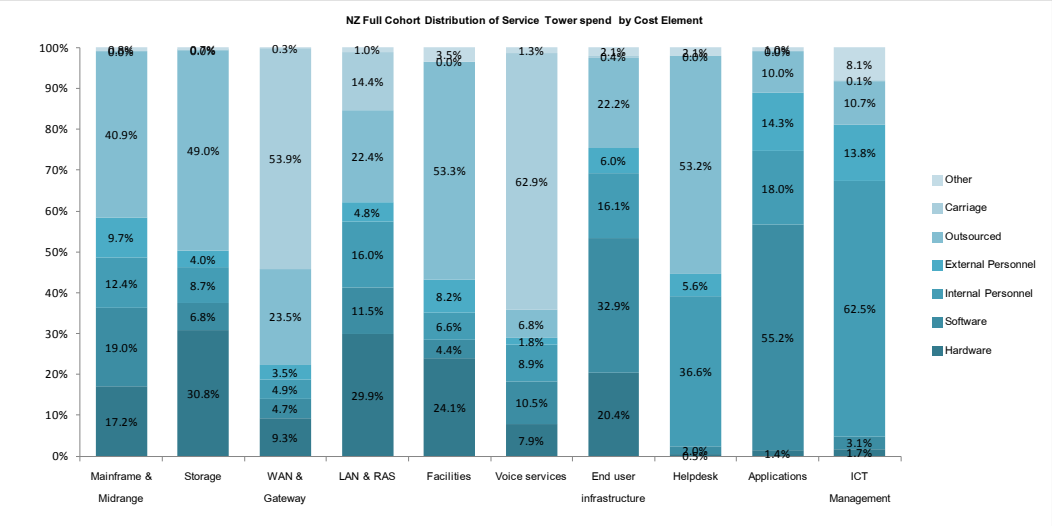


A closer look at spending within agencies shows that the lifecycle of major projects and changes in the use of contractors drives most changes. A net nominal spending increase for the NZ full cohort of $122.8 million since FY 2011/12 results from nine agencies spending $21.4 million less and 18 agencies spending $144.2 million more:

- $19.1 million (or 89 percent) of the total reported reduction can be attributed to four of nine agencies. The key reasons cited for reductions in these four agencies were:
  - more accurate reporting of system costs (hardware, software, and carriage)
  - major projects completed / personnel, capital and carriage cost reductions
  - restructuring and less use of contractors
  - decrease in personnel costs.
- $117.4 million (or 81 percent) of the total reported increase can be attributed to five of 18 agencies. The key reasons cited for increases in these five agencies were
  - project and running costs of large ICT initiatives
  - increased contractor expenditure to backfill positions as a result of a restructure
  - temporarily increased costs from moving to new outsourcing arrangements.

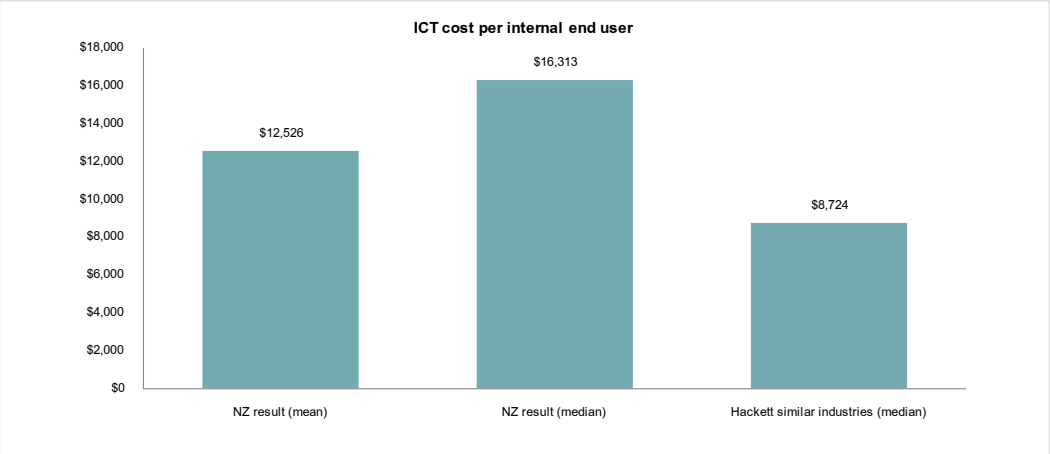
NZ full cohort service tower measurement has established a view of common cost elements to better understand cost drivers in each tower.

Figure 29 | Distribution of Service Tower spend by Cost Element



The mean and median ICT cost per internal end user are higher than the international benchmark.

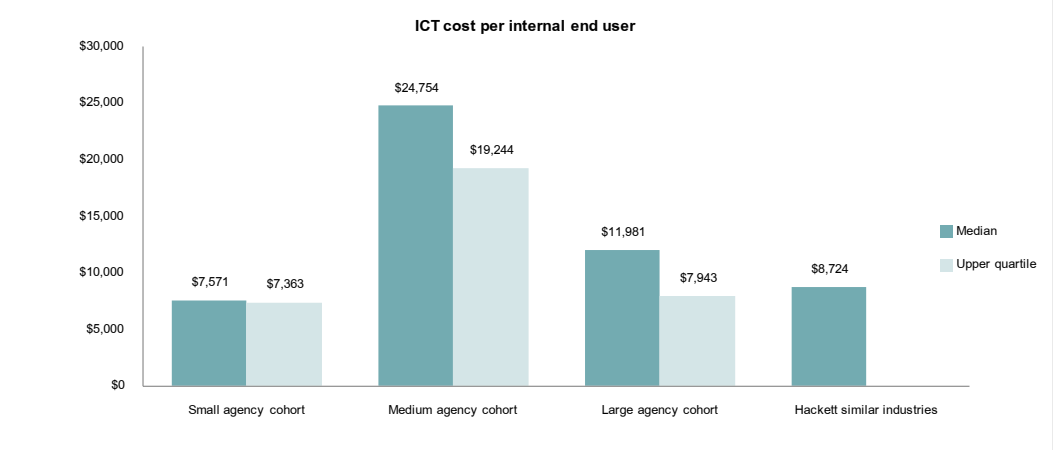
Figure 30 | ICT cost per internal end user



A new definition for end user was introduced this year. The definition for 'internal end user' is the same as the definition for end user used last year, whereas 'total end users' also includes external end users provided with end user devices or services in the agency.

The medium agency cohort has significantly higher ICT costs per internal end user and total end user than other cohorts.

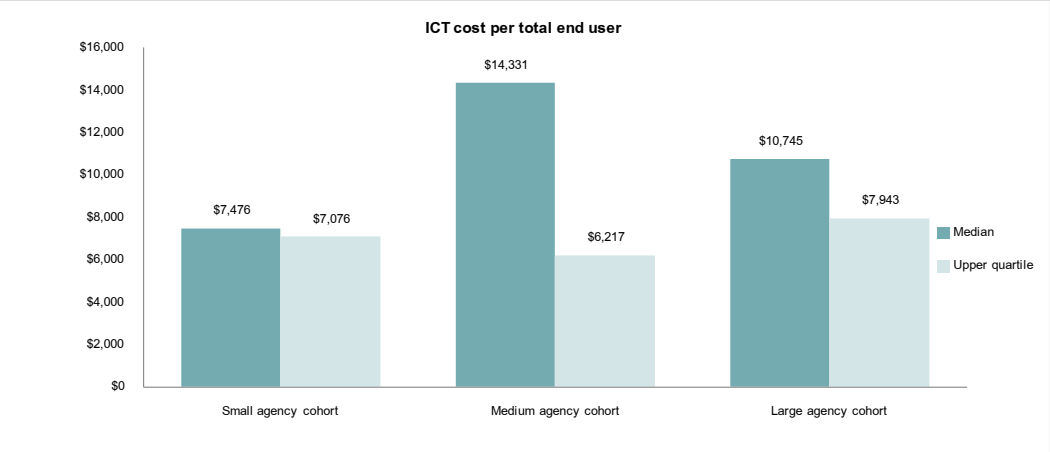
Figure 31 | ICT cost per internal end user



The medium agency cohort ($24,754) is 184 percent higher than the Hackett benchmark and 107 percent higher than the large agency cohort. This result is likely because many agencies in the medium agency cohort have a large number of line-of-business applications supporting a variety of business services to sometimes quite varied customer segments different, yet relatively few internal end users.

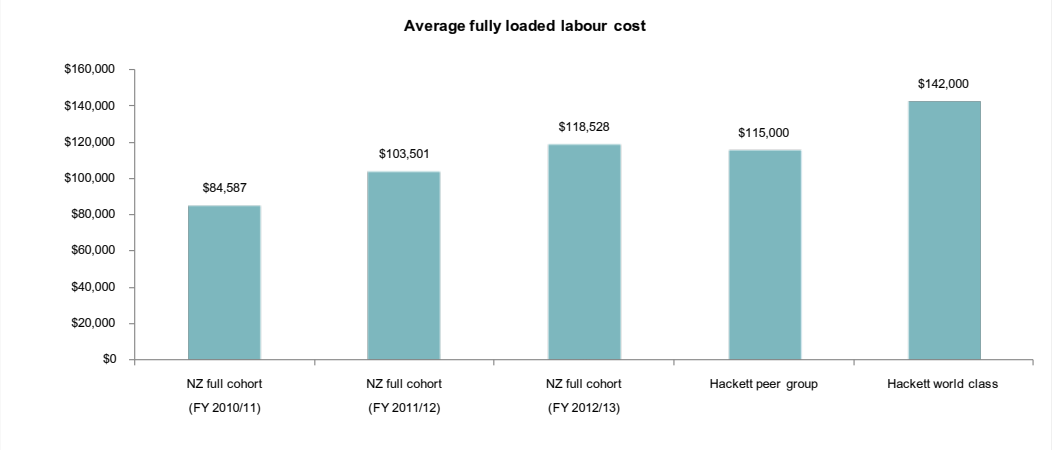
This graph shows that, at the median, the small agency cohort ($7,571) is 13 percent lower than the Hackett world similar industries benchmark ($8,724), and the large agency cohort ($11,981) is 37 percent higher.

Figure 32 | ICT cost per total end user



The internal personnel cost per ICT FTE has risen by 40 percent since FY 2010/11, which warrants further investigation as labour is 30 percent of ICT expenditure.

Figure 33 | Average fully loaded labour cost

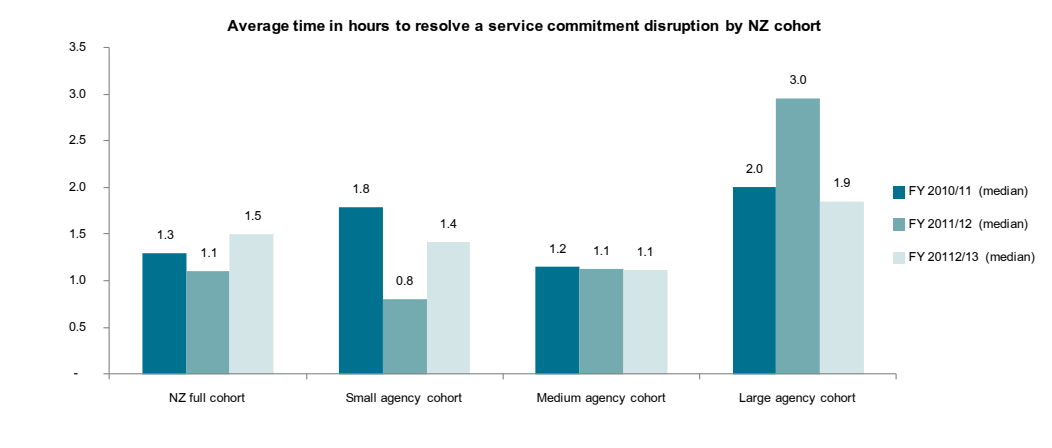


Labour costs make up 30 percent of the total cost of the ICT function, and New Zealand labour costs are now just greater than the international peer group comparator. Potential reasons for the increase are:

- outsourcing of more transactional/junior roles
- contractors previously not included in the fully loaded labour cost, replaced by permanent employees who are included
- shift to higher paid ICT resources.

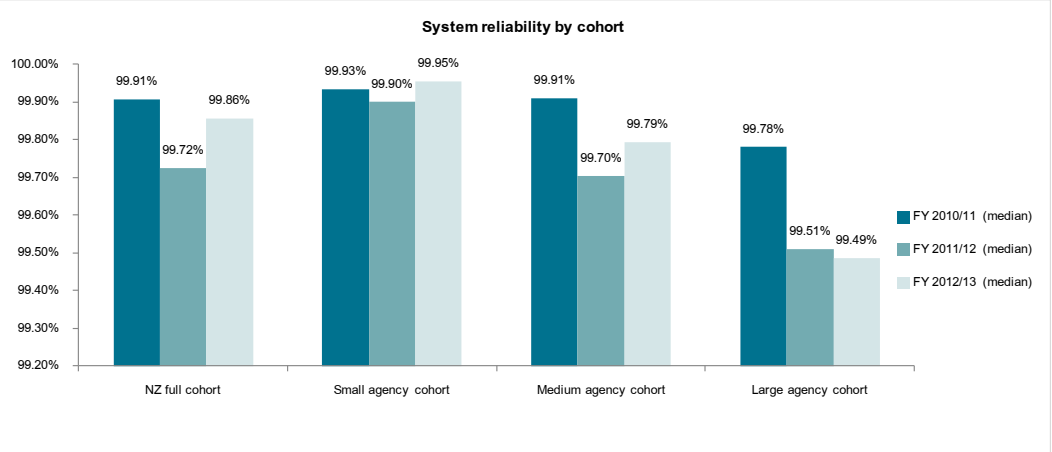
The overall average time to resolve a service disruption has remained stable.

Figure 34 | Average time in hours to resolve a service commitment disruption by NZ cohort



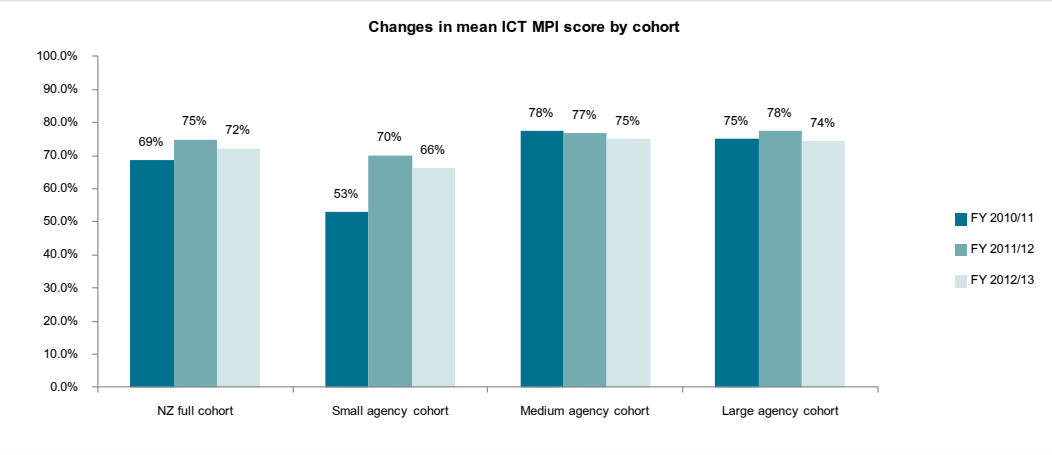
Agencies have maintained high levels of system reliability since FY 2010/11.

Figure 35 | System reliability by cohort



Overall, reported ICT MPI results have decreased slightly between FY 2011/12 and FY 2012/13 from 75 percent to 72 percent, with reduction in scores for all cohorts.

Figure 36 | Changes in mean ICT MPI score by cohort



Agencies have expressed a strong preference to move from the MPI towards a Capability Maturity Model (CMM) to provide more meaningful information upon which to base decisions.

Quality of management information

These findings report on known ICT data quality issues, limitations of the indicator set in providing insight into ICT service performance, and opportunities for improvement. The introduction includes common quality of management information findings across all functions that are not repeated in this section.

The quality of the data underlying the metrics is generally of a high standard, and information can be meaningfully compared. Agencies overall collected high quality data for all reporting periods with consistent definitions and data collection methods across the New Zealand cohort and the international comparator groups.

Significant improvements were made to information quality for this reporting period including:

- work to align measurement with benchmarks in other jurisdictions, notably through the collection of cost information across all agencies by:
  - Service Tower and sub-tower, and Cost Elements
- collecting personnel costs that have been capitalised, to better understand variation.
- introducing a total end users data point and metric, including certain external users supported by the agencies ICT e.g. markers , tax agents etc
- refining metrics to better understand what is outsourced and at what cost.

While results are broadly comparable, they need to be understood within the context of each agency. While agencies have common features, each has their own functions and cost drivers. For example, large service delivery agencies are expected to have more expensive ICT requirements such

as specialised line-of-business applications or a distributed network. Agencies should use the benchmarking results as a guide to relative performance. Conclusions regarding efficiency and effectiveness should be made in light of each agency's operational context.

Complexity data was piloted for FY 2011/12 and post evaluation it didn't provide value as a metric and so has been removed from FY 2012/13 collection.

Caveat to time series: The Ministry of Business, Innovation and Employment (MBIE) merger, effective from 1 July 2012, has impacted on the comparative metrics across cohorts, with Department of Building and Housing (DBH) moving out of the small agency cohort, and Department of Labour (DOL) and Ministry of Economic Development (MED) out of the medium agency cohort, to now all be included in the large agency cohort as MBIE.

Management information quality will continue to improve with changes to metrics, especially for the management information that provides a government-wide view of ICT performance. There are continued opportunities to improve the management information in future reports below, including but not limited to the following:

- **Alignment of data and metrics to support the Government ICT Strategy and Action Plan to 2017.**
- **Capability Maturity Model (CMM):** Moving from the MPI to a CMM approach. These may draw from international standards such as ITIL or COBIT for operational capability, and Val IT for measuring the value of ICT to the business.
- **Volumetric data:** Dependent on agency availability, the GCIO working with Treasury will pilot the collection of volumetric data with a small group of agencies.
- **Personnel costs that have been capitalised:** undertake analysis on the two year trend of personnel costs that have been capitalised, and the impacts on personnel, outsourcing and capex.

The comparability of results for users per ICT FTE is affected by the degree of outsourcing across agencies, and the value of continuing this metric will be considered for next year's report.

Procurement

Commentary

John Ivil, General Manager, Government Procurement, Ministry of Business, Innovation and Employment

Maximising the value of the goods and services we purchase from third parties is an important aspect of delivering value to agencies and taxpayers. In FY 2012/13, third party spend across the State sector was about $30 billion. A high performing Procurement function should play a vital role in strengthening value and savings for this expenditure, and the BASS report helps establish transparency for the performance of the Procurement function.

There are more opportunities for improved value and savings in third party spend than there is in making the Procurement function itself more efficient. Even a 1 percent improvement in value gained from third party spend would represent $300 million annually. In comparison, a 10 percent reduction in the expenditure on the Procurement function reported by agencies participating in this year's report would provide a gross annual saving of about $4 million. Given the high levels of third party expenditure and sometimes low levels of procurement practice maturity in agencies, a greater investment in the Procurement function would be a positive trend for many agencies.

Procurement Functional Leadership is supporting better management of third party spend. To date, more than 400 agencies have participated in AoG contracts; more than 107 Procurement staff across government are gaining subsidised procurement qualifications; and agencies are choosing to invest in building their procurement capability. In addition, revised procurement policy has been developed including comprehensive tools and guidelines and government model contracts. The programme is aligned to support government priorities which include; Business Growth Agenda (BGA), Better Public Services (BPS), Canterbury Rebuild and Better Services for Business.

Due to changes in performance indicators, this year's BASS report provides a better picture of Procurement function effectiveness. The Ministry of Business, Innovation and Employment's Government Procurement Branch and procurement leaders across agencies worked with the Treasury to refine the BASS methodology. The report is now better aligned with Procurement Functional Leadership and its emphasis on the quality of management of third party spend.

Changes in this year's report also provide a better picture of Procurement function practices within agencies and their alignment with leading practice. The introduction of a Capability Maturity Model (CMM) in this year's report is an important step in focusing the BASS methodology on things we can measure more accurately and the things agencies can change. The new CMM will also enable more effective strategic conversations within agencies regarding capability and improvement priorities.

As a next step, it will be important to get a better understanding of how agencies are using the new CMM measurement. Separate from the BASS programme, independent procurement capability reviews across 15 agencies found that agencies often rated poorly against international benchmarks for government procurement. This suggests that the self-reported CMM results for FY 2012/13, which are higher than expected, are potentially overstated. We need to understand agencies' perception of their procurement maturity levels in order to identify opportunities for improvement and drive capability forward.

Summary of findings

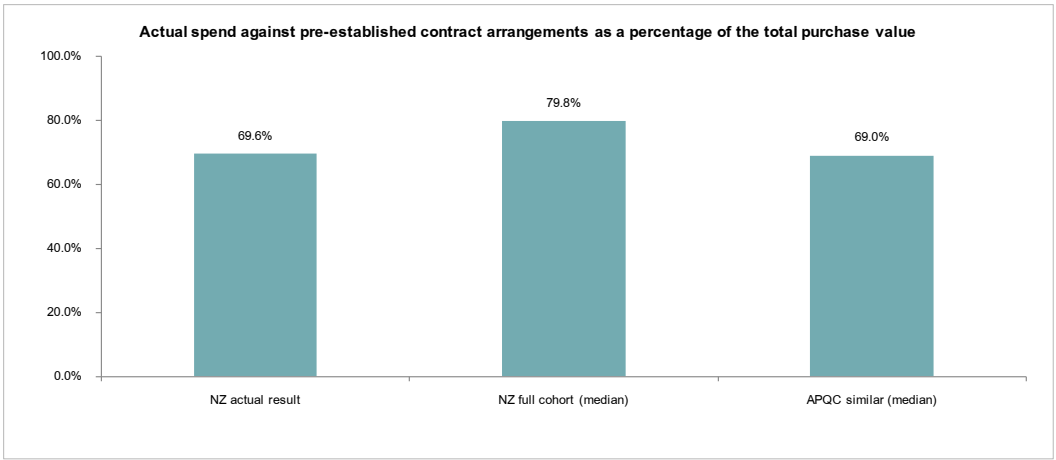
Detailed findings and data are not provided in this report. Detailed findings and data for FY 2012/13 are located on the Treasury website via the following documents:

- Procurement performance findings FY 2012/13:
- FY 2012/13 BASS metric results and data points:

Highlights of findings

For FY 2012/13, spend against pre-established contract arrangements as a percentage of total purchase value is higher than international comparators.

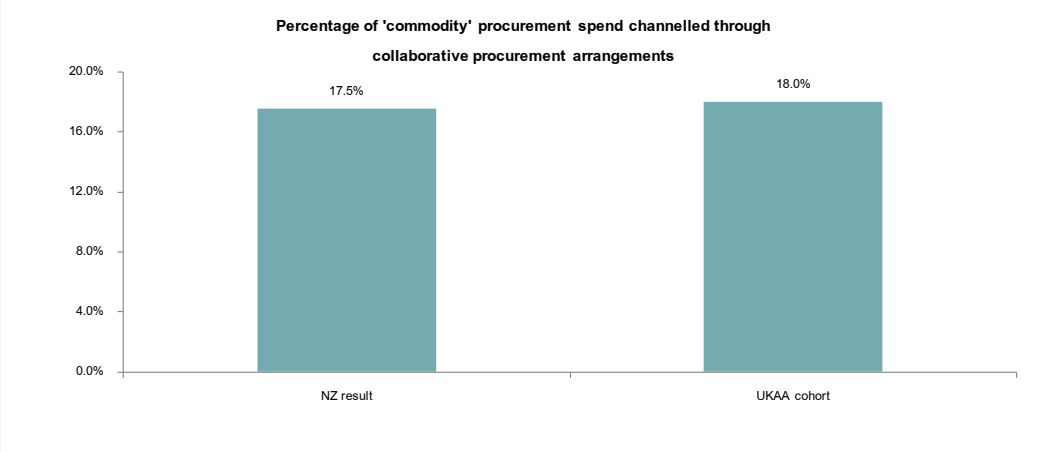
Figure 37 | Actual spend against pre-established contract arrangements as a percentage of the total purchase value



An agency can reduce inefficient spending by improving the level of preferred spend while reducing the level of off-contract or 'maverick' spend. The Procurement function can establish panel contracts for common areas of spend and monitor and control off-contract spend, but agency staff must understand how to access existing contracts to procure goods and services.

The reported use of collaborative procurement arrangements is similar to international comparators for FY 2012/13.

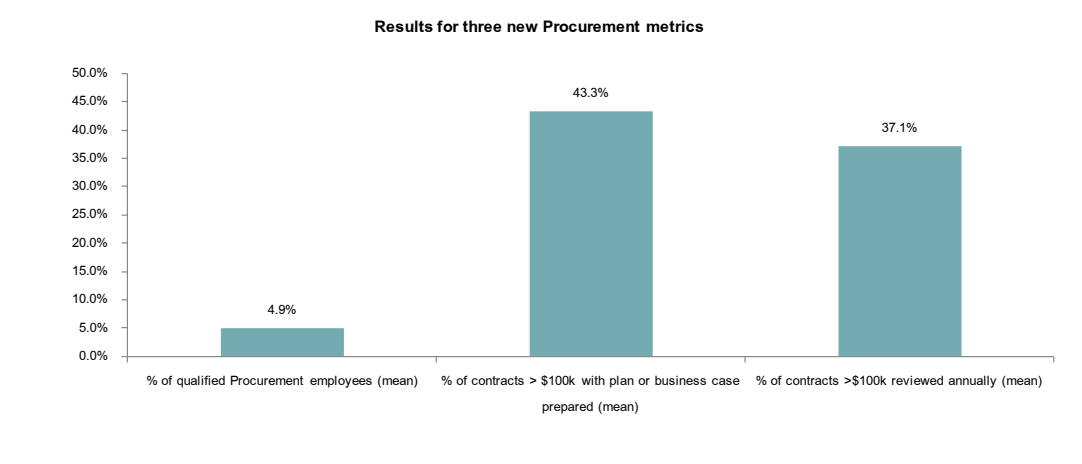
Figure 38 | Percentage of 'commodity' procurement spend channelled through collaborative procurement arrangements



This metric has changed for FY 2012/13 as the definition was amended to include all collaborative arrangements rather than syndicated procurement arrangements. The revised definition is now more aligned with the UKAA comparator definition.

This FY 2012/13 report set a baseline for new procurement effectiveness metrics for which no international comparator data is available.

Figure 39 | Results for three new Procurement metrics



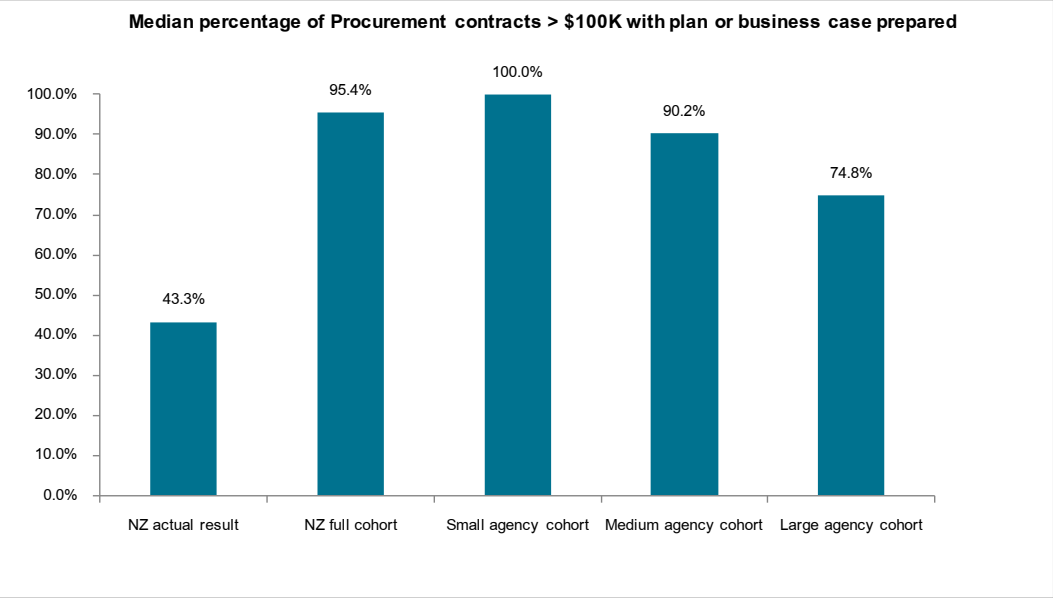
The overall result of 5 percent of procurement staff being qualified, as well as a closer look at individual agency results, shows significant room for improvement. This year's result establishes a baseline of 17 of 27 (63 percent) of participating agencies having zero qualified procurement staff, including three agencies with annual third party expenditure of $900 million to $1.8 billion. Procurement Functional Leadership has indicated high aspirations for improvement against this metric and

anticipates positive change in future reports based on the pipeline of staff undertaking subsidised procurement qualifications.

Effectiveness results regarding the percentage of contracts >$100K that have plans or business cases or that are reviewed annually also show room for improvement. The overall results for these are approximately 43 percent and 37 percent respectively, which is well below the level of adherence to good practice pursued by Procurement Functional Leadership.

The small agency cohort reports a higher median percentage of Procurement contracts > $100k having plans or cases than the other cohorts.

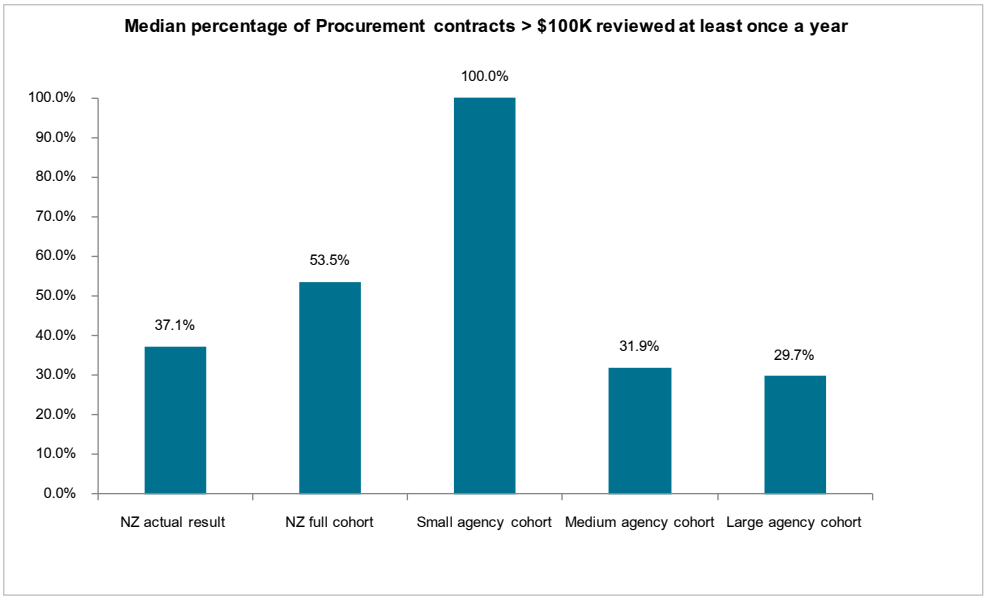
Figure 40 | Percentage of Procurement contracts greater than $100k with plan or business case prepared



This is a new metric for FY 2012/13. The New Zealand actual result is significantly lower than the cohort results, due to one agency in the medium agency cohort that has reported a large number of contracts without plans or business cases in place.

The small agency cohort reports a significantly higher median percentage of contracts > $100k being reviewed annually than the other cohorts.

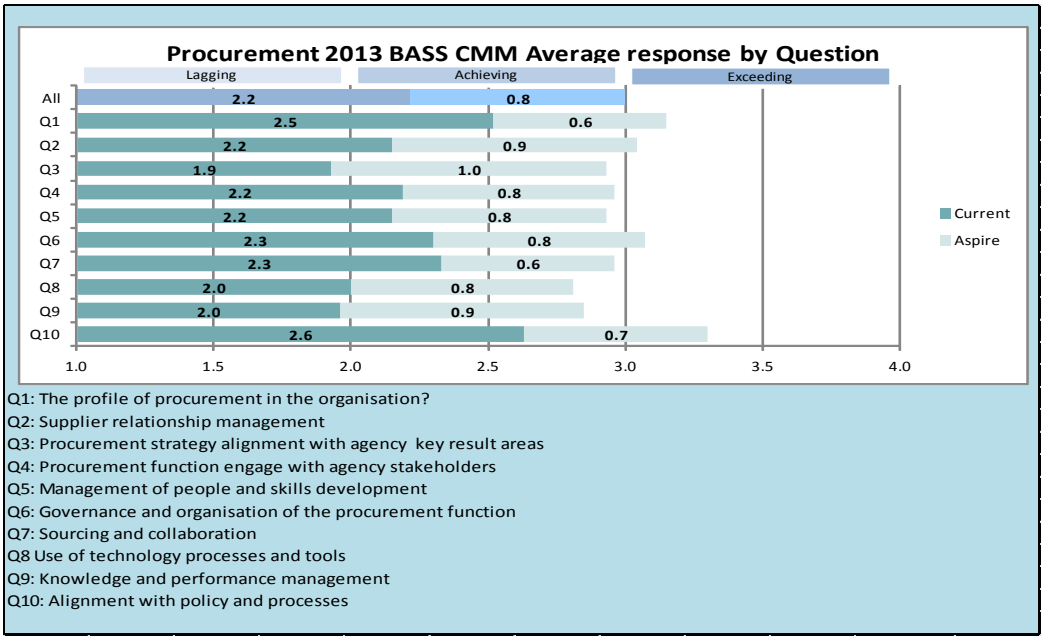
Figure 41 | Percentage of Procurement contracts greater than $100k reviewed at least once a year



This is a new metric for FY 2012/13. It is easier for agencies within the small agency cohort to review all contracts over $100k due to the lower number of contracts within that level. It is also noted that there is a very low level of professionally qualified staff available to review these contracts across cohorts with the small agency cohort having no professionally qualified staff.

Overall, agencies aspire to significantly improve the maturity of their Procurement practices over the next two years.

Figure 42 | Procurement 2013 BASS CMM Average response by Question



Overall, agencies rated their most mature areas of the Procurement function as:

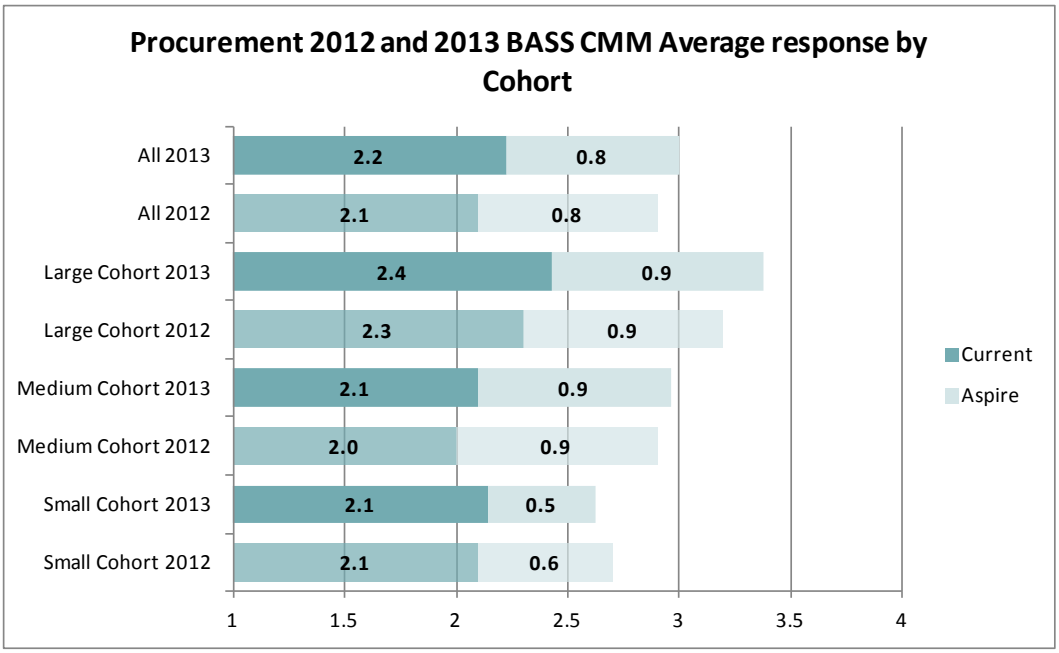
- Alignment with policy and process (Q10)
- Profile of procurement in the organisation (Q1).

Q1 showed the greatest improvement in capability from FY 2011/12 and Q10 has the highest future aspiration. The least mature areas are;

- Procurement strategy alignment with agency key result areas (Q3)
- Use of Technology Processes and tools (Q8)
- Knowledge and performance management (Q9).

All cohorts apart from the small cohort reported small improvements in their practice maturity levels since FY 2011/12.

Figure 43 | Procurement 2013 BASS CMM Average response by Cohort



Quality of management information

These findings report on known Procurement data quality issues, limitations of the indicator set in providing insight into Procurement service performance, and opportunities for improvement. The introduction includes common quality of management information findings across all functions that are not repeated in this section.

There are concerns with the quality of cost information for the Procurement function. The highly devolved nature of the Procurement function makes it hard to measure costs and FTEs consistently because measurement only captures costs where procurement activities make up more than 20 percent of a person's time. Therefore, it is expected that the cost of the Procurement function in New Zealand agencies is understated and less reliable for comparison between agencies and over different reporting periods.

The quality of information on effectiveness in managing third party spend will improve over time. The introduction of the Procurement Management Capability Maturity Model (CMM) in FY 2011/12 has enabled agencies to indicate current and future levels of maturity, their priorities and any initiatives in progress. Quality of data may continue to vary due to self-assessment and self reporting. No peer review was undertaken in FY 2011/12 or FY 2012/13. Additionally further improvements have been made to the effectiveness measures for FY 2012/13 to better measure procurement practices. This aligns with Procurement Functional Leadership as it measures the behaviours and practices sought.

Caveat to time series: The Ministry of Business, Innovation and Employment (MBIE) merger, effective from 1 July 2012, has impacted on the comparative metrics across cohorts, with Department of Building and Housing (DBH) moving out of the small agency cohort, and Department of Labour (DOL) and Ministry of Economic Development (MED) out of the medium agency cohort, to now be included in the large agency cohort as MBIE.

Procurement leaders are working with the Treasury to further refine BASS procurement metrics – with an emphasis on the quality of management of third party spend. With these improvements, the Treasury has been able to provide a better picture of Procurement function performance in this year's report, and looks forward to further improvements in future years.

While results are broadly comparable, they need to be understood within the context of each organisation. Care should be taken when comparing agency results and caution is warranted for three reasons:

- Cost information is likely to be inaccurate for measurement reasons outlined earlier in this chapter
- Agencies that submit more complete procurement cost information may appear to be less efficient than agencies with less complete procurement cost information
- The Procurement function varies according to the primary role of the agency and the nature of its third party spend. For example, the nature of the Procurement function in agencies with large capital procurement programmes may be considerably more mature or aspire to higher levels of maturity than a small policy agency.

Corporate and Executive Services

Commentary

Given the amount of spending on this function, we should improve our understanding of its performance and business value. The 27 agencies who participated in this benchmarking exercise spent $213.4 million in FY 2012/13 on the CES function, making it the second largest area of expenditure within A&S services after ICT, as Property is no longer included in BASS. Building our understanding of the cost, quality, and value of these services across government supports a robust discussion about whether or not there are meaningful opportunities for improvement or savings.

The findings of this and other reports suggest we can lift performance through greater collaboration. Larger agencies continue to be significantly more efficient in delivering CES, showing the impact of fixed costs on small agencies and suggesting that costs can be reduced by leveraging scale across government.

Work is underway to strengthen management and performance in the larger service areas. Recent activity in the two largest service groups in this function—communications and legal services — is described in service-specific commentary below.

Work is also underway to strengthen a new CES service measured for the first time last year – Enterprise Portfolio Management Offices (EPMOs). These groups have an important role to play in strategy execution, helping allocate resources to high priority initiatives track the costs and benefits of these initiatives, and supporting course correction and resource reallocation as initiatives face challenges or priorities change.

Communications

Lisa-Marie Richan, Head of Profession – Core Government Communications Group, State Services Commission

Measurement of communications strategy and tactics remains one of the most vexed areas of the Communications profession globally for both private and public organisations. Although there is no one 'super-tool' to effectively evaluate Communications performance, BASS measurement continues to provide a helpful benchmark and, along with additional data, helps us understand the wider picture. BASS's real value though is seen with the introduction of the Capability Maturity Model (CMM), replacing the previous MPI measure, which enables more effective strategic conversations within agencies. Although not included within BASS, Communications professionals are also developing new metrics to better understand the capability of the Communications profession.

Communications staff across government continue to work together as we strive to deliver better public services and achieve more with less. This also includes the need to create and then meaningfully measure our collective impact. This collaboration is necessary as numbers of communications employees are expected to remain similar to the 2008 figure due to the full time equivalent (FTE)

numbers being specifically monitored within the wider government 'cap' on the number of positions in core government administration. During the FY 2012/13 benchmarking period, public service FTE communications staff numbers remained relatively static despite added public information requirements such as the post-Christchurch Earthquake rebuild, the change communications requirements of integrating government departments such as Ministry of Business, Innovation and Employment and Ministry for Primary Industries, and the deferred 2013 Census.

The introduction of the CMM has allowed a more useful tool to support better Communications performance within agencies. Although the CMM is still being embedded, we are confident that it will produce a greater understanding of just how effective we really are in our communications with New Zealanders, particularly as social media and direct communications are growing exponentially.

Legal Services

Philip Griffiths, Programme Director, Government Legal Service (GLS)

The Government Legal Network (GLN) offers a cross-agency approach to managing and delivering legal services. It reduces duplicative activity, improves the value of third party spend, and strengthens legal knowledge management and capability. The ultimate goal is providing high quality legal advice that supports the achievement of government objectives and minimises Crown risk.

Since the last BASS report, the GLN, working with the BASS team, has developed a new capability maturity model (CMM), which replaces the previous Management Practice Indicators (MPIs). Introduction of the CMM is an important step in better aligning BASS measures with the important elements of the in-house legal function and providing a stronger basis for tracking capability improvement within agencies.

Current work includes design and delivery of professional development programmes, uploading legal resources to an online platform to enable knowledge-sharing and ease of access, and succession planning for key legal positions across the sector. I believe we now have a more meaningful understanding of legal service performance and business value, and I look forward to working with our colleagues to further improve value provided by the Government's in-house legal network.

Enterprise Portfolio Management Offices

Ricky Utting, Senior Advisor, the Treasury

Enterprise portfolio management is a central function designed to oversee the investment, delivery, and associated processes relating to an organisation's projects and programmes on behalf of senior management. Questions were introduced in BASS in FY 2011/12 to gauge the level of uptake of this management practice approach across government.

The Enterprise Portfolio Management Office (EPMO) is still an emergent function, with most (15 of the 27) agencies indicating they do not have this function. Almost all the EPMO functions are in the large and medium agency cohorts: two-thirds of the large agency cohort and half of the medium agency cohort indicate spends against an EPMO function (only one agency in the small agency cohort indicates an EPMO spend).

Reinforcing the EPMO function as a growing area of interest; is the significant increase in the overall spend against this function (increased by 94 percent over 2012 figures).

The EPMO function generally has the lowest spend as a percentage of organisational running cost of any of the functions covered in the BASS analysis. There are different approaches to running an EPMO that reflect the specific needs of the organisation. This may account for the wide range of cost per full time equivalent (FTE).

The P3M3 (Portfolio, Programme and Project Management Maturity Model) was piloted as a CMM in the 2012/13 year with selected agencies. Further pilots of P3M3 have since been completed to refine an approach. The intention is to use the maturity measurement to focus activity on raising agency and overall capability in the future.

Summary of findings

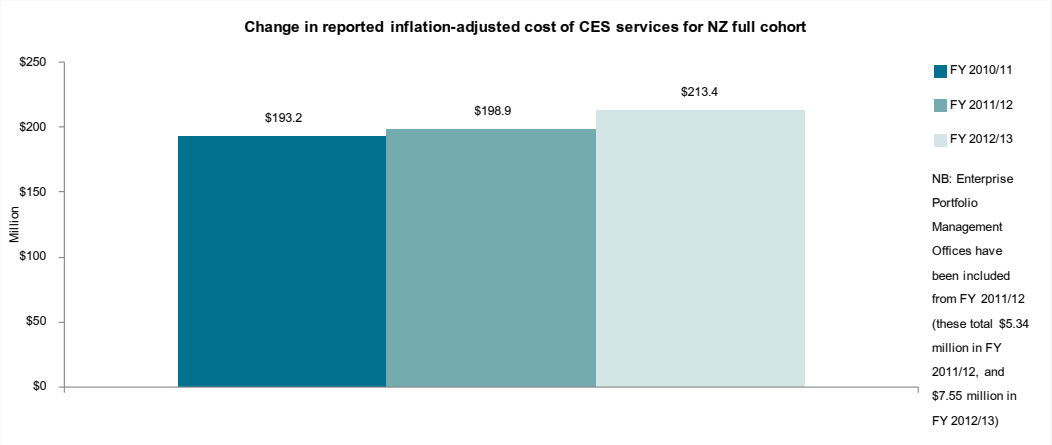
Detailed findings and data are not provided in this report. Detailed findings and data for FY 2012/13 are located on the Treasury website via the following documents:

- CES performance findings FY 2012/13:
- FY 2011/12 BASS metric results and data points:

Highlights of findings

Agencies spent $213.4 million on the CES function in FY 2012/13, up $14.5 million (or 7.3 percent) from FY 2011/12 when adjusted for inflation.

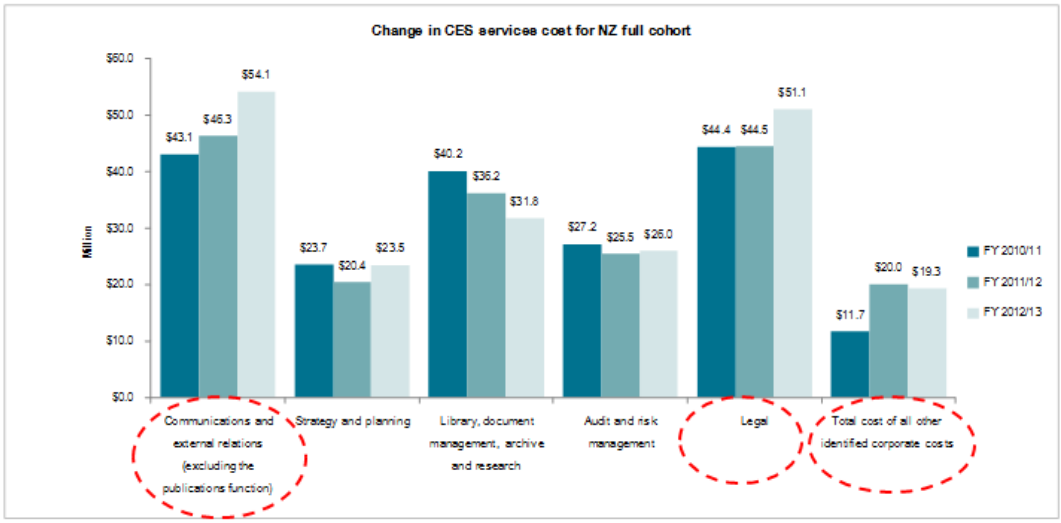
Figure 44 | Change in reported inflation-adjusted cost of CES services for NZ full cohort



Costs in the graph above are represented in FY 2012/13 dollars. Note that Enterprise Portfolio Management Office costs are included for years FY 2011/12 and FY 2012/13 but were not measured in FY 2010/11.

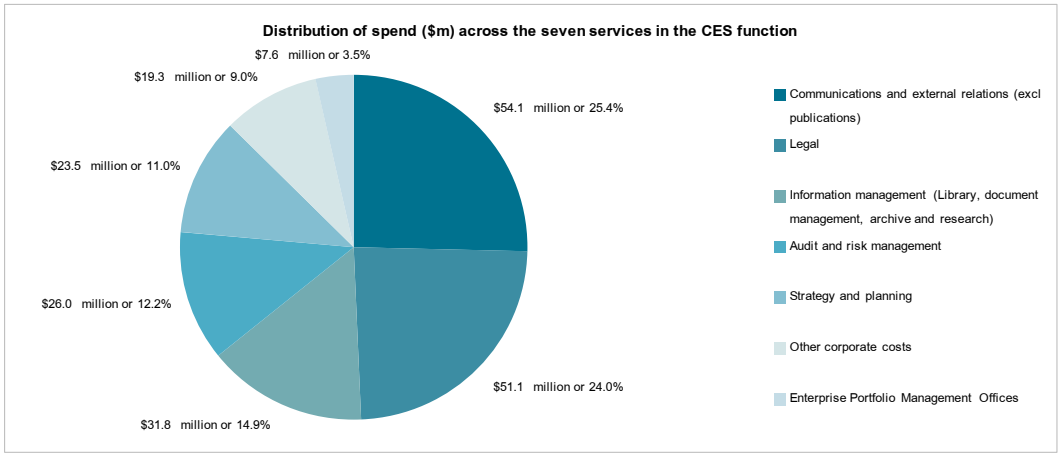
The NZ full cohort reports cost increases in three of six service areas since FY 2010/11.

Figure 45 | Change in median CES services cost for NZ full cohort



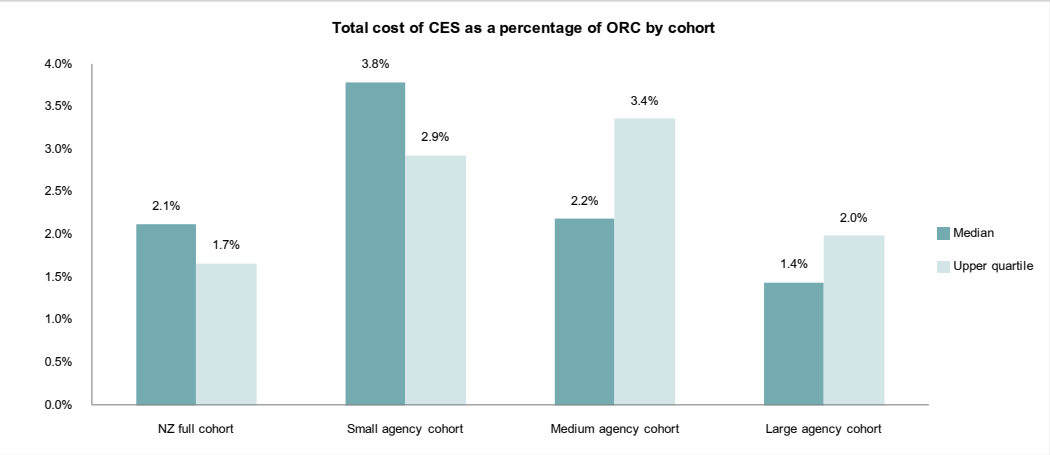
Communications, information management and legal services make up the bulk (64.3 percent) of CES expenditure in FY 2012/13.

Figure 46 | Distribution of spend ($m) across the seven services in the CES function



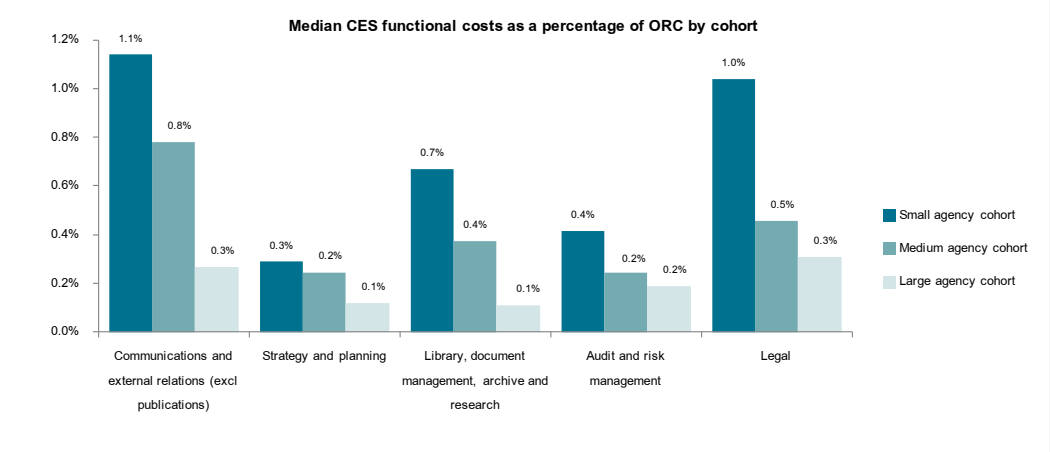
The large agency cohort delivers CES services significantly more efficiently than the small and medium agency cohorts.

Figure 47 | Total cost of CES as a percentage of ORC by cohort



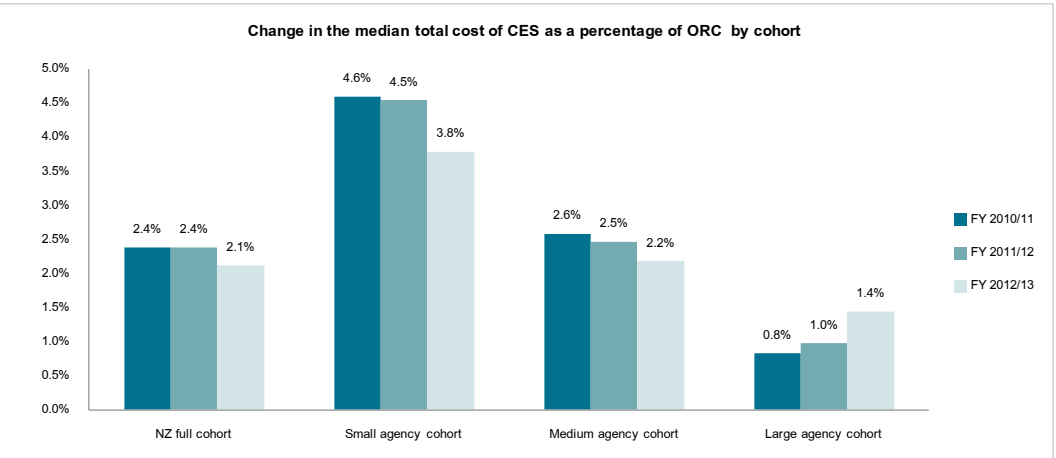
The large agency cohort delivers all component service types within CES more efficiently than the medium and small agency cohorts.

Figure 48 | Median CES functional costs as a percentage of ORC by cohort



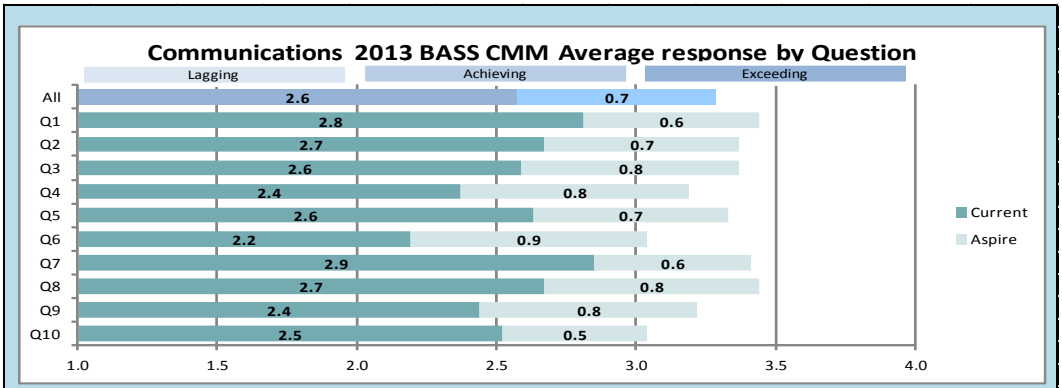
The reported efficiency of the CES function has remained relatively flat over the three reporting periods for the NZ full cohort.

Figure 49 | Change in the median total cost of CES as a percentage of ORC by cohort



Overall, agencies aspire to significantly improve the maturity of their Communications practices over the next two years.

Figure 50 | Communications 2013 BASS CMM Average response by Question



Q1: Linkage of Communications strategy and activity to broader business goals
Q2: Recorded communications strategy
Q3: Robust strategy and planning
Q4: Customer insight and input
Q5: Channel integration and delivery
Q6: Evaluation of communications activity
Q7: Executive leadership in governance
Q8: Effective organisational influence
Q9: Developing professional skills of communications staff
Q10: Cost of communications services

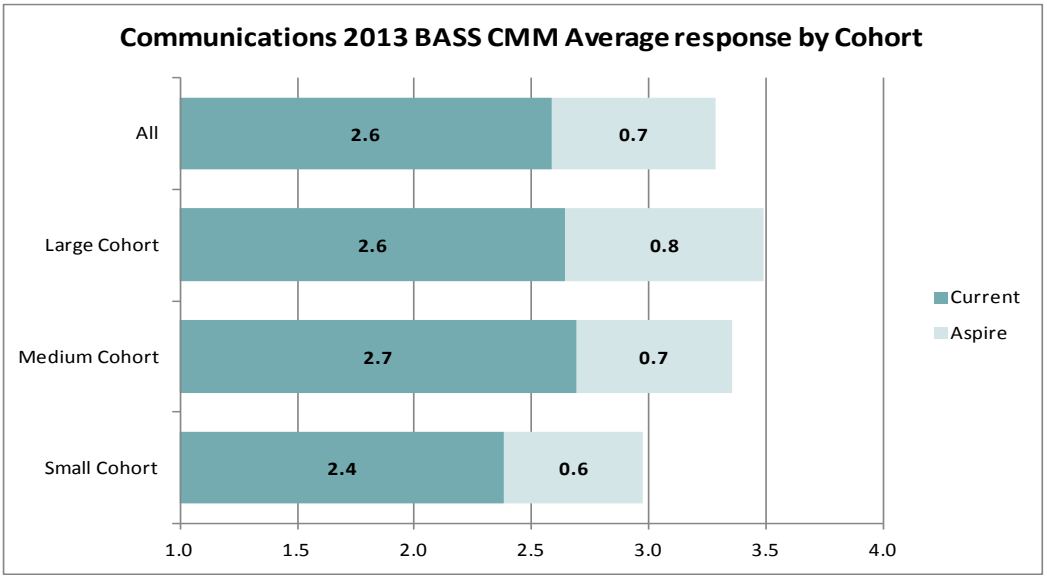
Overall agencies rated their most mature areas of the Communications function as:

- Executive leadership in governance (Q7)
- Linkage of Communications strategy and activity to broader business goals (Q1).

Q7 along with Effective organisational influence (Q8) have the highest future aspiration. Evaluation of Communications activity (Q6) is the least mature area.

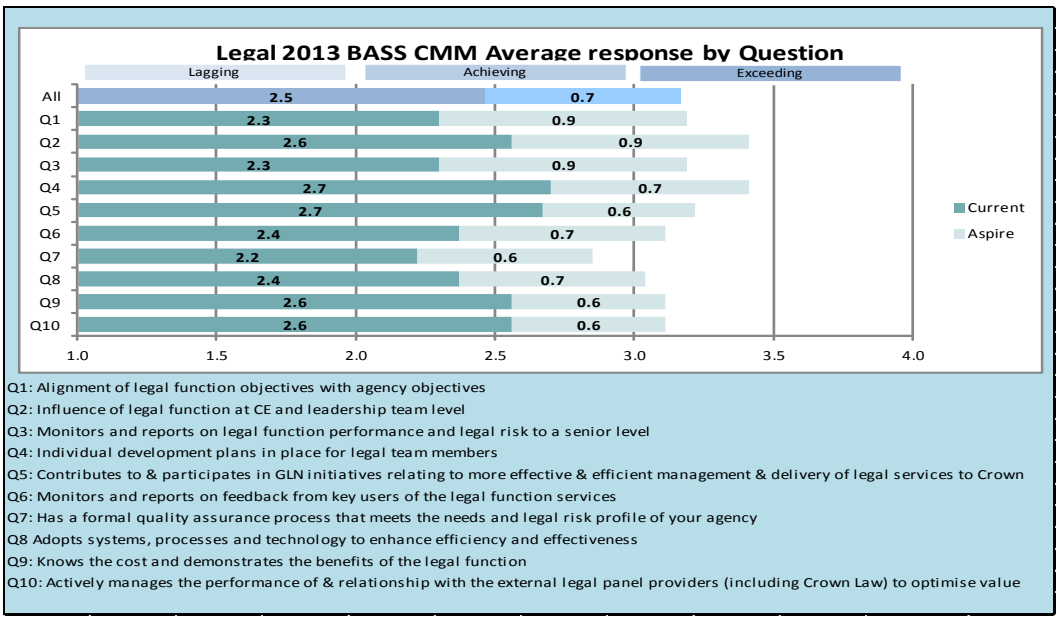
The medium and large cohorts demonstrate higher current assessed maturity and future aspiration levels than the small cohort for Communications.

Figure 51 | Communications 2013 BASS CMM Average response by Cohort



Overall, agencies aspire to significantly improve the maturity of their Legal practices over the next two years.

Figure 52 | Legal 2013 BASS CMM Average response by Question



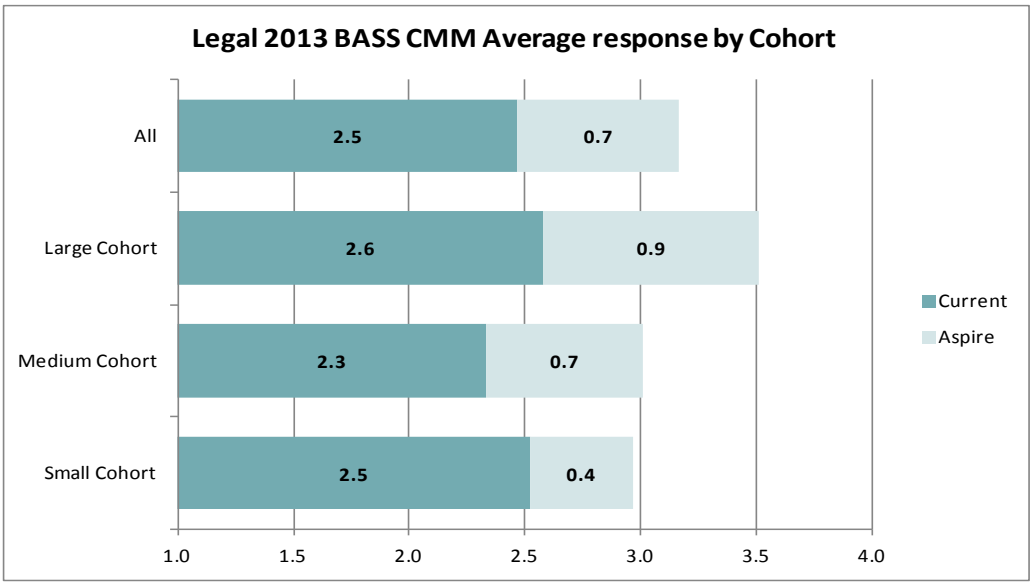
Overall agencies rated their most mature areas of the Legal function as:

- Individual development plans in place for legal members (Q4)
- Contributes to and participates in GLN initiatives relating to more effective and efficient management of legal services to Crown (Q5).

Q4 along with Influence of legal function at CE and leadership level (Q2) have the highest future aspiration. The least mature area is Formal quality assurance process that meets the needs and risk profile of your agency (Q7).

The large cohort demonstrates higher current assessed maturity and future aspiration levels than the other cohorts for Legal Services.

Figure 53 | Legal 2013 BASS CMM Average response by Cohort



Quality of management information

These findings report on known CES data quality issues, limitations of the indicator set in providing insight into CES service performance, and opportunities for improvement. The introduction includes common quality of management information findings across all functions that are not repeated in this section.

There are concerns with data quality for the CES function. In New Zealand and around the world, organisations undertake a range of activities within this function without standard definitions, and it is uncommon for organisations to benchmark these services. When they do benchmark, the quality of management information is impaired by data consistency issues and a limited pool of reliable comparator data.

Some costs may be understated. Agencies have varied reliance on certain corporate functions depending on the nature of their role. For example, agencies with direct engagement with the public have a greater need for communications. To improve the comparability of data, marketing and printing costs were excluded from Communications costs, and 'front-line' costs, such as prosecution teams, were excluded from Legal costs. This approach improves the comparability of the data but does mean that costs are not a full reflection of the total cost of each service for every agency.

- Note also that costs associated with functions performed by the Office of the Chief Executive, and administration and mailroom costs are outside of the seven CES functions.
- Dedicated research and evaluation teams are also excluded.

Enterprise Portfolio Management Office costs were included for FY 2011/12 for the first time. Note that EPMO costs have been excluded from FY 2011/12 and FY 2012/13 for some of the charts to enable a time series.

Improvements have been made to the effectiveness measures for FY 2012/13. A capability maturity model (CMM) has replaced the Management Practice Indicators (MPIs) for the Communications and Legal functions, which enables agencies to indicate current and future levels of maturity, their priorities and any initiatives in progress. The CMM is based on The Hackett Group's model, but given this is the first year of results, quality of data may vary due to self-assessment and self-reporting. No peer review was undertaken in FY 2012/13.

Caveat to time series: The Ministry of Business, Innovation and Employment (MBIE) merger, effective from 1 July 2012, has impacted on the comparative metrics across cohorts, with Department of Building and Housing (DBH) moving out of the small agency cohort, and Department of Labour (DOL) and Ministry of Economic Development (MED) out of the medium agency cohort, to now be included in the large agency cohort as MBIE.

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Appendix 2: Glossary of terms and abbreviations

This appendix describes the terms and abbreviations used in this report.

Table 1 | Glossary of terms

Terms	Definition
A&S services	See administrative and support services
Administrative and support services	Services that support the work of Government agencies without directly being part of the service offered to the public end user. These include the following functions: Human Resources, Finance, Procurement, Information and Communications Technology, Property and Corporate and Executive Services.
Benchmark	A standard or set of standards, or another point of reference, used as a basis for evaluating performance or level of quality. The activity of benchmarking is comparing things to such a standard or point of reference.
Best demonstrated practice	The highest current performance level in a cohort.
Capability Maturity Model	A capability maturity model is a set of structural levels that when assessed describe how well the behaviours, practices and processes of an organisation can reliably and sustainably produce required outcomes.

Terms	Definition
Centre of expertise	An organisational unit that provides critical insights, specialised functional expertise and decision support services to business management, characterised by: ■ its highly skilled resources, focused on expertise and analytical activities rather than transactional, operational or delivery activities ■ a role of business partner for multiple decision bodies within the business ■ a value and reward structure based on business impact and value provided ■ its provision of a centralised or bundled resource that avoids fragmentation of skills and capabilities ■ its focus on supporting the functional perspective of the performance of the business ■ its functional experts that can drive standards and integration across business units—sharing knowledge, improving information sharing and reducing the need to 're-invent the wheel'.
Cost Elements	A resource-based expenditure classification scheme with following elements: ■ Hardware ■ Software ■ Internal personnel ■ External personnel ■ Outsourced ■ Carriage ■ Other.
Economies of scale	Refers to lower unit costs for delivering the same single product or service
Economies of scope	Refers to lower unit costs for delivering multiple products or services
Efficiency	The ratio of output to input; the use of resources in a manner that minimises cost, effort and time.
Effectiveness	The extent to which activities achieve intended or targeted results.
FTE	See full time equivalent

Terms	Definition
Full time equivalent	Full time equivalent staff (FTEs) are employees weighted by the proportion of a full time position that they fill. A staff member that works four days a week in a prorated full time role would be considered to be one employee but 0.8 (4/5) of an FTE.
Fully loaded labour cost	Compensation for full time and part time employees based on a regular working week, and includes: ▪ salaries and wages ▪ overtime ▪ on costs (superannuation, leave loading, workers compensation and payroll taxes)
Inflation	Inflation-adjusted cost figures have used the annualised average percent change in the Consumer Price Index as at the June quarter, excluding GST, to inflate the prior year's costs.
Leading Practice	Superior performance within a function (independent of industry, leadership, management, or operational methods or approaches) that leads to exceptional performance.
Management Practice Indicator	Management Practice Indicators (MPIs) are adopted from the UK Audit Agencies A&S service performance measurement methodology. Within that methodology, the MPI score assesses "the extent to which...[a] function achieves a set of key management practices which will provide an indication of whether it is a well-run, modernised and mature function."[8]
MPI	See management practice indicator
NZ cohort	To support comparison among agencies with operational similarities, agencies have been grouped into smaller cohorts of the NZ full cohort using the following criteria: ▪ Size of operating budget ▪ Number of organisational FTEs ▪ Agency type by primary function ▪ Distribution of people/service.
Optimisation	The adjustment of a process within certain constraints in order to improve some specified set of parameters. The most common goals are minimising cost and maximising efficiency and effectiveness.
ORC	See organisational running costs

[8] http://www.public-audit-forum.gov.uk/performanceindicators.pdf (accessed 10 March 2011)

Terms	Definition
Organisational employees	Organisation employees includes: ■ Permanent and fixed term employees serviced by the administrative and support functions ■ Those on secondment ■ Overseas staff. Organisation employees excludes: ■ Staff on formal leave without pay arrangements ■ Staff on parental leave (more than one year) ■ Contractors ■ Casuals ■ Other staff not on the organisation's payroll ■ Unfilled positions ■ Provisional employees (eg. NZ Police recruits) Note: Contractors (eg. agency temps) or casuals who are on payroll and only complete pay sheets when they work, should be excluded. Their costs should be included, and should show in Outsourced Costs in each function.
Organisational running costs	The revenue of the organisation minus revenue that is passed on to another organisation or individual who then makes the decision on how it is spent. Organisational running costs exclude: ■ transfer payments, including benefit payments and other unrequited expenses ■ grants made to other organisations, such as community groups ■ subsidies paid to third parties ■ funding passed on to other Crown organisations to undertake their own operations ■ capital expenditure. Depreciation funding should be included and the Capital Charge should be excluded. Where a third party is contracted by the organisation to provide a service, that cost is included in the organisational running cost for the organisation.
P2P	See procure-to-pay

Terms	Definition
Performance Improvement Framework	A framework applied by a small group of respected organisational leaders to provide insights into agency performance, identifying where agencies are strong or performing well and where they are weak or need to improve. The framework covers both results (in terms of effectiveness and efficiency) and the organisational management factors that underpin sustainable superior performance.
PIF	See performance improvement framework
Procure-to-pay	The end-to-end procurement process from requisition through to invoice payment.
Service Tower	Categorisation and classification of the services provided by an ICT department. These are often aligned to similar sets of skills and service provider offerings observed in the market.
Shared Services	Consolidation of A&S functions from several agencies into a single, standalone organisation that has A&S service delivery as its core business.
State sector	The State sector is broader than the State Services. It includes: ▪ all the State Services ▪ some departments that are not part of the State Services ▪ tertiary education institutions ▪ Offices of Parliament ▪ State-Owned Enterprises.
State Services	The term for a broad range of organisations that serve as instruments of the Crown in respect of the Government of New Zealand. It consists of: ▪ all Public Service departments ▪ other departments that are not part of the Public Service ▪ all Crown entities (except tertiary education institutions) ▪ a variety of organisations included in the Government's annual financial statements by virtue of being listed on the Fourth Schedule to the Public Finance Act ▪ the Reserve Bank of New Zealand.
Strategic processes	Processes that deal with issues that are complex, high level and that tend to be unique to agencies, such as budgeting and strategic planning. They are distinguished from transactional process.
Taxonomy	In this context a taxonomy is a set of agreed terms and definitions that assist in ensuring consistency of information. For example, the HR taxonomy lists all the processes that fit within the HR function.

Terms	Definition
Transactional processes	Transactional processes are often common across all agencies. They tend to be well-defined, repeatable processes, and common to several agencies.
Transformation	In this context, transformation is change in order to align people, process and technology aspects of an organisation more closely with its business strategy and vision. Transformation aims to support new business strategies, meet long term objectives, and lift organisational performance.

Table 2 | Abbreviations used in this report

Abbreviation	Description
A&S	Administrative and Support (services)
ACE	Autonomous Crown Entity
APQC	American Productivity & Quality Center
BASS	Benchmarking Administrative and Support Services
CA	Crown Agent
CE	Chief Executive
CES	Corporate & Executive Services
CFO	Chief Financial Officer
CIO	Chief Information Officer
CMM	Capability Maturity Model
CoE	Centre of Expertise
Corrections	Department of Corrections
DBH	Department of Building and Housing
DIA	Department of Internal Affairs
DoC	Department of Conservation
DoL	Department of Labour
EPMO	Enterprise Portfolio Management Office
GCIO	Government Chief Information Officer
HR	Human Resources
IaaS	Infrastructure as a Service
ICE	Independent Crown Entity
ICT	Information and Communication Technology
IR	Inland Revenue
LINZ	Land Information New Zealand
MAF	Ministry of Agriculture and Forestry
MCH	Ministry for Culture & Heritage
MED	Ministry of Economic Development
MFAT	Ministry of Foreign Affairs and Trade
MFish	Ministry of Fisheries

Abbreviation	Description
MoE	Ministry of Education
MfE	Ministry for the Environment
MPI	Ministry for Primary Industries
MoH	Ministry of Health
MoJ	Ministry of Justice
MoT	Ministry of Transport
MSD	Ministry of Social Development
NZ Customs	New Zealand Customs Service
NZ Fire	New Zealand Fire Service
NZ Police	New Zealand Police
NZDF	New Zealand Defence Force
NZFSA	New Zealand Food Safety Authority
NZQA	New Zealand Qualifications Authority
NZTA	New Zealand Transport Agency
NZTE	New Zealand Trade and Enterprise
ORC	Organisational Running Costs
PMCoE	Property Management Centre of Expertise
RFI	Request for Information
SOE	State Owned Enterprise
SSC	State Services Commission
SSO	Shared Services Organisation
Stats	Statistics New Zealand
Tourism	New Zealand Tourism Board
TPK	Te Puni Kokiri (Ministry of Maori Development)
Treasury	The Treasury
UKAA	UK Audit Agencies

Appendix 3: Dataset descriptions

This appendix describes the datasets used in the analysis provided in this report, which includes data from NZ agencies and comparator data from organisations around the world. Note that not all comparator datasets have results for the same metrics used by NZ agencies.

The report makes reference to various datasets, some of which are narrowed into one or more smaller datasets to facilitate comparison as described below:

New Zealand full cohort (NZ full cohort)

The NZ full cohort comprises all agencies measured in a specific reporting period. Accident Compensation Corporation and the Tertiary Education Commission have not participated since the FY 2009/10 exercise, and Housing Corporation New Zealand have not participated since the FY 2010/11 exercise.

The Department of Building and Housing, Department of Labour, Ministry of Economic Development and Ministry of Science and Innovation have now merged to form the Ministry of Business Innovation and Employment, effective from 1 July 2012. The Ministry of Science and Innovation did not previously participate in BASS. Therefore, data for FY 2012/13 will now be collected as one agency for these previous agencies under the Ministry of Business Innovation and Employment. To allow comparison, the FY 2010/11, FY 2011/12 and FY 2012/13 NZ full cohort is made up of 27 Public Service Departments, Non-Public Service Departments and Crown Agents as listed alphabetically below:

1. Department of Conservation
2. Department of Corrections
3. Department of Internal Affairs
4. Inland Revenue
5. Land Information New Zealand
6. Ministry of Business Innovation and Employment
7. Ministry for Culture and Heritage
8. Ministry for the Environment
9. Ministry for Primary Industries
10. Ministry of Education
11. Ministry of Foreign Affairs and Trade
12. Ministry of Health
13. Ministry of Justice
14. Ministry of Social Development
15. Ministry of Transport
16. New Zealand Customs Service
17. New Zealand Defence Force
18. New Zealand Fire Service
19. New Zealand Police
20. New Zealand Qualifications Authority
21. New Zealand Tourism Board
22. New Zealand Trade and Enterprise
23. New Zealand Transport Agency
24. State Services Commission
25. Statistics New Zealand
26. Te Puni Kokiri
27. The Treasury

Small, medium, and large agency cohorts

To support comparison among agencies with the greatest operational similarities, the NZ full cohort is divided into three subsets, or cohorts, using the following criteria:

- size of operating budget
- number of organisational FTEs (the main criteria applied to determine the cohorts)
- agency type by primary function
- distribution of people/service.

Agencies with common features for at least three of the four criteria are grouped into three cohorts as outlined in the table below.

Table 3 | Description of agency cohorts

Agency cohort name	Agencies in the cohort	Profile (agencies will have at least three profile features)
Small agency cohort (mean of 270 employees)	• Ministry for Culture & Heritage • Ministry for the Environment • Ministry of Transport • New Zealand Qualifications Authority • New Zealand Tourism Board • State Services Commission • Te Puni Kokiri • The Treasury	Less than $100m budget Fewer than 500 FTEs Mainly have a policy, regulatory or compliance focus Mainly have centralised services
Medium agency cohort (mean of 1220 employees)	• Department of Internal Affairs • Department of Conservation • Land Information New Zealand • Ministry for Primary Industries • Ministry of Foreign Affairs and Trade • Ministry of Health • New Zealand Customs Service • New Zealand Transport Agency • New Zealand Trade and Enterprise • Statistics New Zealand	$100-$500m budget 500-2500 FTEs Mainly have an operational or service delivery focus Mainly have centralised or centre-hub led services
Large agency cohort (mean of 6180 employees)	• Department of Corrections • Inland Revenue • Ministry of Business Innovation and Employment • Ministry of Education • Ministry of Justice • Ministry of Social Development • New Zealand Fire Service • New Zealand Police • New Zealand Defence Force	More than $500m budget More than 2500 FTEs Mainly have an operational or service delivery focus Mainly have distributed services

UK Audit Agencies (UKAA cohort)

The UK Audit Agencies (UKAA) comprise five UK public sector organisations: Audit Scotland; the National Audit Office (England); Northern Ireland Audit Office; Wales Audit Office; and the Audit Commission. UKAA designed and implemented a set value for money indicators for Finance, HR, ICT, Property, Procurement, Communications and Legal services. The details of their methodology can be found at http://www.nao.org.uk/report/public-audit-forum-performance-indicators-3/

Given the maturity of corporate service benchmarking in many sectors, the UK audit agencies have now stepped back from their initial role of developing and maintaining indicator sets, and will not be providing further updates beyond June 2011. They are continuing to encourage bodies to benchmark their corporate services against these, or equivalent, indicators, and can continue to provide benchmarking data provided by third party providers such as CIPFA and SOCITM. The audit agencies no longer collect data and will not play the ongoing benchmarking role themselves.

American Productivity & Quality Center (APQC) full cohort

The American Productivity and Quality Centre (APQC) is a not-for-profit organisation founded in 1977. The APQC database (the Open Standards Benchmarking Collaborative database) is one of the largest in the world with data from more than 7,000 public and private sector organisations. The details of their methodology can be found at http://www.apqc.org/knowledge-base/documents/apqc-process-classification-framework-pcf-cross-industry-pdf-version-520

APQC similar cohort

A subset of the APQC full cohort database that includes government and military agencies, banks, utilities, not-for-profits, and research organisations deemed suitable for comparison with NZ State sector agencies.

The Hackett Group (Hackett) full cohort

The Hackett Group benchmarking and best practices database is built on more than 5,000 benchmarking engagements with 2,800 major corporations and government agencies, including 97 percent of the Dow Jones Industrials, 86 percent of the Fortune 100, 90 percent of the DAX 30 and 48 percent of the FTSE 100.[9]

[9] www.thehackettgroup.com (accessed 28 June 2012).

Hackett Peer Group

A subset of The Hackett Group full cohort database that includes government and military agencies, banks, utilities, not-for-profits, and research organisations deemed suitable for comparison with NZ State sector agencies.

Hackett World Class

A subset of The Hackett Group full cohort database that includes organisations that have achieved performance that ranks in the top quartile of companies by efficiency metrics as well as effectiveness metrics.[10]

[10] http://www.thehackettgroup.com/operational-excellence/ (accessed 15 February 2012)

Appendix 4: Metric definitions

This section describes the metrics that were used for the FY 2009/10, 2010/11, 2011/12 and 2012/13 measurement exercises. Metric descriptions for each function were predominantly based on the UK Audit Agencies experience in this measurement in the early years, however, with recent refinements they are now based on a range of international benchmarking best practice, including The Hackett Group, APQC, and Australian NSW ICT Benchmarking.

Table 3 | Human Resource metric definitions

Ref	Metric name	Metric description
HR1	Total cost of HR function per employee	The total cost of providing HR services divided by the total number of organisational employees serviced by the HR function.
HR2	Number of employees per HR FTE	The average number of organisational employees serviced by each full time equivalent in the HR function.
HR3	Cost of HR processes per employee: HR3.1: Develop and manage HR planning, policies and strategies HR3.2 Recruitment, source and select employees HR3.3 Reward and retain employees HR3.4 Develop and counsel employees HR3.5 Manage employee information HR3.6 Redeploy and retire employees	The cost of HR processes per organisational employee.
HR4	Cost of recruitment per new recruit	The direct cost to the HR function of hiring a new recruit divided by the number of hires during the period.
HR5	Number of employees per HR process FTE: HR5.1: Develop and manage HR planning, policies and strategies HR5.2: Recruitment, source and select employees HR5.3: Reward and retain employees HR5.4: Develop and counsel employees HR5.5: Manage employee information HR5.6: Redeploy and retire employees	The total number of organisational employees per HR process FTE.
HR6	Percentage of new hires in the role after 12 months	The number of new hires that remain in their same role after 12 months.

Ref	Metric name	Metric description
HR7	HR Capability Maturity Model (current state)	Capability maturity score for ten selected leading Human Resources practices undertaken by the function. This is the average score (1-4) across the ten questions.
HR8	HR Capability Maturity Model (future aspiration)	Capability maturity score for ten selected leading Human Resources practices undertaken by the function. This is the average score (1-4) across the ten questions.

Table 4 | Finance metric definitions

Ref	Metric name	Metric description
FIN1	Total cost of the Finance function as a proportion of organisational running costs	The total cost of the Finance function divided by the organisational running costs.
FIN2	Cost of Finance processes per $1000 revenue (ORC): FIN2.1: Perform planning and management accounting FIN2.2: Perform revenue accounting FIN2.3: Perform general accounting and reporting FIN2.4: Manage fixed asset project accounting FIN2.5: Process payroll FIN2.6: Manage internal controls FIN2.7: Process accounts payable and expense reimbursements	Each Finance process cost per $1000 of revenue (organisational running costs).
FIN3	Total cost of the Finance function per organisational FTE	The total cost of the Finance function divided by the total number of full time equivalent staff in the Finance function.
FIN4	Percentage of Finance FTEs by Finance process: FIN4.1: Perform planning and management accounting FIN4.2: Perform revenue accounting FIN4.3: Perform general accounting and reporting FIN4.4: Manage fixed asset project accounting FIN4.5: Process payroll FIN4.6: Manage internal controls FIN4.7: Process accounts payable and expense reimbursements	The number of Finance process FTEs in each process divided by the total Finance FTEs.

Ref	Metric name	Metric description
FIN5	Cost of payroll process per employee	The total cost of the payroll process per organisational employee.
FIN6	Number of employees per payroll FTE	The average number of organisational employees serviced by each full time equivalent in payroll
FIN7	Finance Capability Maturity Model (current state)	Capability maturity score for ten selected leading Finance practices undertaken by the function. This is the average score (1-4) across the ten questions.
FIN8	Finance Capability Maturity Model (future aspiration)	Capability maturity model for a ten selected leading Finance management practices undertaken by the function. This is the average score (1-4) across the ten questions.

Table 5 | ICT metric definitions

Ref	Metric name	Metric description
ICT1	Total ICT cost as a proportion of the organisational running costs	The total cost of ICT services divided by the organisational running costs.
ICT2	Cost of the Service Towers as a percentage of Total ICT Cost: ICT2.1: Mainframe & Midrange ICT2.2: Storage ICT2.3: WAN ICT2.4: LAN & RAS ICT2.5: Facilities ICT2.6: Voice ICT2.7: End User Infrastructure ICT2.8: Helpdesk ICT2.9: Applications ICT2.10: ICT Management	The cost of each Service Tower divided by the Total ICT Cost.

Ref	Metric name	Metric description
ICT3	Cost elements for each Service Tower as a percentage of each Service Tower cost - Hardware capital - Hardware operating - Software capital - Software operating - Personnel internal - Personnel external - Outsourced - Carriage - Other	Each Service Tower cost element divided by the Total Service Tower cost.
ICT4	Total cost of each Applications sub Tower as a percentage of Total Applications cost, and also - Percentage of Applications expenditure on support - Percentage of Applications expenditure on development	Each Application sub Tower cost divided by the Total Applications cost. Total Applications Support sub Tower cost divided by the Total Applications Service Tower Cost Total Applications Development sub Tower cost divided by the Total Applications Service Tower Cost
ICT5	Cost elements for each Applications sub tower as a percentage of each Applications sub Tower Total Cost	Cost elements of each Applications sub tower divided (by the total cost for that Applications sub towers)
ICT6	Percentage of ICT FTEs by ICT Service Tower and Application sub towers	The distribution of ICT FTEs across the ICT function (by Service Tower and Application sub towers).
ICT7	Percentage of ICT establishment (non-project) positions occupied by contractors	The number of contractors in the ICT establishment (non-project) divided by the total number of ICT establishment (non-project) positions.
ICT8	ICT Reliability	For five key ICT applications, the total time that an application was able to perform its required function.

Ref	Metric name	Metric description
ICT9	ICT Supportability	The average time in hours to resolve a service commitment disruption, including the time from when the problem is detected until the service again satisfies the service level agreement. (Service commitment disruption refers to the situation where an SLA is not met.)
ICT10	Total ICT cost per internal end user	The total ICT cost divided by the total number of internal end users.
ICT11	Total ICT cost per end user	The total ICT cost divided by the total number of end users.
ICT12	Total ICT Service Tower cost per Internal end user	The total ICT service tower cost divided by the total number of end users.
ICT 13	Total ICT Service Tower cost per end user	The total ICT service tower cost divided by the total number of end users
ICT 14	Number of internal end users per ICT FTE	The total number of internal end users divided by the total ICT FTEs
ICT 15	Number of end users per ICT FTE	The total number of end users divided by the total ICT FTEs
ICT 16	ICT Management Practice Indicator	The number of selected leading ICT management practices undertaken by the function.
ICT 17	ICT Operational Cost as a percentage of Total ICT Cost	The Total Operating Cost divided by the Total ICT System Cost
ICT 18	ICT Capital Cost as a percentage of Total ICT Cost	The Total Capital Cost divided by the Total ICT System Cost

Ref	Metric name	Metric description
IC T 19	Each of the Cost Elements as a percentage of Total ICT Cost	Hardware Cost Element as a percentage of Total ICT Cost Software Cost Element as a percentage of Total ICT Cost Carriage Cost Element as a percentage of Total ICT Cost Outsourced Cost Element as a percentage of Total ICT Cost Internal Cost Element as a percentage of Total ICT Cost External Cost Element as a percentage of Total ICT Cost Other Cost Element as a percentage of Total ICT Cost

Table 6 | Procurement metric definitions

Ref	Metric name	Metric description
PR 1	Total cost of the Procurement function as a percentage of the total purchase value.	The total cost of procuring goods and services divided by the total value of goods and services procured.
PR 2	Actual spend against pre-established contract arrangements as a percentage of total purchase value	The percentage of total goods and services purchased where there is an existing arrangement in place for that type of good or service before the need to source the good or service arises.
PR 3	Percentage of eligible contract ('commodity') spend that is channelled through collaborative procurement arrangements.	The percentage of total goods and services purchased through collaborative contracts.
PR 4	Percentage of spend under management by Procurement professionals.	The percentage of Procurement spend managed by procurement professionals either working in a central procurement function or working in business units.

Ref	Metric name	Metric description
PR 5	Professionally qualified Procurement employees as a percentage of total Procurement employees.	The percentage of Procurement personnel (both within the procurement function and embedded in business units) who have procurement qualifications.
PR 6	Percentage of Procurement contracts with a value over $100,000 that have a valid procurement plan or business case prepared before approaching the market.	The percentage of Procurement contracts where procurement plans or business cases have been approved at the appropriate level prior to commencing tendering processes.
PR 7	Percentage of contracts with a value over $100,000 reviewed at least once a year to monitor delivery of outcomes.	The percentage of Procurement contracts that are formally reviewed at least once during the year to establish whether expected outcomes have been delivered.
PR 8	Number of the organisation's top 10 suppliers (by spend value) who have a formal partnership/framework agreement with the organisation	The number of formal agreements with the organisation's top 10 suppliers (indicating the ability of the organisation to manage relationships with suppliers and control expenditure)
PR 9	Procurement Capability Maturity Model (current state)	Capability maturity score for ten selected leading Procurement practices undertaken by the function. This is the average score (1-4) across the ten questions.
PR 10	Procurement Capability Maturity Model (future aspiration)	Capability maturity score for ten selected leading Procurement practices undertaken by the function. This is the average score (1-4) across the ten questions.

Table 7 | Corporate & Executive Services metric definitions

Ref	Metric name	Metric description
CES 1	Total cost of the CES function as a percentage of organisational running costs	The total cost of combined CES functions divided by organisational running costs.
CES 2	Total cost of CES process as a percentage of organisational running costs	The cost of separate CES functions divided by organisational running costs.
CES 3	Total cost of Communications process as a percentage of total Administrative and Support (A&S) costs	The cost of the Communications function divided by Administrative and Support (A&S) costs

Ref	Metric name	Metric description
CES 4	Total cost of CES function per organisational FTE	The total cost of combined CES functions divided by the average total number of full-time equivalents in the organisation.
CES 5	Total Communications FTE as a percentage of total organisational FTE	The number of Communications FTE as a percentage of total organisational FTE
CES 6	The percentage of total Communications employees by level of experience	The number of Communications employees with the following levels of experience as a percentage of total Communications employees: – Assistant/Advisor – Senior Advisor – Lead/Principal Advisor / Account Manager – Team Leader/Manager/Director
CES 7	Professionally qualified Communications employees as a percentage of total Communications employees.	The percentage of Communications employees who have a relevant tertiary and/or industry qualification.
CES 8	Communications Capability Maturity Model (current state)	Capability maturity score for ten selected leading Communications practices undertaken by the function. This is the average score (1-4) across the ten questions.
CES 9	Communications Capability Maturity Model (future aspiration)	Capability maturity score for ten selected leading Communications practices undertaken by the function. This is the average score (1-4) across the ten questions.
CES 10	Legal Capability Maturity Model (current state)	Capability maturity score for ten selected leading Legal practices undertaken by the function. This is the average score (1-4) across the ten questions.
CES 11	Legal Capability Maturity Model (future aspiration)	Capability maturity score for ten selected leading Legal practices undertaken by the function. This is the average score (1-4) across the ten questions.

Management practice indicator descriptions

This section describes the management practice indicators (MPI) that were measured in FY 2011/12 and FY 2012/13. MPIs are adopted from the UK Audit Agencies (UKAA) administrative and support (A&S) service performance measurement methodology. Within that methodology, the MPI score assesses the extent to which a function achieves a set of key management practices which will provide an indication of whether it is a well-run, modernised and mature function.

Each MPI has a minimum score of 0/10, or 0 percent, and a maximum score of 10/10, or 100 percent. A score of 0 percent indicates that an agency has none of the management practices featured in the MPI, and 100 percent indicates that an agency has all of the management practices featured in the MPI.

Table 9 | ICT management practice indicator definition

Ref	Metric Description
1	Formal Service Level Agreements are in place with key internal customers governing business requirements, with regular (i.e. at least quarterly) service review meetings held at agreed intervals.
2	There are formal procedures in place supporting the operation of the ICT function, based upon good practice guidance such as COBIT (Control Objectives for Information and Related Technology), ITIL (IT Infrastructure Library), ISO / IEC:2000 and / or other sector specific guidance / methods.
3	Information quality assurance and security management are managed and implemented in accordance with ISO27001 (or its equivalent).
4	User satisfaction surveys are conducted at least biannually with results openly published, supported with improvement plans where necessary.
5	A short survey is undertaken upon resolution of a sample of reported incidents and the data is collated and analysed at least monthly and used to drive service improvements.
6	The most senior officer in the organisation with a dedicated ICT role has a direct report to the Executive / Corporate Management Team of the organisation.
7	The organisation's strategic management links governance, leadership and long-term planning into the corporate strategy.
8	The organisation has assessed the ICT competence of end users within the last 12 months and put in place an appropriate training and development programme to address areas of weakness and delivery of this programme is monitored on a quarterly basis.
9	A comprehensive professional development programme is in place for ICT staff which ensures that they receive at least five days of continuing professional development (relevant accredited training) per annum, covering technical, management and business focussed training.

Ref	Metric Description
10	Business continuity management processes are in place to recover business and ICT services in the timescales as specified by the business. These processes are tested at least annually and are reviewed on a regular basis to confirm appropriateness.

Capability Maturity Model descriptions

This section describes the capability maturity models (CMMs) that were measured in FY 2012/13. Capabilities are described along four increasing lines of maturity: 1. lagging; 2. achieving; 3. exceeding; 4. leading.

Table 10 | HR Capability Maturity Model

Ref	Category	Capability element description
1	Capability	Developing people skills of managers
2	Operations	Strategic workforce planning (SWP) reporting and analytics
3	Operations	Performance Management
4	Operations	Rewards Strategy
5	Operations	Staff Engagement
6	Resources	Staff technology capability and process improvement skills
7	Strategy	Strategic workforce planning (SWP) data and capability
8	Strategy	Executive leadership in governance
9	Strategy	Linkage of HR policies and practices to broader HR/Business goals
10	Technology	Automation and self-service strategy

Table 11 | Finance Capability Maturity Model

Ref	Category	Capability element description
1	Business partnering	Historical versus proactive forward looking reporting and analysis
2	Business partnering	Organisations' view of Finance's role
3	Business partnering	Budget process linkage to strategic or business planning process
4	Business partnering	Management's ease of access to relevant, timely and consistent information
5	Business partnering	Forecast timeliness, accuracy, and usefulness
6	Operations	Length of close and reporting cycle time, along with focus of time spent during that process
7	Operations	Extent systems are cost-effective and leverage information
8	Operations	Extent to which transaction processes are automated
9	Culture	Focus with respect to value of actions, decisions and processes
10	Capability	Extent to which finance staff have skill set and business acumen to partner with operations management

Table 12 | Procurement Capability Maturity Mode

Ref	Category	Capability element description
1	Influence	The profile of procurement in the organisation
2	Supplier Management	Supplier relationship management
3	Outcome focus	Procurement strategy alignment with agency key result areas
4	Influence	Procurement function engage with agency stakeholders
5	People	Management of people and skills development
6	Governance	Governance and organisation of the procurement function
7	Suppliers	Sourcing and collaboration
8	Technology	Use of technology processes and tools
9	People	Knowledge and performance management
10	Governance	Alignment with policy and processes

Table 13 | Communications Capability Maturity Model

Ref	Category	Capability element description
1	Strategy	Linkage of Communications Strategy and activity to broader business goals
2	Strategy	Recorded communications strategy
3	Strategy	Robust strategy and planning
4	Strategy	Customer insight and input
5	Operations	Channel integration and delivery
6	Measurement	Evaluation of communications strategy
7	Engagement	Executive leadership in governance
8	Engagement	Effective organisational influence
9	Performance Development	Developing professional skills of communications staff
10	Value for Money	Cost of communications services

Table 14 | Legal Capability Maturity Model

Ref	Category	Capability element description
1	Strategy	Alignment of legal function objectives with agency objectives
2	Strategy	Influence of legal function at CE and leadership team level
3	Strategy	Monitors and reports on legal function performance and legal risk to a senior level
4	Performance Development	Individual development plans in place for legal team members
5	Operations	Contributes to and participates in GLN initiatives relating to more effective and efficient management and delivery of legal services to Crown
6	Measurement	Monitors and reports on feedback from key users of the legal function services
7	Measurement	Has a formal quality assurance process that meets the needs and legal risk profile of your agency
8	Technology	Adopts systems, processes and technology to enhance efficiency and effectiveness
9	Value for Money	Knows the cost and demonstrates the benefits of the legal function
10	Engagement	Actively manages the performance of and relationship with the external legal panel providers (including Crown Law) to optimise value

Appendix 5: Property Management

Commentary - From the Crown Office Estate Report 2013 sourced from the Property Management Centre of Expertise (PMCoE)

David White, Director, Government Property Management Centre of Expertise

The 2013 Crown Office Estate Report is our third report to track progress of the estate towards the government's goal of reducing our footprint and associated costs to a cost effective level. This report captures estate-related data and analysis as at 30 June 2013.

The progress that is being made represents the efforts of a range of people across various agencies and disciplines. The Property Management Centre of Expertise (PMCoE) provides the strategies and frameworks to support agencies, and the results are achieved building-by-building, contract-by-contract. Some of these are large and high profile, led by the PMCoE, but there are also a large number that are smaller in nature but equally require prudent management.

While the changes from the 2012 report to the 2013 report are modest as a proportion of the portfolio, they are nonetheless significant in scale in themselves. The reduction in area of around 15,000 m2 represents the size of a large metropolitan office building in size.

The scale of the individual transactions will vary as lease expiries allow, but each transaction contributes to the overall objective. All transactions, large or small over the past year have been within the Government's expectation of 12-16 m2 per person. Generally, the larger the transaction, the longer the lead time and therefore the lag until it will be represented within the Crown Estate Report.

The Crown Office Estate Report provides the information Ministers, the PMCoE, agency leadership teams and property professionals need to assess our performance and to identify our next priorities so we can continue to build on our progress to date.

Summary of findings

Data for the Property function is not collected as part of the A&S benchmarking exercise from FY 2012/13. Property Management is now being managed by the Property Management Centre of Expertise (PMCoE), and is reported annually in the Crown Office Estate Report. Detailed findings and data for FY 2012/13 can be found at:
http://www.msd.govt.nz/about-msd-and-our-work/about-msd/our-structure/pmcoe/publications/pmcoe-publications.html

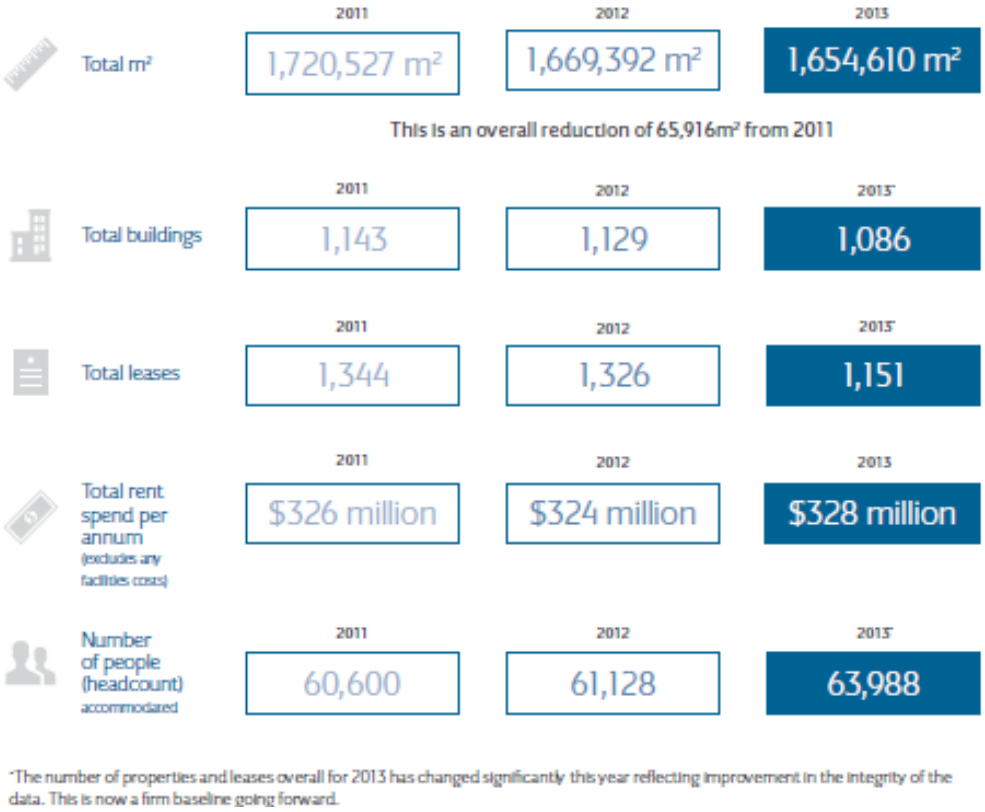
As at 30 June 2013, 61 agencies (29 government departments, six non-public service departments and 26 Crown agents) were mandated or expected, to participate in the PMCoE programme. The PMCoE mandate includes all commercial office buildings, whether they are used for service delivery, head office or support functions, within the Government's property estate. Specialist and operational facilities, for example hospitals, prisons, court rooms, and emergency services' stations, are not included as part of the PMCoE mandate.

Highlights of findings

Continuing the trend from the previous years, 2013 has seen further progress and improvements within the Estate. The entire Estate has seen an overall reduction of 14,782 m2.

The rental cost of running the estate has increased by approximately 1.25% or $4million. The data tells us that this appears to be due to increased insurance costs and several agencies in 2013 facing rental increases from scheduled rent reviews. However this cost increase is offset by the area reduction within the estate and therefore better utilisation of space.

Figure 1 | Overview of the entire estate (irrespective of function) data for 2013 from the baseline set in 2011.

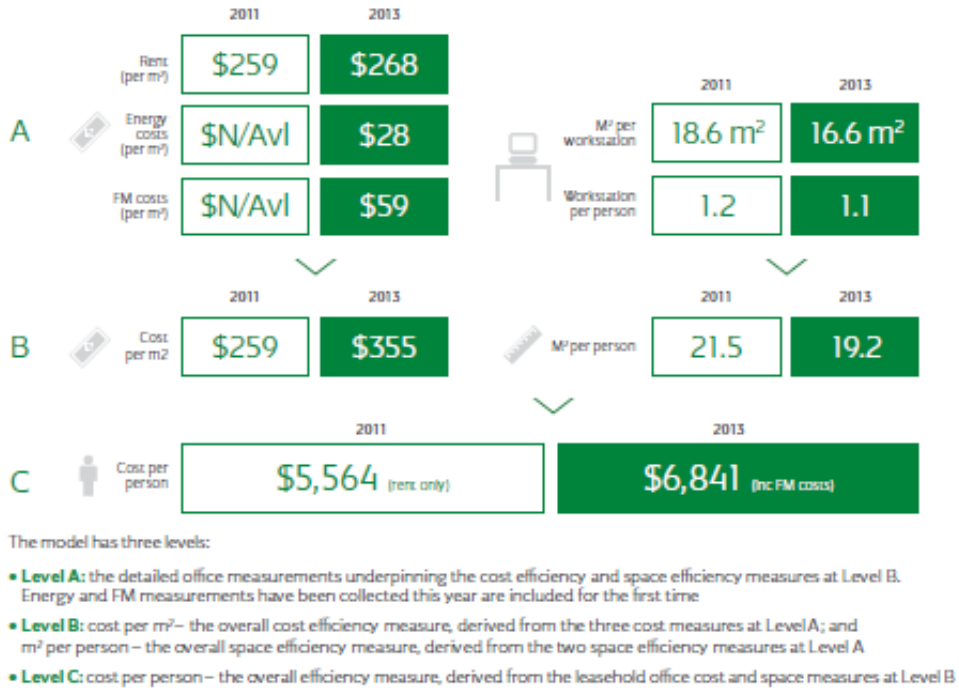


*The number of properties and leases overall for 2013 has changed significantly this year reflecting improvement in the integrity of the data. This is now a firm baseline going forward.

The 2013 figure of $6,841 per person is very cost effective. Many commercial organisations and professional services companies are in the $8,500 - $10,000 per person range but operate in a 12-16 m2 per person band. Therefore the opportunity presents itself to attain the target of 12-16 m2 per person and lower the annual cost per person by approximately 20% to circa $5,000 per person.

This year we have collected and included the costs for energy and facilities management (FM), which provides a more realistic cost per m^2 and cost per person in the office estate going forward for future reporting.

Figure 2 | Key property management performance measures for the Crown leasehold Office Estate.



The model has three levels:

- **Level A:** the detailed office measurements underpinning the cost efficiency and space efficiency measures at Level B. Energy and FM measurements have been collected this year are included for the first time
- **Level B:** cost per m^2 – the overall cost efficiency measure, derived from the three cost measures at Level A; and m^2 per person – the overall space efficiency measure, derived from the two space efficiency measures at Level A
- **Level C:** cost per person – the overall efficiency measure, derived from the leasehold office cost and space measures at Level B

Efficient and effective use of the estate office space is key to releasing savings by reduction of space and cost. The PMCoE provides a detailed picture of the forecast savings that can be achieved. The dark green "benefits delivered" in figure 3 below reflect contracts signed and business cases approved and the light green "forecast" benefits represent the potential benefits the PMCoE has modelled. Over time the benefits delivered will grow, aiming to reach the total forecast benefits.

The savings forecast is based on a total footprint reduction of 18.75% with total benefits peaking at $109m per year. Incorporated into the forecast benefits modelling is the following:

- agency property plans
- agency business intentions
- accommodation project business cases
- market information, e.g. rental forecasts
- professional fees
- utilities, e.g. power
- maintenance and facilities management costs
- procurement economies
- relocation costs

Figure 3 | Total benefits and footprint reduction