Administrative & Support Services Benchmarking Report for the Financial Year 2013/14

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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

New Zealand is doing well, and New Zealanders are reaping the benefit of their hard work, and a growing economy, although continuing global economic risks remain. The State sector plays an important role in New Zealand's overall performance, and hence the overall wellbeing of New Zealanders. The Government remains committed to delivering better public services, particularly for those who are most in need, while staying on top of spending, as we have done over the last two parliamentary terms.

Delivering better public services is one of the National-led Government's four key priorities. To help drive this focus we have specific and challenging targets that we expect our public service to achieve over the next four to five years. These include targets for lowering the incidence of rheumatic fever, reducing the number of people on main welfare benefits, cutting the rates of youth crime and re-offending, and lifting achievement rates for NCEA level 2. Some of these targets aim to help break cycles of deprivation and when we succeed in achieving that, New Zealanders, their families and communities not only have better lives, but there is a reduction in long-term costs to taxpayers. Our approach is working and it is heartening to see, for example, that there are now 42,000 fewer children living in benefit–dependent households than three years ago.

One of these targets is to reduce business costs arising from dealing with government by 25% by 2017, through a year-on-year reduction in effort required to work with agencies. A second major target is for government services to business to have similar key performance ratings as leading private sector firms by July 2017.

With the use of technology, we have also made it easier for the public to interact with government agencies. This in turn reduces agencies' transactions costs.

This focus on meeting the needs of our customers, and the New Zealand taxpayer, is critical to achieving our targets and delivering better public services more broadly. This greater focus on our customers requires agencies to work together to deliver more effective and efficient services.

The information in this Benchmarking Administrative and Support Services (BASS) report helps agencies better understand the quality and cost of their internal services, and identify where improvements can be made, so they can deliver better results. The information in this report, along with the publication of supporting agency-level data, also enables New Zealanders to review agencies' progress towards improving the quality and efficiency of internal services.

It is this focus on performance at all levels of the public service – that is helping to drive the delivery of better services for New Zealanders and their families.

Statement by the Secretary to the Treasury

Gabriel Makhlouf, Secretary to the Treasury

This is the Treasury's fifth Benchmarking Administrative and Support Services (BASS) report. Getting good data and benchmarking on back office services is important to show where we are, where we can improve, and to help us identify and learn from those who are performing well. Agencies are best placed to identify the specific actions and initiatives to improve their BASS results as BASS, in itself, does not and cannot change performance. We continue to support agency efforts through opportunities to work across the State sector to build capability and tackle common issues.

Over the last year we have seen the appointment of the Chief Talent Officer and establishment of the Office of the Government Accountant to support agencies in strengthening their Human Resource and Finance capability (and hence effectiveness) by looking at and working on challenges and opportunities across the State sector. We also have the Government's Legal Network in its second year, while Functional Leads for ICT, procurement and property are now well established. The Treasury remains committed to supporting cross-agency initiatives, working with functional leaders and our central agency colleagues to ensure that agencies don't face unnecessary barriers to working across agencies.

As this 2013/14 report shows, there may be limited change in results on an annual basis as it takes time to realise the benefits of actions taken by agencies or across agencies. But I am encouraged by the increased leadership we are seeing with respect to improving the functions measured by BASS, the focus on building the strategic focus and hence effectiveness of these functions. This leadership and capability building is essential to sustain the effort required for progressing towards Treasury's view that the State sector should aim to reach the upper quartile result against comparators for BASS by 2022.

I would like to thank colleagues across the State sector for their continued commitment to improving the performance of the State sector and delivering greater value to taxpayers.

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-six agencies participated in the Financial Year (FY) 2013/14 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 no longer collected as part of the A&S benchmarking exercise. Property Management is lead and supported by the Property Management Centre of Expertise (PMCoE), and is reported annually in the Crown Office Estate Report.[1] A summary of Property Management findings for FY 2013/14 can be found in Appendix 5. Detailed findings and data for FY 2013/14 can be found at:

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

Metric definitions for each function are in Appendix 4.

[1] The fourth Crown Office Estate Report was released on 5 May 2015

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 included working with an Australian jurisdiction (New South Wales) 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 $1.7 billion on A&S services in FY 2013/14. The 26 measured agencies spent $1.682 billion in FY 2013/14, with ICT making up the bulk (67 percent) of expenditure.[2]

Overall, there has been a significant increase in A&S service expenditure from FY 2011/12 to FY 2013/14, with the majority of this increase attributed to FY 2012/13. Agencies and functions measured for the past three fiscal years show a nominal spending increase of $183.6 million since FY 2011/12 (12.3 percent). Only $43.4 million of this increase is since FY 2012/13 (a 2.6 percent annual increase). There was a significant increase between FY 2011/12 and FY 2012/13 with $140.2 million of

[2] The 26 agencies that participated in this exercise have, for the purposes of comparison, been organised into four cohorts – 'NZ full cohort' refers to all 26 agencies; 'small agency cohort' refers to agencies with <500 FTEs and/or organisational running costs (ORC) of <$100 million; 'medium agency cohort' refers to agencies with 500 to 2,500 FTEs and/or ORC of $100 million to $500 million; and 'large agency cohort' refers to agencies with >2,500 FTEs and/or ORC of >$500 million. Note that DPMC is not reported on in this report as this is the first year it has participated.

the $183.6 million reported attributed to FY 2012/13 (a 9.4 percent annual increase). When adjusted for inflation, there is a $146.8 million (or 9.6 percent) increase since FY 2011/12.

From a functional perspective, spending increases continue to be driven by rising ICT expenditure. The overall $183.6 million nominal net increase in A&S services since FY 2011/12 is based on a $4.3 million spending reduction in Procurement, and a $187.9 million spending increase in HR, ICT, Finance and Corporate and Executive services. Of the reported $187.9 million spending increase, $151.9 million (81 percent) is attributable to the ICT function.

The trend of increasing ICT expenditure can be positive if it creates value for the end-customer and agencies. 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. 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.

Highlights of efficiency findings

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

- About $54 million in A&S service spending could be saved annually by focusing efforts on improving the efficiency of agencies currently below the median for their cohort up to that level for the Finance and HR functions alone.
- Approximately $84 million to $135 million annually could be saved if agencies meet more aggressive efficiency targets, for the Finance and HR functions. There is potential for this amount to be saved if agencies below the upper quartile in their cohort met that level of efficiency or if agencies met international benchmarks respectively.

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 2.9 percent ($48.7 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) were replaced by a Capability Maturity Model (CMM) in FY 2012/13. The introduction of the CMM shows that agencies overall aspire to make significant improvement to the effectiveness of the function. HR effectiveness as measured by new hires in the same role after 12 months is relatively similar overall to FY 2012/13 but has dropped since FY 2011/12, and agency results show lower effectiveness than international benchmarks.

Finance management practices lag leading practices but agencies have aspirations to improve. Assessed maturity levels for the Finance CMM have improved, but agencies continue to aspire to make significant improvement to the effectiveness of this function. There is particular emphasis on improving strategic financial management capability within agencies, supporting the direction of the Office of the Government Accountant.

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 still need a better understanding of how well ICT departments support overall agency performance. ICT is not just about technology, it is about the ways in which information and technology are used to deliver better services and enhance trust and confidence in government. ICT has the potential to modernise service delivery and make a strong contribution to agency strategies for achieving “better for less.”

Government ICT is heading in the direction where capabilities will be shared to deliver common business and government outcomes. This needs to be supported by strong governance, service delivery, funding and operating models. Opportunities for shared and common capabilities are expected to emerge through cross- agency collaboration across strategy, planning and investment cycles. Current practices like the recently updated Government ICT Action Plan are mechanisms that further enable capability sharing amongst agencies. This is also supported by the All -of- Government Common Capabilities that has delivered a significant portfolio of ICT capabilities that are now being consumed by agencies.

New Procurement effectiveness metrics were introduced in FY 2012/13 for which no international comparator data is available. This year’s results show improvement against FY 2012/13; however, there is still much opportunity for further improvement. The overall result of 8.2% of Procurement staff being qualified is a substantial increase from the FY 2012/13 result of 5%. Similarly, the percentage of spend managed by Procurement professionals increased from 20.3% to 23.5%. Effectiveness results

regarding the percentage of contracts >$100K that have plans or business cases or that are reviewed annually also improved. The overall results for these at approximately 53.2% and 38.7% respectively, although an improvement, are still 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 2013/14. 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. The mean results of 17.5 percent and 16.7 percent for FY 2012/13 and FY 2013/14 respectively are comparable to the UKAA cohort median of 18 percent. The mean has been used rather than the median for the NZ full cohort as a comparison because it provides more meaningful results.

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 were introduced in FY 2012/13 to assess the effectiveness of the Communications and Legal functions within CES. The CMM results this year show that agencies continue to aspire to make significant improvement to the effectiveness of these functions.[3]

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
- the Communication Head of Professions engagement Capability Improvement Programme
- individual agency improvement initiatives.

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. Methods were also shared with other government agencies to enable self assessment using the BASS methodology.

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[3] 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.

Introduction

Background

This is the fifth 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.[4] Measurement agencies are a mix of larger departments and Crown Entities. The first report was published in April 2011, the second in March 2012, the third in April 2013, and the fourth in May 2014. This fifth report has similar metrics to the previous reports to enable time series analysis.

Findings in this report are based on data from three reporting periods (financial years 2011/12, 2012/13, and 2013/14), and results cover five A&S service functions across 26 agencies.[5] Functions include Human Resources (HR); Finance; Information and Communications Technology (ICT); Procurement; and Corporate and Executive Services (CES).

Data for the Property function ceased being collected as part of the A&S benchmarking exercise from FY 2013/14. Property Management is now benchmarked 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 2013/14 can be found in Appendix 5. Detailed findings and data for FY 2013/14 can be found at:

https://www.msd.govt.nz/about-msd-and-our-work/about-msd/our-structure/pmcoe/

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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[4] 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.

[5] The FY 2013/14 Administrative and Support Services Benchmarking Report, reports on the past three financial years, which follows the same structure as the previously published reports. Trend data over the five reporting years is collected and stored in the Treasury's data warehouse.

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, $31.5 million could be saved if agencies below the upper quartile level met that level within their cohorts. Over $42 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 the operational context information needed to support meaningful briefings at an individual agency level.

This report and supporting information provides a cross-agency view on costs and performance in FY 2013/14 as well as trends over time. To support understanding of overall trends, agencies are allocated into the small, medium or large cohorts; however, these are indicative only of relative performance. Performance of an individual agency needs to be considered in light of that agency's unique functions and operational context.

Scope of the report

Twenty-six agencies participated in the FY 2013/14 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 2011/12, FY2012/13, and FY2013/14. Information from the FY 2009/10 and FY 2010/11 measurement exercises is not reported on in this report because a time series of three years is considered more relevant.

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 (http://www.treasury.govt.nz/statesector/performance/bass/benchmarking) along with a spreadsheet providing results by agency for each metric and individual agency reports.

Functional leads 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 differences 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 (New South Wales) 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, each has their own unique functions and cost drivers that need to be considered when interpreting results. For example, results can be expected to differ depending on whether an agency is asset intensive, has large service delivery activities, has a wide range of activities (eg, multiple votes) or is supporting significant non-departmental activity. Accordingly, benchmarking results are only a guide to relative performance, and conclusions regarding efficiency and effectiveness should be made in light of each agency's operational context, with comparators chosen according to which function within a particular agency is being reviewed.

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. These improvements will lead to some increases and reductions in reported numbers.

Quality of management information

Measurement practice across agencies and international comparator groups. Agencies use 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. Nevertheless, results will be influenced by judgements necessary in applying these definitions and the management information systems used by agencies to support data collection.

Caveat to previous year's data: At the submission of data each year for the current reporting period, agencies have the opportunity to make reflective adjustments to the previous year's submitted data. As a result there may be a small difference between prior year figures in this report when compared with past years published figures.

Caveat to time series: The Ministry of Business, Innovation and Employment (MBIE) merger, effective from 1 July 2012, 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, The merger does not affect the NZ full cohort. Information on the effect of costs on individual cohorts is published separately in the detailed functional chapters located on the Treasury website (http://www.treasury.govt.nz/statesector/performance/bass/benchmarking).

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. For example, agencies are 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. Two functions that are particularly difficult to measure due to the relative immaturity of measurement methods are:

- **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 can lead to an understatement of the cost of Procurement, hampering 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.

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 moderated across agencies for consistency. In these instances, the focus should be on the reported score for an agency and how this has changed over time, rather than comparison of scores across agencies.

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 again features CMMs, which were introduced last year, for the HR, Communications and Legal functions, as well as the Finance and Procurement functions which have a three year time series. The CMM 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. The CMM replaces the Management Practice Indicators (MPIs) which were previously used 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 across agencies for the policy function measurement exercise and trialled for the transactional service delivery to the public pilots.
- **Measuring by Service Towers for ICT**: This change, which was introduced last year, provides more useable management information for decision making because it organises cost information around how ICT services are delivered. This method is based on the ICT taxonomy of the NSW Government.

- **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 first featured in the FY 2011/12.

Overview of findings

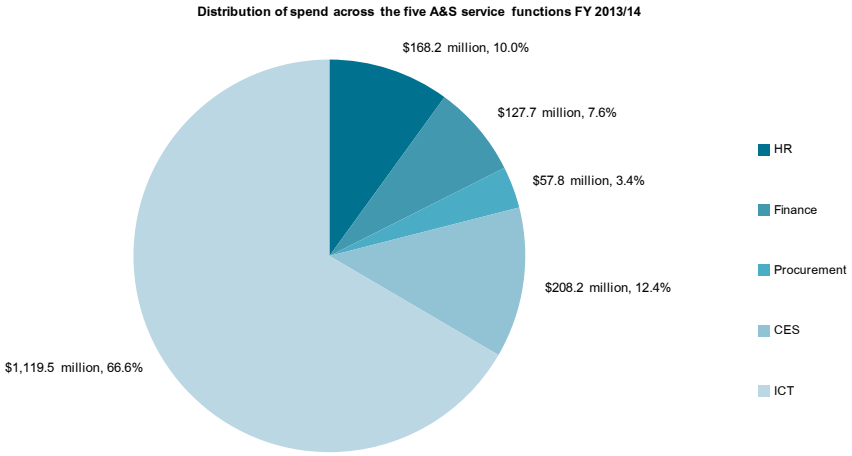
Findings

Highlights of cost findings

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

Agencies spent nearly $1.7 billion on A&S services in FY 2013/14. The 26 measured agencies spent $1.682 billion in FY 2013/14, with ICT making up the bulk of expenditure. Figure 1 shows the distribution of spend across the five A&S service functions for FY 2013/14.

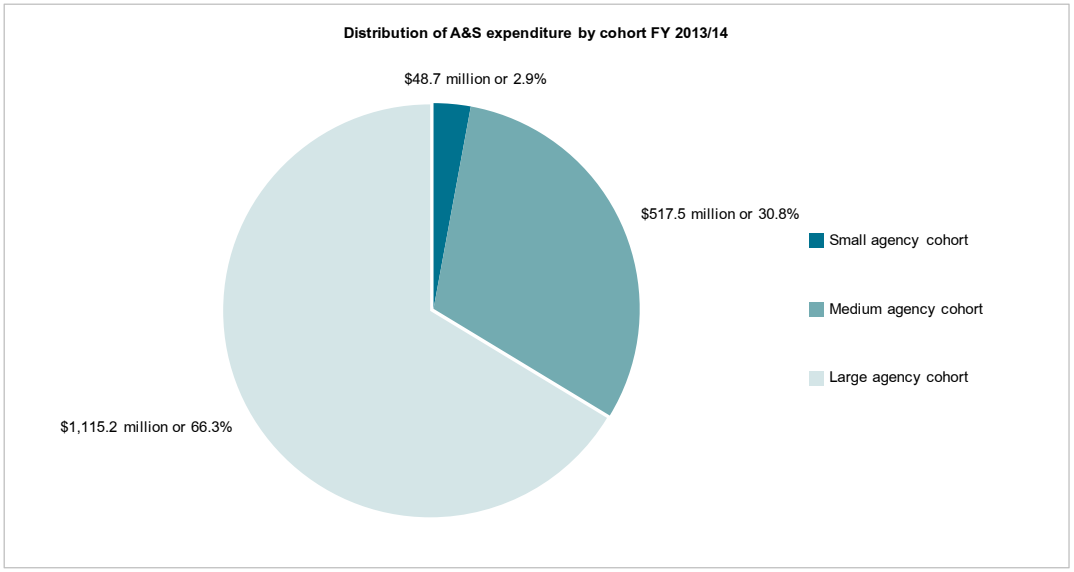
Figure 1 | Distribution of spend across the five A&S service functions



This figure shows that ICT at $1,119.5 million is 66.6 percent of A&S service expenditure; CES at $208.2 million is 12.4 percent; HR at $168.2 million is 10 percent; Finance at $127.7 million is 7.6 percent; and reported Procurement spending of $57.8 million is 3.4 percent.

The medium and large agency cohorts make up over 97 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 $48.7 million is 2.9 percent of A&S spending; medium agency cohort spending of $517.5 million is 30.8 percent; and large agency cohort spending of $1,115.2 million is 66.3 percent.

Overall, there has been a significant increase in A&S service expenditure from FY 2011/12 to FY 2013/14, with the majority of this increase attributed to FY 2012/13. Agencies and functions measured for the past three fiscal years show a nominal spending increase of $183.6 million since FY 2011/12 (12.3 percent). Only $43.4 million (2.6 percent) of this increase is since FY 2012/13. There was a significant increase between FY 2011/12 and FY 2012/13 with $140.2 million (9.4 percent) of the $183.6 million reported attributed to FY 2012/13. When adjusted for inflation, there is a $146.8 million (or 9.6 percent) increase since FY 2011/12.[6] Changes in costs both nominally and when adjusted for inflation are shown in Figure 3.

[6] Inflation adjustment based on the annual average percent change of the CPI Index for year end June 2011 to year end June 2014.

Figure 3 | Nominal and inflation-adjusted changes in A&S service expenditure since FY 2011/12

Function	Expenditure					Changes in nominal expenditure (FY 2011/12 to FY 2013/14)				Changes in expenditure when adjusted for inflation (FY 2011/12 to FY 2013/14)			
	FY 2011/12 nominal expenditure	FY 2011/12 expenditure in FY 2013/14 dollars	FY 2012/13 nominal expenditure	FY 2012/13 expenditure in FY 2013/14 dollars	FY 2013/14 expenditure	Dollar change		Percentage change		Dollar change		Percentage change	
	$m	$m	$m	$m	$m	$m		%		$m		%	
ICT	967.6	991.4	1,091.7	1,108.8	1,119.5	151.9	↑	15.7%	↑	128.2	↑	12.9%	↑
HR	155.0	158.8	162.5	165.0	168.2	13.2	↑	8.5%	↑	9.4	↑	5.9%	↑
Finance	117.6	120.4	119.7	121.6	127.7	10.1	↑	8.6%	↑	7.2	↑	6.0%	↑
CES	195.5	200.3	211.4	214.7	208.2	12.7	↑	6.5%	↑	7.9	↑	3.9%	↑
Procurement	62.1	63.7	52.6	53.4	57.8	(4.3)	↓	(7.0%)	↓	(5.9)	↓	(9.2%)	↓
All functions	1,497.8	1,534.6	1,638.0	1,663.6	1,681.4	183.6	↑	12.3%	↑	146.8	↑	9.6%	↑

From a functional perspective, nominal spending increases are mainly driven by rising ICT expenditure. The overall $183.6 million nominal net increase in A&S services since FY 2011/12 is based on a $4.3 million spending reduction in Procurement, and a $187.9 million spending increase in HR, ICT, Finance and Corporate and Executive services. Of the reported $187.9 million spending increase, $151.9 million (81 percent) is attributable to the ICT function.

The trend of increasing ICT expenditure can be positive if it creates value for the end-customer and agencies. 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. 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. In this year's BASS report, the Treasury made further progress in getting a better understanding of our ICT costs and our cost drivers, building on improvements made in FY 2012/13. The quality of cost information was strengthened by building a time series of the proportion of capital (capex) versus operating (opex) expenditure within ICT spend, collecting cost information by service tower and cost elements across all agencies, and reflecting that some agencies deliver ICT services to external parties acting in partnership with the agency.[7] Better analysis of ICT costs will support understanding of agency progress to adopt common capabilities introduced by the GCIO.

[7] Service towers are the 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. Service towers each comprise of cost elements. Metric definitions of service towers and cost elements are located at Appendix 4.

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, time and waste. 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 almost $54 million annually for the 26 agencies measured in FY 2013/14 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.[8]

Figure 4 | Scenario for saving $54 million with illustrative efficiency targets

Function	Reported Annual Cost	Key Efficiency metric	Efficiency target			Total Potential
			Small agency cohort	Medium agency cohort	Large agency cohort	gross saving (p.a)
	$m					$m
HR	168.2	Cost of HR per employee	$4,563	$3,110	$1,763	$38.5m
Finance	127.7	Cost of Finance as a % of Organisational Running Costs	1.36%	1.10%	0.95%	$15.1m
TOTALS	295.9					$53.6m

A&S service spending across two functions could be reduced by between approximately $84 million to $135 million annually by achieving the 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 $84.1 million to $134.8 million with illustrative efficiency targets

Function	Reported annual cost	Key efficiency metric	Efficiency target	Total potential gross saving (p.a.)
HR	$168.2m	Cost of HR per employee	Upper quartile for each NZ cohort ($3,935, $2,335, and $1,526)[9] or APQC similar industries top performer benchmark ($1,001)	$52.7m – $94.2m
Finance	$127.7 m	Cost of Finance as a % of ORC	Upper quartile for each NZ cohort (1.00%, 0.85%, and 0.69%) or APQC similar industries top performer benchmark (0.62%)	$31.4m – $40.60m
TOTALS	**$295.9m**			**$84.1m – $134.8m**

[8] 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.

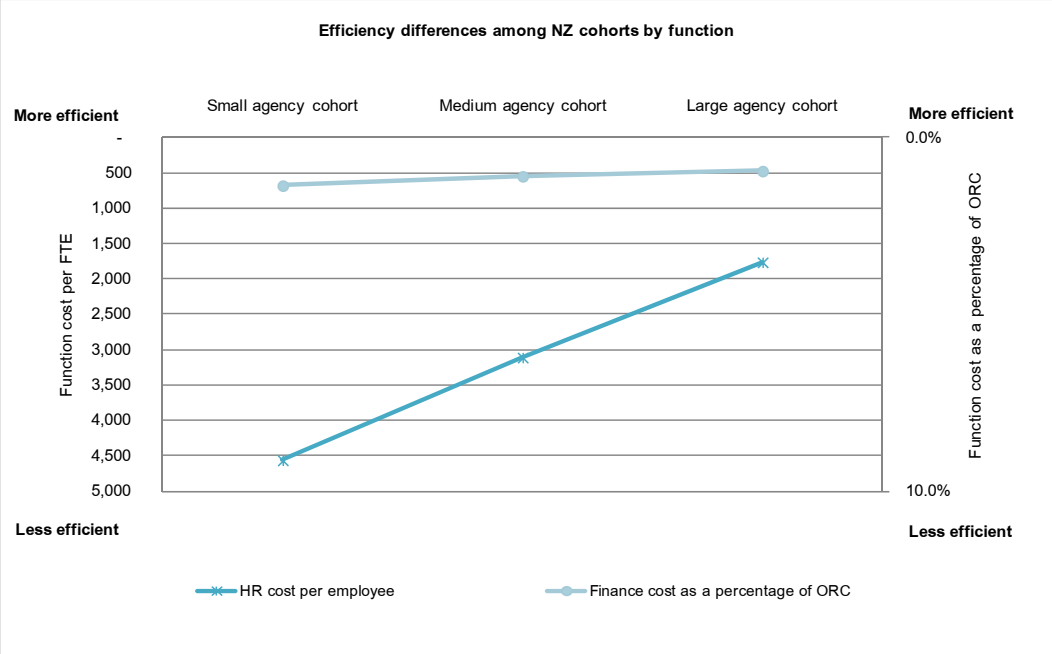
[9] Efficiency targets are the upper quartile result for the small, medium and large cohorts respectively.

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 scope, 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 ($1,763 per FTE) than it is for medium ($3,110 per FTE) and small agency ($4,563 per FTE) cohorts.

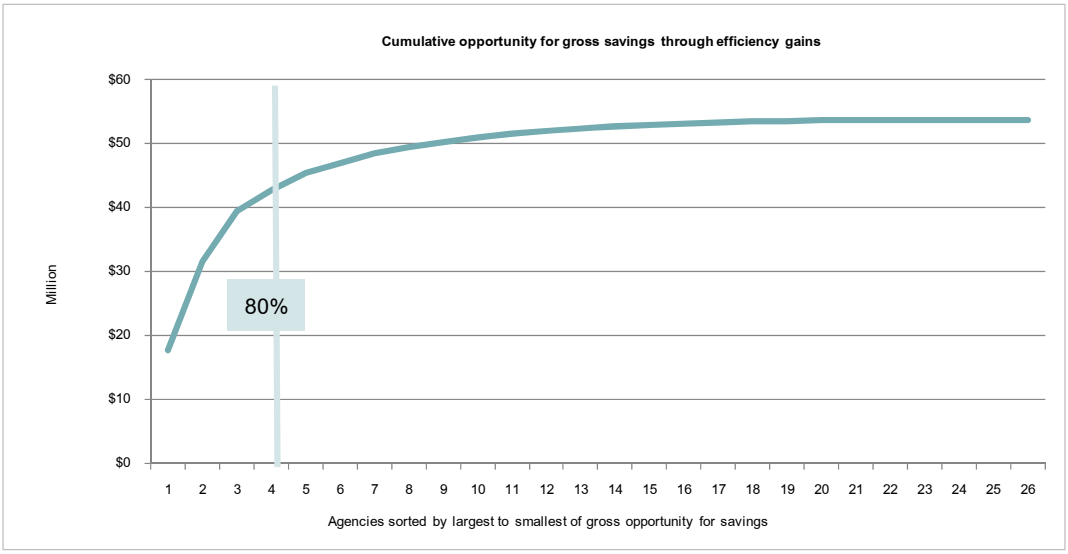
Figure 6 | Efficiency differences among NZ cohorts by function



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 2.9 percent ($48.7 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 $54 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 3.5 percent of potential gross savings. The illustrative targets for this $54 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
- The Communication Head of Professions engagement Capability Improvement 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 as measured by new hires in the same role after 12 months is relatively similar overall to FY 2012/13 but has dropped since FY 2011/12, and agency results show lower effectiveness than international benchmarks.

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

Key effectiveness metrics for HR function	FY 2012/13 (NZ full cohort)	FY 2013/14 (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)	69.99% (median)	70.02% (median)	0.03%↑	92% (APQC full cohort median)

HR effectiveness indicators show opportunities for improvement. The HR management practice indicators (MPIs) were replaced by a Capability Maturity Model (CMM) in FY 2012/13. The introduction of the CMM shows that agencies overall aspire to make significant improvement to the effectiveness of the function[10].

Agencies continue to rate the two areas as the highest priority for capability development as:

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

Finance management practices lag leading practices but agencies have aspirations to improve. Assessed maturity levels for the Finance CMM have improved, but agencies continue to aspire to make significant improvement to the effectiveness of this function. There is particular emphasis on improving strategic financial management capability within agencies, supporting the direction of the Office of the Government Accountant.

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

1. Historical versus proactive forward looking reporting and analysis
2. Forecast timeliness, accuracy and usefulness[11].

[10] The priority CMM ratings are located in the detailed functional chapter for the HR Function FY 2013/14 http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2013-14

[11] The priority CMM ratings are located in the detailed functional chapter for the Finance Function FY 2013/14 http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2013-14

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. However, the time taken to resolve a service commitment disruption has increased by 39% since FY 2011/12. 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 2011/12 (NZ full cohort)	FY 2013/14 (NZ full cohort)	Increase/ Reduction/ No change	International benchmark	
Average time to resolve a service commitment disruption (where less time is considered more effective)	1.1 hours (median)	1.8 hour (median)	0.7 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)	75% (mean)	76% (mean)	1% ↑	70% (UKAA full cohort mean)	
System reliability (where a higher percentage is considered more effective)	99.70% (median)	99.87% (median)	0.17% ↑	Not available	

We still need a better understanding of how well ICT departments support overall agency performance. However, the introduction of new measurement metrics last year has provided a clearer view on cost drivers. This is the second year that the proportion of capital (capex) versus operating (opex) expenditure within ICT spend has been collected and the time series to date has demonstrated that agencies are spending a greater proportion of opex expenditure than prior years. This provides a greater insight into cost drivers and whether ICT spending is in line with expected plans. Moving towards common capabilities such as infrastructure-as-a-service was cited as one of the main reasons of reduced capital spending.

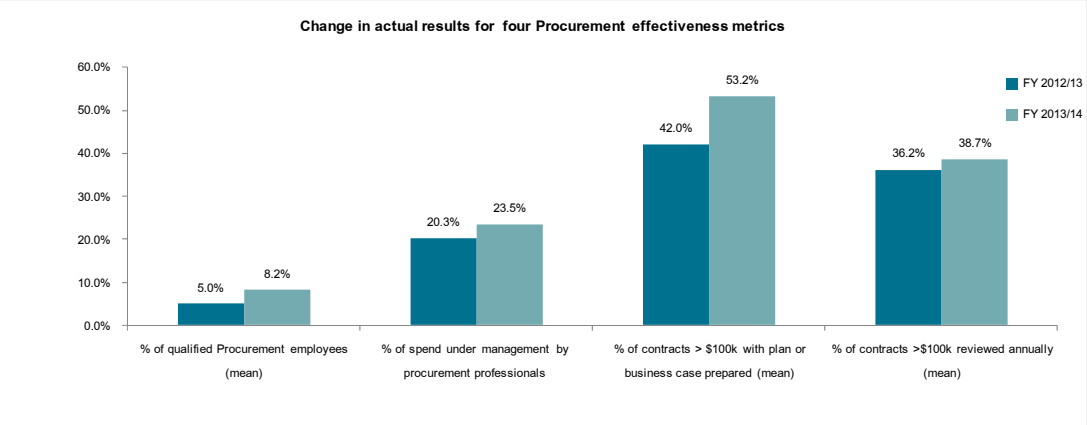
This is also the second year of collecting cost information by service tower and by cost elements across all agencies. The applications tower has the highest proportion of expenditure although percentage of applications spend as proportion of total ICT expenditure[12] has reduced by 6.5% since FY 2012/13. This highlights the need for further investigation into the relationship between an application, the business need it meets, the value it provides to the agency; and the potential value it

[12] Applications are programs and other software that perform user or business related information processing functions. (Includes intrusion detection where appropriate). See Appendix 4 for metric definitions.

could provide to the system by generating cost savings and/or achieving collective impact through cross-agency collaborative investments.

New procurement effectiveness metrics were introduced in FY 2012/13 for which no international comparator data is available. This year's results show improvement against FY 2012/13 however, there is still opportunity for further improvement.

Figure 10 | Trend results for three Procurement effectiveness metrics



The overall result of 8.2% of procurement staff being qualified is an increase from FY 2012/13 of 5%. Similarly, the percentage of spend managed by Procurement professionals increased from 20.3% to 23.5%. Effectiveness results regarding the percentage of contracts >$100K that have plans or business cases or that are reviewed annually also improved. The overall results for these are approximately 53.2% and 38.7% respectively, although an improvement, are still 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 2013/14. 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. The mean results of 17.5 percent and 16.7 percent for FY 2012/13 and FY 2013/14 respectively are comparable to the UKAA cohort median of 18 percent. The mean has been used rather than the median for the NZ full cohort as a comparison because it provides more meaningful results.

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

Key effectiveness metrics for Procurement function	FY 2012/13 (NZ full cohort)	FY 2013/14 (NZ full cohort)	Increase/ Reduction / No change	International benchmark
Percentage of 'commodity' Procurement spend channelled through collaborative Procurement arrangements (where a higher percentage is considered more effective)	17.5% (mean)	16.7% (mean)	0.8 ↓	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)	74.0% (median)	80.4% (median)	6.4% ↑	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 shows that agencies rate the profile of procurement in the organisation, governance and organisation of the procurement function, and alignment with policy and processes as the areas with the highest level of aspiration. The three areas that agencies considered as the highest priority for capability development were:

1. The profile of procurement in the organisation
2. Procurement function engagement with agency stakeholders
3. Alignment with policy and process

Capability Maturity Models were introduced in FY 2012/13 to assess the effectiveness of the Communications and Legal functions within CES. The CMM results this year show that agencies continue to aspire to make significant improvement to the effectiveness of these functions. Across the agencies, linkage of Communications strategy and activity to broader business goals, and Developing Professional Skills of Communications Staff were rated with the highest level of aspiration

The areas considered to have the highest priority for capability development in Communications were:

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

For FY 2013/14 agencies continued to rate alignment of the legal function objectives with agency objectives, and individual development plans being in place for legal team members, with the highest level of aspiration.

The three areas rated as the highest priority for capability development in Legal Services aligned with the following aspiration areas:

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

The management truism that "people are our most important asset" resonates strongly in government. Knowledge-based activities make up 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. Additionally, as we seek to reform the State services there is an important role for HR to help shape the State services of the future.

Research indicates that high performing organisations have substantially better talent management practices than poor performing ones.[13] 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.[14] Workforce strategy and plans are a key component of Four Year Plans. A Four Year Plan cannot be strong unless supported by a strong and integrated workforce strategy and plan. All public service chief executives have commitment to implementing talent management practices within their agencies that align to the system wide Career Board process and the State Services Commission and Leadership Development Centre are actively supporting agencies to do this in a joined up way.

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. Further work is being considered to provide common capability across government. This is being actively supported by the heads of HR in all public service organisations. This is a key focus for the newly developed Head of Profession for HR, which is being led by the Government Chief Talent Officer.

BASS results show that our HR services are not particularly efficient or effective by international standards, and the function has 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

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[13] High performers are those in the top 10% of companies by profit margin and revenue growth, and low performers are those in the bottom 10% 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 10 September 2012).

[14] 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 17 October 2012).

automating processes that focus on the needs of customers will be fundamental to being successful, as will building the capability of HR practitioners to lead these changes from both a strategic and tactical perspective.

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%)
- Values, behaviour and culture (33%)
- Leadership and workforce development (38%)
- Management of people performance (29%)
- Engagement with staff (38%).[15]

Summary of findings

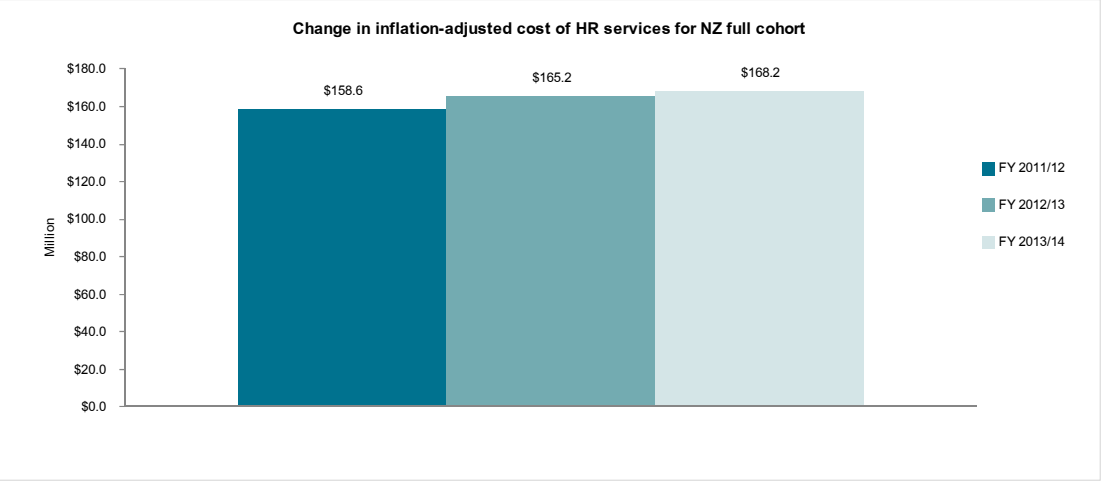
Detailed findings and data are not provided in this report. Detailed findings and data for FY 2013/14 are located on the Treasury website via the following documents:

HR performance findings FY 2013/14:
http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2013-14

FY 2013/14 BASS metric results and data points:
http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2013-14

When adjusted for inflation, HR spending has increased by $9.6m (or 6.1%) since FY 2011/12.

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

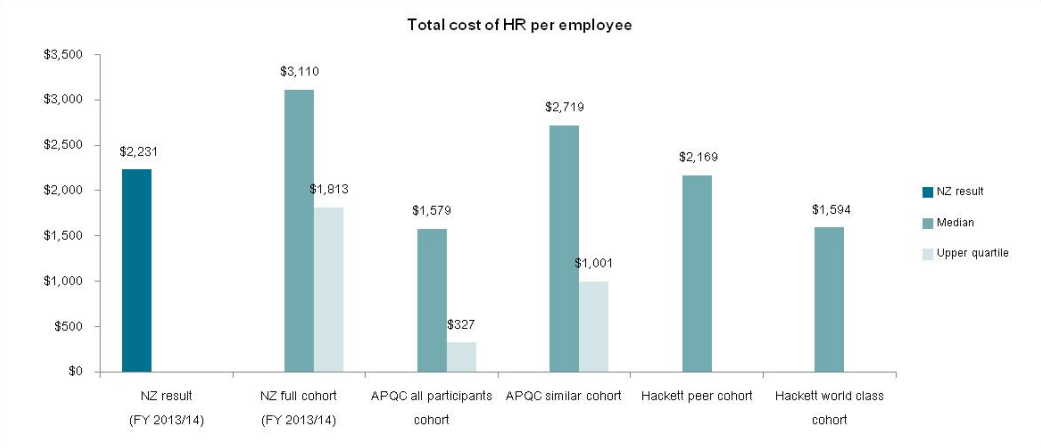


The total of $168.2m spent on HR in FY 2013/14 is an increase of $3m (or 1.8%) when compared to FY 2012/13.

[15] 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 $2,231, and median efficiency shows significant room for improvement when compared with top performers.

Figure 13 | Total cost of HR per employee

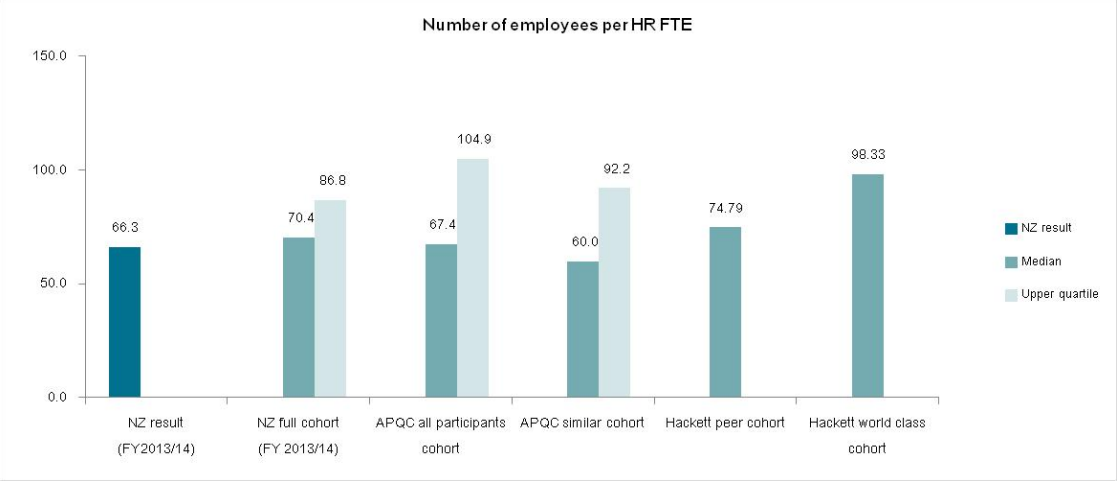


The New Zealand result is lower than the APQC similar cohort and slightly higher than the Hackett peer cohorts. However, the result is higher than APQC all participants and Hackett world class cohorts, as well as higher than upper quartile performers in both the APQC all participants and similar cohorts measurement. In addition:

- at the median, the New Zealand full cohort ($3,110) is 97% more expensive than the APQC all participants cohort ($1,579) and 95% more expensive than the Hackett world class cohort ($1,594)
- at the upper quartile, the New Zealand full cohort ($1,813) is 544% more expensive than the APQC all participants cohort ($327) and 81% more expensive than the APQC similar cohort ($1,001).

The number of employees per HR FTE in FY 2013/14 is 66.3, showing lower efficiency than international benchmarks, especially at the upper quartile.

Figure 14 | Number of employees per HR FTE

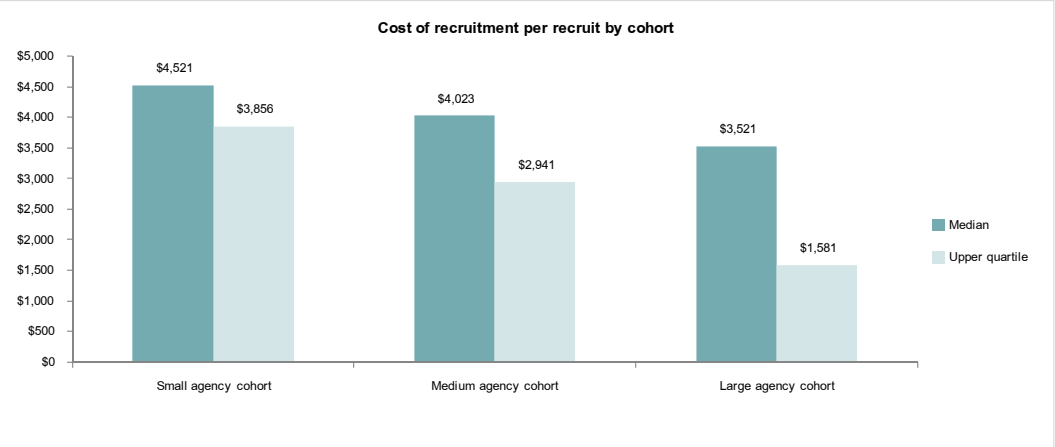


The New Zealand result is higher than the APQC similar cohort, but it is lower than APQC all participants and Hackett peer and world class cohorts, and lower than upper quartile performers in both APQC all participants cohort and similar cohort. In addition:

- at the median, the New Zealand full cohort (70.4) is 4% higher than the APQC all participants cohort (67.4) and 28% lower than the Hackett world class cohort (98.3)
- at the upper quartile, the New Zealand full cohort (86.8) is 17% lower than the APQC all participants cohort (104.9) and 6% 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 New Zealand cohorts.

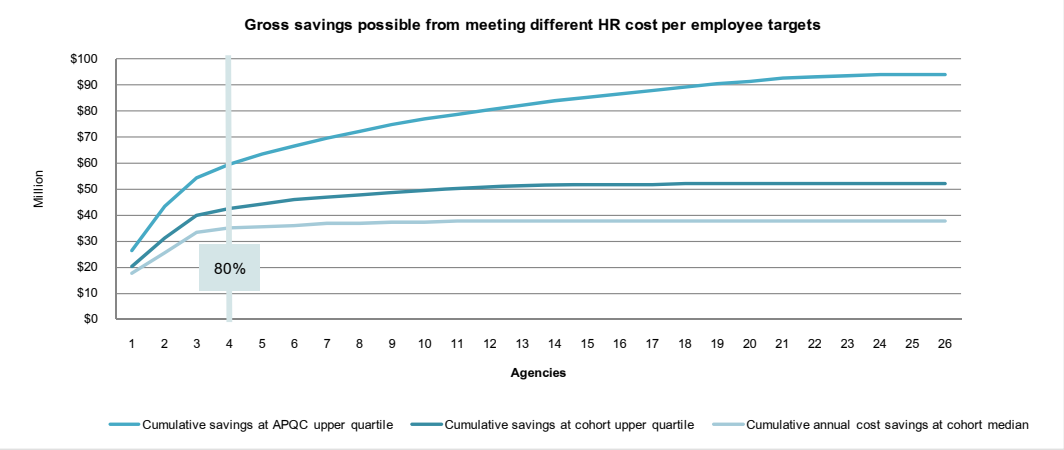
Figure 15 | Cost of recruitment per recruit by cohort



At the median the small agency cohort costs are 28.4% higher than the large agency cohort, and at the upper quartile they are 144% higher.

Annual gross savings of about $37.7 million to $52 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



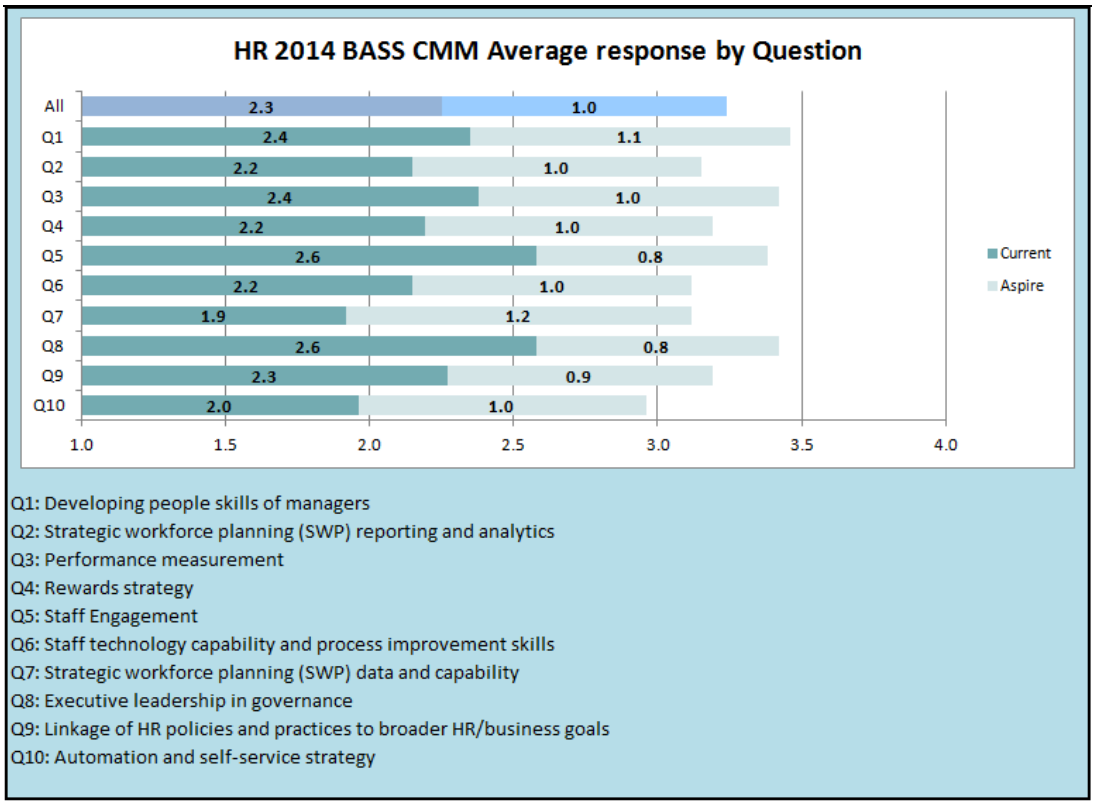
Annual gross savings of $52 million are possible if agencies below upper quartile efficiency for their cohort (18 of 26 agencies) reach upper quartile efficiency.

Annual gross savings of $37.7 million are possible if agencies below median efficiency for their cohort reach median efficiency.

If New Zealand agencies met the APQC upper quartile level, this would result in significantly greater savings of $94.2 million.

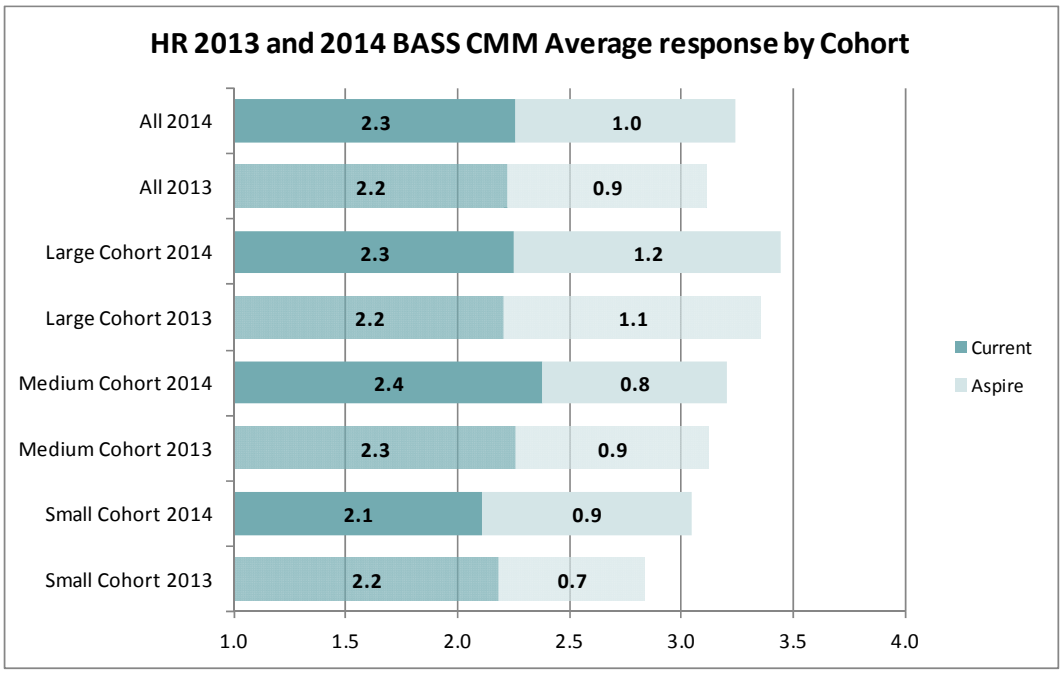
Overall, agencies aspire to significantly improve the maturity of their HR management practices over the next two years.

Figure 17 | HR 2014 BASS CMM Average response by Question



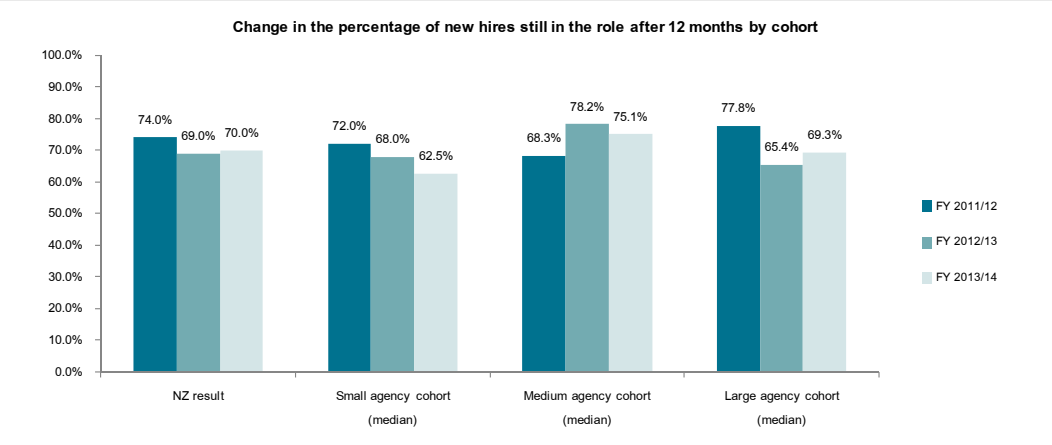
The small cohort reports lower current maturity than the medium and large cohorts, and there has been limited improvement since FY 2012/13.

Figure 18 | HR 2014 BASS CMM Average response by Cohort



The rate of retention of new hires has improved for the medium cohort since FY 2011/12, whereas other cohorts have reported reduced retention of new hires in the same role after 12 months since FY 2011/12.

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



The NZ result shows that the percentage of new hires in the same role after 12 months has dropped since FY 2011/12, while the agency cohorts have mixed results:

- The small cohort has dropped year on year.

- The medium cohort has increased by 6.8% overall since FY 2011/12 but has decreased by 3.1% since FY 2012/13.
- The large cohort has dropped overall by 8.5% since FY 2011/12 to 69.3% in FY 2013/14, but has increased by 3.9% since FY 2012/13.

Quality of management information

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. 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.

The introduction of the Capability Maturity Model (CMM) for the HR function has enabled 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. Given this is the second year of results, the quality of data may continue to vary due to self-assessment and self reporting. No peer review has been undertaken across the time series.

Caveat to previous years reported figures: There may be some differences to the reported figures for FY 2011/12 and FY 2012/13 in comparison to previous published reports. This is due to agencies being able to adjust the previous years figures at the time of data collection for the FY 2013/14 meaurement exercise. Agencies are able to make adjustments to their reported costs if they believe that they have made an error or have had more accurate cost information post the lock down of data for the previous reporting period.

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. The significant lower cost for the large cohort, and higher costs for the small and medium cohorts in FY 2011/12 related to the merger of the Department of Building and Housing (DBH), Department of Labour (DOL), Ministry of Economic Development (MED) and the Ministry of Science and Innovation (MSI) to form the Ministry of Business, Innovation, and Employment (MBIE). DBH, DOL, and MED were previously in the small, medium and medium cohorts respectively. MSI previously did not participate in BASS. BH, DOL and MED spent $1.2m, $4.5m and $1.4m respectively on HR in FY2011/12. If these costs ($7.1m) were reflected in the large cohort costs for FY2011/12 the relative cost would be $114.1m.

Finance

Commentary

Strategic financial management is about integrating strategy, planning and performance to ensure value creation is at the heart of everything we do. As a key corporate enabler in the public sector, the finance function must partner with business and sector leaders to make smart decisions that maximise value for money and outcomes for New Zealanders. Decision makers should be informed, empowered and motivated to innovate, to improve performance and to reduce costs. Effective strategic financial management is critical to this. It is how we align resources and activities with customer needs so they have the best effect; continuously increasing our efficiency and effectiveness in providing better public services.

To achieve this, successful organisations require a finance function that drives agency performance, cost consciousness, and focuses on value creation. This includes ensuring that:

- routine finance processes are more streamlined, automated, and efficient,
- finance resources are directed towards 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 BASS results provide an opportunity for entities to identify and deliver improvements in capability, efficiency and effectiveness. The Capability Maturity Model provides a picture of Finance function practices within agencies and their alignment with leading practice. The introduction of a Capability Maturity Model (CMM) in FY 2011/12 focused the BASS methodology on capabilities that can be measured and acted on to identify improvement priorities for functional performance. Agencies must recognise there is still some way to go to establish the Finance function they aspire to have, but making proactive movements toward this is vital to ensuring their function evolves to achieve aspirations.

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 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.

In 2014 The Treasury established a new unit known as the Office of the Government Accountant (OGA). Its role includes responsibility for the Financial Statements of the Government as well as

leading the finance profession across the public sector. The next 12-24 is months will see OGA working to strengthen strategic financial management across the public sector by focusing on:

- Lifting the quality of financial leadership and strategic advice to chief executives and ministers.
- Promoting insightful financial analysis and reporting as fundamental to all decision making.
- Delivering value management and integrated performance advice across the public sector.
- System stewardship through building capability and resilience in the finance talent pool, and supporting the talent pipeline across the state sector.
- Connecting finance professionals to enable increased sharing of good practice and efficiency and effectiveness to be maximised.

Summary of findings

Detailed findings and data are not provided in this report. Detailed findings and data for FY 2013/14 are located on the Treasury website via the following documents:

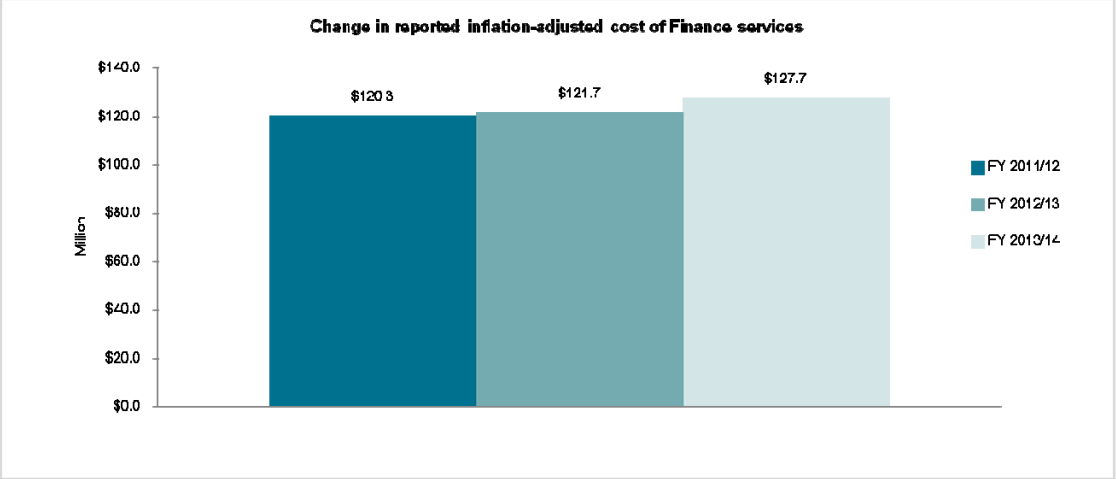
Finance performance findings FY 2013/14:
http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2013-14

FY 2013/14 BASS metric results and data points:
http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2013-14

Highlights of findings

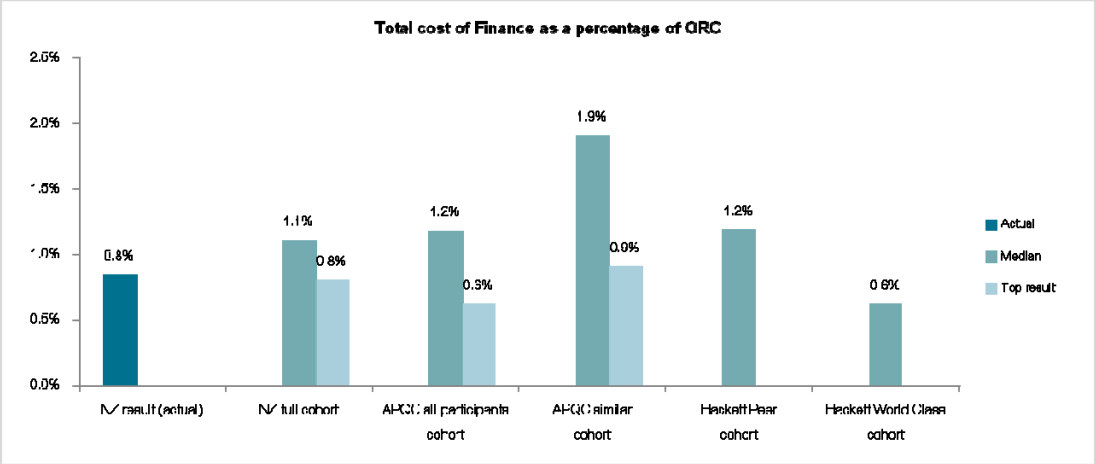
The $127.7 million spent on Finance in FY 2013/14 is up $7.4 million (or 6.2%) since FY 2011/12 when adjusted for inflation.

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



Finance cost as a percentage of ORC is unchanged from FY2013/14 and continues to show 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

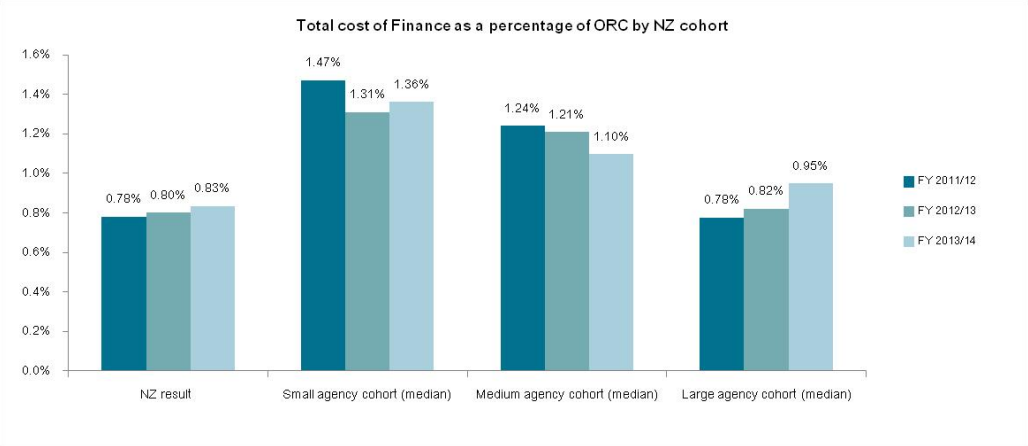


Other studies of the Finance function raise questions about the actual relative efficiency for two reasons:

1. In many agencies, the strategic end of the Finance function is not being performed effectively and these activities are being completed (measured and costed) for international comparators. A new indicator has been introduced for FY2013/14 to measure the level of strategic financial management activities being undertaken by agencies.
2. New Zealand 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 can be seen in the small and medium cohorts since FY2011/12, whereas the large cohort has become less efficient since FY2011/12.

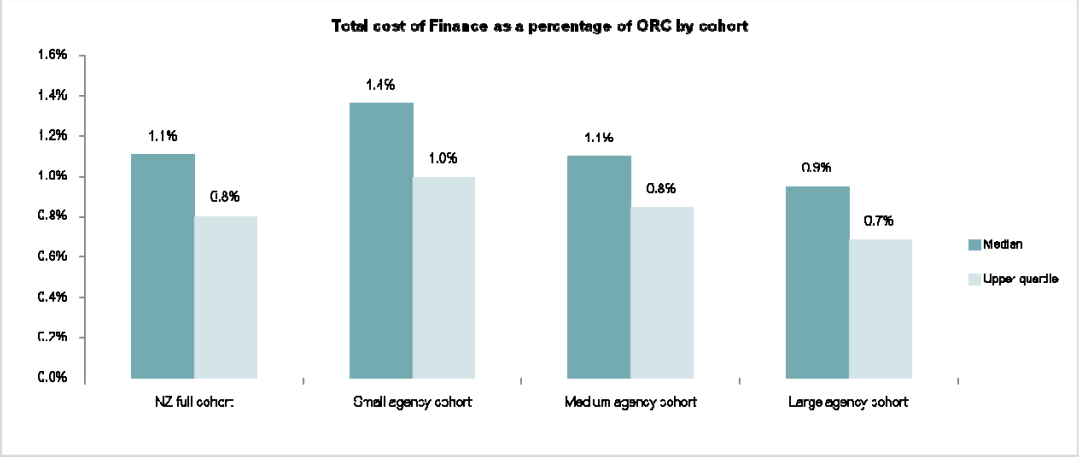
Figure 22 | Total cost of Finance as a percentage of ORC for full NZ cohort



The New Zealand result has remained steady since FY2011/12.

Across the cohorts results are relatively unchanged from FY2012/13. 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

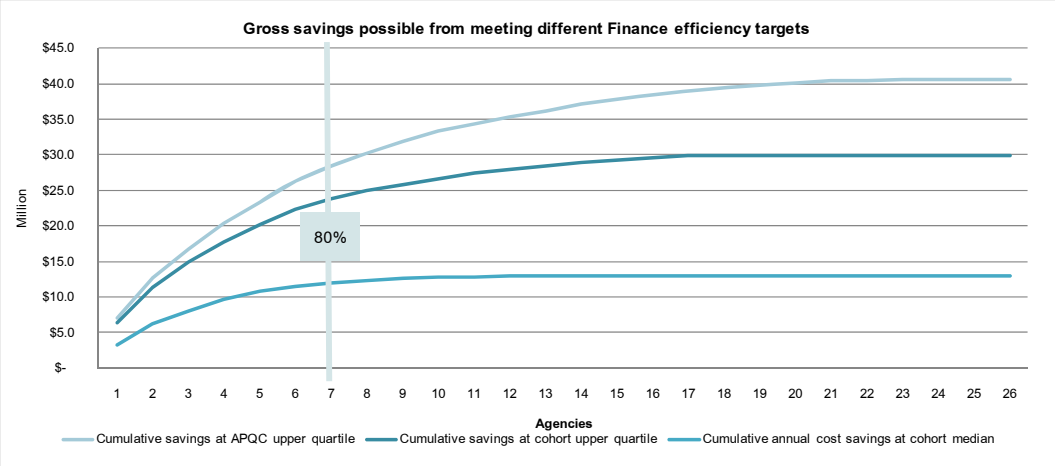


Three factors are likely to have contributed to this result:

- 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.

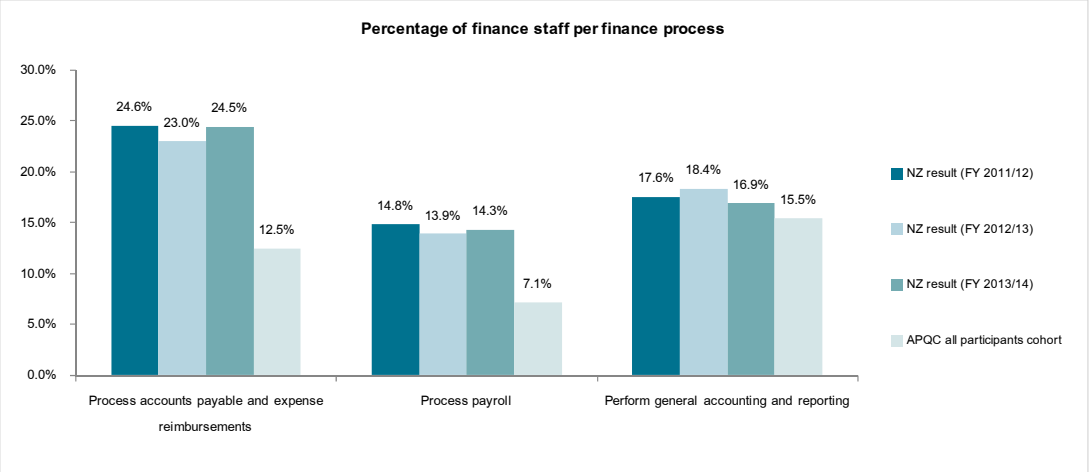
Annual gross savings of between $12.9 million and $29.9 million are possible if agencies below median or upper quartile efficiency meet those levels in their cohorts

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



The New Zealand full cohort upper quartile result is significantly lower than the APQC upper quartile. If New Zealand agencies met the APQC upper quartile level; this would result in significantly greater savings of $40.6 million.

New Zealand agencies have a greater proportion of Finance staff in transactional (versus strategic) roles than international comparators

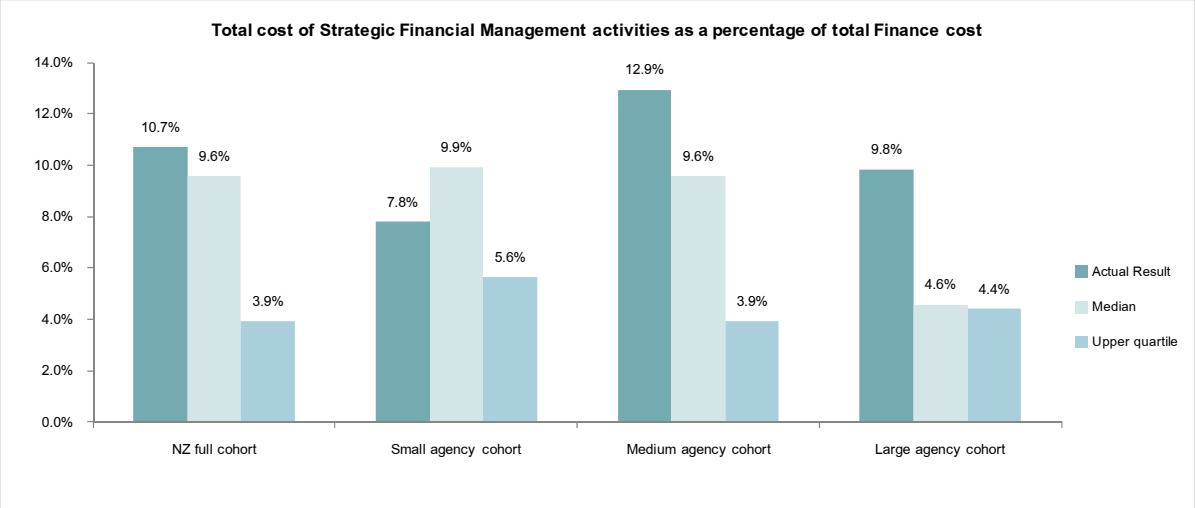


For New Zealand agencies, 55.7% of all Finance FTEs are allocated to the three processes displayed in the graph above, compared to 35.1% for the APQC all participants cohort. This difference shows that New Zealand agencies spend a disproportionate amount of effort on transaction processing.

The leveraging of scale among the finance processes of payroll, accounts payable and general accounting represents the easiest opportunity to create a more efficient finance function for the agencies. These processes lend themselves to easier and faster consolidation than can be achieved for processes such as planning and management accounting.

The cost of strategic financial management activities makes up a small portion of the total finance cost.

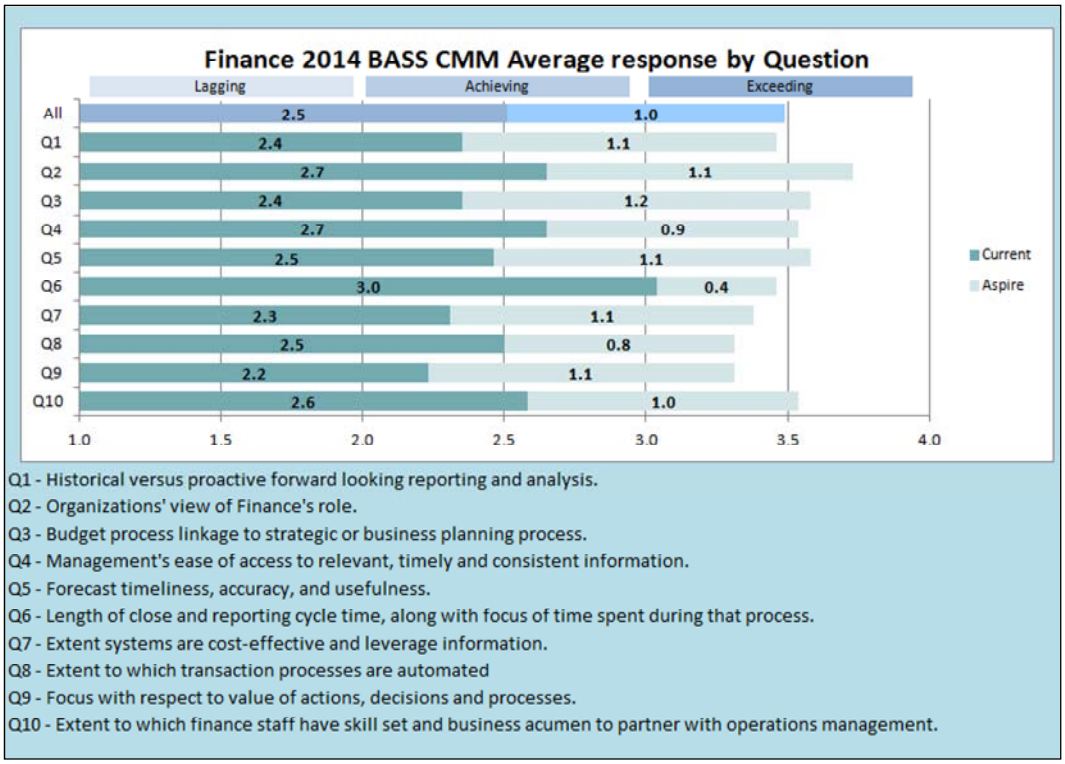
Figure 25 | The total cost of Strategic Financial Management activities as a percentage of the total Finance cost



A new metric to measure the cost of strategic financial management was introduced for FY 2013/14. The median cost of Strategic financial management activities across all agency cohorts is less than 10%, with the large cohort's median significantly lower at 4.6%. This indicates that NZ agencies still have a heavy focus on transactional activities rather than strategic financial management activities.

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

Figure 26 | Finance 2014 BASS CMM Average response by Question



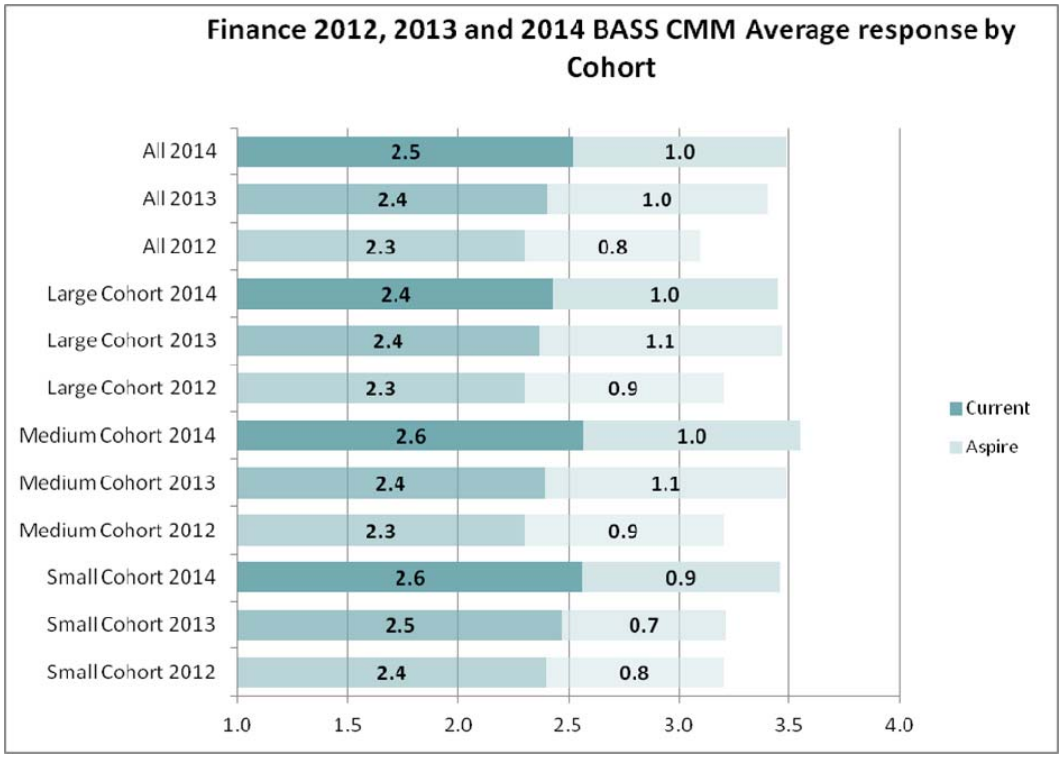
Overall, agencies rated their most mature areas of the finance function as:

- 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 improvements in their practice maturity levels since FY 2011/12.

Figure 27 | Finance 2014 BASS CMM Average response by Cohort



The future aspiration has increased for all cohorts except the large, where the future aspiration has remained consistent across the two years.

Quality of management information

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 Organisational Running Costs (ORC). Treasury 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 has been undertaken across the time series.

Caveat to time series: The Ministry of Business, Innovation and Employment (MBIE) merger, which was effective from 1 July 2012, had an impact on the comparative metrics across cohorts. The significantly lower cost for the large cohort, and higher costs for the small and medium cohorts in FY2011/12 related to the merger of the Department of Building and Housing (DBH), Department of Labour (DOL), Ministry of Economic Development (MED) and the Ministry of Science and Innovation (MSI) to form the Ministry of Business, Innovation and Employment (MBIE). DBH, DOL, and MED were previously in the small, medium and medium cohorts respectively.

Information and communications technology

Commentary

The Government ICT Strategy and Action Plan to 2017 describes a vision in which the value of government information is unlocked and technology is harnessed to deliver better, trusted public services.

By 2017, the New Zealand government wants public services to be radically transformed for the benefit of all New Zealanders and ICT is a key tool that will make this possible. ICT spans information management, technology infrastructure, and technology-enabled business processes and services.

ICT is not just about technology – it's about the ways in which information and technology are used to deliver better services and enhance trust and confidence in government.

What does this mean for ICT units within government agencies? Government ICT is heading in the direction where capabilities will be shared to deliver common business and government outcomes. This needs to be supported by strong governance, service delivery, funding and operating models. Opportunities for shared and common capabilities are expected to emerge through cross agency collaboration across strategy, planning and investment cycles. Current practices the recently updated Government ICT Action Plan are mechanisms that further enable capability sharing amongst agencies. This is also supported by the All of Government Common Capabilities that has delivered a significant portfolio of ICT capabilities that are now being consumed by agencies.

BASS continues to be a valuable measure of progress as a lag indicator to where things are heading. ICT expenditure in FY 2013/14 made up 67% of A&S service spending, making it the largest A&S function by expenditure. FY 2013/14 data shows evidence of increase in outsourcing activities in the ICT function and an ever increasing trend in moving towards operating (opex) from capital (capex) expenditure. The overall ICT spend has slightly increased (1.5%) from last year and application development and management continues to be the highest area of spend within the ICT function calling out for further exploitation of co-creation and application development opportunities that have system-wide benefits.

Our understanding of ICT costs and its associated drivers continues to increase as a result of improvements to BASS measurements, incorporated in FY 2012/13. These changes include aligning measurement with benchmarks in other jurisdictions; collecting cost information across all agencies by service Tower and sub-tower, 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.

Summary of findings

Detailed findings and data are not provided in this report. Detailed findings and data for FY 2013/14 are located on the Treasury website via the following documents:

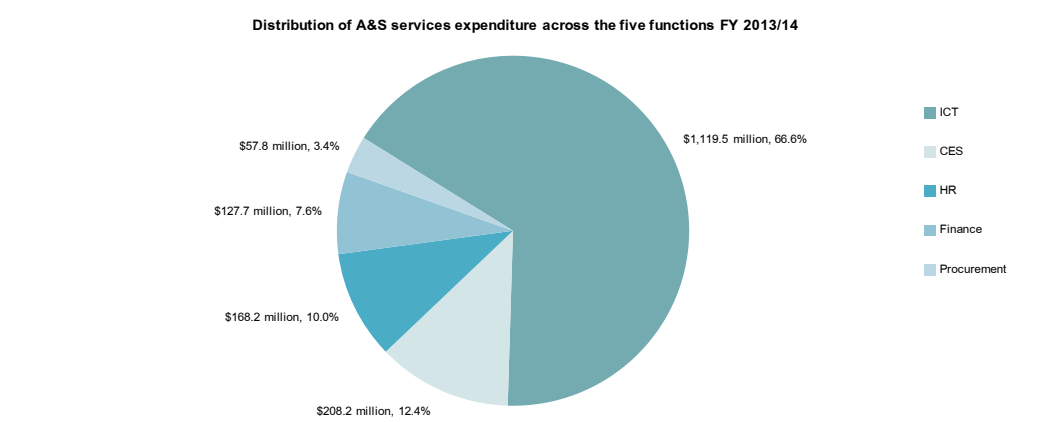
ICT performance findings FY 2013/14;
http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2013-14

FY 2013/14 BASS metric results and data points.
http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2013-14

Highlights of findings

ICT expenditure of $1,119.5m in FY 2013/14 continued to make up 67% of A&S service spending, making it the largest A&S function by expenditure.

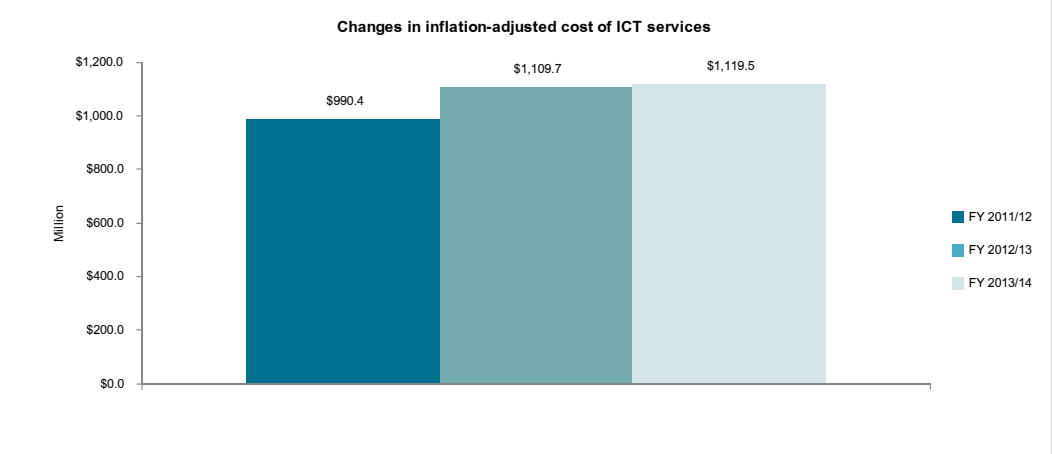
Figure 28 | Distribution of A&S services expenditure across the five functions



The distribution of spending across A&S functions in FY 2013/14 has remained relatively the same as in FY 2012/13

ICT expenditure of $1,119.5m is up $129.1m (or 13%) since FY 2011/12 when adjusted for inflation.

Figure 29 | Changes in inflation-adjusted cost of ICT services



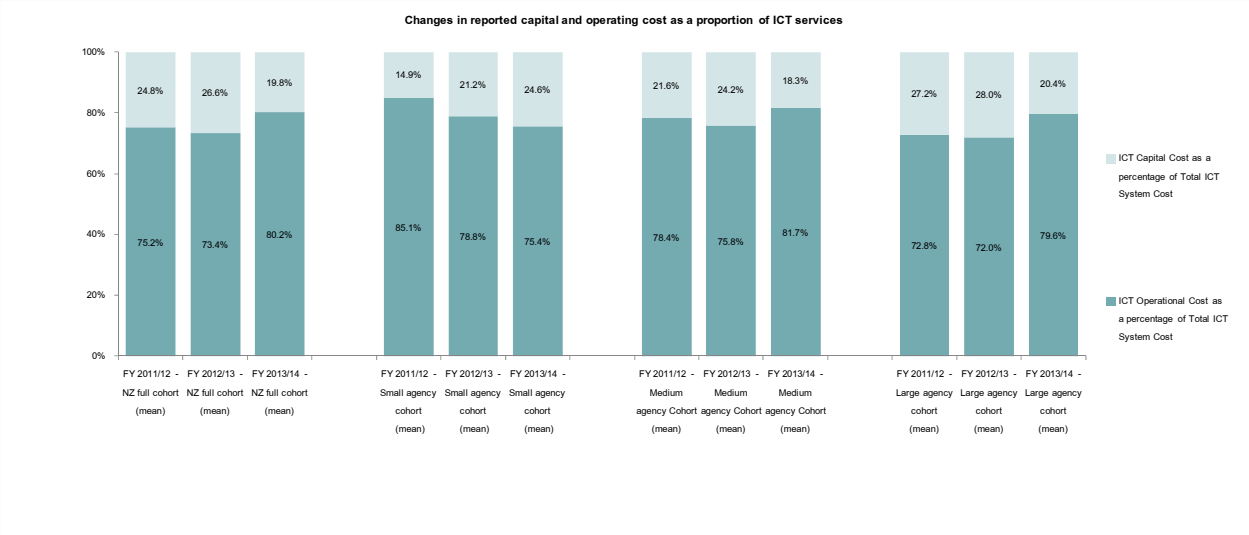
The lifecycle of major projects, transition to ICT common capabilities, and changes in the use of contractors and recruitment practices drives most changes in spending.

A net nominal spending increase for the New Zealand full cohort of $27.8 million since FY 2012/13 results from nine agencies spending $53.5 million less and 17 agencies spending $81.3 million more:

- Four of the nine agencies reported $51.2 million (or 96%) of the total reported $53.5 million reduction. The key reasons cited were:
  - reduced capital spending due to moving to common capabilities (ie, Infrastructure as a Service)
  - reduced capital expenditure on major projects
  - less use of contractors in favour of full time employees
  - reduction in service contract costs
- Seven of the 17 agencies reported $73.7 million (or 91%) of the reported $81.3 million increase. The key reasons cited were:
  - project and running costs of large ICT initiatives
  - filling vacant positions
  - systems' modernisation and asset refresh
  - common capabilities transition costs

Large and medium cohorts have reported ongoing decreases in the proportion of capital spend between FY 2012/13 and FY 2013/14 apart from the small cohort.

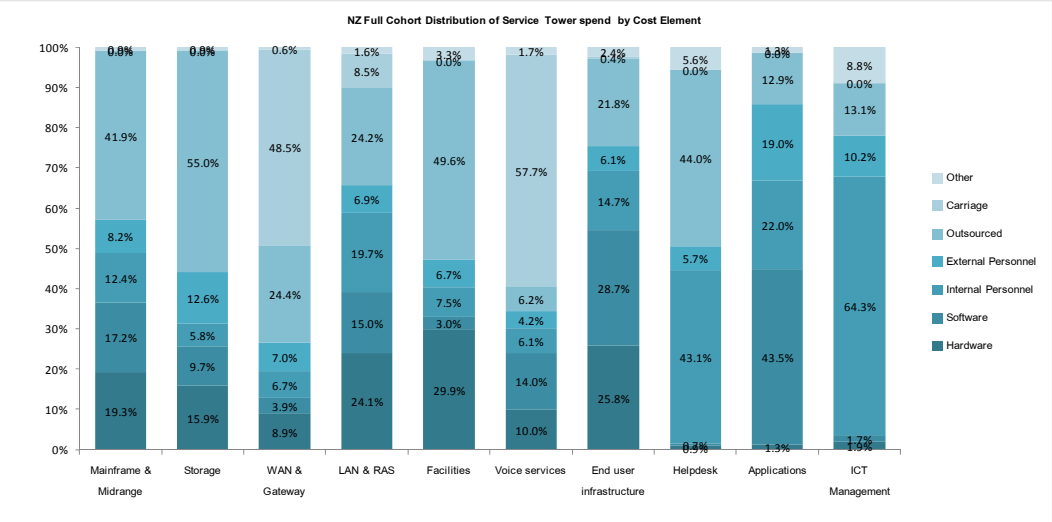
Figure 30 | Changes in reported capital and operating costs as a proportion of ICT services



With the delivery of the Government ICT Strategy and Action Plan, it is expected that capital expenses will decrease as a proportion of spend over the longer term. It is a pleasing result to see that overall operating expenses as a proportion of ICT spend is increasing across the NZ cohort as it may suggest that agencies are moving to the use of common capabilities, rather than purchasing ICT infrastructure.

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

Figure 31 | Distribution of Service Tower spend by Cost Element

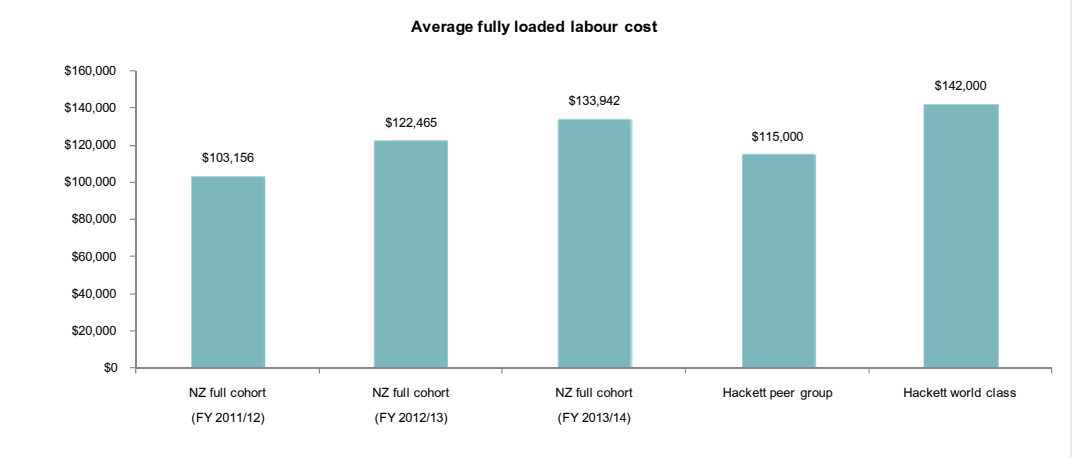


NZ agencies have a significantly higher proportion of outsourced costs than comparators in the Mainframe & Midrange, Storage, Facilities and Helpdesk Service Towers, while this is the reverse for the WAN and Gateway Service Tower.

NZ agencies have a significantly lower proportion of hardware costs than comparators in the LAN & RAS Service Tower, and a significantly higher proportion of software v hardware costs than comparators in the End User Infrastructure Service Tower.

The internal personnel cost has risen by 30% since FY 2011/12, which warrants further investigation as personnel is 33% of ICT expenditure.

Figure 32 | Average fully loaded labour cost

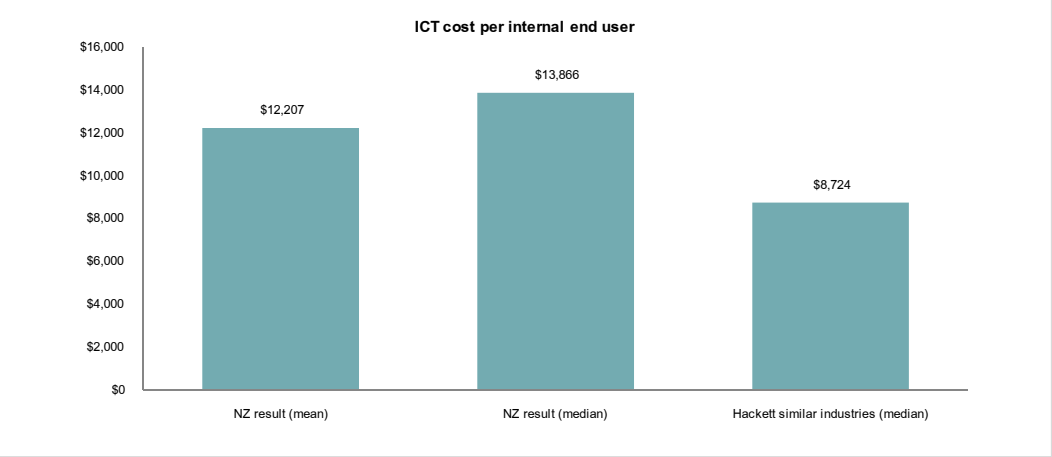


Labour costs make up 33% of the total cost of the ICT function, and reported New Zealand labour costs have been greater than the international peer group comparator for the last two years. Potential reasons for the increase could be:

- Contractors previously not included in the fully loaded labour cost being replaced by permanent employees who are included.
- Shift to higher paid ICT resources.

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

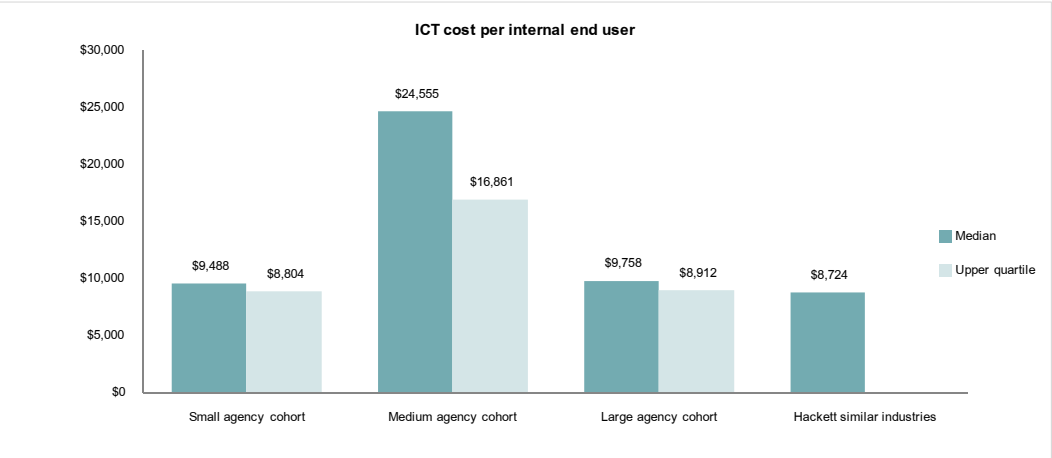
Figure 33 | ICT cost per internal end user



A new definition for end user was introduced in FY 2012/13. The definition for 'internal end user' is the same as the definition for end user used in previous years, 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 cost per internal end user than the other cohorts, and all cohort results are higher than international comparators.

Figure 34 | ICT cost per internal end user

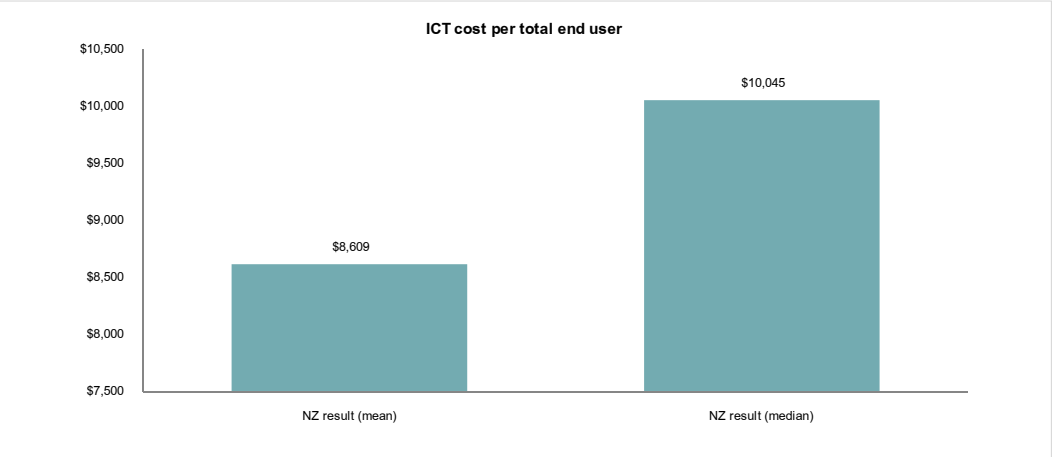


The medium agency cohort median result ($24,555) is 181% higher than the Hackett benchmark and 152% higher than the large agency cohort. This result is likely because many agencies in the medium agency cohort have a large number of line-of-business applications supporting a variety of business services to sometimes quite varied customer segments, yet relatively few internal end users.

This graph shows that, at the median, the small agency cohort ($9,488) is 9% higher than the Hackett world similar industries benchmark ($8,724), and the large agency cohort ($9,758) is 12% higher.

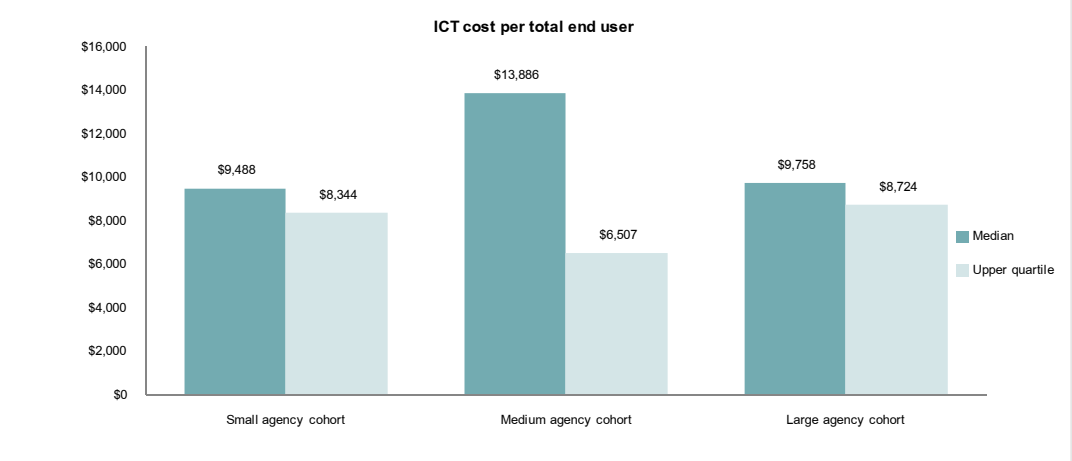
Similar to the cost per internal end user, the mean result for cost per total end user is significantly lower than the median result.

Figure 35 | ICT cost per total end user



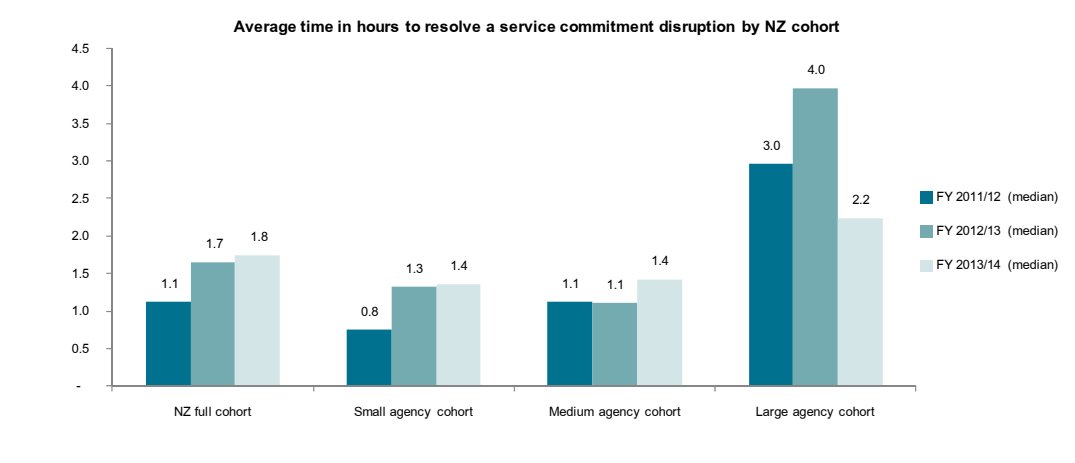
The medium agency cohort has significantly higher ICT costs per total end users than other cohorts.

Figure 36 | ICT cost per total end user by cohort



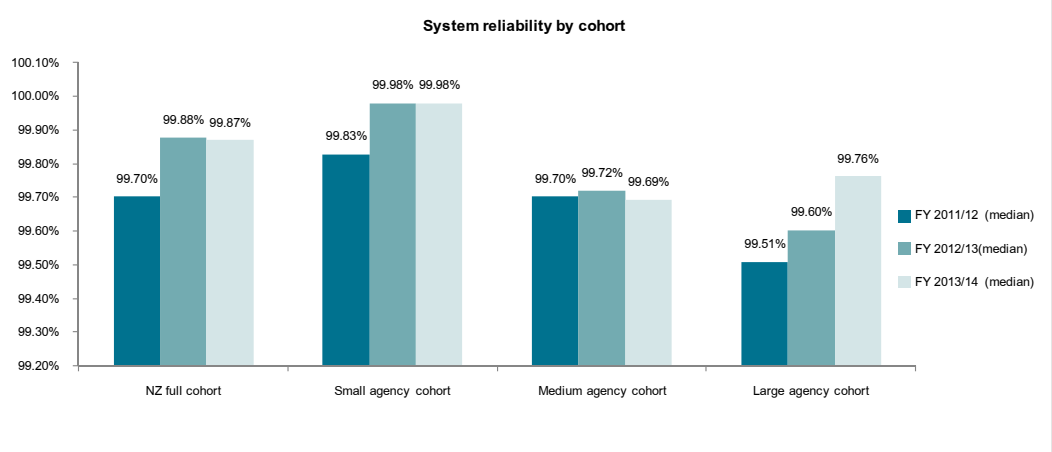
The median time to resolve service disruptions continues to be in line with international comparators

Figure 37 | Average time in hours to resolve a service commitment disruption by NZ cohort



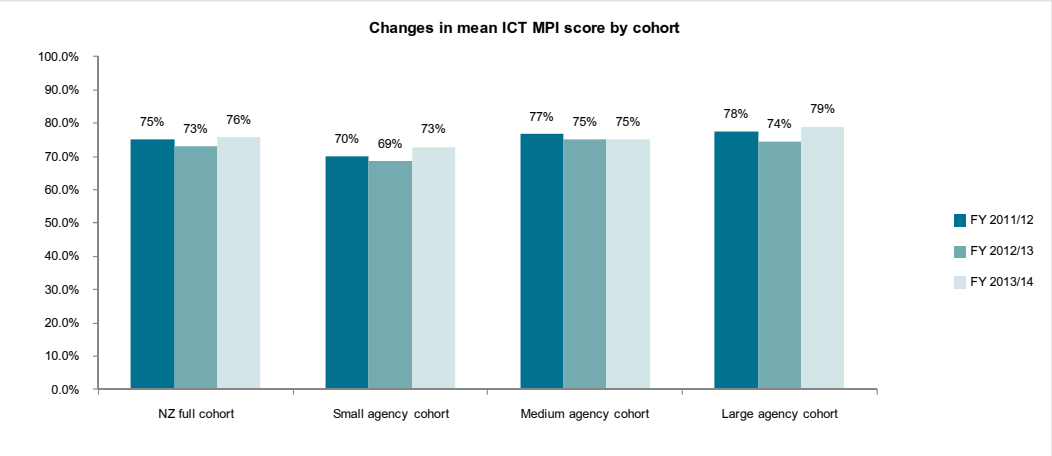
Agencies have maintained high levels of system reliability since FY 2011/12.

Figure 38 | System reliability by cohort



Overall, reported ICT MPI results have increased slightly between FY 2012/13 and FY 2013/14 from 73% to 76%. Scores have increased in the small and large cohorts whereas the medium cohort score has remained flat.

Figure 39 | 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 on which to base decisions.

Quality of management information

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.

While results are broadly comparable, they need to be understood within the context of each agency. While agencies have common features, each has its 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.

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. The significant lower cost for the large cohort, and higher costs for the small and medium cohorts in FY 2011/12 related to the merger of the Department of Building and Housing (DBH), Department of Labour (DOL), Ministry of Economic Development (MED) and the Ministry of Science and Innovation (MSI) to form the Ministry of Business and Innovation and Employment (MBIE). DBH, DOL, and MED were previously in the small, medium and medium cohorts respectively.

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 and the Treasury are scoping a pilot to collect volumetric data with a small group of agencies.

Personnel costs that have been capitalised: undertake analysis on the trend of personnel costs that have been capitalised, and the impacts on personnel, outsourcing and capex.

Procurement

Commentary

Maximising the value of the goods and services we purchase from third parties is an important aspect of delivering value to agencies and taxpayers. Each year across the Public sector the government spends approximately $39 billion through third party suppliers – accounting for approximately 18% of GDP. Effective procurement helps government agencies deliver better public services while realising value for money. How and what the government procures can also have a significant influence on economic growth. Government agencies often provide an important source of demand for business to build scale and experience before they supply to private customers or export markets.

The BASS report helps establish transparency for the performance and delivery of better public services of the procurement function.

There are more opportunities for improved value and performance in third party spend than there is in making the procurement function itself more efficient. Even a 1% improvement in value gained from third party spend would represent $400 million annually. In comparison, a 10% 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 $6 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 capability would be a positive trend for many agencies.

The Procurement Functional Leadership Programme at the Ministry of Business, Innovation and Employment (MBIE) is supporting better management of third party spend. It establishes all-of-government contracts to assist agencies with common procurement activities, while helping build their capability so that they can focus on their core objectives, support strategic projects and improve engagement with businesses.

A primary focus of the programme is the building of procurement capability in agencies. To date, more than 700 agencies, including schools, have participated in all-of-government (AoG) contracts; more than 103 Procurement staff across government are gaining subsidised procurement qualifications; some agencies are choosing to invest in building their procurement capability. In addition, revised procurement policy has been provided across agencies, including comprehensive tools and guidelines; and government model contracts to support good practice in agencies. The Procurement Functional Leadership Programme is aligned with government priorities, including the Business Growth Agenda (BGA); Better Public Services (BPS); the Canterbury Rebuild; and Better Services for Business.

Due to changes in effectiveness metrics in FY 2012/13, this year's BASS report provides a better picture of procurement function effectiveness. MBIE's New Zealand Government Procurement

Branch and procurement leaders across agencies worked with the Treasury to refine the BASS methodology. The report is now better aligned with the Procurement Functional Leadership Programme and its emphasis on the quality of management of third party spend. It should be noted that although results are still relatively low for the new metrics there has been some improvement since FY 2012/13. It can be expected that the metrics will continue to evolve to meet the growing expectations of government initiatives.

The Capability Maturity Model also provides a better picture of procurement practices within agencies and their alignment with leading practice. The introduction of a Capability Maturity Model (CMM) in FY 2011/12 has focused the BASS methodology on things we can measure more accurately and the outputs that agencies can change. The CMM has enabled more effective strategic conversations within agencies regarding capability and improvement priorities.

Better understanding of how agencies are using the new CMM measurement continues to be important. Separate from the BASS programme, independent procurement capability reviews across 20 agencies found that agencies often rated poorly against international benchmarks for government procurement. This suggests that the self-reported CMM results for FY 2013/14, 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. It is intended that some form of moderation of the CMM results will be introduced to assist with this understanding and to drive consistent results.

Summary of findings

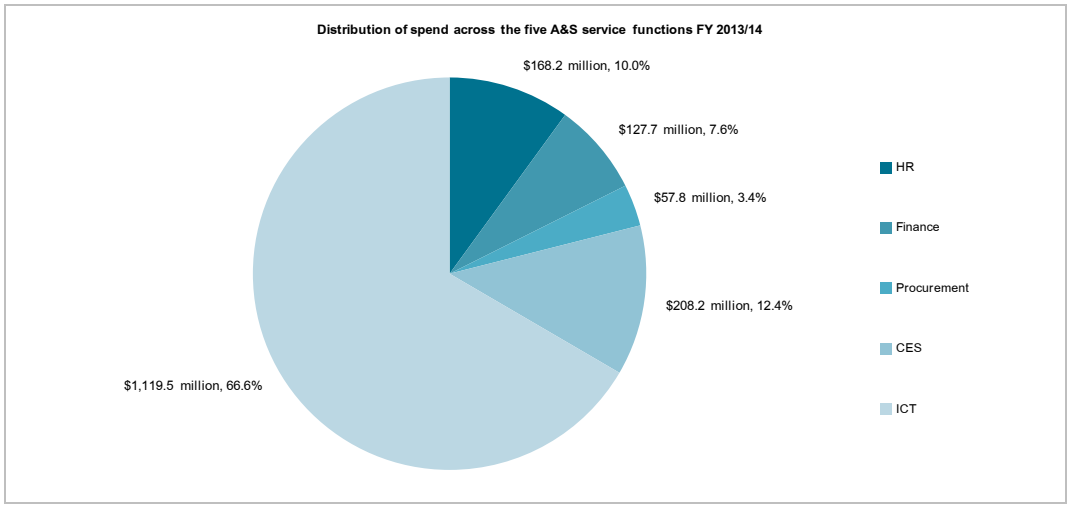
Detailed findings and data are not provided in this report. Detailed findings and data for FY 2013/14 are located on the Treasury website via the following documents:

Procurement performance findings FY 2013/14:
http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2013-14

FY 2013/14 BASS metric results and data points:
http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2013-14

Agencies reported spending $57.8 million on Procurement in FY 2013/14, but this cost is likely understated due to measurement challenges.

Figure 40 | Distribution of spend across the five A & S Service functions FY 2013/14 – Procurement

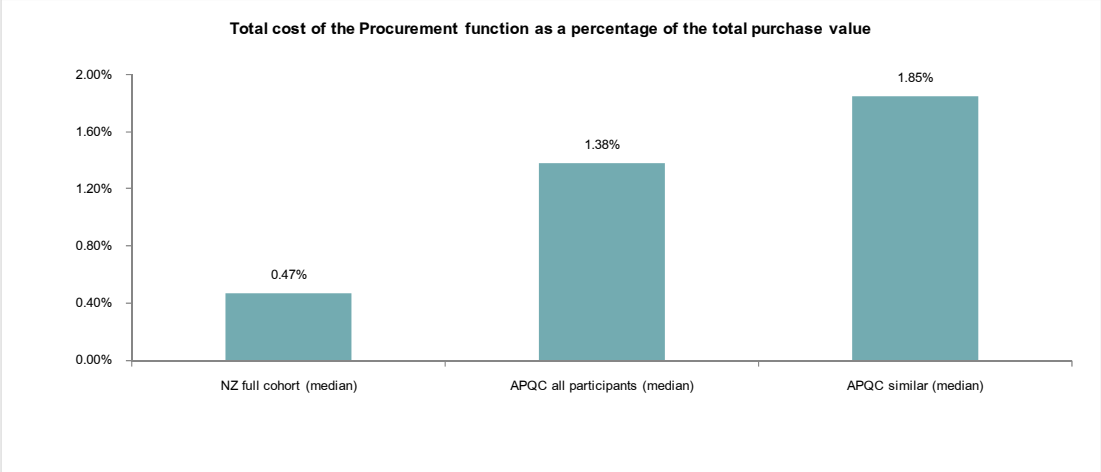


Data quality is low due to the highly devolved nature of the function in most agencies. In line with global benchmarking practice, the cost of procurement activity is only captured when activity makes up more than 20% of a staff member's time. In most agencies, the bulk of procurement activity is undertaken by a wide range of staff at less than the 20% threshold.

While BASS provides some guidance to agencies on how to measure this function in line with global practice, accurate cost measurement will likely be a challenge for some time. This is a common challenge globally in both the public and private sectors.

It is very likely that understated procurement function costs have led to overstated levels of efficiency.

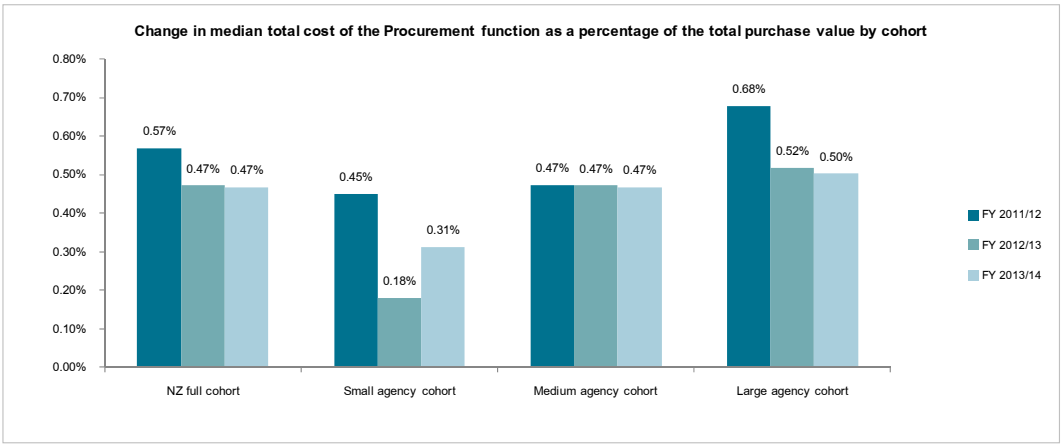
Figure 41 | Total cost of the procurement function as a percentage of the total purchase value



The NZ full cohort shows a significantly higher reported total cost of procurement as a percentage of total purchase value than international comparators. But due to data quality issues as outlined earlier, this report does not conclude that NZ full cohort agencies are significantly less efficient than comparator organisations.

The medium cohort's costs as a percentage of total purchase value has remained flat since FY 2011/12, whereas the small and large cohorts have reported increases in efficiency since FY 2012/13.

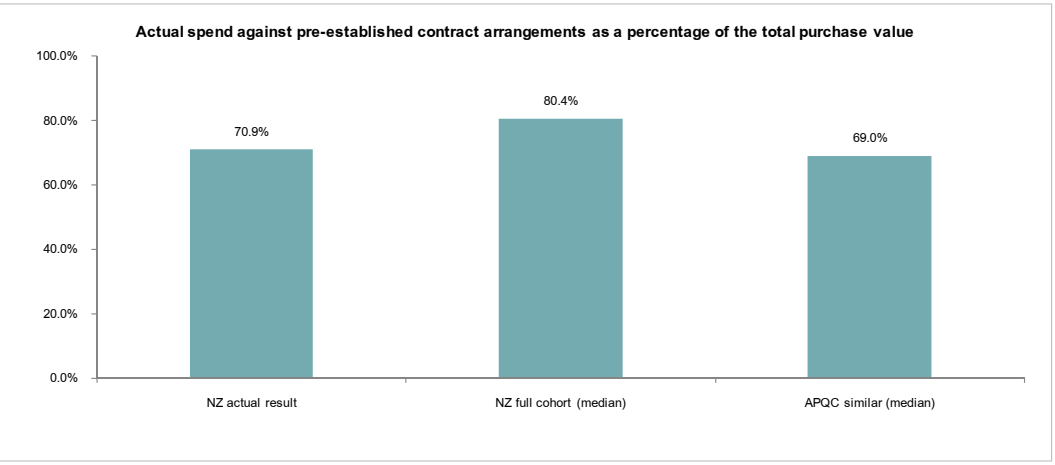
Figure 42 | Change in median total cost of the procurement function as a percentage of the total purchase value by cohort



There has been variable change across the cohorts, with the small agency cohort total cost increasing by 0.13%, the medium agency cohort unchanged at 0.47% and the large agency cohort decreasing by 0.2% since FY2012/13. It is important to note that due to data quality issues cited in this report, the reported cost and efficiency of the procurement function should be viewed with caution.

For FY 2013/14 the mean and median spend against pre-established contract arrangements as a percentage of total purchase value continues to be higher than international comparators.

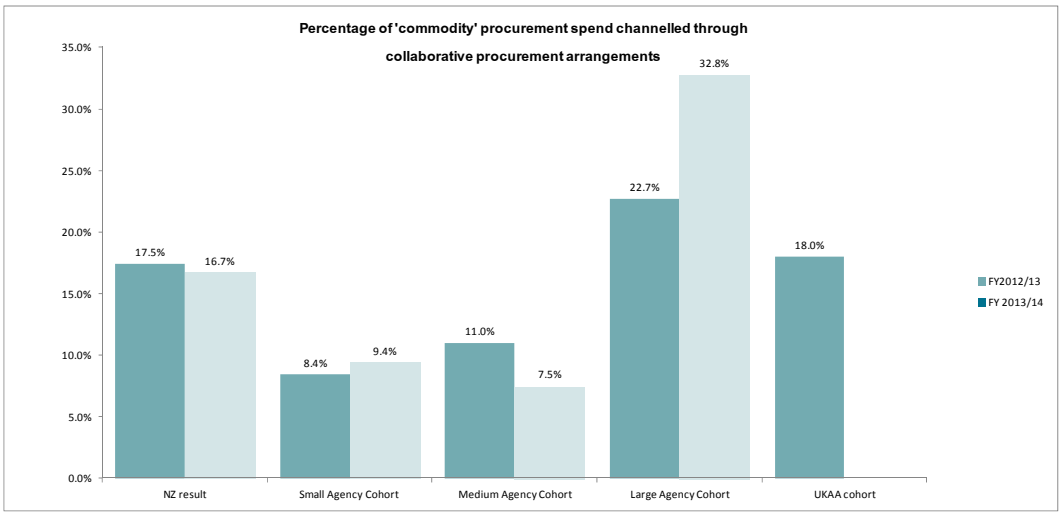
Figure 43 | Actual spend against pre-established contract arrangements as a percentage of the total purchase value



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.

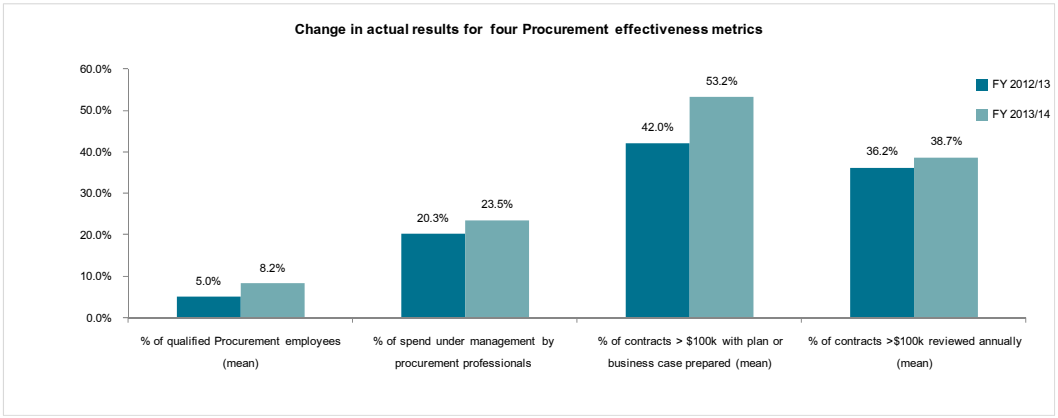
The reported use of collaborative procurement arrangements is similar to international comparators for FY 2013/14.

Figure 44 | Percentage of 'commodity' procurement spend channelled through collaborative procurement arrangements



Agencies reported increased effectiveness in four procurement practices since FY 2012/13.

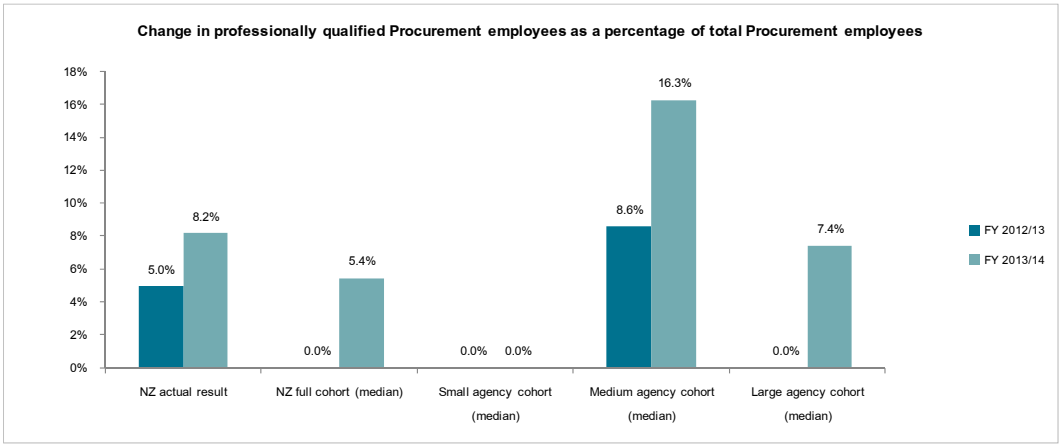
Figure 45 | Change in actual results for four procurement effectiveness metrics



These metrics were introduced in FY 2012/13, the results for FY 2013/14 show improvements, in all areas, with the mean percentage of contracts over $100k with a business plan in place increasing by 10.2%.

The overall result of 8.2 percent of procurement staff being qualified and a closer look at individual agency results, shows significant room for improvement.

Figure 46 | Change in professionally qualified Procurement employees as a percentage of total Procurement employees



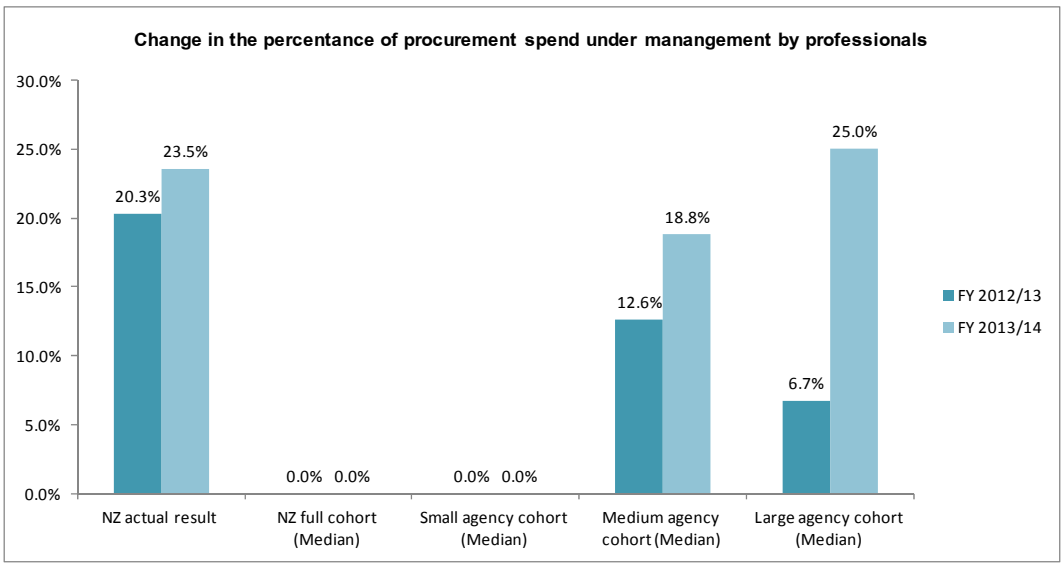
The number of qualified procurement staff rose from 5% in FY 2012/13 to 8.2% in FY 2013/14.

This year 13 of 26 (50%) of participating agencies reported having zero qualified procurement staff. This is an improvement from FY2012/13 where 17 out of 27 (63%) Agencies had 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.

Overall, the percentage of spend under management by procurement professionals has increased by 3% since FY 2012/13.

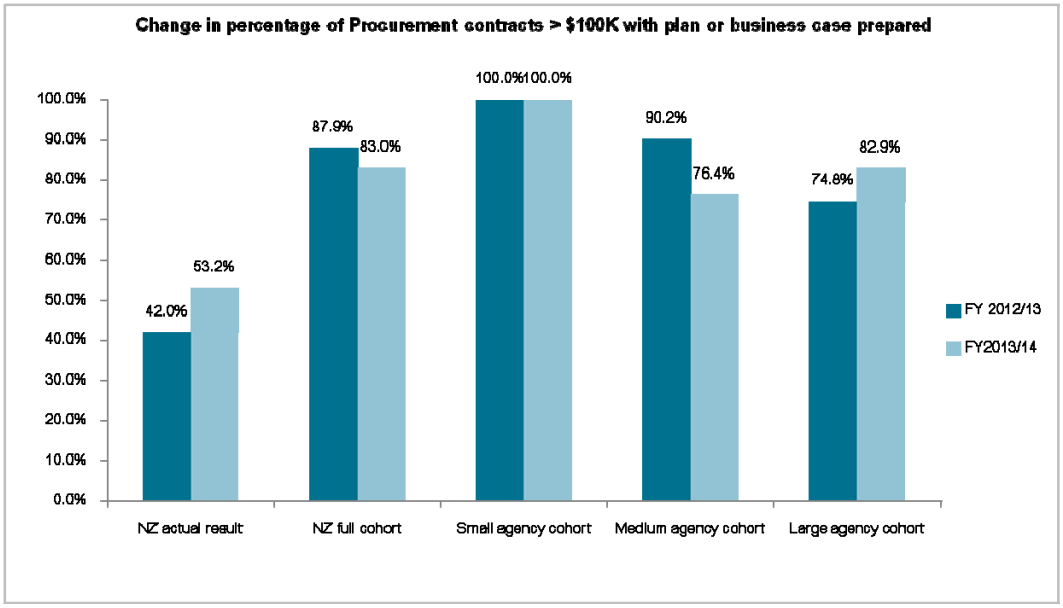
Figure 47| Change in the percentage of procurement spend under management by professionals



There has been a significant increase in the percentage of spend managed by procurement professionals since FY 2012/13 in the large agency cohort, while the 0% result for the small cohort reflects that there is currently only one agency with one qualified procurement professional within that cohort.

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

Figure 48 | Percentage of Procurement contracts greater than $100k with plan or business case prepared

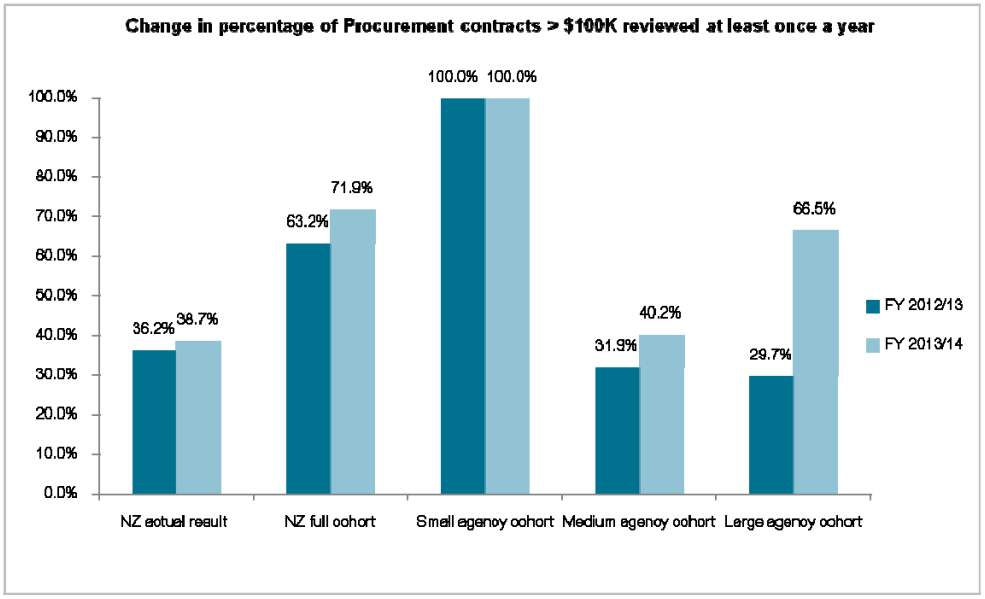


The New Zealand actual result is significantly lower than the cohort results, due to one agency in the medium agency cohort that has reported a significant number of contracts without plans or business cases in place.

This metric was introduced in FY 2012/13 and it is positive to see an increase of 11.2% in Procurement contracts in place for the NZ Actual result when compared to FY2012/13.

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

Figure 49 | Percentage of Procurement contracts greater than $100k reviewed at least once a year

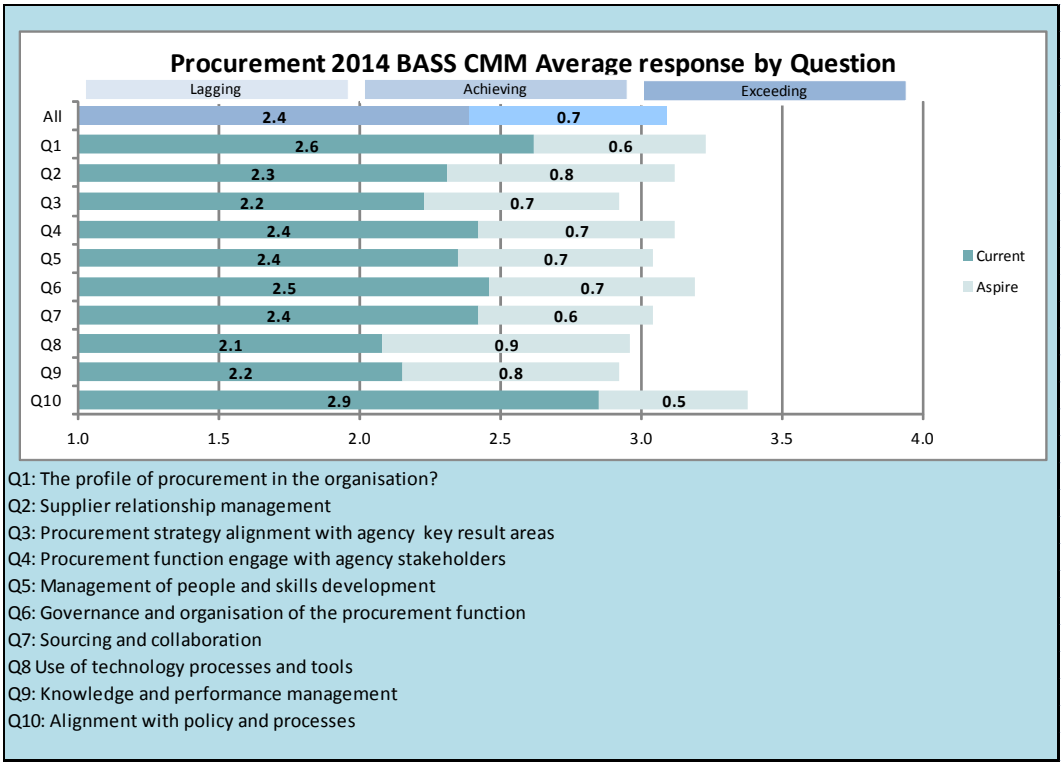


However, both medium and large agency cohorts have increased by 8.3% and 36.8% respectively since FY 2012/13.

This was a new metric in 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 only one agency in the small agency cohort records having any professionally qualified staff available to review these contracts.

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

Figure 50 | Procurement 2014 BASS CMM Average response by Question



Q1: The profile of procurement in the organisation?
Q2: Supplier relationship management
Q3: Procurement strategy alignment with agency key result areas
Q4: Procurement function engage with agency stakeholders
Q5: Management of people and skills development
Q6: Governance and organisation of the procurement function
Q7: Sourcing and collaboration
Q8 Use of technology processes and tools
Q9: Knowledge and performance management
Q10: Alignment with policy and processes

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

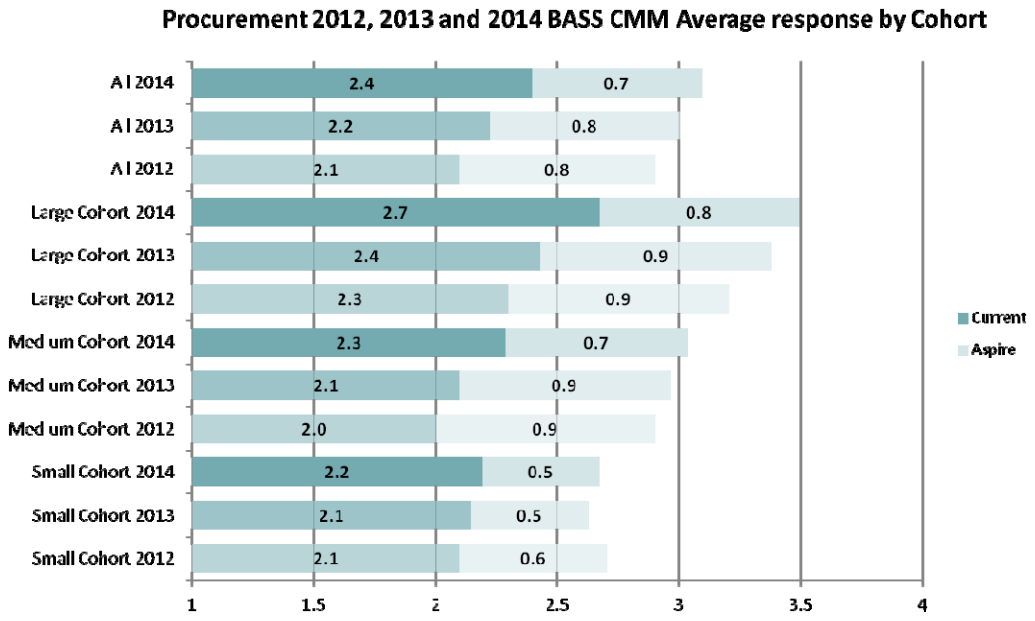
- Profile of procurement in the organisation (Q1)
- Alignment with policy and process (Q10)

Q10 showed the greatest improvement in capability and Q10 also 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 reported small improvements in their practice maturity levels since FY 2012/13, with the large cohort reporting the biggest improvement. The future aspiration has increased for the large and medium cohort since FY 2012/13, whereas the small cohort has remained relatively unchanged.

Figure 51 | Procurement 2014 BASS CMM Average response by Cohort



Quality of management information

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 has been undertaken across the time series. Improvements were made to the effectiveness measures in FY 2012/13 to better measure procurement practices which aligns with Procurement Functional Leadership as it measures the behaviors and practices sought. The second year of reporting for these metrics has resulted in more accurate reporting processes by agencies, and improving results.

Caveat to time series: The Ministry of Business, Innovation and Employment (MBIE) merger, which was effective from 1 July 2012, had an impact on the comparative metrics across cohorts. The

significant lower cost for the large cohort, and higher costs for the small and medium cohorts in FY2011/12 related to the merger of the Department of Building and Housing (DBH), Department of Labour (DOL), Ministry of Economic Development (MED) and the Ministry of Science and Innovation (MSI) to form the Ministry of Business and Innovation and Employment (MBIE). DBH, DOL, and MED were previously in the small, medium and medium cohorts respectively.

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 look 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 in a small policy agency.

Corporate and executive services

Commentary

Given the amount of spending on the CES function, we should improve our understanding of its performance and business value. The 26 agencies that participated in this benchmarking exercise spent $208.2m in FY 2013/14 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.

Communications

The Communications profession is self-led through a peer group network led by a rotating Head of Profession. The goal is to improve the professionalism of the profession through mutual support and sharing of best practice.

The Communications Head of Profession is now in its sixth year with its third rotation of Head of Profession, currently led by a trio: one Head and two Deputy Heads. Assessment of levels of maturity across the profession are still bedding in, with robust discussion and norming of interpretations across key indicators. Ongoing reporting will result in more accurate reporting processes by agencies and improving results.

Current work includes an ambitious engagement capability improvement programme in support of State sector reform, support on professional development through lunch-and-learn sessions, cross-sector crisis management readiness planning, continued work in agreeing best-practice across the State sector, and setting professional standards for all levels of communications professionals. A long-term goal is creating an interoperable communications function across the State sector, where professional development can see public communications professionals moving from agency to agency as they develop and specialist expertise can be readily shared.

Legal Services

The Government Legal Network (GLN, or the Network) leads an across-government approach to the management and delivery of legal services. Formed in 2011, the GLN has the purpose of supporting an informed, connected and engaged community of public sector lawyers. Programmes administered by the Network are outcome-focused – reducing duplicative activity, improving the value of third-party spend, strengthening legal knowledge management and capability, and encouraging collaboration at a systems level. These initiatives underpin the provision of high quality and valued legal services to the Crown, helping to minimise Crown legal risk and enable the lawful execution of Government objectives.

The CMM is now in its second year and is a valued addition to existing legal sector reporting tools. Results illustrate increasing levels of maturity from FY 2012/13, with aspiration levels remaining similar. Significant improvement is evident in metrics relating to the monitoring of/reporting on legal function and risks, and increased alignment between legal function and agency objectives. This is demonstrative of considerable efforts across the Network to enhance systems and processes underpinning the effective evaluation and mitigation of Crown legal risk, and associated decision-making. Aspirational metrics highlight the drive for further improvements in legal practice, legal function influence at Chief Executive level, and individual development planning over the next two years. Importantly, participation in GLN programmes emerges as one of the most mature functions. As evidenced in other sections of this report, a synergised approach optimises progress and efficiency. Continued engagement with the GLN can therefore be viewed as an enabler, helping departments to achieve their individual and networked goals for legal service delivery.

Enterprise Portfolio Management Offices

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; however there has been a slight increase since FY 2012/13 with 13 of the 26 agencies indicating they do have this function in FY 2013/14, compared to 12 the previous year. Almost all the EPMO functions are in the large and medium agency cohorts. Nearly 80% of the large agency cohort and half of the medium agency cohort indicate spending against an EPMO function (only one agency in the small agency cohort indicates an EPMO spend).

The EPMO function is a growing area of interest and expectation from Investment Ministers. There has been a significant increase in the overall spend against this function (increased by 60% over 2012 figures).

Overall, the EPMO function remains 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 costs per full time equivalent (FTE).

The P3M3 (Portfolio, Programme and Project Management Maturity Model) was piloted as a Capability Maturity Model (CMM) last year with selected agencies. Further pilots of P3M3 have since been completed to refine its use. P3M3 will become a lead indicator in the agency 'Investor Confidence Rating' to be implemented in the 2015/16 financial year. The focus of the maturity measurement is to raise agency and overall capability.

Summary of findings

Detailed findings and data are not provided in this report. Detailed findings and data for FY 2013/14 are located on the Treasury website via the following documents:

- CES performance findings FY 2013/14:

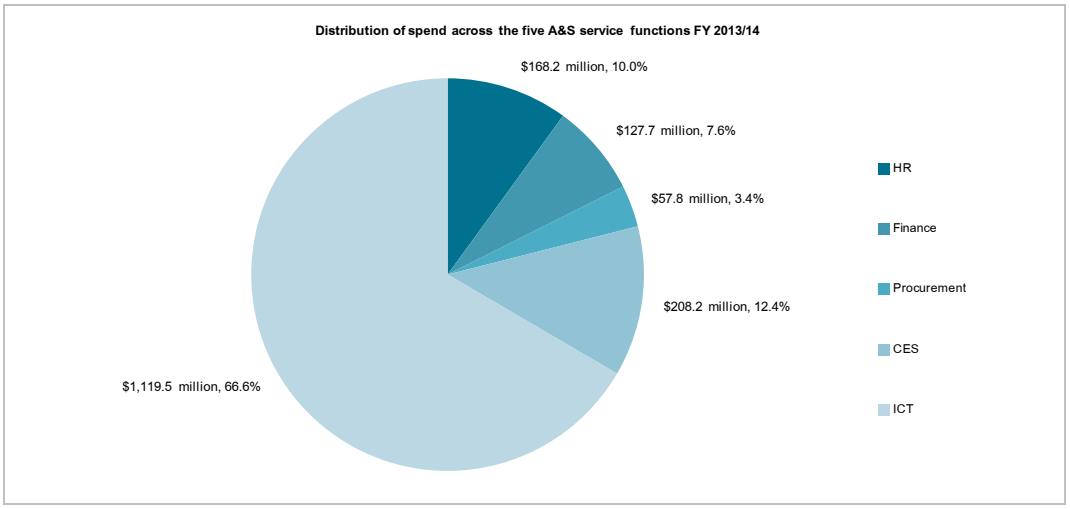
  http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2013-14
- FY 2013/14 BASS metric results and data points:

  http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2013-14

Highlights of findings

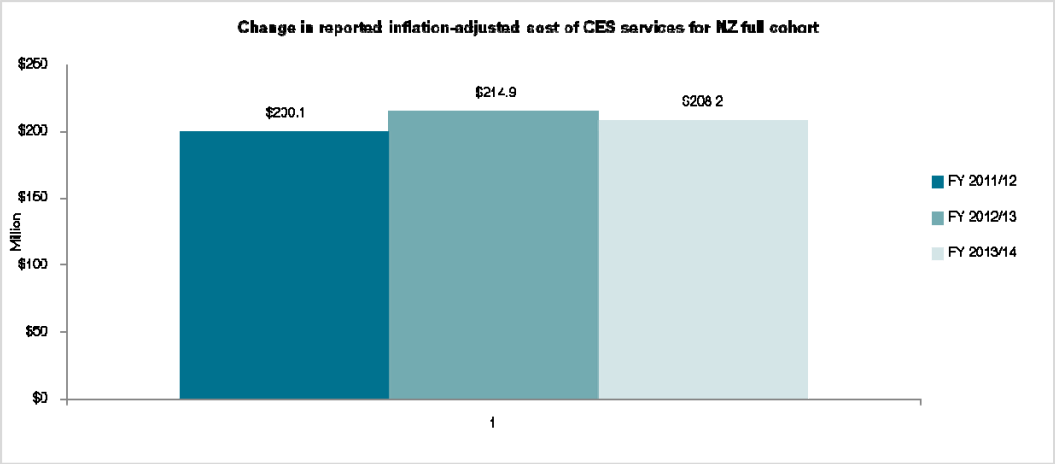
CES makes up 12.4% of A&S service spending, making it the second largest function by reported expenditure.

Figure 52 | Distribution of spend across the five A & S Service functions FY 2013/14 – HR



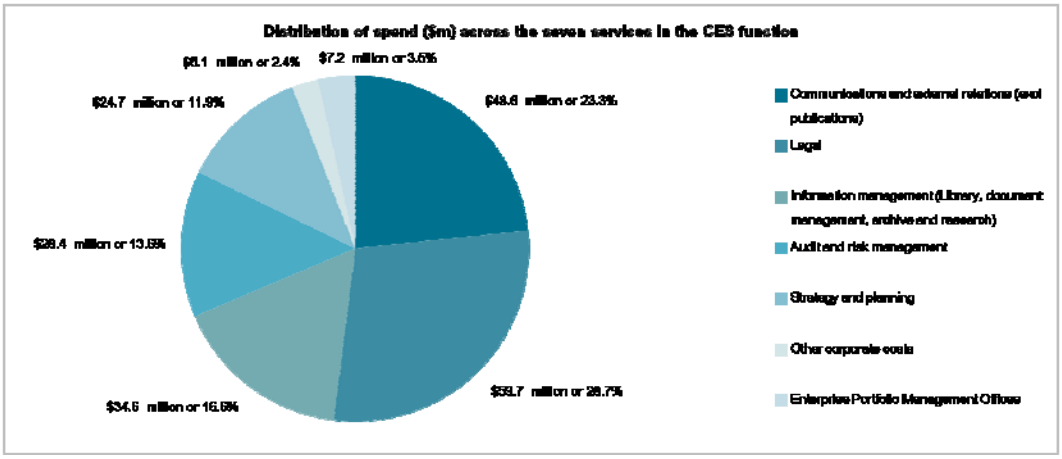
Agencies spent $208.2 million on the CES function in FY 2013/14, down $6.7 million (or 3.1%) from FY 2012/13 when adjusted for inflation.

Figure 53 | Change in reported inflation-adjusted cost of CES services for NZ full cohort



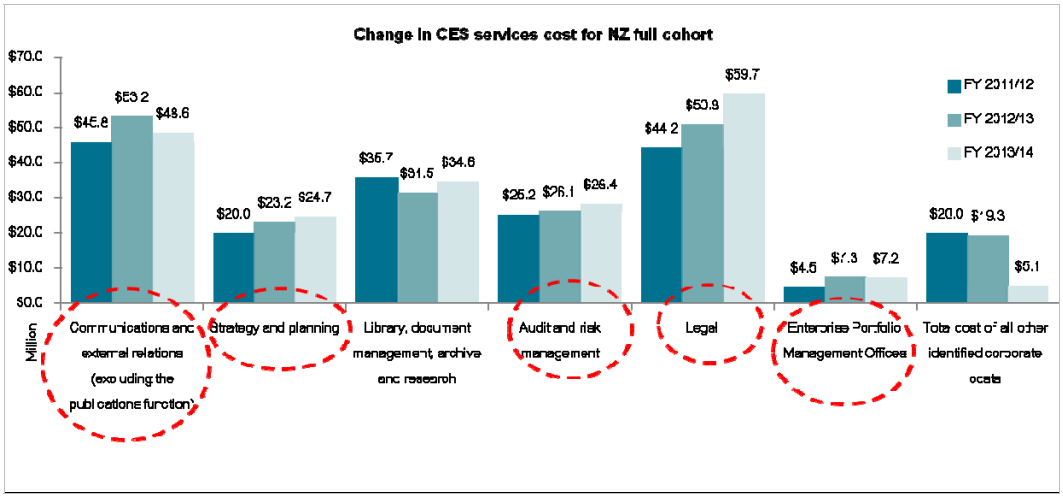
Communications, information management and legal services make up the bulk (68.6%) of CES expenditure in FY 2013/14.

Figure 55 | Distribution of spend ($m) across the seven services in the CES function



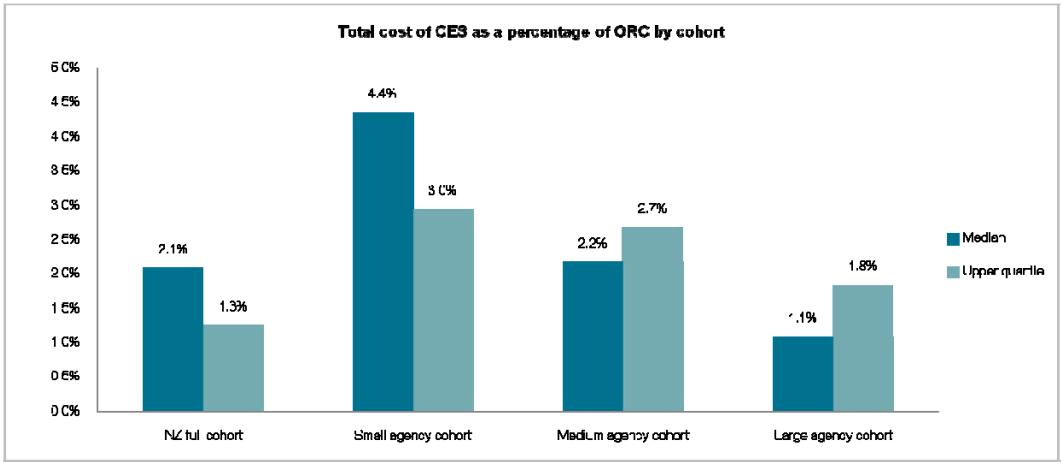
The New Zealand full cohort reports cost increases in five of seven service areas since FY 2011/12

Figure 54 | Change in median CES services cost for NZ full cohort



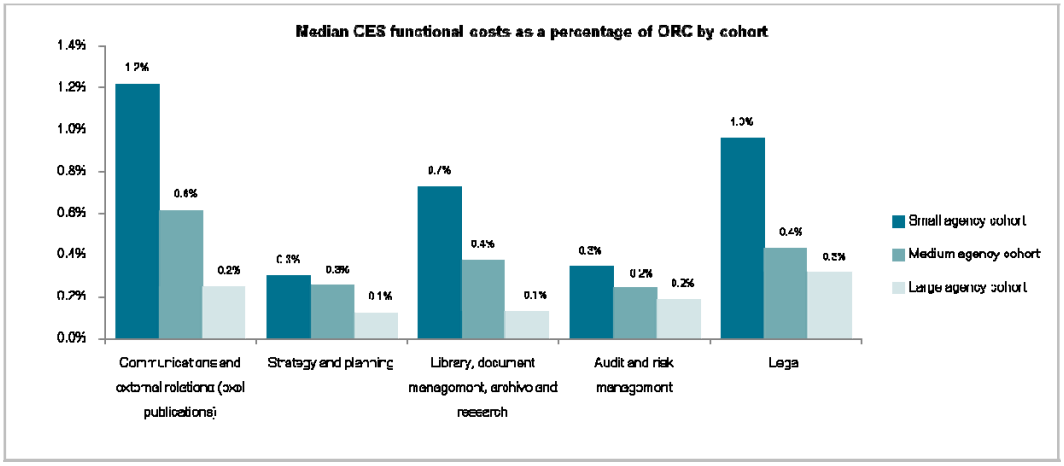
The large agency cohort delivers CES services significantly more efficiently than the small and medium agency cohorts.

Figure 56 | Total cost of CES as a percentage of ORC by cohort



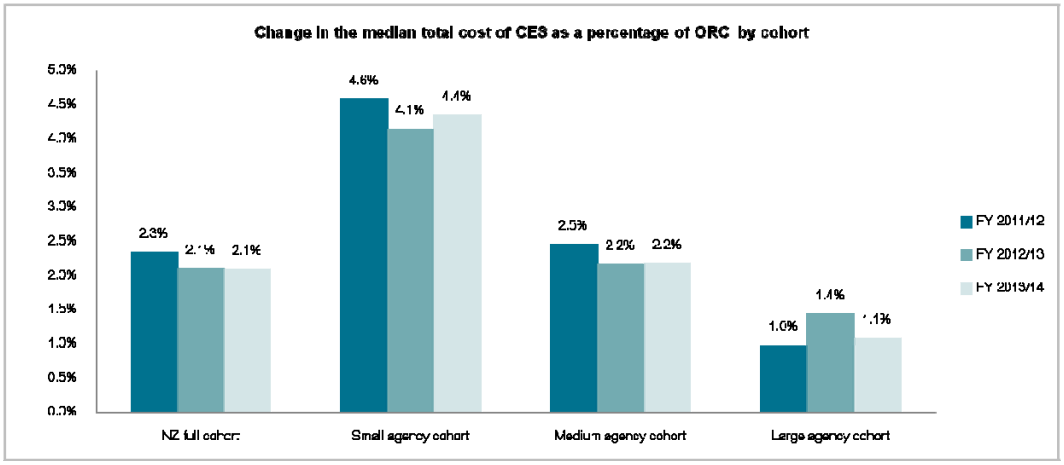
The large agency cohort delivers all component service types within CES more efficiently than the medium and small agency cohorts.

Figure 57 | Median CES functional costs as a percentage of ORC by cohort



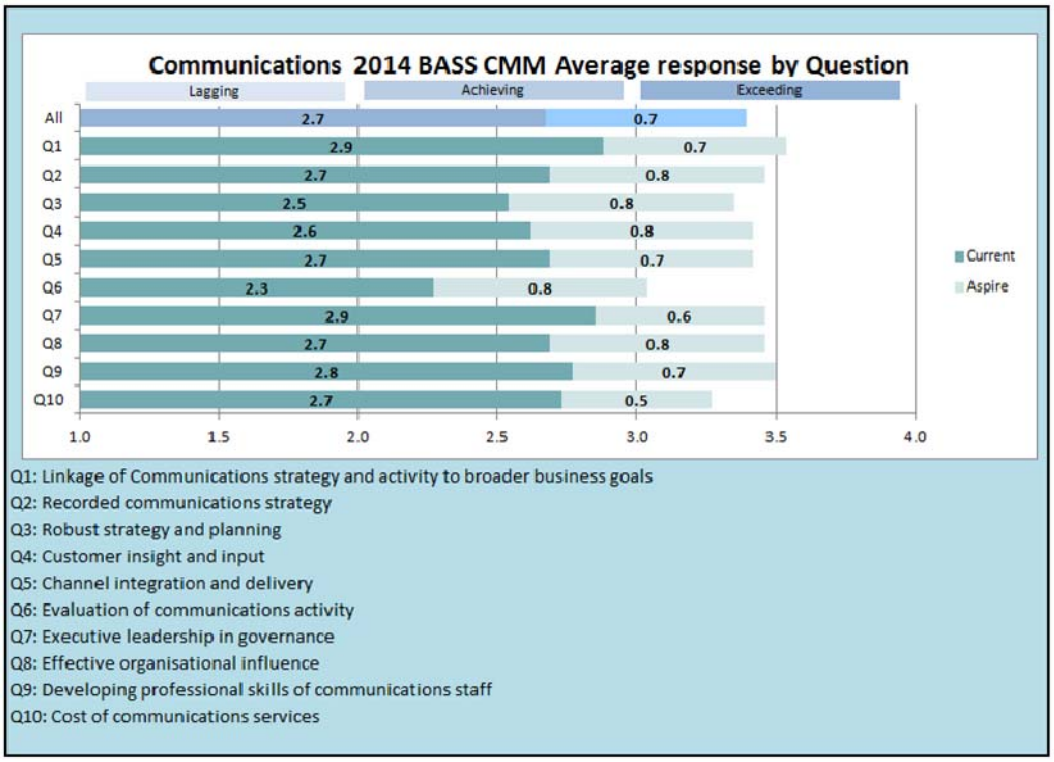
The reported efficiency of the CES function has remained relatively flat over the three reporting periods for the New Zealand full cohort.

Figure 58 | 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, with five out of ten questions having an aspirational gap of 0.8.

Figure 59 | Communications 2014 BASS CMM Average response by Question



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

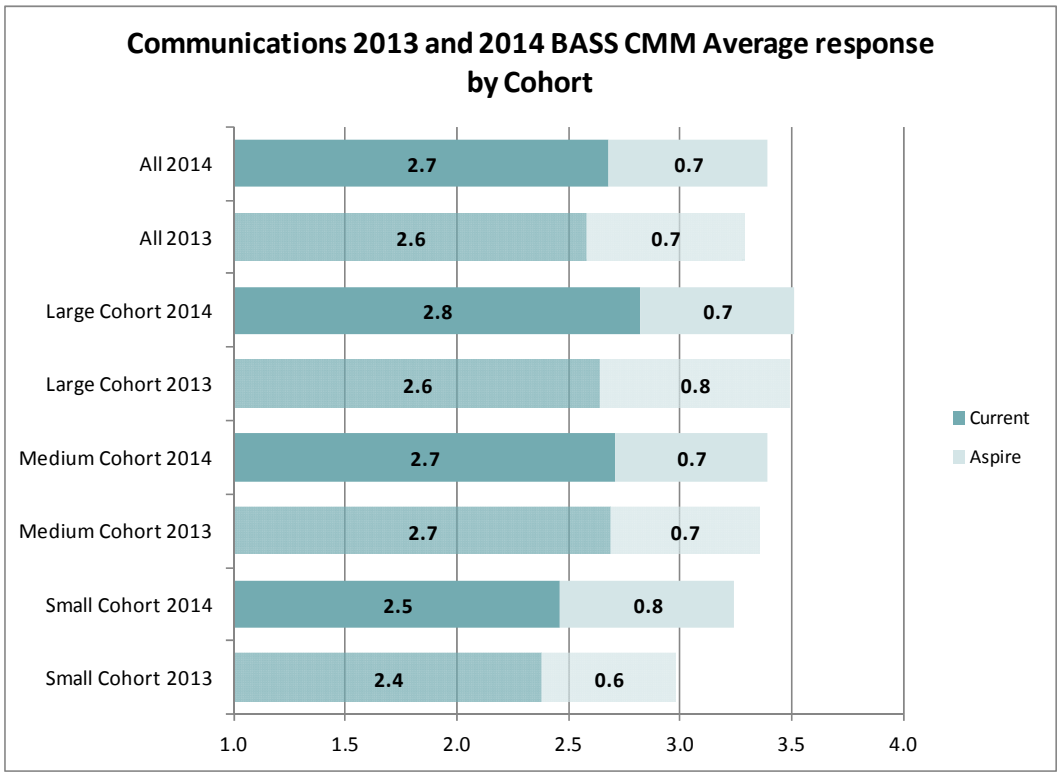
- Executive leadership in governance (Q7)
- Linkage of Communications strategy and activity to broader business goals (Q1).

Evaluation of Communications activity (Q6) is the least mature area.

Q7 along with Effective organisational influence (Q8) have the highest future aspiration.

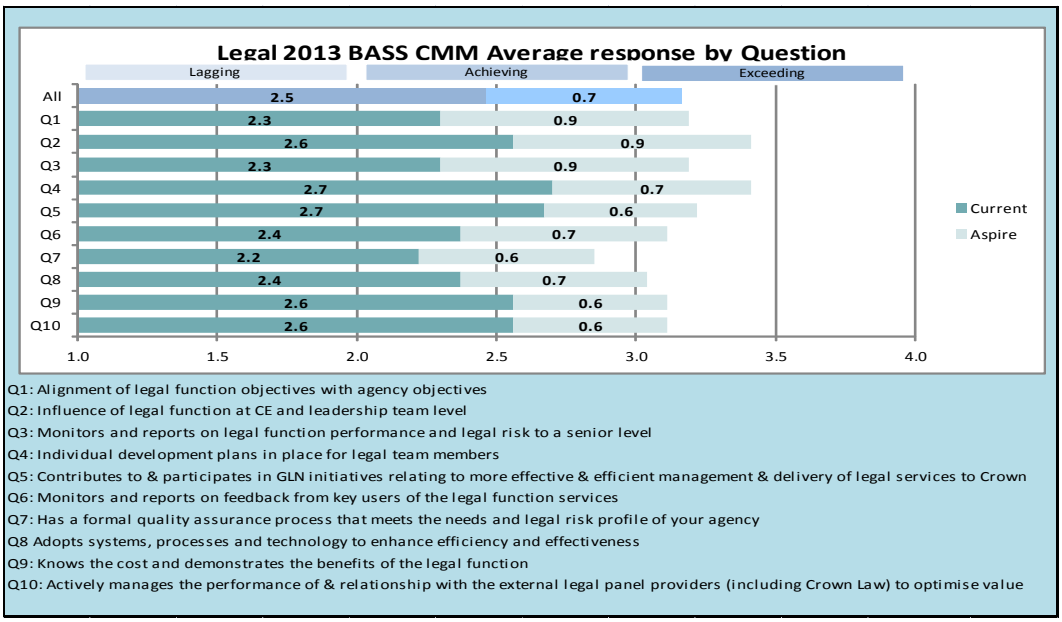
The small and large cohorts demonstrate a slightly higher current assessed maturity level than FY2012/13 whereas the medium cohort maturity level has remained consistent.

Figure 60 | Communications 2014 BASS CMM Average response by Cohort



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

Figure 61 | Legal 2014 BASS CMM Average response by Question



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

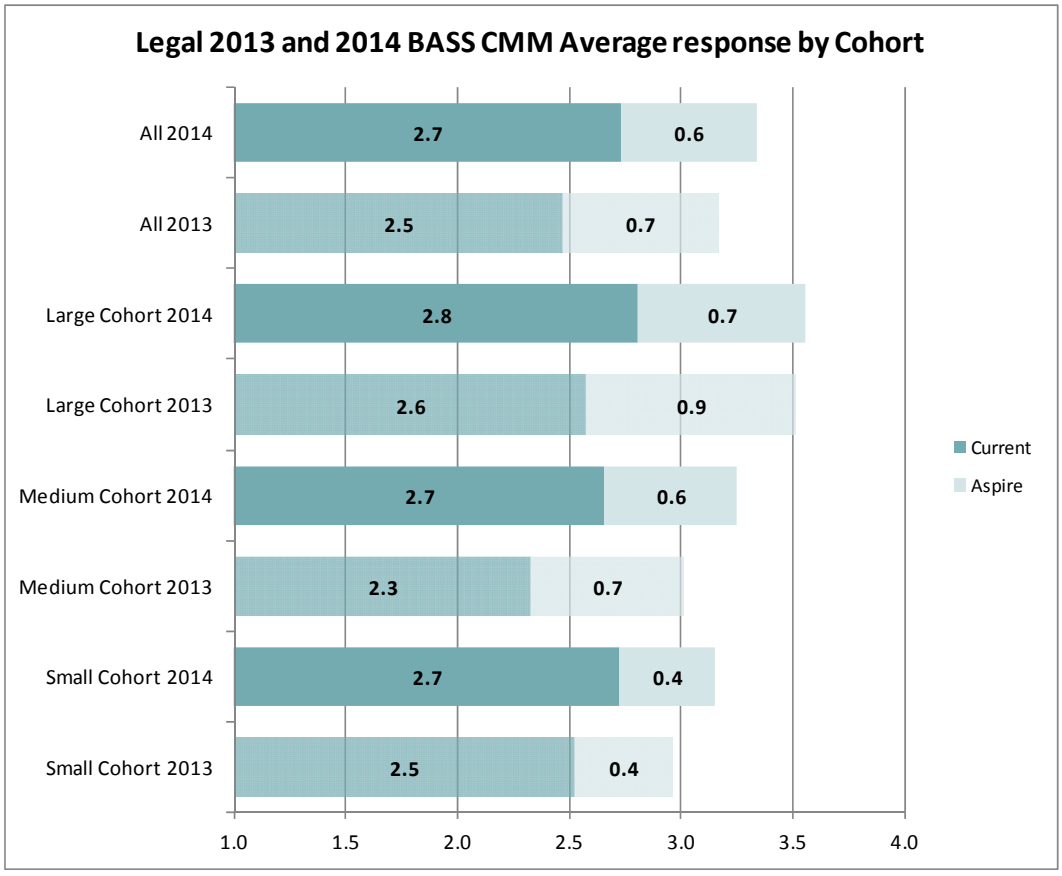
- Individual development plans in place for legal members (Q4)
- Contributes to and participates in GLN initiatives relating to more effective and efficient management of legal services to Crown (Q5).

The least mature area is Formal quality assurance process that meets the needs and risk profile of your agency (Q7).

Q4, along with Influence of legal function at CE and leadership level (Q2), have the highest future aspiration.

All cohorts demonstrate higher current assessed maturity since FY 2012/13.

Figure 62 | Legal 2014 BASS CMM Average response by Cohort



Quality of management information

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 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.

Note also that as the CES function is an amalgam of seven services, the metrics for this function typically capture data at the aggregate level (eg, total costs for legal services). In contrast, in the other functions the metrics capture information at a more granular level (eg, costs are further broken down into personnel costs, outsourcing costs, and system costs). The seven services within CES function are: Communications, Information Management, Audit and Risk Management, Legal, Strategy and Planning, Enterprise Portfolio Management and Other Corporate Costs.

The introduction of the Capability Maturity Model (CMM) for the Communications and Legal functions has enabled 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, given this the second year of results, the quality of data may continue to vary due to self-assessment and self reporting. No peer review has been undertaken across the time series.

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. The significant lower cost for the large cohort, and higher costs for the small and medium cohorts in FY 2011/12 related to the merger of the Department of Building and Housing (DBH), Department of Labour (DOL), Ministry of Economic Development (MED) and the Ministry of Science and Innovation (MSI) to form the Ministry of Business and Innovation and Employment (MBIE). DBH, DOL, and MED were previously in the small, medium and medium cohorts respectively.

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.

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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.
CMM	See Capability Maturity Model
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."[16]
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

[16] http://www.public-audit-forum.gov.uk/performanceindicators.pdf

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.

Terms	Definition
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.
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 New Zealand Corporation has 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 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 and FY2013/14 has been collected as one agency for these previous agencies, under the Ministry of Business Innovation and Employment. For FY 2013/14, The NZ Qualifications Authority (NZQA) is not participating, and the Department of the Prime Minister and Cabinet (DPMC) has participated in measurement; however DPMC has not been included in the small cohort or the NZ full cohort for this report as this is the first year of measurement. DPMC will be included in future reports once trend data is available. To allow comparison, the FY 2010/11, FY 2011/12, FY 2012/13, and FY 2013/14 NZ full cohort is made up of 26 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 Department
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 Tourism Board
21. New Zealand Trade and Enterprise
22. New Zealand Transport Agency
23. State Services Commission
24. Statistics New Zealand
25. Te Puni Kokiri
26. 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 240 employees)	Department of the Prime Minister and Cabinet[17] Ministry for Culture & Heritage Ministry for the Environment Ministry of Transport 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 1320 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 Authority 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

[17] Note: The Department of the Prime Minister and Cabinet has not been reported on or included as part of the NZ or small cohort results for FY 2013/13 as this is the first year it has participated in measurement, they will be included in future reports.

Agency cohort name	Agencies in the cohort	Profile (agencies will have at least three profile features)
Large agency cohort (mean of 6580 employees)	Department of Corrections Inland Revenue Department 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.[18]

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.[19]

[18] www.thehackettgroup.com

[19] http://www.thehackettgroup.com/operational-excellence/

Appendix 4: Metric definitions

This section describes the metrics that were used for the FY 2009/10, 2010/11, 2011/12, 2012/13, and FY 2013/14 measurement exercises.[20] 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.

[20] Some metrics have been developed and refined since 2010; such as (but not limited to) the ICT service tower and cost element metrics, procurement effectiveness metrics and the inclusion of strategic finance metrics.

Ref	Metric name	Metric description
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.
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: Process accounts payable and expense reimbursements FIN2.7: Other	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 organisation.

Ref	Metric name	Metric description
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: Process accounts payable and expense reimbursements FIN4.7: Other	The number of Finance process FTEs in each process divided by the total Finance FTEs.
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 score for ten selected leading Finance management practices undertaken by the function. This is the average score (1-4) across the ten questions.
FIN9	Total cost of Strategic Financial Management activities as a percentage of Total Finance cost	The cost required to undertake Strategic Financial Management activities divided by the Total Finance cost.

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.
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 Application's sub towers.

Ref	Metric name	Metric description
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.
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 internal 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 (Personnel, Operating System, Outsourced, Carriage and Other) 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
ICT 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. For example; AOG, Common Capability and Syndicated 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.
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 (for example: MCIPS, commerce, law, or business degrees.

Ref	Metric name	Metric description
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 percentage of the organisation's top 10 suppliers (measured by value, risk and importance) who have formal supplier management relationships in place (indicating the ability of the organisation to manage relationships with suppliers and control expenditure), being a number between 0 and 10 converted to a percentage.
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 model 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 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 4	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 5	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 6	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 model 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 model 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 that 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 (ie, 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.
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 2013/14. 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 2015 released 5 May 2015 sourced from the Property Management Centre of Expertise (PMCoE)

David White, Director, Government Property Management Centre of Expertise

This report, our fourth annual snapshot of the Crown office accommodation portfolio, captures estate-related data and analysis as at 30 June 2014. We are now developing a longitudinal view of the "direction of travel" in our objective to move to a more efficient portfolio.

The 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.

From the initial report in 2011 to where the Estate is now in 2014, we are continuing to see positive progress, with a further reduction this year of 55,514m^2. In absolute terms this is a sizeable reduction in space, but also represents a culmination of many individual decisions and significant effort by property teams within agencies.

We know that the transactions undertaken are in the efficient end of the Government's expectation of 12 to 16m^2 per person, and this has been reported by market commentators. Over the past two years, Colliers International have noted that in Wellington, the Government transactions were undertaken at an average of 13.4m^2 per person, more efficient than the market average. The scale of our portfolio has the effect of diluting the impact of individual transactions, when represented as a percentage of the whole. The reduction from $6,840 per person to $6,668 per person appears modest but represents a tangible saving to taxpayers.

In the past year, the PMCoE has broadened its focus to include not only cost savings, but also the quality of the accommodation; change management; capability within our sector; procurement; and consistency. These factors help to ensure that value for money is achieved across the life cycle of the provision of working environments, not only in an initial reduction of the footprint.

Summary of findings

Property Management is lead and supported by the Property Management Centre of Expertise (PMCoE), and is reported annually in the Crown Office Estate Report.

The annual Office Estate Report is to provide an assessment on the progress being made towards improving the efficiency and effectiveness of the Crown's Office Estate (the Estate). The publication of this annual report is required by Cabinet. Detailed findings and data for 2014 can be found at:

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

As at 30 June 2014, 62 agencies (29 government departments, six non-public service departments and 27 Crown agents) were mandated or directed 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.

Although 2014 has not seen as distinct changes to the key metrics for agencies as experienced in previous years, this was expected as we move into the next wave of agency accommodation changes and consolidation in Wellington and some of the regions. The majority of individual agencies metrics are still showing definite and positive change within their portfolios.

Highlights of findings

Continuing the trend from the previous years, 2014 has seen further progress and improvements within the Estate. The entire Estate has seen an overall reduction of 55,514 m^2 during 2014. This brings the total reduction since 2011 to 121,433 m^2. Over 18 agencies have worked together on office co-locations over the last year.

The total cost of running the estate has decreased by approximately 0.6% or $2 million. The total cost of the entire Estate (rents, landlord operating and car parking costs) reduced from $328 million down to $326 million. The majority of this reduction occurred in office rental costs.

The average total cost per office person (including facilities costs) decreased from $6,841 per person in 2013 to $6,668. The average rent-only cost per office person was similar to the private sector at $5,356 (down from $5,564 in 2011) compared to $5,137.

The average m^2 per office person remained static at 19.2m^2. However the majority of the agencies are trending towards the target range of 12m^2 to 16m^2 per person. PMCoE anticipates that this metric will continue downwards due to the completion of several agency accommodation consolidation projects. The transactions undertaken are in the efficient end of the Government's expectation of 12 to 16m^2 per person, and this has been reported by market commentators. Over the past two years, Colliers International has noted that in Wellington the Government transactions were undertaken at an average of 13.4m^2 per person; more efficient than the market average.

The agency average rent across all property types (office and public interface) is sitting at $328/$m^2$ for 2014, down from $355/$m^2$ for 2013. The current private sector average sits at $399/$m^2$. Market information suggests that rental costs will start to rise as lower grade properties are developed as part of refurbishments and earthquake strengthening work, in particular in Wellington where most of the office stock sits.

The following table lists key figures:

Table 1 | Overview of the entire estate (irrespective of function) data for 2014 and 2013 from the baseline set in 2011.

	2011	2013	2014
Total m^2	1,720,527	1,654,610	1,599,094
Leasehold costs	$326 m	$328 m	$326 m
Number of people	60,600	63,986	63,606
Costs per office m^2	N/A	$355	$328
M^2 per person	21.5	19.2	19.2

Efficient and effective use of the estate office space is key to releasing savings by reduction of space and cost. The benefits delivered in Figure 1 below reflect deals completed or with agreed commercial terms and the forecasted total benefits represent the potential benefits the PMCoE has modelled based on data and property plans provided by agencies.

Over time the benefits delivered will grow, aiming to reach the total forecast benefits. The current (2013/14) footprint reduction reflects the results of the first Wellington accommodation project and Christchurch Integrated Government Accommodation (CIGA) project.

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

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

Figure 1 | Total benefits and footprint reduction