
Administrative & Support Services Benchmarking Report for the Financial Year 2011/12

ISBN: 978-0-478-40308-4 (Online)

The Persistent URL for this publication is: <http://purl.oclc.org/nzt/r-1536>

The URL for this publication on the Treasury website at April 2013 is:

<http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2011-12>

New Zealand Government



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Contents

Foreword by the Minister of Finance	1
Statement by the Secretary to the Treasury	2
Executive summary	3
Purpose of the report	3
Scope of the report.....	3
Measurement and benchmarking approach	3
Findings	4
Next steps.....	6
Introduction.....	7
Background.....	7
Purpose of the report	7
Scope of the report.....	8
Measurement and benchmarking approach	9
Quality of management information	10
Overview of findings.....	12
Findings	12
Human Resources.....	21
Commentary	21
Summary of findings.....	22
Quality of management information	27
Finance	28
Commentary	28
Summary of findings.....	29
Quality of management information	32
Information and Communications Technology	34
Commentary	34
Summary of findings.....	36
Quality of management information	41
Procurement.....	43
Commentary	43
Summary of findings.....	44
Quality of management information	46
Property Management.....	47
Commentary	47
Summary of findings.....	48
Quality of management information	51

Corporate and Executive Services	53
Commentary	53
Summary of findings.....	56
Quality of management information	60
Appendix 1: Bibliography	62
Appendix 2: Glossary of Terms and Abbreviations.....	63
Appendix 3: Dataset Descriptions.....	70
New Zealand full cohort (NZ full cohort).....	70
Small, medium-sized, and large agency cohorts.....	71
UK Audit Agencies (UKAA cohort).....	72
American Productivity & Quality Center (APQC) full cohort	72
APQC similar cohort.....	72
The Hackett Group (Hackett) full cohort.....	72
Hackett Peer Group.....	72
Hackett World Class.....	73
UK Cabinet Office Property dataset.....	73
Appendix 4: Metric Definitions	74
Management practice indicator descriptions.....	81
Capability Maturity Model descriptions	86

Foreword by the Minister of Finance

Hon Bill English, Minister of Finance, Deputy Prime Minister

Managing its finances responsibly and delivering better services to New Zealanders are two of the Government's main priorities.

As they respond to new service demands and fiscal constraint, our public sector agencies need insights into their businesses, including their cost drivers, needed skills, and strategies to modernise their operating models and technologies.

They also need the management acumen to design and execute bold but achievable strategies for delivering value and continuous improvement in an ever-changing environment.

This report is important because it shows to what degree our agencies are equipped with the management practices needed to rise to these challenges.

It's also important because it shows opportunities to make back office savings that can be redirected to higher priorities like delivering services to New Zealanders.

Over the past four years, the Government has been putting in place new mechanisms to support agencies in meeting higher expectations regarding agency management and the elimination of duplication and waste.

The Procurement Reform Programme has strengthened agency in-house capability to drive better value out of third party spend, and it's established all-of-government contracts that are expected to save over \$350 million in the coming years.

The Property Centre of Expertise is establishing a more centralised approach to property management with goal of reducing our property footprint while at the same time providing productive workplaces for staff. This report suggests savings of \$60 million each year are possible in rented office accommodation alone.

Programmes for HR, Finance, and ICT are establishing new cross-agency service delivery models that make these functions more efficient and more focused on driving overall agency performance.

While I thank the public service for the progress it has made, this year's report shows further significant gains can be made in reducing administrative and support service costs in order to improve the quality and quantity of public services.

Statement by the Secretary to the Treasury

By Gabriel Makhlouf, Secretary to the Treasury

The Treasury has an important role to play in delivering sustained performance improvements in results and capability across the State sector, and the transparency of the cost, efficiency and effectiveness of administrative and support (A&S) functions in government agencies is a key part of that process.

The BASS exercise delivers that transparency. It has run for three years and provides a data set that allows the Treasury, agencies, and Ministers to track the progress of efforts to improve the performance of A&S services.

This year's results show that the overall A&S costs of the participating agencies increased modestly when compared to the first BASS survey – a total of \$37.5 million. We are pursuing improvements by investing in initiatives that leverage good practices in NZ and internationally. These include cross-agency projects in ICT, finance, HR and legal services, procurement reform and a Property Management Centre of Expertise, which are discussed at the beginning of each chapter of this report.

It will take time for transformation programmes to deliver results and achieve lasting gains. The projects underway aim to reduce cost, improve efficiency, and strengthen the effectiveness of A&S services so that they can make a bigger contribution to better management, overall agency performance, and ultimately better outcomes for New Zealanders.

We are continuing to take steps to ensure the information we collect from the BASS survey is meaningful and useful. In particular we recognise the need to understand ICT costs better as a key area where we expect costs to continue to rise. A positive step has been the introduction of a more detailed breakdown of ICT expenditure, and further work is underway to better understand drivers of cost increases and help provide transparency on ICT investments that deliver high value.

As part of our commitment to listen to our stakeholders, the Treasury also commissioned an independent review of BASS. The review found that BASS is received positively by agency managers, but also highlighted the need to improve performance management capability across the State sector.

Another welcome endorsement of BASS was the decision by six additional State sector agencies and seven Regional Councils to voluntarily adopt the BASS methodology, leveraging this work to improve their own performance.

The Treasury will continue to support a better understanding of State sector performance by continuing to develop BASS with practitioner input. We are also building on our A&S experience by working with agencies to introduce common metrics for measuring the performance of policy functions.

I would like to thank agencies for their continued efforts and partnership in helping to improve the performance of the State sector.

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 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 and 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-nine agencies participated in the Financial Year (FY) 2011/12 benchmarking exercise. Agencies that provided data for this reporting period are listed in Appendix 3.

Results cover six 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; Property Management; 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.

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 learnt. 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 learnt 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. For FY 2011/12, the exercise also included working with an Australian jurisdiction to measure the ICT function.

Findings

Highlights of cost findings

Agencies spent nearly \$2 billion on A&S services in FY 2011/12. The 29 measured agencies spent \$1.803 billion in FY 2011/12, with ICT making up the bulk (54 percent) of expenditure.

Overall, A&S service expenditure has been flat since FY 2009/10. Agencies and functions measured for the past three fiscal years show a nominal spending increase of \$37.5 million since FY 2009/10 (1.9 percent). When adjusted for inflation, there is a \$55.1 million (or 3.5 percent) reduction.

From a functional perspective, nominal spending increases are mainly driven by rising ICT expenditure. The overall \$37.5 million nominal net increase in A&S services since FY 2009/10 is based on a \$13.4 million spending reduction in HR, Finance, and Procurement and a \$50.8 million spending increase in ICT and Corporate & Executive services. Of the reported \$50.8 million spending increase, \$43.2 million (85%) is attributable to the ICT function.

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

Highlights of efficiency findings

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

- Over \$110 million in A&S service spending could be saved annually by reducing variability in efficiency around the median for the Finance, HR, and Property functions alone. This amount could be saved if agencies with efficiency levels below the median in their cohort met that level of efficiency.
- Between approximately \$130 million to \$230 million could be saved annually if agencies achieved more aggressive efficiency targets for the Finance, HR, and Property functions. This amount could be saved if agencies below the upper quartile in their cohort met that level of efficiency or if agencies met international benchmarks.

These efficiency findings are not surprising for two reasons:

- There is limited delivery of cross-agency back office transformation on the scale required to align with leading practice.

- Office rental accommodation savings have high potential (estimated at \$61 to \$108 million annually) but take time to realise given the length of leases.

Although the larger agencies are generally more efficient, the greatest opportunities to realise gross savings through efficiency gains are in the medium-sized and large agency cohorts. The small agency cohort is not the major source of potential gross savings because they make up only 5.2 percent (\$93.9 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 mixed results, both in terms of international comparisons and changes since FY 2009/10. HR management practice indicator (MPI) scores have increased since FY 2009/10, and the current mean score of 75.2 percent is higher than the UK Audit Agency (UKAA) cohort mean score of 60 percent.¹ However, HR effectiveness as measured by rates of sickness absence and retention of new hires in the same role after 12 months has declined since FY 2009/10, and agency results show lower effectiveness than international benchmarks. These findings, together with lower reported efficiency levels for HR since FY 2009/10, highlight the importance of cross-agency transformation programmes like Optimise HR.

Finance management practices show opportunities for improvement. This report introduces a Finance Management Capability Maturity Model (CMM) to reflect strong stakeholder interest in clearer assessments of current capability and changes over time. Results this year show that agencies aspire to make significant improvement to the effectiveness of this function, highlighting the importance of cross-agency financial management transformation programmes like Optimise Finance.

ICT departments are effective at supporting systems. 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.

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

¹ Management Practice Indicators (MPI) are adopted from the UK Audit Agencies A&S service performance measurement methodology. With 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.”

Procurement effectiveness results are mixed compared with previous years, and there is still room for improvement. The percentage of 'commodity' Procurement spend channelled through syndicated Procurement arrangements increased to 10 percent but remains below the UKAA cohort median of 18 percent. Actual spend against pre-established contract arrangements as a percentage of the total purchase value has increased slightly to 80 percent and is above international benchmarks. A newly introduced CMM for procurement this year shows that, overall, procurement practices lag leading practice, and agencies have aspirations to improve.

The reported level of Property and CES function maturity is stable since FY 2009/10. The mean Property MPI of 80 percent has increased by 3 percent and the Communications MPI of 85 percent has stayed the same. The Legal Services score cannot be accurately compared over time because of methodology changes this year.

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 Common ICT Capability work programme
- The Procurement Reform Programme
- The Property Management Centre of Expertise
- The Government Legal Services programme
- Optimise Finance and Optimise HR programmes
- Individual agency improvement initiatives

The Treasury works with practitioners each year to improve indicators and data quality. The focus of improvement efforts next year will be to get a better understanding of the capability of HR, the strategic contribution of ICT, and whether or not we are adopting procurement practices that can maximise the value of our third party spend.

The Treasury continues to share data and methods with other jurisdictions. Management information is widely and increasingly recognised as fundamental to meeting the expectations of Ministers and the public regarding the transparency of costs and ongoing improvement in public service management, efficiency, and effectiveness. This year, methods were shared with regional councils, seven of which implemented the BASS methodology for two reporting periods. Methods were also shared with Australian jurisdictions.

Introduction

Background

This is the third 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.² Measurement agencies are a mix of larger departments and Crown Entities. The first report was published in April 2011, the second in March 2012. This third report has the same metrics as the previous reports to enable time series analysis.

Findings are based on data from three reporting periods (financial years 2009/10, 2010/11, and 2011/12), and results cover six A&S service functions across 29 agencies. Functions include Human Resources (HR); Finance; Information and Communications Technology (ICT); Procurement; Property Management; and Corporate and Executive Services (CES).

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 and 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.

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 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 Property function, \$60 million could be saved if agencies met a target of 16m² per full time equivalent (FTE) and the surplus accommodation was sub-let or released back into the market. Over \$116 million could be saved if agencies met a target of 12m² per FTE. 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.

² 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.

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.

Scope of the report

Twenty-nine agencies participated in the FY 2011/12 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 2009/10, FY 2010/11 and FY2011/12, and Appendix 3 has information on the scope of each benchmarking study. While some information is available for FY 2008/09 from a pilot measurement exercise, it is not used in this report because the limited number of agencies that participated in the pilot, and changes to metrics and definitions limit the value of the time series analysis.

Results cover six 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; Property Management; and Corporate and Executive Services (CES). The latter includes but is not limited to Legal Services, Communications, and Information Management. Metric definitions for each function are in Appendix 4.

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

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

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

Measurement and benchmarking approach

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

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

Work with agencies is guided by five principles:

- 1. Metrics are selected with practitioners across government.** Selection is based on three criteria:
 - Metrics reflect performance – they provide meaningful management information that can support business decisions.
 - Results can be compared – they are comparable across NZ agencies and comparator groups.
 - Data is accessible within agencies – the measurement costs are reasonable.
- 2. Methods and results are transparent.** The Treasury makes its metric calculation methods and underlying definitions publicly available along with the results of individual measurement agencies to promote transparency, facilitate discussion and debate, and to support collaboration with other jurisdictions undertaking similar exercises.
- 3. Performance results should be understood within the operational context of each agency.** While agencies have common features and results are broadly comparable, some agencies have unique functions and cost drivers. For example, large service delivery agencies are expected to have higher ICT costs than smaller policy agencies, especially if they have more expensive requirements such as specialised line-of-business applications or a distributed network. Benchmarking results are a guide to relative performance, and conclusions regarding efficiency and effectiveness should be made in light of each agency's operational context.
- 4. Results should be used constructively, not punitively.** In leading practice organisations, performance information supports discussion, decision making, and learning.

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

Quality of management information

Measurement practice was consistent across agencies and international comparator groups.

Agencies used common definitions and data collection practices, and these definitions and practices are aligned with those used by three main sources of comparator data: UKAA, APQC, and The Hackett Group. This consistency is foundational to the comparability of results and usefulness of management information.

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

- **Introduction of Capability Maturity Models (CMMs):** this year's BASS report features CMMs for the Finance and Procurement functions. This measure allows agencies to assess key components of capability on a multi-point scale, set priorities and targets for improvement, and identify and learn from leaders. It replaces the Management Practice Indicators (MPIs) for these functions. Practitioners have indicated interest in also using CMMs for ICT, HR, Communications, Legal Services, and Enterprise Portfolio Management Offices (EPMOs)
- **Alignment with other measurement exercises and methods across government:** the Procurement CMM is the same used by the Procurement Reform Programme in the Ministry of Business, Innovation, and Employment. Data collected for the Property function is aligned with the Property Management Centre of Expertise (PMCoE) in the Ministry for Social Development. BASS definitions are also aligned with common performance indicators being trialled across agencies for the policy function and for transactional service delivery to the public.
- **Measuring by Service Towers for ICT:** this change provides more useable management information for decision making because it organises cost information around how ICT services are delivered. This method was piloted for this report with larger agencies and will be implemented across all agencies for next year's report.
- **Measuring Enterprise Portfolio Management Offices (EPMOs) as part of the CES function:** measuring EPMOs is important to understanding agency capability for investment decision-making and strategy execution. This year's report features EPMO costs, and practitioners may pilot a CMM as part of next year's benchmarking exercise.

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

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

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

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

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

Overview of findings

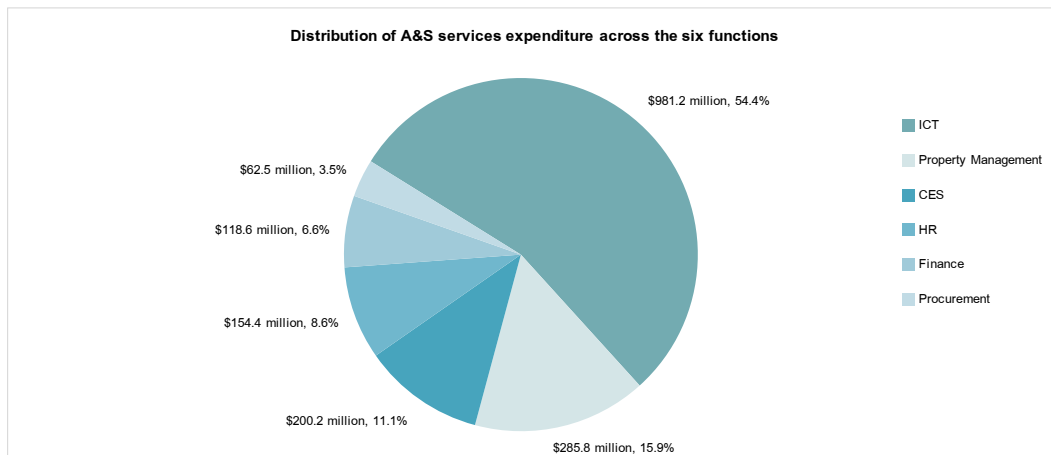
Findings

Highlights of cost findings

Cost findings include total spending overall and by cohort.³ They also provide information regarding changes in spending since the previous reporting period both in nominal and inflation-adjusted terms.

Agencies spent nearly \$2 billion on A&S services in FY 2011/12. The 29 measured agencies spent \$1.803 billion in FY 2011/12, with ICT making up the bulk of expenditure. Figure 1 shows the distribution of spend across the six A&S service functions for FY 2011/12.

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

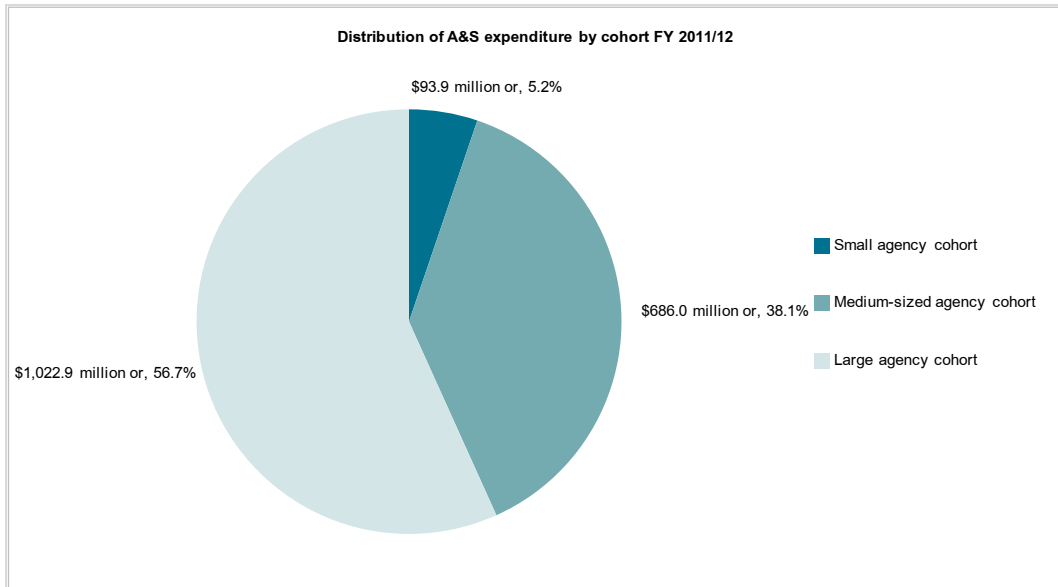


This figure shows that ICT at \$981.2 million is 54.4% of A&S service expenditure; Property Management at \$285.8 is 15.9%; CES at \$200.2 million is 11.1%; HR at \$154.4 million is 8.6%; Finance at \$118.6 million is 6.6%; and reported procurement spending of \$62.5 million is 3.5%.

The medium-sized and large agency cohorts make up almost 95 percent of A&S service expenditure. Figure 2 shows the proportion of A&S expenditure by cohort.

³ The 29 agencies that participated in this exercise have, for the purposes of comparison, been organised into four cohorts – 'NZ full cohort' refers to all 29 agencies; 'small agency cohort' refers to agencies with <500 FTEs and/or organisational running costs (ORC) of <\$95 million; 'medium-sized agency cohort' refers to agencies with 500 to 2,500 FTEs and/or ORC of \$95 million to \$300 million; and 'large agency cohort' refers to agencies with >2,500 FTEs and/or ORC of >\$300 million.

Figure 2 | Distribution of A&S expenditure by cohort



The small agency cohort spending of \$93.9 million is 5.2 percent of A&S spending; medium-sized agency cohort spending of \$686.0 million is 38.1 percent; and large agency cohort spending of \$1,022.9 million is 56.7 percent.

Overall, A&S service expenditure has been flat since FY 2Y 2009/10. Agencies measured in all three fiscal years reported a nominal spending increase of \$37.5 million since FY 2009/10 (2.5 percent)⁴. When adjusted for inflation, the \$1.474 billion spent on A&S services in FY 2009/10 is \$1.567 billion in FY 2011/12 dollars, representing a \$55.1 million (or 3.5 percent) reduction over the last two financial years.⁵ Changes in costs both nominally and when adjusted for inflation are shown in Figure 3.

Figure 3 | Nominal and inflation-adjusted changes in A&S service expenditure since FY 2009/10

Function	Expenditure					Changes in nominal expenditure (FY 2009/10 to FY 2011/12)		Changes in expenditure when adjusted for inflation (FY 2009/10 to FY 2011/12)	
	FY 2009/10 nominal expenditure	FY 2009/10 expenditure in FY 2011/12 dollars	FY 2010/11 nominal expenditure	FY 2010/11 expenditure in FY 2011/12 dollars	FY 2011/12 expenditure	Dollar change	Percentage change	Dollar change	Percentage change
	\$m	\$m	\$m	\$m	\$m	\$m	%	\$m	%
ICT	938.0	996.9	945.1	954.0	981.2	43.2 ↑	3.8% ↑	(15.7) ↓	(1.6%) ↓
HR	162.3	172.5	156.2	157.7	154.4	(7.9) ↓	(1.1%) ↓	(18.0) ↓	(10.5%) ↓
Finance	123.6	131.3	121.8	123.0	118.6	(5.0) ↓	(2.7%) ↓	(12.8) ↓	(9.7%) ↓
CES	187.3	199.0	189.9	191.7	194.9	7.6 ↑	2.6% ↑	(4.1) ↓	(2.1%) ↓
Procurement	63.1	67.0	70.3	71.0	62.5	(0.5) ↓	(11.1%) ↓	(4.5) ↓	(6.7%) ↓
All functions	1,474.2	1,566.7	1,483.3	1,497.4	1,511.7	37.5 ↑	1.9% ↑	(55.1) ↓	(3.5%) ↓

⁴ These figures do not include property as a 3-year time series is not available for this function due to changes in property definitions from the PMCOE at MSD. Over the two years of information available for property, costs are also flat. Costs for Enterprise Portfolio Management Office (EPMO), part of the CES function, have been removed from these calculations to allow comparison with previous reporting periods.

⁵ Inflation adjustment based on the annual average percent change of the CPI Index for year end June 2010 to year end June 2012, excluding the Goods and Services Tax (GST) increase.

From a functional perspective, nominal spending increases are mainly driven by rising ICT expenditure. The overall \$37.5 million nominal net increase in A&S services since FY 2009/10 is based on a \$13.4 million spending decrease in HR, Finance, and Procurement and a \$50.8 million spending increase in ICT and Corporate & Executive services. Of the reported \$50.8 million spending increase, \$43.2 million (85%) is attributable to the ICT function.

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

Highlights of efficiency findings

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

A&S service spending could be reduced by over \$110 million annually for the 29 agencies measured in FY 2011/12 by reducing variability in agency efficiency across three functions. Figure 4 illustrates gross savings if all agencies with efficiency below their cohort median met that level of efficiency for HR and Finance, and if all agencies below a Property target of 16m² per FTE met that target.⁶

Figure 4 | Scenario for saving \$110 million with illustrative efficiency targets

Function	Reported annual cost	Selected efficiency metric	Efficiency target			Total potential gross saving (p.a.)
			Small agency cohort	Medium-sized agency cohort	Large agency cohort	
Property	\$285.8m	m ² per FTE	16m ²	16m ²	16m ²	\$60.8m
HR	\$154.4m	Cost of HR per employee	\$3964	\$2558	\$1431	\$39.8m
Finance	\$118.6m	Cost of Finance as a % of ORC	1.45%	1.24%	0.78%	\$9.7m
TOTALS	\$558.8m					110.3m

A&S service spending across three functions could be reduced by between approximately \$130 million to \$230 million annually by achieving upper quartile performance in each cohort or international benchmarks for efficiency. Figure 5 below illustrates gross savings if all agencies with efficiency below their cohort upper quartile met that level of efficiency for HR and Finance, and if all agencies met a Property target of either 16m² per FTE or 12m² per FTE.

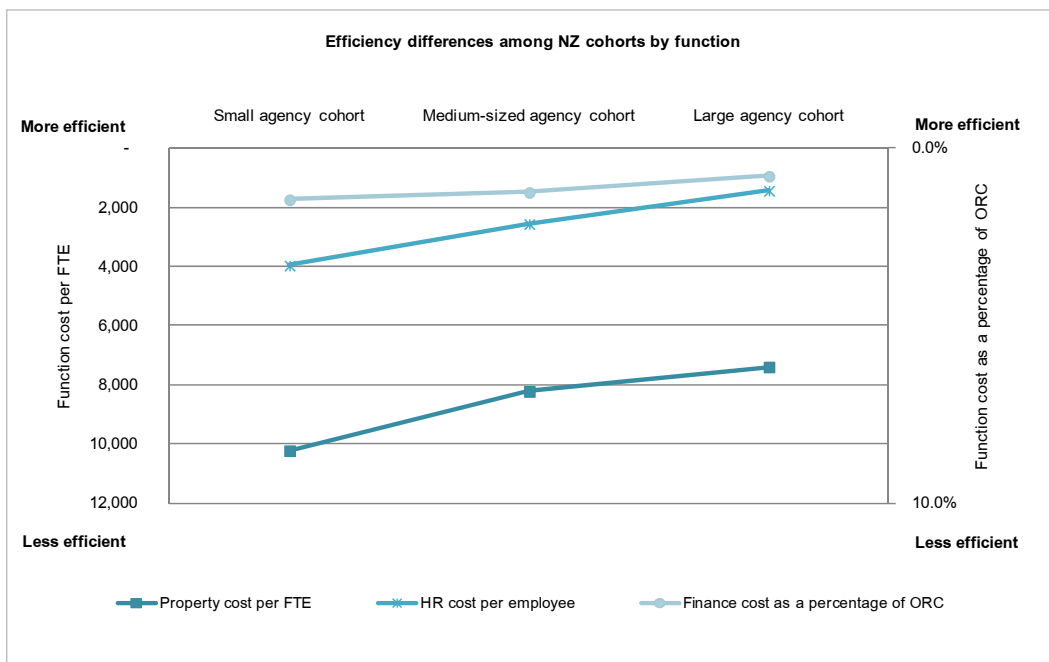
⁶ This savings scenario is based on the Finance, HR and Property functions, which have robust efficiency data. Efficiency data quality is not as strong for ICT, CES and Procurement, so these functions are not included in savings scenarios.

Figure 5 | Scenarios for saving \$130.7 million to \$230.6 million with illustrative efficiency targets

Function	Reported annual cost	Key efficiency metric	Efficiency target	Total potential gross saving (p.a.)
Property	\$285.8m	m ² per FTE	PMCoE targets 16m ² (conservative) or 12m ² (aggressive)	\$60.8m – \$116.0m
HR	\$154.4m	Cost of HR per employee	Upper quartile for each NZ cohort (\$1,329, \$2,005, and \$3,020) or APQC similar industries top performer benchmark (\$1001)	\$49.2m – \$81.3m
Finance	\$118.6m	Cost of Finance as a % of ORC	Upper quartile for each NZ cohort (1.22%, 0.81%, and 0.71%) or APQC similar industries top performer benchmark (0.62%)	\$20.7m – \$33.3m
TOTALS	\$558.8m			\$130.7m – \$230.6m

Overall, the large agency cohort is significantly more efficient than the small and medium-sized agency cohorts. For example, as shown in Figure 6 below, which shows efficiency differences among the cohorts by function, the Property function is more efficient for the large agency cohort (\$7,394 per FTE) than it is for medium-sized (\$8,222 per FTE) and small agency (\$10,224 per FTE) cohorts.

Figure 6 | Efficiency differences among NZ cohorts by function

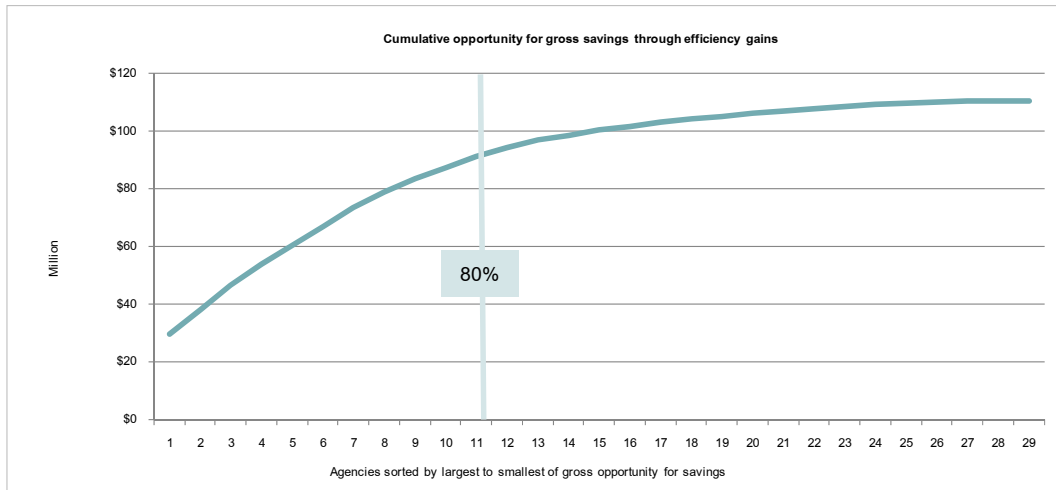


This finding shows the impact of fixed costs and suggests opportunities to improve efficiency by leveraging scale.

Although the larger agencies are generally more efficient, the greatest opportunities to realise gross savings through efficiency gains are in the medium-sized and large agency cohorts. Although the small agency cohort is the least efficient overall, agencies in that cohort are not the major source of gross savings because they make up only 5.2 percent (\$93.9 million) of A&S service

expenditure. Figure 7 shows the cumulative gross savings possible through efficiency improvements for the Property, 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 \$110 million would be realised by moving the 11 large and medium-sized agencies not performing at illustrative targets to those targets. By contrast, moving the entire small agency cohort to those targets would only realise six percent of potential gross savings. The illustrative targets for this \$110 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 2012/13, and some improvements may be realised by initiatives already underway within agencies or cross-agency improvement programmes. These programmes include:

- The Common ICT Capability work programme
- The Procurement Reform Programme
- The Property Management Centre of Expertise
- The Government Legal Services programme
- Optimise Finance and Optimise HR programmes
- Individual agency improvement initiatives

Highlights of effectiveness findings

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

HR effectiveness indicators show mixed results, both in terms of international comparisons and changes since FY 2009/10. HR management practice indicator (MPI) scores have increased since FY 2009/10, and the current mean score of 75.2 percent is higher than the UK Audit Agency (UKAA) cohort mean score of 60 percent.⁷ However, HR effectiveness as measured by rates of sickness absence and retention of new hires in the same role after 12 months has declined since FY 2009/10, and agency results show lower effectiveness than international benchmarks. These findings, together with lower reported efficiency levels for HR since FY 2009/10, highlight the importance of cross-agency transformation programmes like Optimise HR.

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

Key effectiveness metrics for HR function	FY 2009/10 (NZ full cohort)	FY 2011/12 (NZ full cohort)	Increase/Reduction/No change	International benchmark
HR MPI (where a higher score is considered more effective)	71.3% (mean)	75.2% (mean)	3.9% ↑	60% (UKAA full cohort mean)
Sick days per employee (where a lower number is considered more effective)	7.4 days (median)	7.9 days (median)	0.5 days ↑	5 days (APQC full cohort median)
Retention of new hires in the same role after 12 months (where a higher percent is considered more effective)	84.9% (median)	75.5% (median)	9.4% ↓	92% (APQC full cohort median)

A closer examination of the MPI score shows opportunities for the HR function to play a more strategic role in agencies: only 62 percent reported having a statement that anticipates workforce needs for the next three years. While this finding is up from 55 percent in FY 2010/11, limited talent management strategies across government may hamper agencies’ ability to attract and retain the skills needed to drive overall agency performance.

Finance management practices show opportunities for improvement. This report introduces a Finance Management Capability Maturity Model (CMM) to reflect strong stakeholder interest in clearer assessments of current capability and changes over time. Results this year show that agencies aspire

⁷ Management Practice Indicators (MPI) are adopted from the UK Audit Agencies A&S service performance measurement methodology. With 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.”

to make significant improvement to the effectiveness of this function, highlighting the importance of cross-agency financial management transformation programmes like Optimise Finance.

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

ICT departments are effective at supporting systems. 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.

Figure 10 | Summary of ICT effectiveness metric result changes over time

Key effectiveness metrics for ICT function	FY 2009/10 (NZ full cohort)	FY 2011/12 (NZ full cohort)	Increase/ Reduction/ No change	International benchmark	
Average time to resolve a service commitment (where less time is considered more effective)	1.55 hours (median)	1.04 hour (median)	0.51 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)	55% (mean)	75% (mean)	20% ↑	70% (UKAA full cohort mean)	
System reliability (where a higher percent is considered more effective)	99.9% (median)	99.8% (median)	0.1% ↓	Not available	

We need a better understanding of how well ICT departments support overall agency performance. ICT has the potential to modernise service delivery and make a strong contribution to agency strategies for achieving “better for less.” The Treasury will work with the GCIO to determine how to measure the strategic contribution of ICT departments – not just their effectiveness at supporting systems. Measurement of this sort for the ICT function is a challenge globally and will take considerable practitioner input and trial and error in future benchmarking exercises. The GCIO has agreed to work with Treasury to develop more meaningful indicators of the capability and business contribution of the ICT function.

Procurement effectiveness results are mixed compared with previous years and show room for improvement. The percentage of ‘commodity’ Procurement spend channelled through syndicated Procurement arrangements increased to 10 percent, though is below the UKAA cohort median of 18 percent. Actual spend against pre-established contract arrangements as a percentage of the total purchase value has increased slightly to 80 percent and is above international benchmarks.

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

Key effectiveness metrics for Procurement function	FY 2009/10 (NZ full cohort)	FY 2011/12 (NZ full cohort)	Increase/ Reduction/ No change	International benchmark
Percentage of 'commodity' Procurement spend channelled through syndicated Procurement arrangements (where a higher percent is considered more effective)	2% (median)	10% (median)	8% ↑	18% (UKAA full cohort median)
Actual spend against pre-established contract arrangements as a % of the total purchase value (where a higher percent is considered more effective)	76% (median)	80% (median)	4% ↑	69% (APQC similar cohort median) 80% (UKAA full cohort median)

A newly introduced CMM for procurement this year shows that agencies lag leading practice and have aspirations to improve. Agencies rated two areas as the highest priority for capability development:

1. Alignment with policy and process
2. Governance and organisation of the procurement function

Agencies reported a higher level of Property function maturity from last year. The mean Property MPI of 80 percent is up from 77 percent in FY 2009/10. A closer look at the MPI results shows opportunities for this function to focus of value for money. Only 24 percent of agencies reported having Property management functions that manage the value for money of assets by challenging, managing, benchmarking and monitoring targets for improvement or using asset management performance indicators to track performance.

Figure 12 | Summary of Property effectiveness metric result changes over time

Key effectiveness metric for Property function	FY 2009/10 (NZ full cohort)	FY 2011/12 (NZ full cohort)	Increase/ Reduction/ No change	International benchmark
Property MPI (where higher score is considered more effective)	77% (mean)	80% (mean)	3% ↑	83% (UKAA full cohort mean)

Agencies reported little change in CES function maturity since FY 2009/10. The MPI score for Communications (85 percent) has stayed the same. The Legal Services score has reduced to 68 percent, though this can be partially attributed to a change in measurement methodology.

Figure 13 | Summary of CES effectiveness metric results

Key effectiveness metrics for CES function	FY 2009/10 (NZ full cohort)	FY 2011/12 (NZ full cohort)	Increase/ Reduction/ No change	International benchmark
Communications MPI (where a higher score is considered more effective)	85% (mean)	85% (mean)	No change	Not available
Legal MPI (where a higher score is considered more effective)	71% (mean)	68% (mean)	3% ↓	Not available

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. The Treasury is working with agencies to introduce CMM measures for both the Communications and Legal functions for next year's BASS report.

Human Resources

Commentary

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

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

Research indicates that high performing organisations have substantially better talent management practices than poor performing ones.⁸ 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.⁹ New central agency requirements for workforce plans to accompany Four Year Budget Plans reflects the need for people strategies that underpin long term plans.

Too often, strategic HR activities like talent management are displaced by transactional HR activities. Cumbersome routine processes and low levels of automation give HR staff limited time for HR business partnering, or activities that support and challenge line managers to execute the agency’s people strategy. In some cases, HR staff lack not only the time, but also the capability, to partner with the business.

BASS results this year show the need for transformational change in HR services. We should celebrate our successes as an HR community: HR service costs are lower and practices are reported to be more mature than in any other BASS reporting period. But we should also be clear about our performance gaps. We are not efficient by international standards, and we need to deliver more value to our agencies through business partnering. 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.

⁸ 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 15 March 2013).

⁹ PricewaterhouseCoopers. (2012). 15th Annual Global CEO Survey. Delivering results: Growth and value in a volatile world. Retrieved from <http://www.pwc.com/gx/en/ceo-survey/index.jhtml> (accessed 15 March 2013).

Seven agencies are working together in the Optimise HR project to establish better, more effective HR services that make a stronger contribution to overall agency performance. Analysis to date of leading practice HR service delivery models shows that we can reduce costs out of our transactional HR activities, reinvest savings in strategic HR services, and realise savings. Working across agencies to leverage knowledge and scale, streamlining and automating processes, and building people capability are fundamental to the success of this programme.

The Optimise HR transformation is based on a shared model for future HR services. Scoping of such a model is being explored through Optimise HR and complementary programmes like MBIE's all-of government contract for recruitment.

Figure 14 | Future state vision for the Optimise HR programme



More than ever before, agencies are working together to improve HR services. I encourage the agencies in this report to use their results not only as a basis for their own improvement, but also as a way to identify opportunities to collaborate with other agencies.

Summary of findings

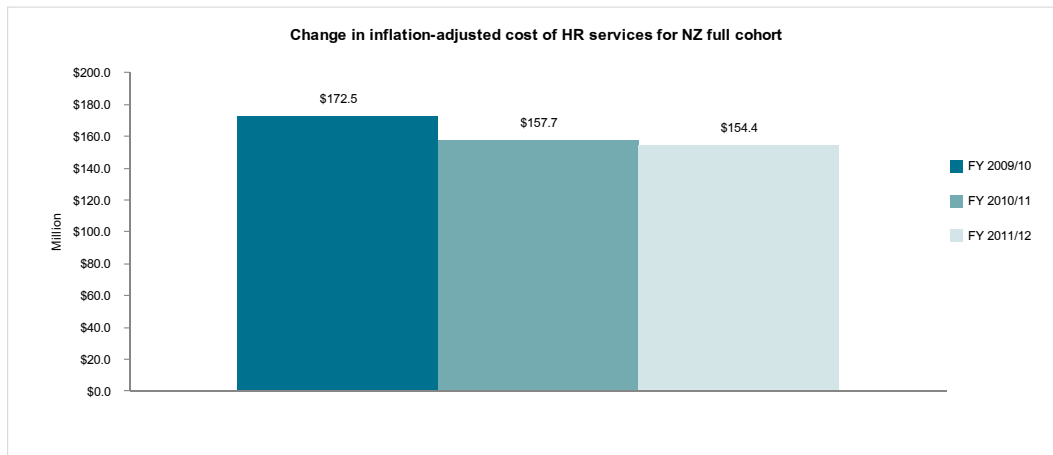
Detailed findings and data are not provided in this report. Detailed findings and data for FY 2011/12 are located on the Treasury website via the following documents:

- HR performance findings FY 2011/12:
<http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2011-12>
- FY 2011/12 BASS metric results and data points:
<http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2011-12>

Highlights of findings

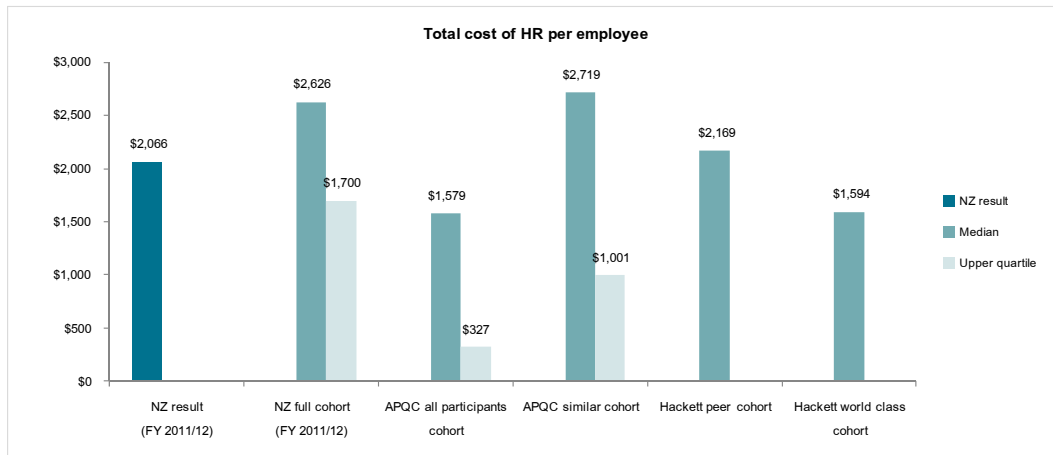
Agencies spent \$154.4m on the HR function in FY2011/12, down \$18.0m (or 11.1 percent) from FY2009/10 when adjusted for inflation.

Figure 15 | Change in inflation-adjusted cost of HR services for NZ full cohort



The cost of HR per employee is \$2066, and median efficiency shows significant room for improvement when compared with top performers.

Figure 16 | Total cost of HR per employee

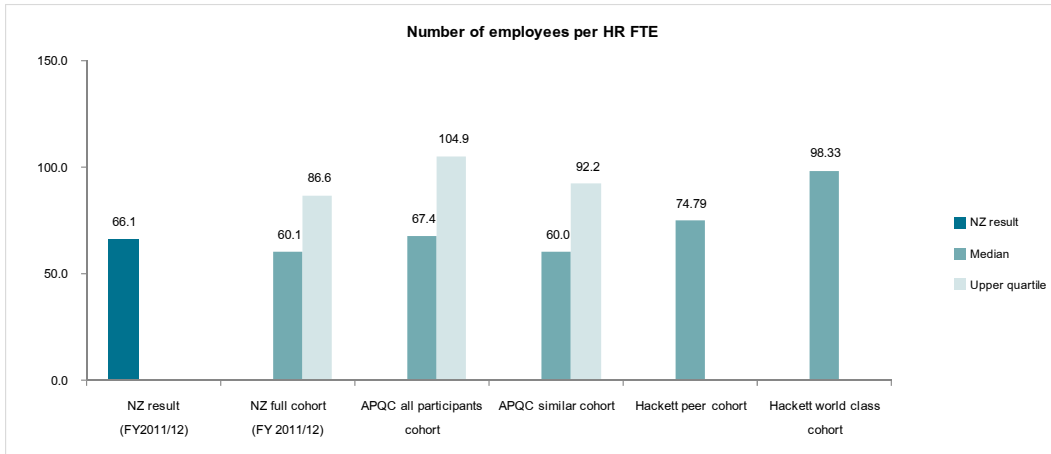


This graph shows that while the NZ result is lower than the APQC similar and Hackett peer cohorts, it is higher than APQC all participants and Hackett world class cohorts, and higher than upper quartile performers. In addition:

- At the median, the NZ full cohort (\$2,626) is 66 percent more expensive than the APQC all participants cohort (\$1,579) and 65 percent more expensive than the Hackett world class cohort (\$1,594).
- At the upper quartile, the NZ full cohort (\$1,700) is 420 percent more expensive than the APQC all participants cohort (\$327) and 70 percent more expensive than the APQC similar cohort (\$1,001).

The number of employees per HR FTE in FY 2011/12 is 66.1, showing lower efficiency than international benchmarks, especially at the upper quartile.

Figure 17 | Number of employees per HR FTE

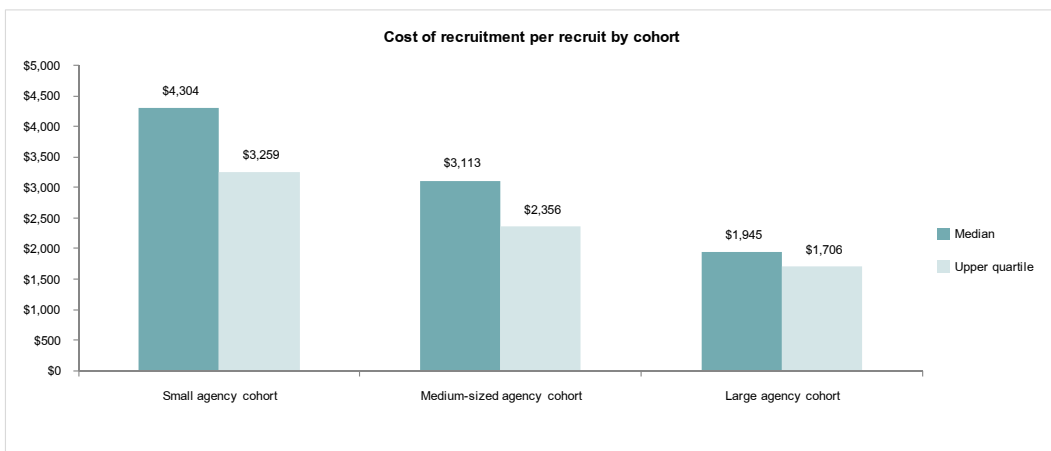


This graph shows that the NZ result is higher than the APQC similar cohort, but lower than APQC all participants, Hackett peer and world class cohorts, and all upper quartile performers. In addition:

- At the median, the NZ full cohort (60.1) is 11 percent lower than the APQC all participants cohort (67.4) and 39 percent lower than the Hackett world class cohort (98.3).
- At the upper quartile, the NZ full cohort (88.6) is 16 percent lower than the APQC all participants cohort (104.9) and 4 percent more expensive than the APQC similar cohort (92.2).

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

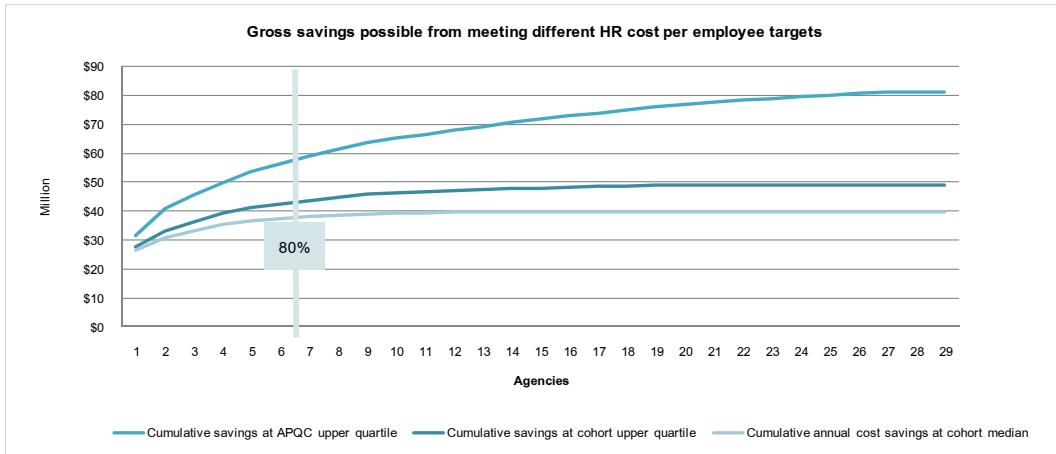
Figure 18 | Cost of recruitment per recruit by cohort



At the median, the small agency cohort costs are 121 percent higher than the large agency cohort, and at the upper quartile they are 91 percent higher.

Annual gross savings of about \$40 to \$50m are possible if agencies below median or upper quartile efficiency met those levels in their cohorts.

Figure 19 | Gross savings possible from meeting different HR cost per employee targets

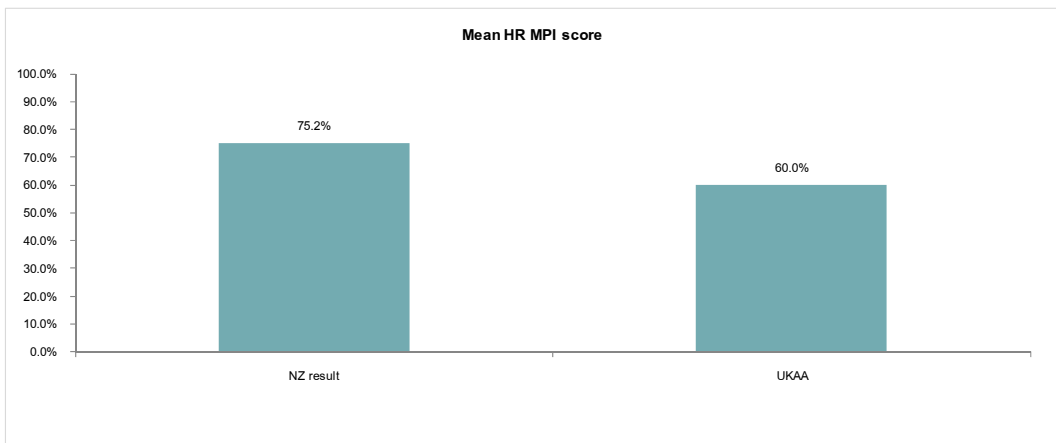


Annual gross savings of \$49.2 million are possible if agencies below upper quartile efficiency for their cohort (20 of 29 agencies) reached upper quartile efficiency.

Annual gross savings of \$39.8 million are possible if agencies below median efficiency for their cohort reached median efficiency.

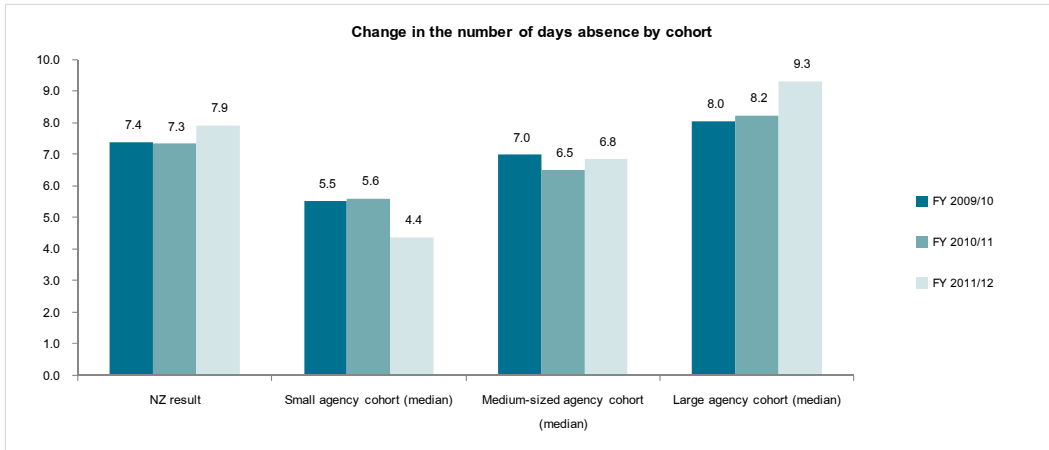
NZ agencies report a 15.2 percent higher overall MPI score than international comparators.

Figure 20 | Mean HR MPI score



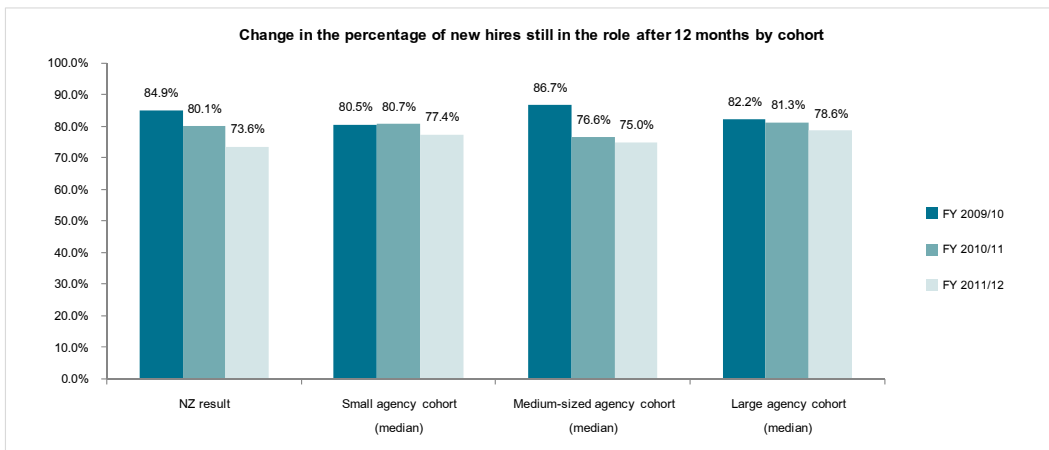
Overall, sickness absence has remained flat since FY 2009/10.

Figure 21 | Change in the number of days absence by cohort



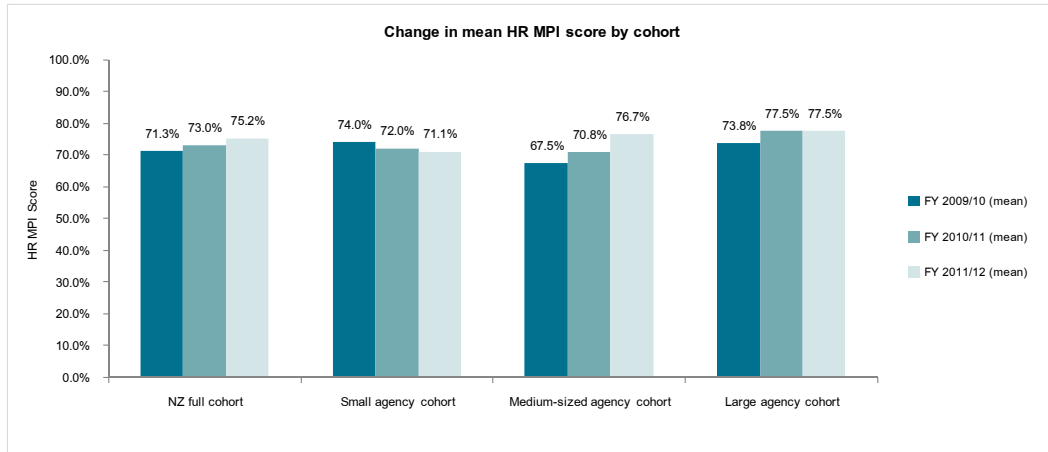
All NZ cohorts have reported reduced retention of new hires in the same role after 12 months since FY 2009/10.

Figure 22 | Change in the percentage of new hires still in the role after 12 months by cohort



Overall, MPI scores have increased since FY 2009/10, with the greatest reported gains in the medium-sized agency cohort.

Figure 23 | Change in mean HR MPI score by cohort



Quality of management information

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

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

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

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

HR practitioners are working with the Treasury to develop an HR capability maturity model (CMM) to replace the HR MPI. User feedback on the quality of BASS management information indicates low satisfaction with the UKAA-based HR MPI and strong interest in using a Hackett-Group based HR CMM in future reporting periods. A similar exercise was conducted in FY 2011/12 with CFOs for the Finance function, the results of which can be found in this year's BASS Finance chapter.

Finance

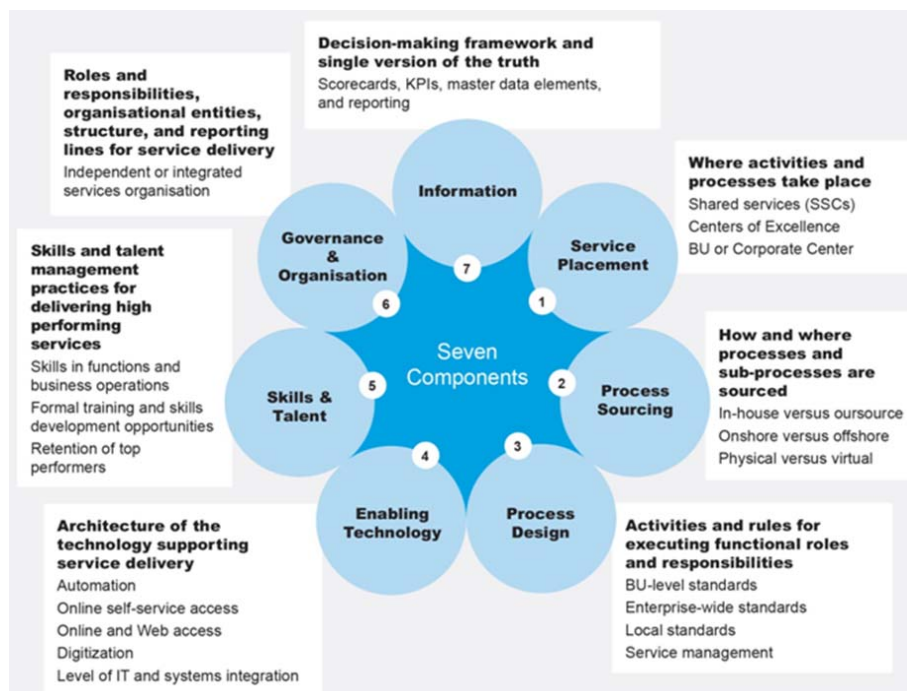
Commentary

By Fergus Welsh, Chief Financial Officer and Chief Accountant, the Treasury

More than ever before, the public sector finance community has a common understanding of its performance gaps, their root causes, and what must be done next. BASS, the recent Auditor-General's discussion paper¹⁰, and process-level benchmarking across 18 agencies have supported frank, evidence-based discussions about finance function performance and the imperatives for improvement. The three imperatives are better processes with shared technology, enhanced people capability, and stronger senior leadership demand for strategic finance.

The Optimise Finance programme will address two imperatives: better processes and enhanced people capability. In its first stage, the programme will involve a limited number of agencies exploring and providing recommendations for a new service delivery model for finance that looks at all seven components of service delivery as outlined in Figure 24. The most important change levers will be skills and talent, service placement, and process design; with the latter two focused on optimising the use of existing technology. Later programme stages will explore ways to share the model across a larger number of agencies.

Figure 24 | Components of a service delivery model¹¹



¹⁰ Controller and Auditor General, *Reviewing financial management in central government*, June 2012

¹¹ Service Delivery Model by The Hackett Group

The third imperative is to establish stronger demand for better financial management. In leading practice organisations, chief executives establish a financial management culture that emphasises cost consciousness, effective allocation, use of performance metrics, and value creation. My CFO colleagues, the Better Public Services (BPS) Advisory Group, and the Auditor General have called for stronger financial management leadership in agencies and from their Chief Executives. Central agencies have an ongoing role to play in setting expectations, accountability, and incentives for strong financial management practice across government.

This year's BASS report shows year-on-year improvements in spending since the first report in FY2009/10 and opportunities for even greater gains in the years to come. If these are through efficiencies, then public sector finance professionals have some joint achievements worth celebrating. This report shows steady incremental improvement in cost, efficiency, and effectiveness of the finance function since the first report in FY 2009/10. More importantly, we anticipate a further jump in performance through cross-agency improvement projects like Optimise Finance and the ongoing work to strengthen strategic finance across the public sector.

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

Summary of findings

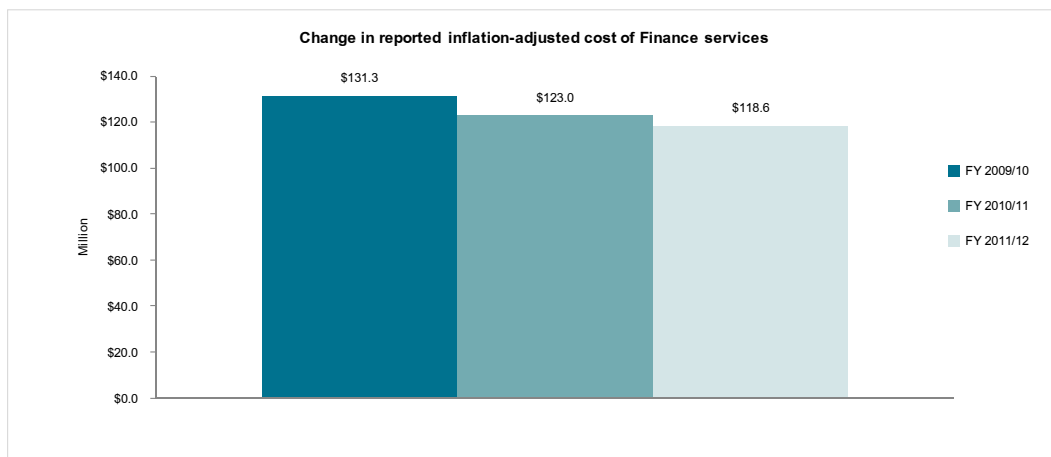
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Highlights of findings

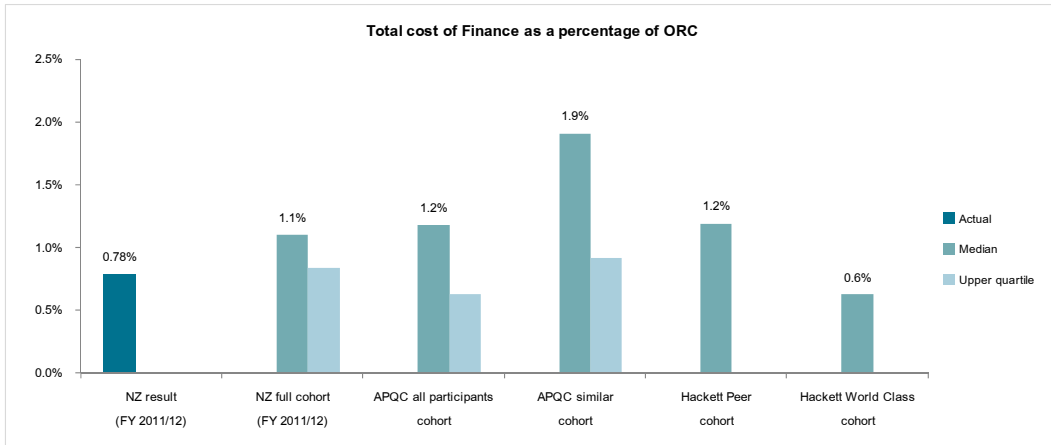
Agencies spent \$118.6m on the Finance function in FY 2011/12, down \$12.8m (or 10.3 percent) from FY 2009/10 when adjusted for inflation.

Figure 25 | Change in reported inflation-adjusted cost of Finance services



The cost of Finance as a percentage of ORC is strong against international benchmarks, but there are reasons to be cautious when assessing this comparison.

Figure 26 | Total cost of Finance as a percentage of ORC

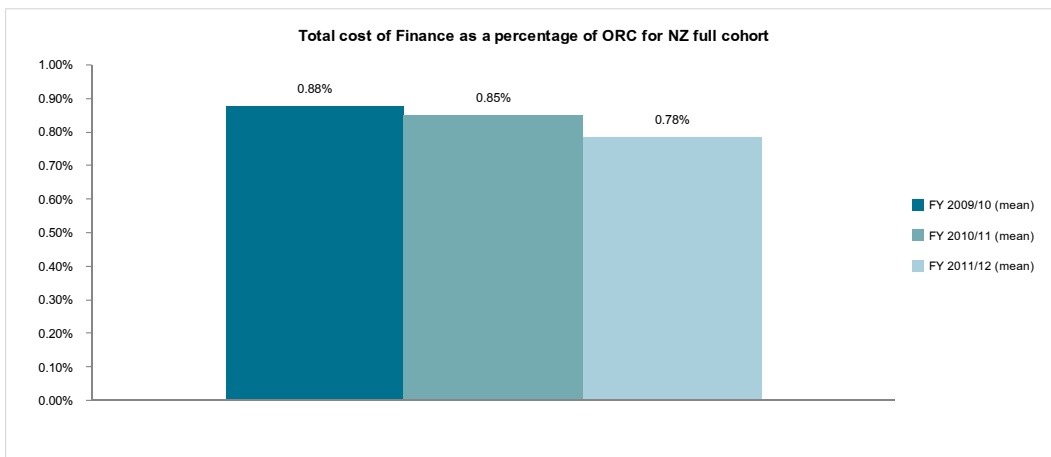


Other studies of the Finance function raise questions about the actual relative efficiency for two reasons:

- In many agencies, the strategic end of the Finance function is not being performed effectively, and these activities are being included in the costs of international comparators
- NZ remuneration for the Finance function is 40 percent lower than in the international comparator organisation countries, which has a material impact on the efficiency findings

Agencies demonstrate steady incremental efficiency improvement.

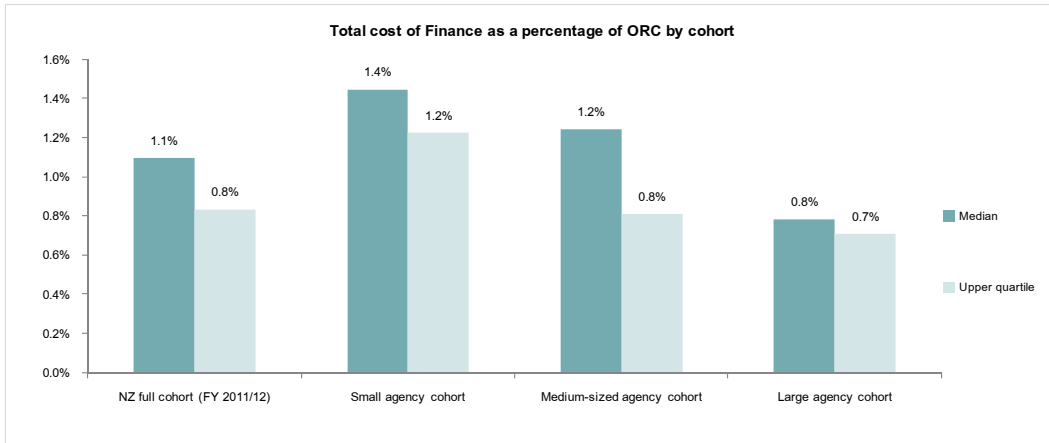
Figure 27 | Total cost of Finance as a percentage of ORC for full NZ cohort



While spending on the Finance function has reduced, the year-on-year increase in reported ORC has contributed to the reported efficiency of the Finance function. If ORC remained constant between FY 2009/10 and FY 2011/12, reported efficiency in FY 2011/12 would be 0.84 percent.

As with previous years, the small agency cohort is less efficient than the large and medium-sized agency cohorts despite year-on-year gains.

Figure 28 | Total cost of Finance as a percentage of ORC by cohort

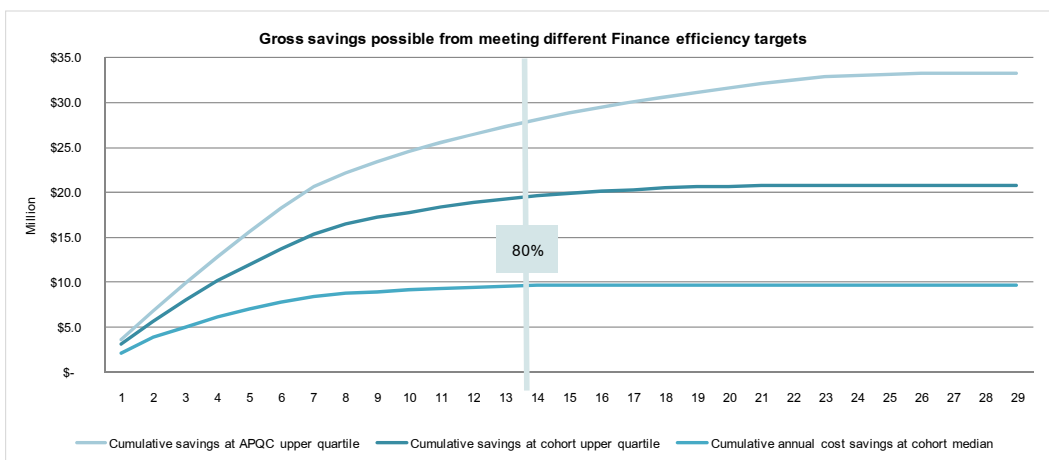


Three factors are likely to have contributed to this result:

- 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.

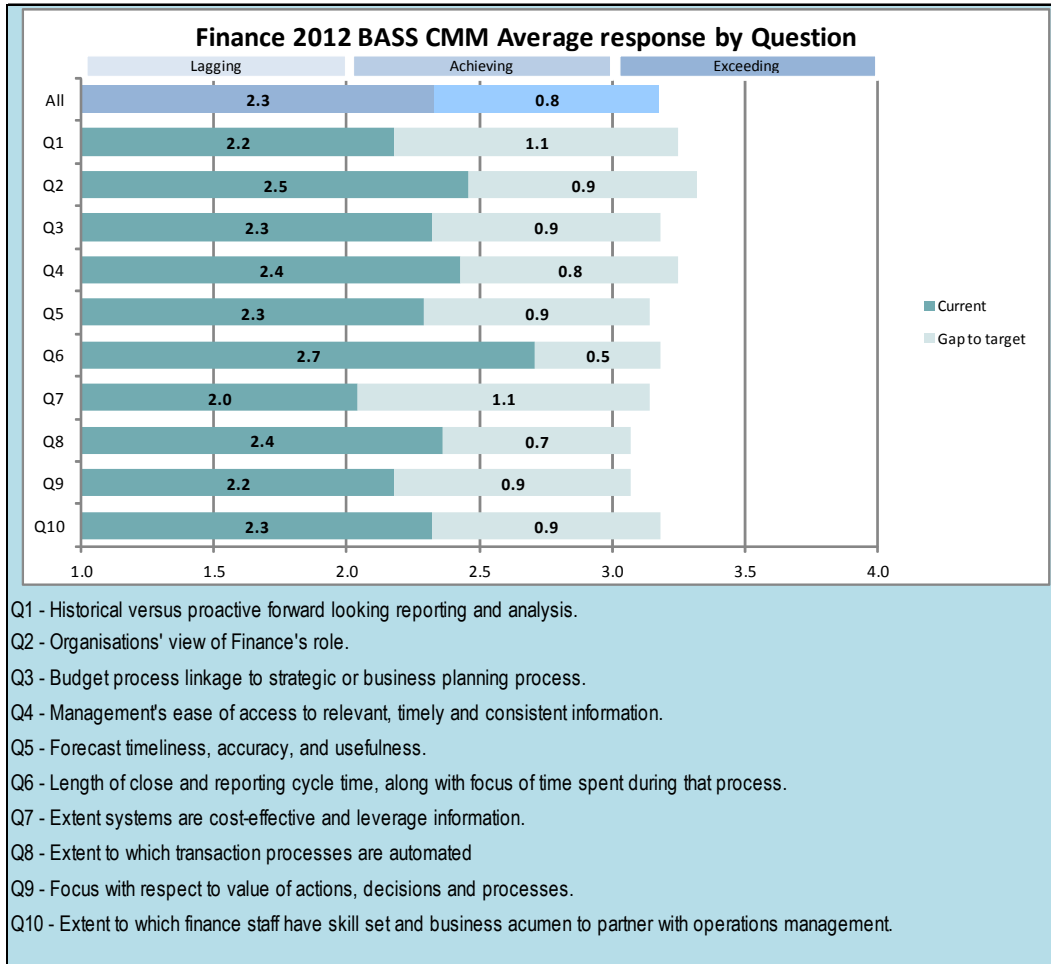
Annual gross savings of between \$9.7 and \$20.7m are possible if agencies below median or upper quartile efficiency met those levels in their cohorts.

Figure 29 | Gross savings possible from meeting different Finance efficiency targets



Overall, Finance management practices lag leading practices and agencies have aspirations to improve over the next two years.

Figure 30 | Finance 2012 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)

Quality of management information

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

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

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

Agencies have improved the consistency of reporting ORC, but there is room to improve. Treasury will be working with agencies to help them refine measurement of ORC over FY2012/13.

Improvements have been made to the effectiveness measures for FY 2011/12. The Finance MPI has been amended to the Finance Management Capability Maturity Model (CMM), moving from a straight 'yes/no' assessment to a framework that enables agencies to indicate current and future levels of maturity, their priorities and any initiatives in progress. The CMM is based on The Hackett Group's model, but given this is the first year of results, quality of data may vary due to self-assessment and self reporting. No peer review was undertaken in FY 2011/12.

The Treasury will work with agencies to look at whether peer moderation could help to improve the accuracy of reported ORC and CMM.

Information and Communications Technology

Commentary

By Stuart Wakefield, Director, Government Chief Information Officer (GCIO), Department of Internal Affairs

In line with global trends, we are spending more on ICT each year – but not that much more overall. In real (i.e. inflation adjusted) terms, we spent less on ICT in FY 2011/12 than we have in the previous three fiscal years. However, in nominal terms, we are spending more on ICT each year, and we should expect ongoing pressure to find savings in lower value ICT expenditure – especially in common service areas like infrastructure. Flat ICT spending is potentially something to be concerned about, as it may indicate deferred investment in ICT, resulting in increased risk of systems failure.

A trend of increasing ICT expenditure can be positive if it supports savings in non-ICT expenditure and creates value for the business. 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.

Government Project Portfolio information raises concerns about the quality of ICT planning and whether or not ICT spending is aligned with strategic objectives and providing business value. BASS data is backward looking, but the Government Project Portfolio data can help to inform the future landscape. Combining BASS and Government Project Portfolio data provides a greater picture of what is happening now and what is being planned.

While more capital-intensive agencies tend to demonstrate a longer-term view of their ICT plans, most agencies have a short-term horizon. Also, most agencies predict a static average annual spend over the next ten years. These observations suggest we need better insight into the longer-term strategic objectives of our agencies and what ICT investments can support the achievement of these objectives.

It is also concerning that Government Project Portfolio information relating to ICT shows little evidence of plans for building capabilities that serve more than one agency or for using non-traditional procurement, suggesting limited alignment between planned ICT expenditure and the new ways of doing business called for by Ministers.

Limited new capital means the NZ government faces greater pressure than ever before to partner with the business to demonstrate the business value of ICT investments. The Future Investment Fund is oversubscribed based on Government Project Portfolio information, and the capital intentions for Budget 2013 are twice the level of allocation made in recent years. Requests for new capital for ICT now compete for funding against all other new capital requests, presenting some challenges:

- New ICT capital funding requests will need to demonstrate alignment with government direction, an attractive cost/benefit proposition that includes transition and change costs, commitment (at least in principle) to adopt shared capabilities, and a tolerable level of risk relative to other new funding proposals.
- ICT projects can have a lower success rate than other projects, so demonstrating appropriate governance and project management will be an increasingly important factor in investment decisions.
- Although there is wide recognition that ICT has the potential to transform organisations, we should expect increasing scrutiny of our success in partnering with business units to demonstrate benefits realisation after an ICT investment has been made.

In this year's BASS report, we made progress in getting a better understanding of our ICT costs and our cost drivers. Last year, we committed to strengthening the quality of cost information by reporting both capex and opex in ICT expenditure, trialling cost measurement by service tower, and getting a better understanding of the degree to which application enhancements are driven by legislative change (versus internal demand).

These incremental improvements move us closer to global leading practice in understanding our costs and opportunities.

We want to make more improvements for next year's report. Collecting volumetric data for future reports can provide insight into where we may have low return ICT spending and opportunities to make better use of our ICT resources. Measuring the complexity of our ICT environment, the capability of ICT units in terms of services and service delivery, and the value of ICT to overall agency performance are also important insights for managing our function and making a strategic contribution to the overall performance of our agencies.

The trialling of cost measurement by service tower with 11 agencies was beneficial and so will be rolled-out to all BASS agencies for next year's BASS. Into the future, as more time-series data is acquired, the service tower approach will provide greater visibility of the system-level effects of implementing ICT functional leadership and the upcoming ICT Strategy and Action Plan.

Specifically, ICT functional leadership and the ICT Strategy and Action Plan will result in lower overall in-house infrastructure costs and in-house application development and maintenance costs. This cost reduction will result from agency adoption of common capabilities such as Infrastructure-as-a-service. In future years, BASS reports are expected to reflect agencies shifting from capital to operating

expenditure through greater adoption of 'as-a-service' common capabilities, greater sharing of capability between agencies, and agencies divesting themselves of commodity assets.

Conversely, the ICT management service tower may increase following greater investment in capabilities such as strategy and architecture, information security and assurance, information management, sourcing, and service design. This capability shift for ICT units is required to better contribute to the achievement of Better Public Services targets.

Summary of findings

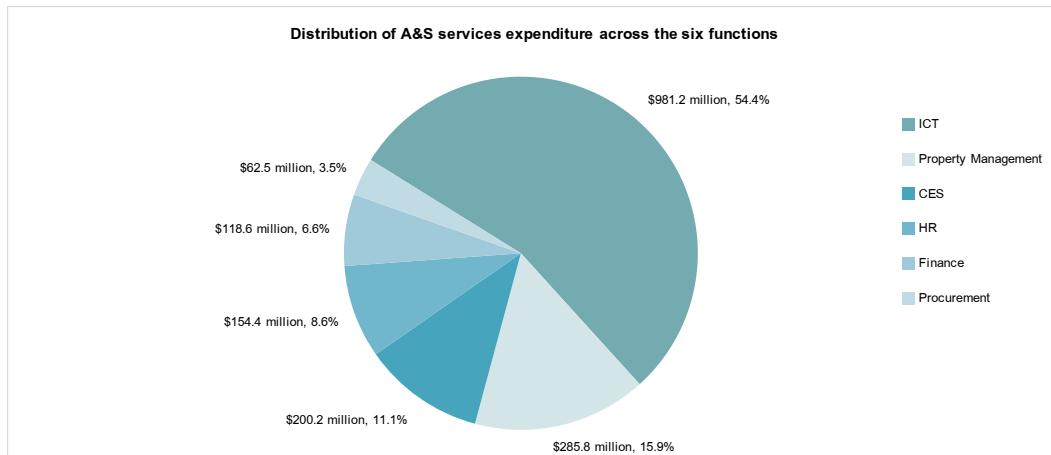
Detailed findings and data are not provided in this report. Detailed findings and data for FY 2011/12 are located on the Treasury website via the following documents:

- ICT performance findings FY 2011/12:
<http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2011-12>
- FY 2011/12 BASS metric results and data points:
<http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2011-12>

Highlights of findings

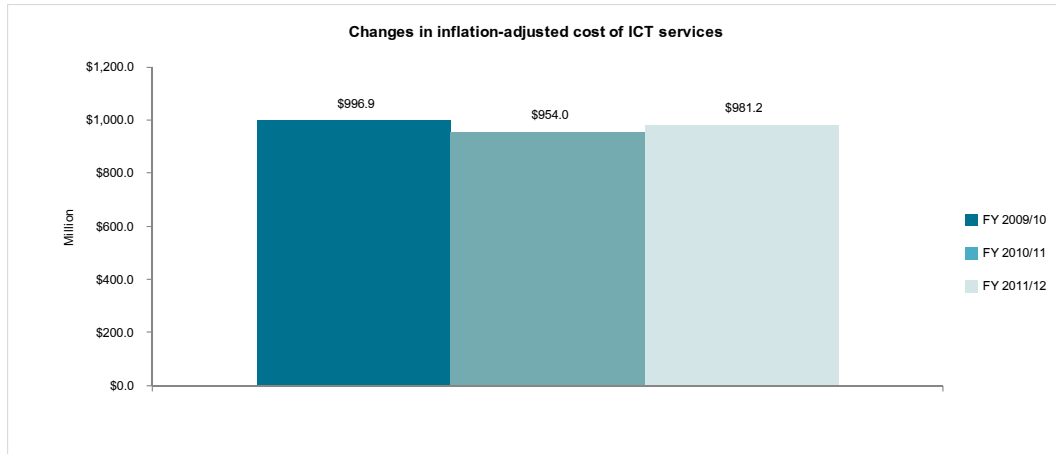
ICT expenditure of \$981.2m makes up 54.4 percent of A&S service spending, making it the largest function by reported expenditure.

Figure 31 | Distribution of A&S services expenditure across the six functions



ICT expenditure of \$981.2m is down \$15.6m (or 1.7 percent) since FY 2009/10 when adjusted for inflation.

Figure 32 | Changes in inflation-adjusted cost of ICT services



Lumpy capital expenditure (capex) drives annual changes in ICT spending. A net nominal spending increase of \$36.2 million since FY 2010/11 results from 12 agencies spending \$52.9 million less and 17 agencies spending \$89.1 million more:

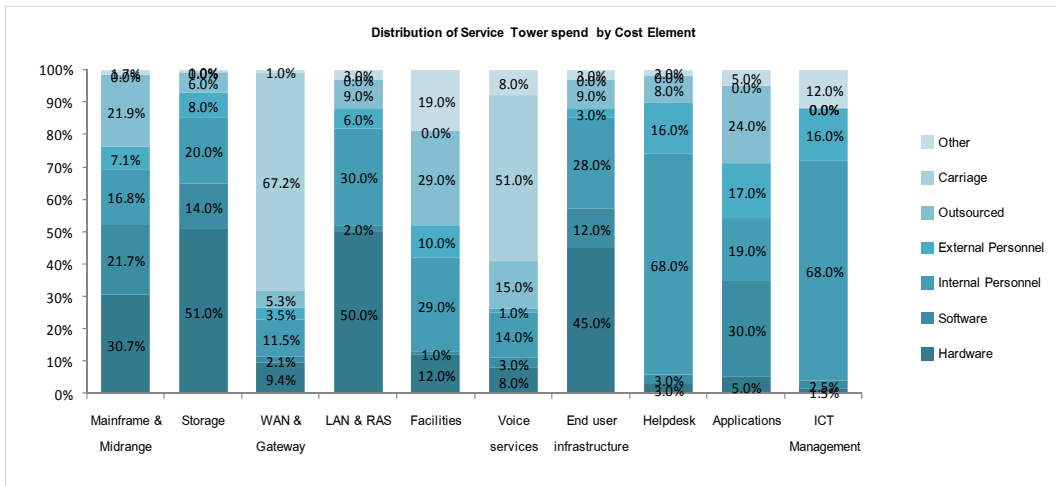
- \$43.1 million (or 81 percent) of the total reported reduction can be attributed to 4 of 12 agencies. The key reason cited for a reduction in these agencies was decreased capex.
- \$72.1 million (or 81 percent) of the total reported increase can be attributed to 6 of 17 agencies. The key reasons cited for increases in these agencies were increased capex, systems/software development, and merger-related ICT costs.

Building a time series for capex and opex in successive reporting periods will provide insight into whether ICT spending is in line with plans. Over time, it would be reasonable to expect to see the following trends:

- Agencies get better at having actual ICT expenditure match planned expenditure. This will only happen if there is increased capability, improved planning and some stability
- The uptake of Software as a Service (SaaS) and Infrastructure as a Service (IaaS) reduces expenditure on core and/or common ICT services
- The uptake of SaaS and IaaS shifts spending from capex to opex
- Better visibility over benefits from investment in ICT are being realised, and a better understanding of how they relate to overall agency outcomes – by combining BASS and Government Project Portfolio information.

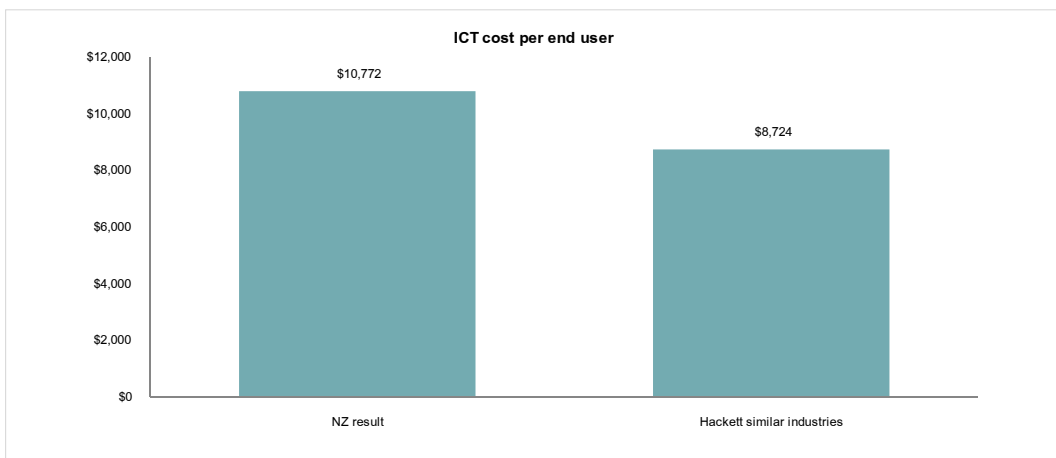
A pilot of service tower measurement established a view of common cost elements to better understand cost drivers in each tower.

Figure 33 | Distribution of Service Tower spend by Cost Element



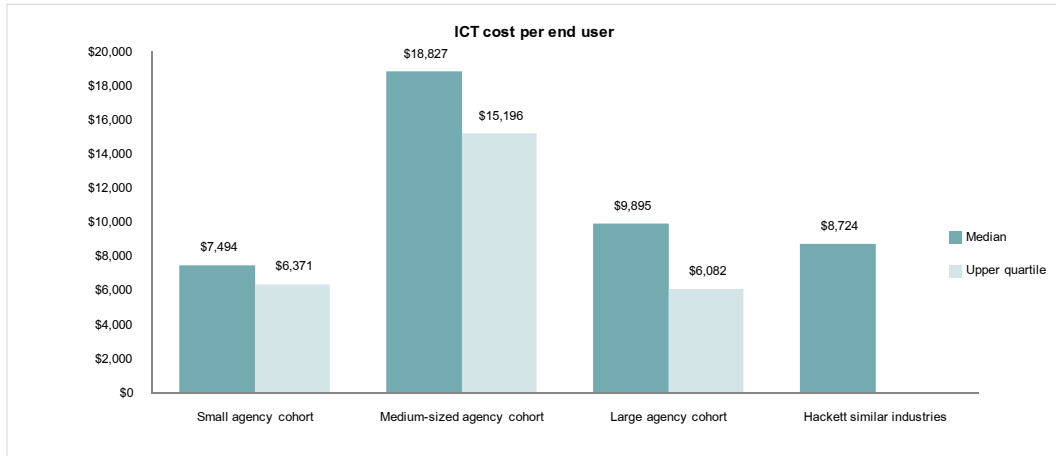
Overall, NZ agencies report a higher cost per end user than the international benchmark.

Figure 34 | ICT cost per end user



Medium-sized agency cohort agencies have significantly higher ICT costs per end user than other cohorts.

Figure 35 | ICT cost per end user

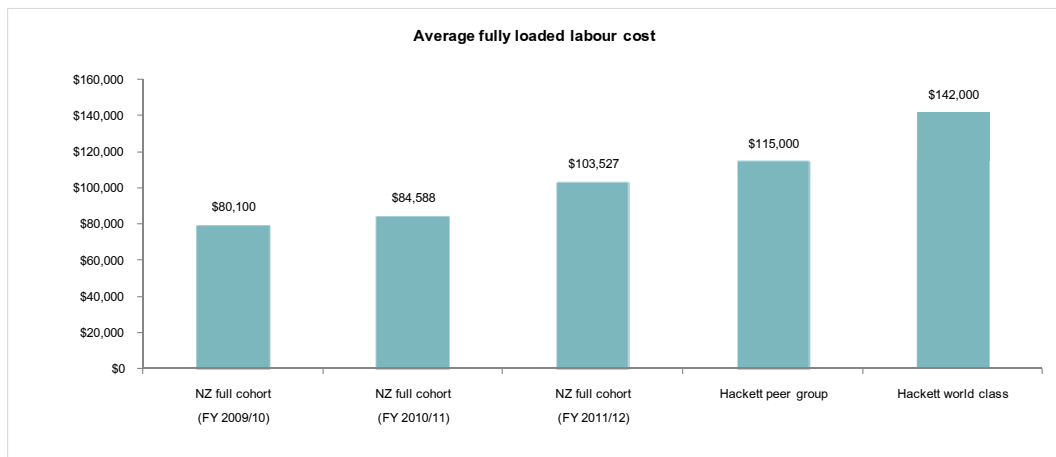


The medium-sized agency cohort (\$18,827) is 116 percent higher than the Hackett benchmark and 90 percent higher than the large agency cohort. This result is likely to be because many medium-sized agencies have relatively expensive line-of-business applications for a relatively small number of users.

This graph shows that, at the median, the small agency cohort (\$7,494) is 14 percent lower than the Hackett world similar industries benchmark (\$8,724), and the large agency cohort (\$9,895) is 3 percent higher.

The cost per ICT FTE has risen by 29 percent since FY 2009/10, which warrants further investigation as labour is 30 percent of ICT expenditure.

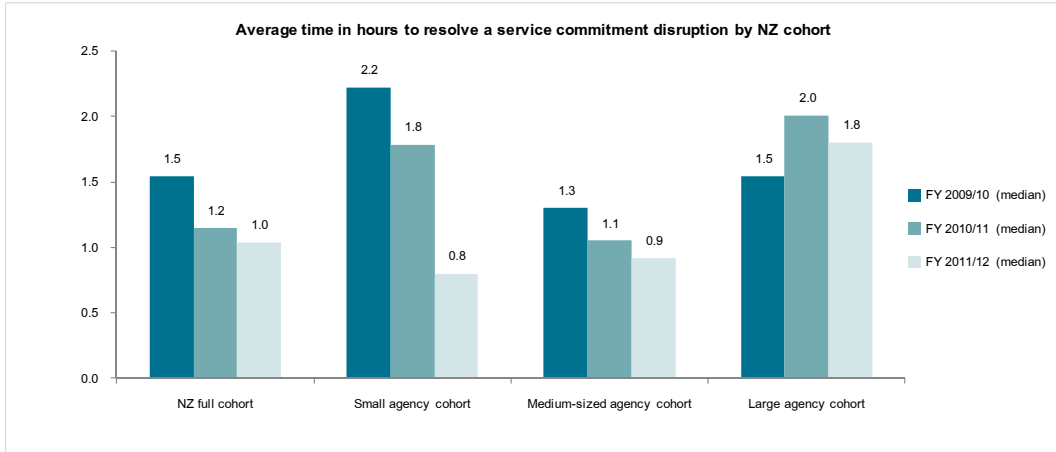
Figure 36 | Average fully loaded labour cost



Because labour costs make up 29.1 percent of the total cost of the ICT function, and because New Zealand has a lower cost labour market, agencies have a substantial advantage over international comparators.

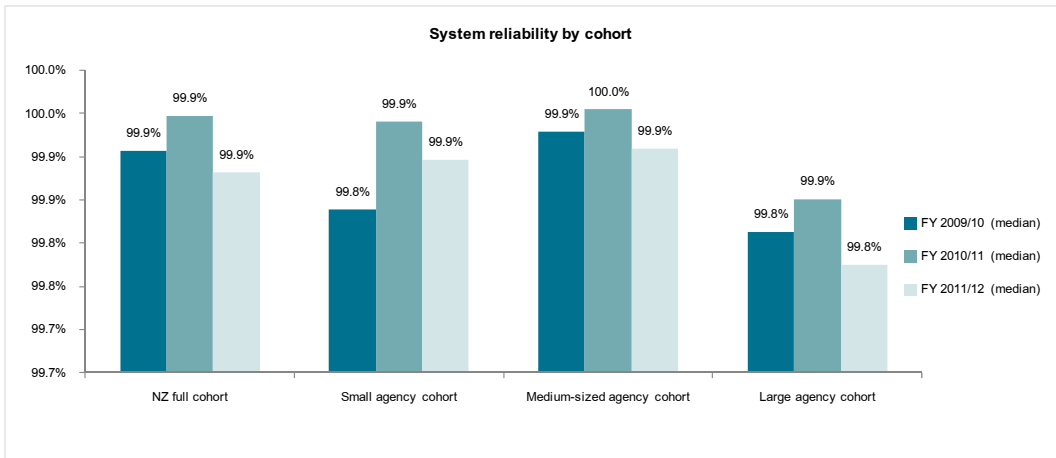
For the NZ full, small and medium-sized agency cohorts, the average time to resolve service disruptions has improved.

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



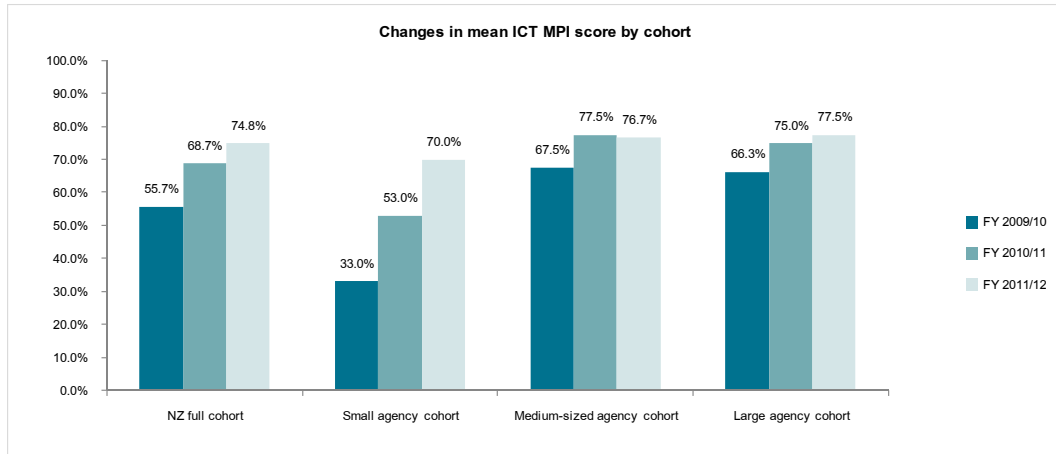
Agencies have maintained high levels of system reliability since FY 2009/10.

Figure 38 | System reliability by cohort



Overall, reported ICT MPI results have increased from 69 percent to 75 percent, with improvements for all cohorts.

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 upon which to base decisions.

Quality of management information

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

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

Significant improvements were made to information quality for this reporting period.

- For FY 2010/11 and FY 2011/12 agencies have separated capital expenditure (capex) and operating expenditure (opex): Agency spending on capex has been isolated to help provide a clearer picture of trends and opportunities.
- Significant work has been undertaken to align measurement with benchmarks in other jurisdictions, notably through a pilot collection of cost information across eleven agencies by:
 - Service tower and sub-tower
 - Cost elements

While results are broadly comparable, they need to be understood within the context of each agency. While agencies have common features, each has their own functions and cost drivers. For example, large service delivery agencies are expected to have more expensive ICT requirements such as specialised line-of-business applications or a distributed network. Agencies should use the

benchmarking results as a guide to relative performance. Conclusions regarding efficiency and effectiveness should be made in light of each agency's operational context.

Complexity data was piloted for FY 2011/12 but needs refinement in order to provide insight. The service tower agencies also submitted data against newly piloted complexity measures. There is significant variability in the data, which appears to arise from problems around interpretation of the measures. The Treasury will work with the GCIO to improve these measures for the FY2012/13 exercise.

There is an opportunity to introduce further measures of the value of the ICT function. Agencies need to be able to demonstrate effectiveness in the management of applications and growing business demand for new functionality and service delivery. Measuring the impact of ICT solutions and services on agency performance is a challenge globally and will take considerable practitioner input and trial and error in future benchmarking exercises. The GCIO and Treasury will work to develop more meaningful indicators of whether or not resources are managed in a way that minimises cost, effort, and time.

Procurement

Commentary

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

Given the size of third party spend, we should improve our understanding of the performance of the Procurement function. In FY 2011/12, procurement accounted for about \$30bn of total expenditure across the State sector. A high performing Procurement function can play an important role in finding savings and improving the value of each agency's third party spend.

Ongoing data quality issues impede our understanding of the cost and efficiency of this function. Because the procurement function is often dispersed across agencies, an accurate picture of its cost – and therefore efficiency – is difficult to capture. While BASS provides some guidance to agencies on how to measure this function consistently and in line with global leading practice, accurate cost measurement will likely be a challenge for some time. This is a challenge globally in both the public and private sectors.

There are more opportunities for savings through improved management of third party spend than in making the procurement function itself more efficient. Even small improvements in the effectiveness of the procurement function can create significant gains in cost savings. The introduction of a Capability Maturity Model (CMM) in this report is an important step in realigning BASS metrics to measuring the things we can measure accurately and that agencies can change.

The Procurement Reform Programme is supporting better management of third party spend. To date, more than 300 agencies have participated in AoG contracts; more than 120 public servants are gaining subsidised procurement qualifications, and agencies are choosing to invest in building their procurement capability.

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, we look forward to providing a better picture of procurement function performance in next year's report.

In particular, we want to better understand why the reported percentage of commodity spend channelled through syndicated procurement arrangement is low. By other assessments, we understand agency take-up of syndicated procurement to be much higher than the 10.7 percent reported through the BASS exercise. This raises concerns about the accuracy of this measurement and possibly whether agencies have understood what this metric is intended to capture.

We also want to understand the reported maturity levels better. Independent reviews across nine agencies found that no agencies met minimum government standards. This suggests that the reported CMM results for FY 2011/12 look too optimistic. We need to understand agency self-perception of procurement maturity levels in order to drive capability forward.

Summary of findings

Detailed findings and data are not provided in this report. Detailed findings and data for FY 2011/12 are located on the Treasury website via the following documents:

- Procurement performance findings FY 2011/12:
<http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2011-12>
- FY 2011/12 BASS metric results and data points:
<http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2011-12>

Highlights of findings

Ongoing data quality issues impede our understanding of the cost and efficiency of this function.

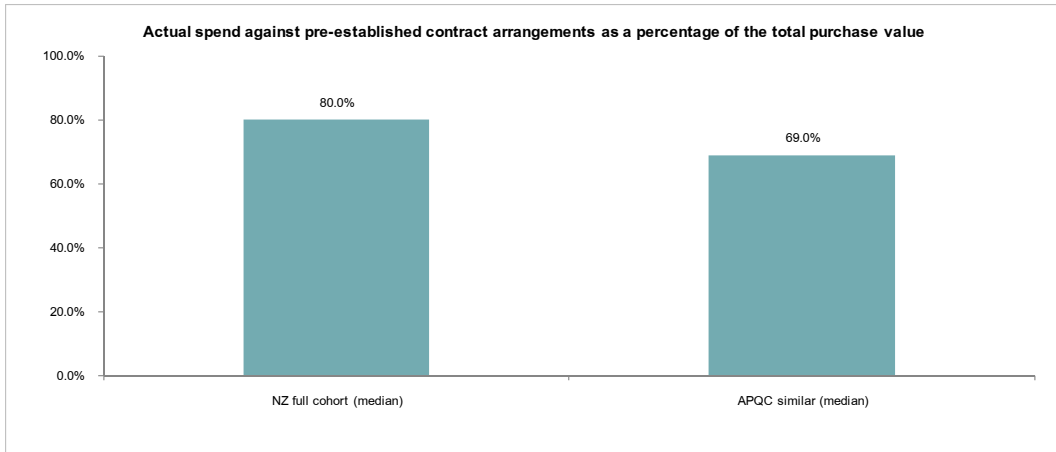
Because the procurement function is often dispersed across agencies, an accurate picture of its cost – and therefore efficiency – is difficult to capture. While BASS provides some guidance to agencies on how to measure this function consistently and in line with global leading practice, accurate cost measurement will likely be a challenge for some time – as it has been globally in both the public and private sectors. Agencies reported a nominal spending decrease of \$7.8 million since FY2009/10, and strong efficiency, but cost data issues preclude conclusive findings.

The introduction of a new capability maturity model this year reflects the priority of understanding how well agencies are managing third party spend. In FY 2011/12, procurement accounted for \$30bn of total expenditure across the State sector. In telling the story of procurement performance, a better understanding of how well this function manages third party spend is more important than providing greater accuracy on the cost of the procurement function.

The Procurement function has reported improved effectiveness, but there are opportunities for improvement. The Procurement function reported being more effective since FY 2009/10, but remains less effective than international comparators. Feedback from the Procurement Reform Programme includes that agency effectiveness improvements – especially regarding use of aggregated procurement – are understated.

Reported spend against pre-established contract arrangements as a percentage of the total purchase value is higher than the international comparator.

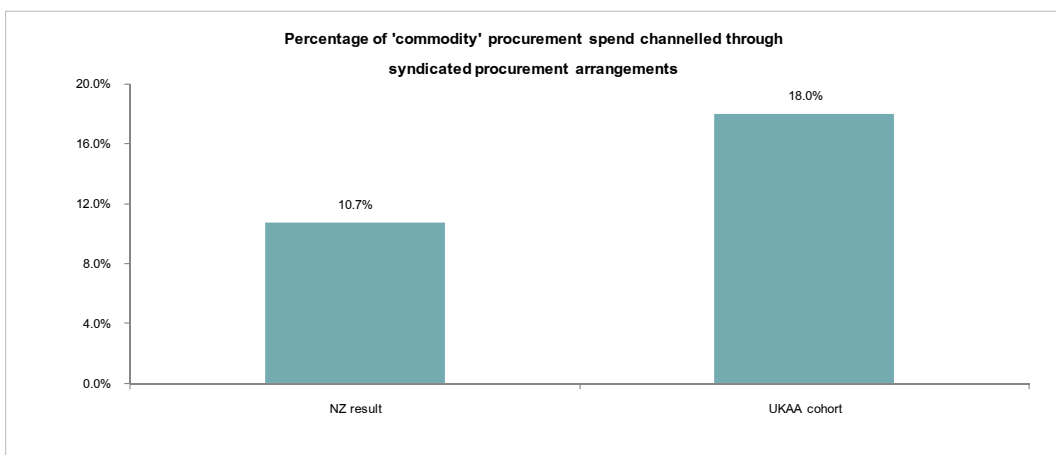
Figure 40 | Actual spend against pre-established contract arrangements as a percentage of the total purchase value



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 all-of-government contracts and syndicated arrangements is significantly below that of international comparators.

Figure 41 | Percentage of 'commodity' procurement spend channelled through syndicated procurement arrangements



Procurement leaders are working with the Treasury to further refine BASS procurement effectiveness metrics and data collection methods. With these improvements, a better picture of procurement function performance will be possible in next year's report.

Quality of management information

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

There are concerns with the quality of management 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.

Improvements have been made to the effectiveness measures for FY 2011/12. The Procurement MPI has been amended to the Procurement Management Capability Maturity Model (CMM), moving from a straight 'yes/no' assessment to a framework that enables agencies to indicate current and future levels of maturity, their priorities and any initiatives in progress. Given this is the first year of results, quality of data may vary due to self-assessment and self reporting. No peer review was undertaken in FY 2011/12.

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 looks forward to providing a better picture of procurement function performance in next year's report.

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 is considerably different to the Procurement function in a policy agency.

Property Management

Commentary

By David White, Director, Government Property Management Centre of Expertise

In April 2011, Cabinet established the Property Management Centre of Expertise (PMCoE) within the Ministry of Social Development to provide leadership, support and guidance for all public sector departments and Crown agents. The PMCoE operated on this basis, publishing Property Management Guidelines 2011, until the State Services Commission launched the Better Public Services programme in 2012 and announced the Ministry of Social Development Chief Executive as the Functional Leader for Property.

The PMCoE delivers the mandate of the Functional Leader for Property. Mandated by Cabinet across office accommodation and public interface property, and reporting to the Head of State Services, the Functional Leader will:

- Develop strategies, principles, standards, tools and processes for use in relation to property across the state sector,
- Approve the acquisition or disposal of all leased or owned accommodation,
- Undertake all-of-government procurement for property related goods and services,
- Manage the property management function of some agencies,
- Launch and operate a centralised information database supporting management of leases, assets, facilities and workplace,
- Provide a brokerage service to align agencies with available space in other sites already leased,
- Optimise the Crown office accommodation and public interface property space,
- Publish the Crown Office Estate Report annually.

The PMCoE will continue with some current practices, such as providing shared space online as an informative community for state sector property teams and supporting agencies during change in property portfolios. Significant change will occur however, in strategy and the workplace. The PMCoE will deliver a National Property Strategy outlining key strategic objectives for the national Crown portfolio, Workplace Principles which set the expectation of agencies in the design and use of the workplace, and Workplace Standards & Guidelines which will establish specific standards to be applied to all office accommodation and public interface properties.

This centralised strategic approach means both the state sector, and the marketplace, know what is expected within the portfolio and can plan accordingly. This approach will deliver some key benefits:

- Drive efficiency through property, including savings through reduction of property footprint,
- Enhance the state sector ability to adapt to change with minimal cost and disruption,

- Enable access to people, information and amenities; increasing engagement and openness,
- Achieve consistency of workplace quality; with common efficient design, and
- Provide safe, healthy and secure working environments for staff.

The PMCoE is developing strategies, principles, standards, tool and processes. A full work programme will be implemented across the state sector throughout 2013.

The PMCoE, supporting the Functional Leader for Property, works closely with the other Functional Leaders to maximise opportunities for integration in each Leader's programme. The capability of the property teams within agencies is key to PMCoE delivering Cabinet's mandate for the Functional Leadership. Already in engagement and consultation with agencies, PMCoE will continue this and is planning a capability programme focussed on identifying opportunities for agency property team staff to up skill and build knowledge.

PMCoE initiatives have numerous benefits. These include providing more transparent information on the Crown property portfolio, providing a more coordinated and effective partner for the private sector to deal with, and helping agencies attract and retain quality staff. As part of the expanded role, the PMCoE will be operating an integrated workplace management system for all departments and crown agents. This system will enable a greater level of reporting and performance measurement of property metrics. This system will be utilised to provide information to report on BASS measures, as well as the PMCoE Crown Office Estate report.

Summary of findings

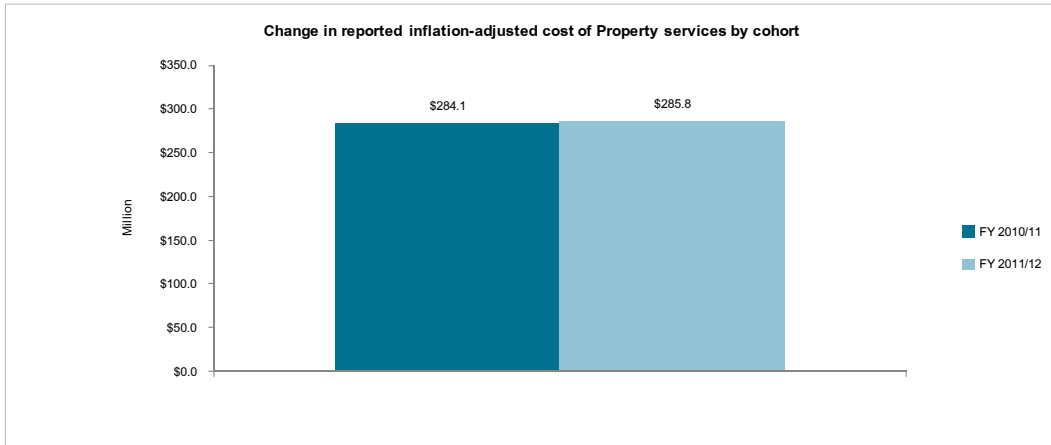
Detailed findings and data are not provided in this report. Detailed findings and data for FY 2011/12 are located on the Treasury website via the following documents:

- Property performance findings FY 2011/12:
<http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2011-12>
- FY 2011/12 BASS metric results and data points:
<http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2011-12>

Highlights of findings

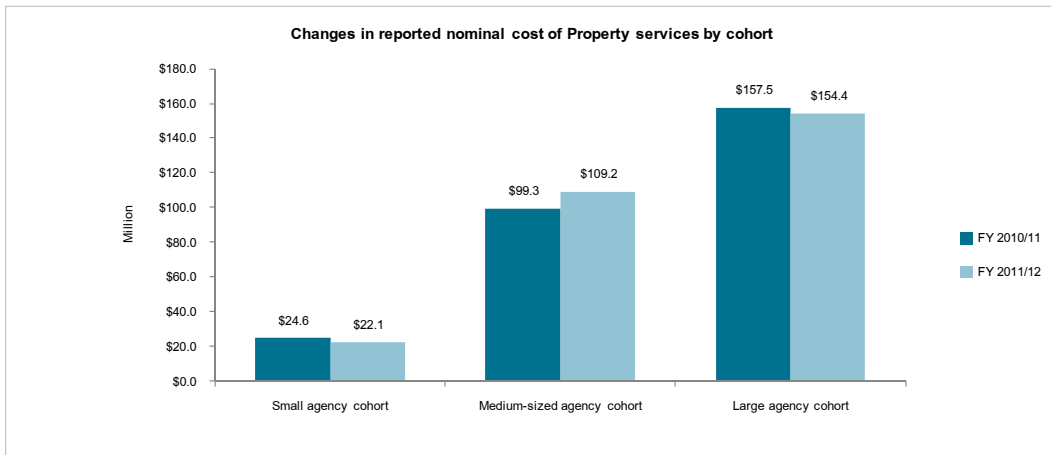
Agencies spent \$285.8m on the Property function in FY 2011/12, which is up \$1.7m (or 0.7 percent) from FY 2010/11 when adjusted for inflation.

Figure 42 | Change in reported inflation-adjusted cost of Property services by cohort



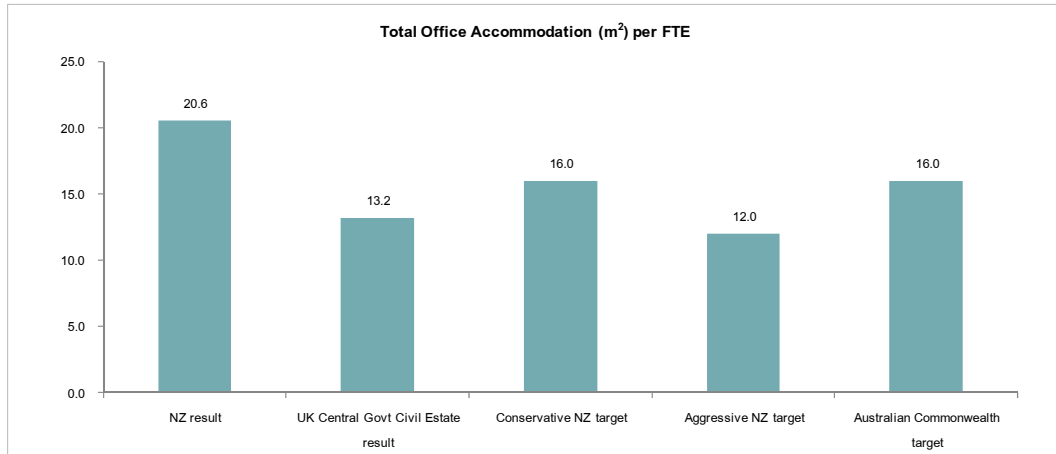
The small and large agency cohorts have reported overall reductions in Property expenditure since FY 2010/11.

Figure 43 | Change in reported nominal cost of Property services by cohort



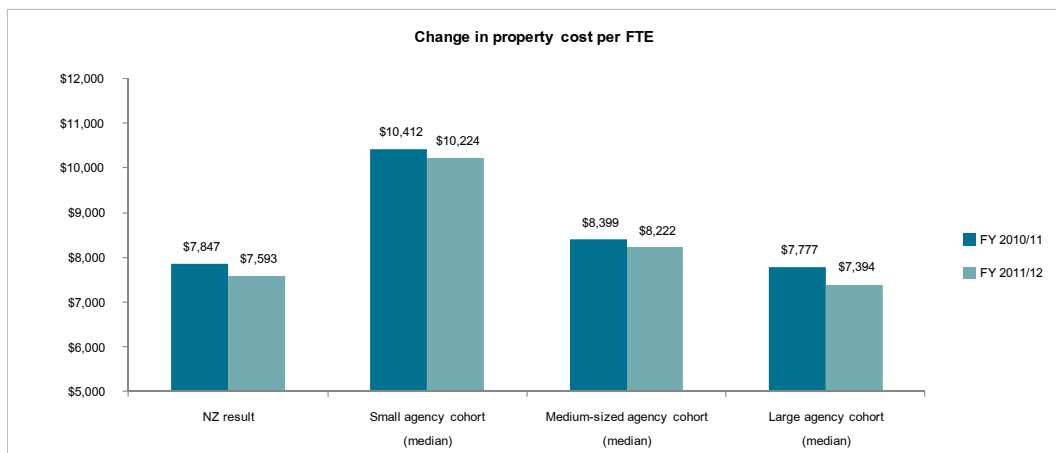
At 20.6 m² per FTE, NZ agencies are not efficient relative to international comparators and targets.

Figure 44 | Total Office Accommodation (m²) per FTE



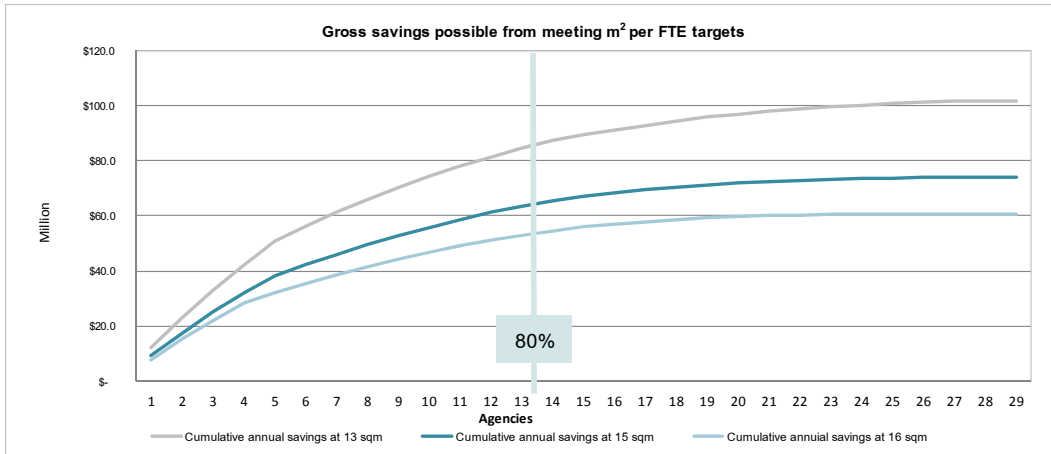
Overall, the total property cost per FTE has reduced since FY 2010/11 by \$254 or 3.2 percent.

Figure 45 | Change in property cost per FTE



Gross savings of \$60.8 to \$101.8m are possible if agencies pursue more aggressive targets for m² per FTE.

Figure 46 | Gross savings possible from meeting m² per FTE targets

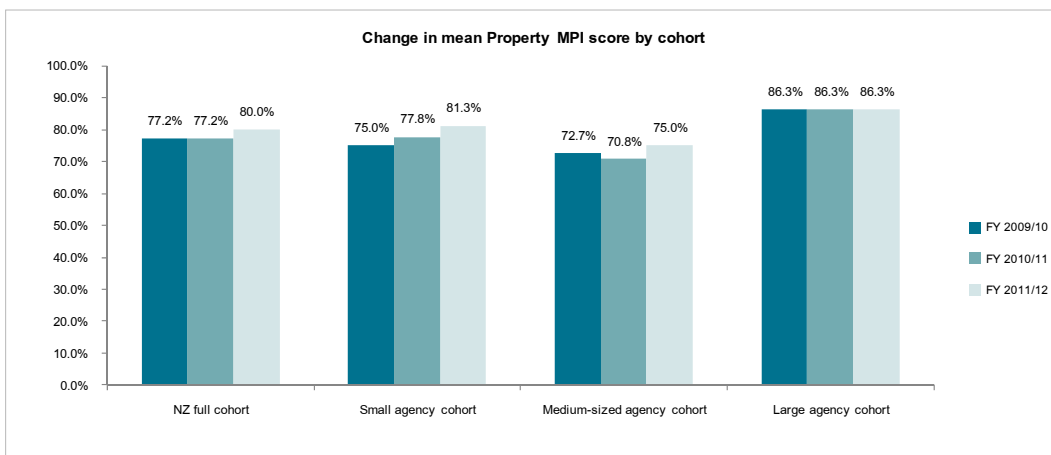


The potential annual gross cost savings at different m² per FTE targets are:

- \$60.8 million would be saved annually if all agencies above 16m² per FTE moved to that target (conservative NZ target)
- \$116.0 million would be saved annually if all 29 agencies above 12m² per FTE moved to that target (aggressive NZ target)

Overall, the mean property MPI has increased slightly since FY 2009/10.

Figure 47 | Change in mean Property MPI score by cohort



Quality of management information

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

Data from the PMCoE property management database has been incorporated for FY2011/12. This has allowed the Treasury and property practitioners to improve the property metric set for FY 2011/12. The metrics remain the same as in FY 2010/11, but the BASS data has been aligned with the PMCoE definition and data.

The quality of the data underlying the metrics is generally of a high standard, and information can be meaningfully compared. Office space performance can be understood using a small number of recognised metrics that can be calculated with accurate data. The three primary metrics are property cost per FTE, cost per m², and m² per FTE, and the data required to calculate these metrics can be readily obtained from tenancy agreements and basic human resources reports.

While results are broadly comparable, results need to be understood within the context of each organisation. Different agencies have different property needs. For example, Wellington based office operations, especially where there is a case for a CBD location, will be more costly than operations dispersed in less expensive locations around the country.

Corporate and Executive Services

Commentary

Given the amount of spending on this function, we should improve our understanding of its performance and business value. The 29 agencies who participated in this benchmarking exercise spent almost \$195 million in FY 2011/12 on this function, making it the third largest area of expenditure within A&S services after ICT and property. 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 three largest service groups in this function—communications, legal services, and information management—is described in service-specific commentary below.

Work is also underway to strengthen a new A&S service measured this year – Enterprise Portfolio Management Offices (EPMOs). These groups have an important role to play in strategy execution, helping allocate resources to high priority initiatives track the costs and benefits of these initiatives, and support course correction and resource reallocation as initiatives falter or priorities change.

Communications

By Lisa-Marie Richan, Head of Profession – Core Government Communications Group, SSC

Measurement of communications strategy and tactics remains one of the most vexed areas of the profession globally for both private and public organisations. Although there is no one ‘super-tool’ to effectively evaluate communications performance, BASS measurement continues to provide a helpful benchmark and along with additional data, helps in understanding the wider picture.

Communications staff across government continue to work together as we strive to deliver better public services and achieve more with less. This also includes the need to create and then meaningfully measure our collective impact. This collaboration is also necessary as numbers of communications employees cannot grow due to the full time equivalent (FTE) numbers being specifically monitored within the wider government ‘cap’ on the number of positions in core government administration. During this FY 2011/12 benchmarking period, Public service communications staff numbers remained relatively static despite added public information requirements such as the post-Christchurch Earthquake rebuild, the change communications requirements of integrating government departments such as MBIE and MPI, and the preparation for the 2013 Census.

To further mature the metric sets for government communications measurement, we will also need to factor in how the growth of new technology in public sector dialogue and the use of social media channels is helping the function. This work has already begun, as we are working to introduce a Capability Maturity Model to replace the MPI measure for next year's report. Although much work still lies ahead we are confident that successive reporting periods should produce a greater understanding of just how effective we really are in our communications with New Zealanders.

Legal Services

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

The GLN offers a cross-agency approach to managing and delivering legal services. It reduces duplicative activity, improves the value of third party spend, and strengthens legal knowledge management and capability. The ultimate goal is to focus legal service expenditure on the highest value legal activity – providing high quality legal advice that supports agency decision-making and minimises Crown risk.

Since the last BASS report, the GLN has established an online collaboration tool featuring a directory of lawyers, database of shareable materials, and communities of practice. It has also established aggregated procurement arrangements with Thomson Reuters and Lexis Nexis for annual cost savings. Current work includes but is not limited to establishing common resources for capability building and sharing work, maintaining knowledge-sharing relationships with international jurisdictions, and strengthening performance measurement for legal services. I believe we can have more a more meaningful understanding of legal service performance and business value, and I look forward to working with practitioners and the BASS team to establish new indicators.

Information Management

By Greg Goulding, Chief Archivist and General Manager, Archives New Zealand

A number of opportunities exist to reduce the costs associated with information management across the public sector. At present, information is frequently duplicated across multiple systems and agencies. More effective information sharing, and clearer identification and re-use of authoritative data sources can help reduce the cost of storing and managing duplicate data and information.

Archives New Zealand encourages agencies to understand the nature and value of their information holdings, and to actively and routinely implement disposal programmes to ensure that unnecessary information is disposed of in a timely and efficient manner. Most agencies find themselves in the position of managing information across multiple platforms, including historic paper systems, legacy IT applications, and contemporary applications. The inefficiency associated with maintaining these multiple information environments is driving a more aggressive transition to fully digital information management.

Further, current digital information management practices often simply replicate paper models in the digital environment. Electronic Document Management Systems often impose a significant burden on

end-users. Better use of technology to avoid inefficient human classification and processing of information can drive further savings as new models emerge.

In respect of paper, many agencies have substantial amounts of records in storage without clear understanding of the cost, or value of these information assets. Often, legal authority to destroy the information is already in place. Archives NZ is working to streamline disposal processes to support agencies in identifying and disposing of unneeded records and information.

Importantly, designing business systems with due consideration of whole-of-life information management requirements 'by design' will enable costs to be minimised, in contrast to current practices where the costs of implementing information disposal or preservation are often higher than necessary because they are 'add ons'.

[Enterprise Portfolio Management Offices](#)

By Ricky Utting, Senior Advisor, the Treasury

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

The Enterprise Portfolio Management Office (EPMO) is still an emergent function, with most (16 of the 29) agencies indicating they do not have this function. Of those that do have them, they generally have the lowest spend as a percentage of organisational running cost of any of the functions covered in the BASS analysis. This reflects the lean approach organisations are currently taking to EPMOs. The larger agencies therefore reflect the lowest EPMO costs per FTE. There are different approaches to running an EPMO too, reflecting the specific need of the organisation, which may account for the wide range of cost per FTE in the medium-sized agency cohort. It will be informative to watch the metrics related to EPMOs in relation to performance of major initiatives over the coming years to ascertain any correlation in the New Zealand context. BASS will be piloting with selected agencies the use of the P3M3 (Portfolio, Programme and Project Management Maturity Model) as a Capability Maturity Model (CMM) over the remainder of the 2012/13 year, with high level findings to be included in the FY 2012/13 report. The intention is to use the measurement to focus activity on raising agency and overall capability in making change happen successfully.

Summary of findings

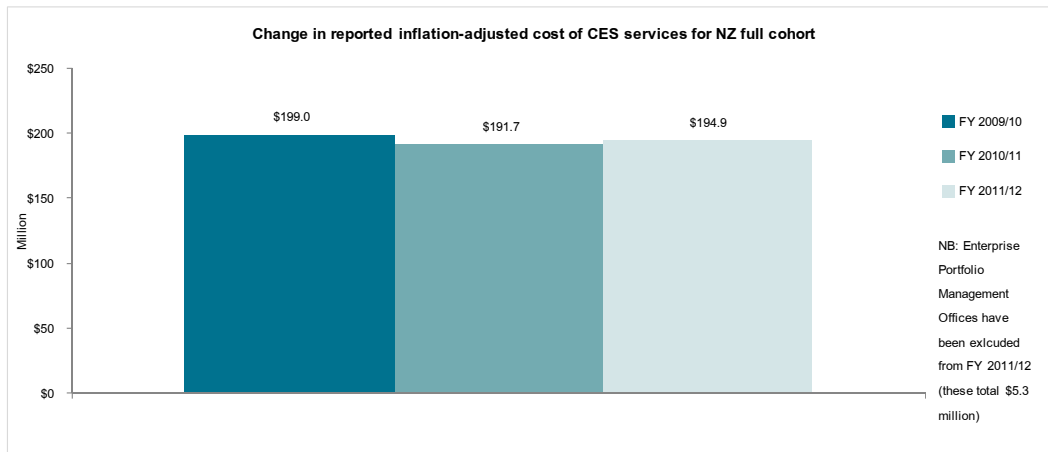
Detailed findings and data are not provided in this report. Detailed findings and data for FY 2011/12 are located on the Treasury website via the following documents:

- CES performance findings FY 2011/12:
<http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2011-12>
- FY 2011/12 BASS metric results and data points:
<http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2011-12>

Highlights of findings

Agencies spent \$194.9m on the CES function in FY 2011/12, down \$4.1m (or 2.1 percent) from FY 2009/10 when adjusted for inflation.

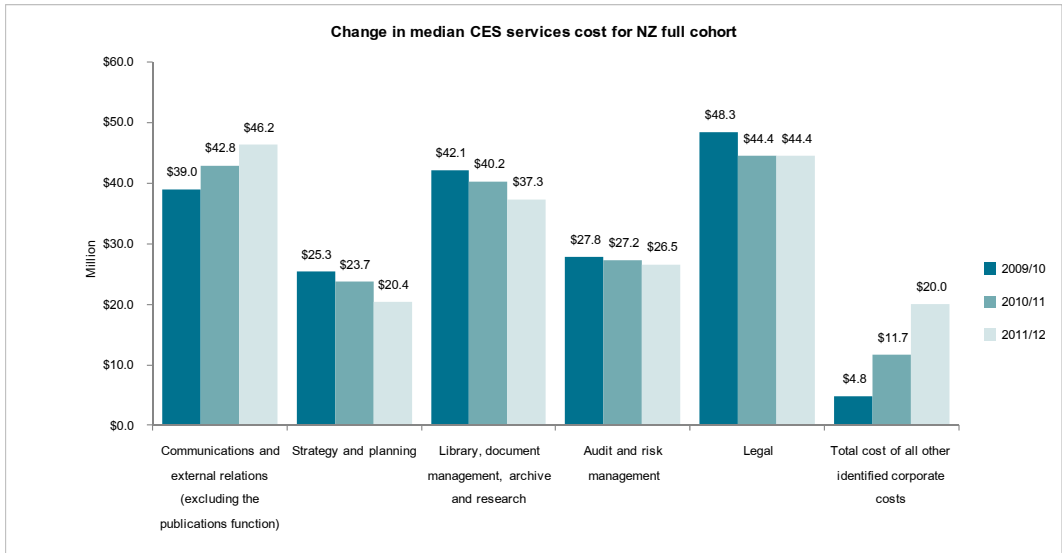
Figure 48 | Change in reported inflation-adjusted cost of CES services for NZ full cohort



Costs in the graph above are represented in FY 2011/12 dollars. Note that Enterprise Portfolio Management Offices have been excluded from FY 2011/12 to enable a time series. EPMO costs were not measured in FY 2010/11 or FY 2009/10.

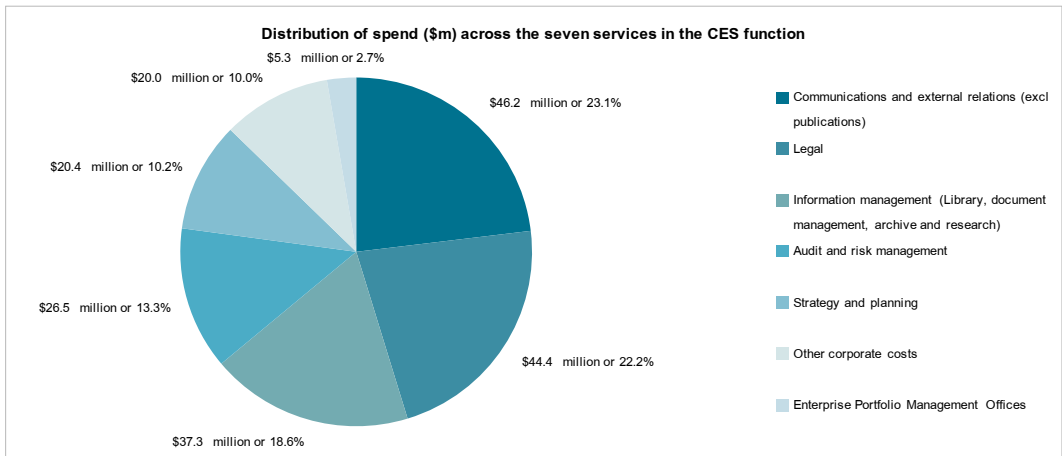
The NZ full cohort continues to report cost increases in two of six service areas since FY 2009/10.

Figure 49 | Change in median CES services cost for NZ full cohort



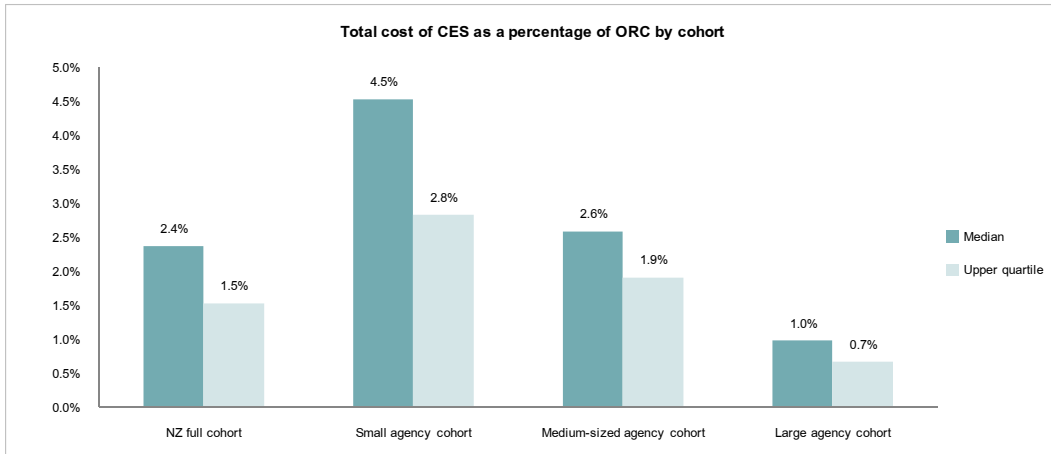
Communications, information management and legal services make up the bulk (63.9 percent) of CES expenditure in FY 2011/12.

Figure 50 | Distribution of spend (\$m) across the seven services in the CES function



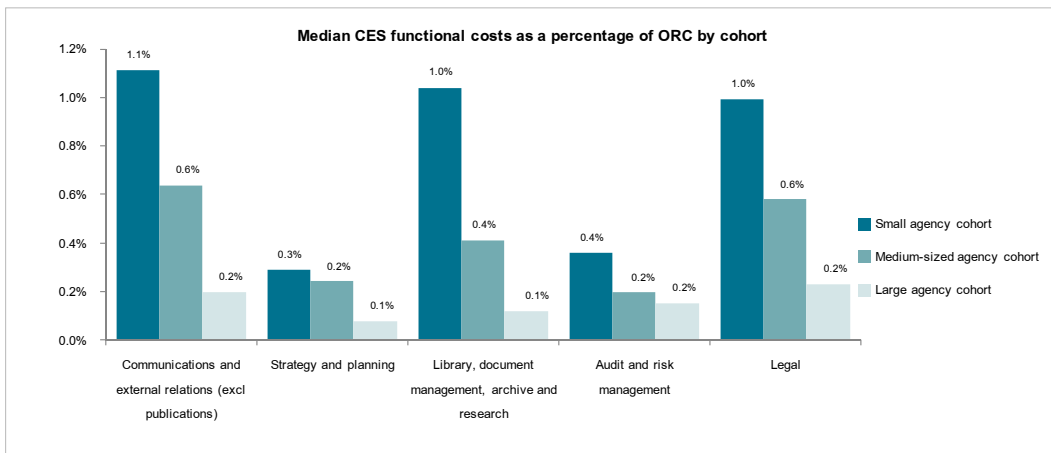
The large agency cohort delivers CES services significantly more efficiently than the small and medium-sized agency cohorts.

Figure 51 | Total cost of CES as a percentage of ORC by cohort



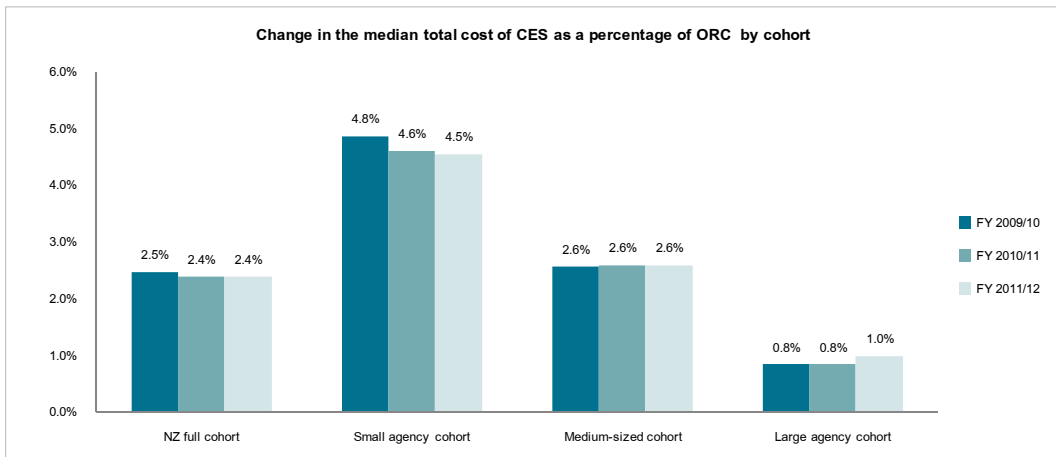
The large agency cohort delivers all component service types within CES more efficiently than the medium-sized and small agency cohorts.

Figure 52 | Median CES functional costs as a percentage of ORC by cohort



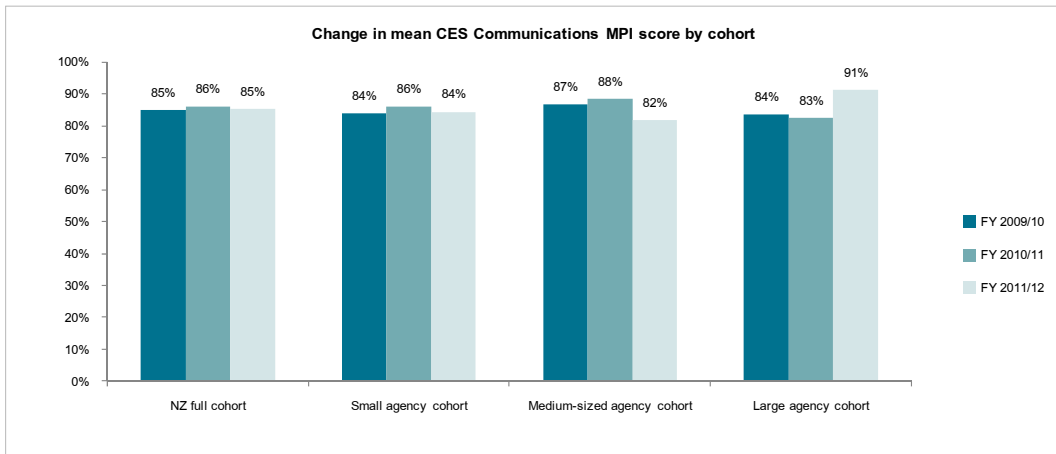
The reported efficiency of the CES function has remained flat over the three reporting periods for the NZ full cohort.

Figure 53 | Change in the median total cost of CES as a percentage of ORC by cohort



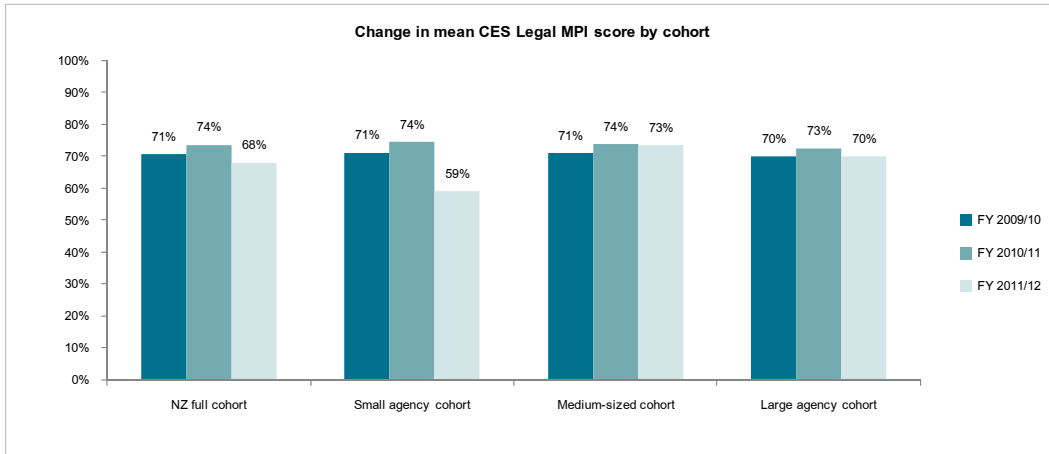
Overall, self-assessed communication MPI scores have stayed flat since FY2009/10, remaining at a high level.

Figure 54 | Change in mean CES Communications MPO score by cohort



Overall, self-assessed legal MPI scores have reduced since FY 2009/10.

Figure 55 | Change in mean CES Legal MPI score by cohort



Quality of management information

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

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

There are opportunities to develop and implement more meaningful performance indicators. Indicators used in this report are based on the American Productivity & Quality Center (APQC) and the UK Audit Agencies' (UKAA) performance measurement methodologies. Because of low maturity globally in measuring these services relative to other A&S functions, ongoing discussion with practitioners on how to improve the quality of management information is essential to developing a more useful indicator set and making annual CES benchmarking relevant and useful to the management of their functions.

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

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

Enterprise Portfolio Management Office costs have been included for FY 2011/12 for the first time.

Appendix 1: Bibliography

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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.
Centre of expertise	An organisational unit that provides critical insights, specialised functional expertise and decision support services to business management, characterised by: <ul style="list-style-type: none"> ▪ 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 businesses ▪ 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'.

Terms	Definition
Cost Elements	<p>A resource-based expenditure classification scheme with following elements:</p> <ul style="list-style-type: none"> ▪ Hardware ▪ Software ▪ Internal personnel ▪ External personnel ▪ Outsourced ▪ Carriage ▪ Other
Departmental Internal Control Evaluation	Reports commissioned by the Treasury and conducted by Audit New Zealand or audit providers contracted by them.
DICE	See Departmental Internal Control Evaluation
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
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	<p>Compensation for full time and part time employees based on a regular working week, and includes:</p> <ul style="list-style-type: none"> ▪ 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. All FY 2009/10 cost figures have been adjusted by 2.3 percent to compare them to FY 2010/11 cost figures.

Terms	Definition
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 (MPI) 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." ¹²
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: <ul style="list-style-type: none"> ▪ Size of operating budget ▪ Number of organisational FTEs ▪ Agency type by primary function ▪ Distribution of people/service.
Occupied Workpoint	The occupied workpoint area includes the property space around all workpoints (including vacant workpoints) plus all ancillary spaces such as meeting rooms, conference rooms, training facilities, libraries, office storage areas, break-out areas and circulation spaces. Used by the Australian government to set property occupational density targets.
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

¹² <http://www.public-audit-forum.gov.uk/performanceindicators.pdf> (accessed 10 March 2011)

Terms	Definition
Organisational running costs	<p>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:</p> <ul style="list-style-type: none"> ▪ 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. <p>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.</p>
P2P	See procure-to-pay
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	<p>The State sector is broader than the State Services. It includes:</p> <ul style="list-style-type: none"> ▪ all the State Services ▪ some departments that are not part of the State Services ▪ tertiary education institutions ▪ Offices of Parliament ▪ State-Owned Enterprises.

Terms	Definition
State Services	<p>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:</p> <ul style="list-style-type: none"> ▪ 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	<p>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.</p>
Taxonomy	<p>In this context a taxonomy is a set of agreed terms and definitions that assist ensuring consistency of information. For example, the HR taxonomy lists all the processes that fit within the HR function.</p>
Transactional processes	<p>Transactional processes are often common across all agencies. They tend to be well-defined, repeatable processes, and common to several agencies.</p>
Transformation	<p>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.</p>

Table 2 | Abbreviations used in this report

Abbreviation	Description
A&S	Administrative and Support (services)
ACE	Autonomous Crown Entity
APQC	American Productivity & Quality Center
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
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
MFish	Ministry of Fisheries
MoE	Ministry of Education
MFE	Ministry for the Environment
MPI	Ministry for Primary Industries

Abbreviation	Description
MoH	Ministry of Health
MoJ	Ministry of Justice
MoT	Ministry of Transport
MSD	Ministry of Social Development
NPSD	Non-Public Service Department
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 Authority
NZTE	New Zealand Trade and Enterprise
ORC	Organisational Running Costs
P2P	Procure-to-pay
PSD	Public Service Department
RFI	Request for Information
SaaS	Software as a Service
SDP	Service Delivery Provider
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 nine 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 cohort comprises all agencies measured in a specific reporting period. Accident Compensation Corporation and Tertiary Education Commission did not participate in the FY 2010/11 or FY 2011/12 exercise, and Housing Corporation New Zealand did not participate in the FY 2011/12 exercise. To allow comparison, the FY 2009/10 and FY 2010/11 NZ full cohort is made up of 29 Public Service Departments, Non-Public Service Departments and Crown Agents as listed alphabetically below:

- Department of Building and Housing
- Department of Conservation
- Department of Corrections
- Department of Internal Affairs
- Department of Labour
- Inland Revenue
- Land Information New Zealand
- Ministry for Culture and Heritage
- Ministry for the Environment
- Ministry for Primary Industries
- Ministry of Economic Development
- Ministry of Education
- Ministry of Foreign Affairs and Trade
- Ministry of Health
- Ministry of Justice
- Ministry of Social Development
- Ministry of Transport
- New Zealand Customs Service
- New Zealand Defence Force
- New Zealand Fire Service
- New Zealand Police
- New Zealand Qualifications Authority
- New Zealand Tourism Board
- New Zealand Trade and Enterprise
- New Zealand Transport Authority
- State Services Commission
- Statistics New Zealand
- Te Puni Kokiri
- The Treasury

Small, medium-sized, 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
- 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 281 employees)	<ul style="list-style-type: none"> ■ Department of Building and Housing ■ Ministry for Culture and Heritage ■ Ministry for the Environment ■ Ministry of Transport ■ New Zealand Qualifications Authority ■ New Zealand Tourism Board ■ State Services Commission ■ Te Puni Kokiri ■ The Treasury 	<ul style="list-style-type: none"> ■ Less than \$100m budget ■ Fewer than 500 FTEs ■ Mainly have a policy, regulatory or compliance focus ■ Mainly have centralised services
Medium-sized agency cohort (mean of 1328 employees)	<ul style="list-style-type: none"> ■ Department of Internal Affairs ■ Department of Conservation ■ Department of Labour ■ Land Information New Zealand ■ Ministry for Primary Industries ■ Ministry of Economic Development ■ 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 	<ul style="list-style-type: none"> ■ \$100-500m budget ■ 500-2500 FTEs ■ Mainly have an operational or service delivery focus ■ Mainly have centralised or centre-hub led services
Large agency cohort (mean of 7055 employees)	<ul style="list-style-type: none"> ■ Department of Corrections ■ Inland Revenue ■ Ministry of Education ■ Ministry of Justice ■ Ministry of Social Development ■ New Zealand Fire Service ■ New Zealand Police ■ New Zealand Defence Force 	<ul style="list-style-type: none"> ■ 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) used to be a grouping comprised of the five UK public sector organisations of 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 HR, ICT, Property, Communications, and Legal services in a joint initiative. While the UKAA no longer exists in the same form and doesn't collect this information, this report has benchmarked against previously reported MPI benchmarks published by the UKAA.

The UKAA cohort database includes results from over 200 UK public sector organisations, and this data has been collected on a voluntary and anonymous basis. At the time this document was written, the communication and legal services indicators were relatively new additions to the indicator set, so comparator data for these services was not available.

As the management practice indicators (MPIs) described in Appendix 4 are unique to the UKAA methodology, the UKAA cohort is the only comparator dataset for this set of metrics. NZ agencies measured five MPIs: Human Resources, Property, ICT, Communications, and Legal Services.

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.

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 7,500 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 100.¹³

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.

¹³ www.thehackettgroup.com (accessed 14 March 2013).

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. Includes organisations that are both exceptionally efficient in their resource utilization and exceptionally effective in delivering business value are achieving operational excellence.¹⁴

UK Cabinet Office Property dataset

The UK Cabinet Office produces an annual report to Parliament on the efficiency and effectiveness of the UK Government's central civil estate, including data regarding property used in this report for comparison purposes.

¹⁴ <http://www.thehackettgroup.com/operational-excellence/> (accessed 14 March 2013)

Appendix 4: Metric Definitions

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

Table 3 | Human Resource metric definitions

Ref	Metric name	Metric description
HR1	Total cost of HR function per employee	The total cost of providing HR services divided by the total number of organisational employees serviced by the HR function.
HR2	Number of employees per HR FTE	The average number of organisational employees serviced by each full time equivalent in the HR function.
HR3	Cost of HR processes per employee: HR3.1: Develop and manage HR planning, policies and strategies HR3.2 Recruitment, source and select employees HR3.3 Reward and retain employees HR3.4 Develop and counsel employees HR3.5 Manage employee information HR3.6 Redeploy and retire employees	The cost of HR processes per organisational employee.
HR4	Cost of recruitment per new employee	The direct cost to the HR function of hiring a new recruit divided by the number of hires during the period.
HR5	Number of employees per HR process FTE: HR5.1: Develop and manage HR planning, policies and strategies HR5.2: Recruitment, source and select employees HR5.3: Reward and retain employees HR5.4: Develop and counsel employees HR5.5: Manage employee information HR5.6: Redeploy and retire employees	The total number of organisational employees per HR process FTE.
HR6	Number of days absence per employee (excluding maternity and paternity leave)	The total number of sick days in the year divided by the total organisational employees.

Ref	Metric name	Metric description
HR7	Percentage of new hires in the role after 12 months	The number of new hires that remain in their same role after 12 months.
HR8	Human Resources management practice indicator	The number of selected leading HR management practices undertaken by the function.

Table 4 | Finance metric definitions

Ref	Metric name	Metric description
FIN1	Total cost of the Finance function as a proportion of organisational running costs	The total cost of the Finance function divided by the organisational running costs.
FIN2	Cost of Finance processes per \$1000 revenue (ORC): FIN2.1: Perform planning and management accounting FIN2.2: Perform revenue accounting FIN2.3: Perform general accounting and reporting FIN2.4: Manage fixed asset project accounting FIN2.5: Process payroll FIN2.6: Manage internal controls FIN2.7: Process accounts payable and expense reimbursements	Each Finance process cost per \$1000 of revenue (organisational running costs).
FIN3	Total cost of the Finance function per organisational FTE	The total cost of the Finance function divided by the total number of full time equivalent staff in the Finance function.
FIN4	Percentage of Finance FTEs by Finance process: FIN4.1: Perform planning and management accounting FIN4.2: Perform revenue accounting FIN4.3: Perform general accounting and reporting FIN4.4: Manage fixed asset project accounting FIN4.5: Process payroll FIN4.6: Manage internal controls FIN4.7: Process accounts payable and expense reimbursements	The number of Finance process FTEs in each process divided by the total Finance FTEs.
FIN5	Cost of payroll process per employee	The total cost of the payroll process per organisational employee.

Ref	Metric name	Metric description
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 score: current state	Capability maturity model for a number of selected leading Finance management practices undertaken by the function. Current State
FIN8	Finance capability maturity model score: future aspiration state	Capability maturity model for a number of selected leading Finance management practices undertaken by the function. Future Aspiration State

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	ICT process cost as a percentage of ORC: ICT2.1: Infrastructure management ICT2.2: Infrastructure development ICT2.3: End user support ICT2.4: Application maintenance ICT2.5: Application development and implementation ICT2.6: Planning and strategy ICT2.7: Management and administration	Each ICT process cost per \$1000 of revenue (organisational running costs).
ICT3	Percentage of ICT FTEs by ICT process: ICT3.1: Infrastructure management ICT3.2: Infrastructure development ICT3.3: End user support ICT3.4: Application maintenance ICT3.5: Application development and implementation ICT3.6: Planning and strategy ICT3.7: Management and administration	The distribution of ICT FTEs across the ICT function (by process).

Ref	Metric name	Metric description
ICT4	<p>Cost of the Service Towers as a percentage of Total ICT Cost:</p> <ul style="list-style-type: none"> ICT4.10: Mainframe & Midrange ICT4.11: Storage ICT4.21: WAN ICT4.31: LAN & RAS ICT4.41: Facilities ICT4.51: Voice ICT4.61: End User Infrastructure ICT4.71: Helpdesk ICT4.81: Applications ICT4.91: ICT Management 	<p>The cost of each Service Tower divided by the Total ICT Cost – agencies with large ICT spend for FY 11/12</p>
ICT5	<p>Cost elements for each Service Tower as a percentage of each Service Tower cost</p> <ul style="list-style-type: none"> - Hardware capital - Hardware operating - Software capital - Software operating - Personnel internal - Personnel external - Outsourced - Carriage - Other 	<p>Each Service Tower cost element divided by the Total Service Tower cost - agencies with large ICT spend for FY 11/12</p>
ICT6	<p>Cost elements of the Applications sub Towers as a percentage of Total Applications cost, and also</p> <ul style="list-style-type: none"> - Percentage of Applications expenditure on support - Percentage of Applications expenditure on development 	<p>Each Application sub Tower cost divided by the Total Applications cost. - agencies with large ICT spend for FY 11/12</p> <p>Total Applications Support sub Tower cost divided by the Total Applications Service Tower Cost</p> <p>Total Applications Development sub Tower cost divided by the Total Applications Service Tower Cost</p>
ICT7	<p>Percentage of ICT FTEs by ICT Service Tower and Application sub towers</p>	<p>The distribution of ICT FTEs across the ICT function (by Service Tower and Application sub towers) - agencies with large ICT spend for FY 11/12</p>

Ref	Metric name	Metric description
ICT8	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.
ICT9	ICT Reliability	For five key ICT applications, the total time that an application was able to perform its required function.
ICT10	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.)
ICT11	Total ICT cost per end user	The total ICT cost divided by the total number of end users.
ICT12	Total ICT process cost per end user	The total ICT process cost divided by the total number of end users
ICT13	Total ICT Service Tower cost per end user	The total ICT service tower cost divided by the total number of end users - agencies with large ICT spend for FY 11/12
ICT14	Number of end users per total ICT FTE	The total number of end users divided by the total ICT FTEs
ICT15	Mainframe and midrange platforms per 100 end users	The total number of mainframe/midrange platforms divided by 100 end users - agencies with large ICT spend for FY 11/12
ICT16	Number of software infrastructure components supported per 100 end-users	The total number of software infrastructure components divided by 100 end users - agencies with large ICT spend for FY 11/12
ICT17	End user computing platforms per 100 end users	The total number of end user computing platforms divided by 100 end users - agencies with large ICT spend for FY 11/12
ICT18	Number of database platforms per 100 end-users	The total number of database platforms divided by 100 end users - agencies with large ICT spend for FY 11/12
ICT19	ICT management practice indicators	The number of selected leading ICT management practices undertaken by the function.

Table 6 | Procurement metric definitions

Ref	Metric name	Metric description
PR1	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.
PR2	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.
PR3	Percentage of commodity procurement spend channelled through syndicated procurement arrangements	The percentage of commodity goods and services purchased through syndicated or collaborative contracts.
PR4	Total procurement value per procurement function FTE	The total amount purchased divided by the number of full time equivalent procurement staff.
PR5	Procurement capability maturity model score: current state	Capability maturity model for the number of selected leading Procurement management practices undertaken by the function. Current State
PR6	Procurement capability maturity model score: future aspiration state	Capability maturity model for the number of selected leading Procurement management practices undertaken by the function. Future Aspiration State

Table 7 | Property metric definitions

Ref	Metric name	Metric description
PTY1	Total property office costs per square metre	Total office property costs (management, occupancy and operational) divided by the net leasable area in square metres.
PTY2	Total office accommodation per FTE	The net leasable area of office buildings divided by the average number of FTEs accommodated in those buildings.
PTY3	Property cost per FTE	Total office property costs (management, occupancy and operational) divided by the number of FTEs accommodated in the office space.

Ref	Metric name	Metric description
PTY4	Average square metres per workstation	The total net leasable area of office accommodation divided by the number of workstations in that accommodation.
PTY5	Property management practice indicator	The number of selected leading Property management practices undertaken by the function.

Table 8 | Corporate & Executive Services metric definitions

Ref	Metric name	Metric description
CES1	Total cost of CES as a percentage of organisational running costs	The total cost of combined CES functions divided by organisational running costs.
CES2	Total cost of CES as a percentage of ORC CES2.1: Communications and external relations CES2.2: Strategy and planning CES2.3: Library, document management, archives and research CES2.4: Audit and risk management CES2.5: Legal CES2.6: Total cost of all other identified corporate costs	The cost of separate CES functions divided by organisational running costs.
CES3	Total cost of the 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.
CES4	Legal management practice indicator	The number of selected leading Legal management practices undertaken by the function.
CES5	Communications management practice indicator	The number of selected leading Communications management practices undertaken by the function.

Management practice indicator descriptions

This section describes the management practice indicators (MPI) that were measured in FY 2009/10 and FY 2010/11. MPIs are adopted from the UK Audit Agencies (UKAA) administrative and support (A&S) service performance measurement methodology. Within that methodology, the MPI score assesses the extent to which a function achieves a set of key management practices which will provide an indication of whether it is a well-run, modernised and mature function.

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

Table 9 | HR management practice indicator definition

Ref	Metric Description
1	Within the last three years the HR function has reviewed and rationalised the number of sets of Terms and Conditions in use in the organisation by at least five per cent.
2	The organisation has undertaken equality impact assessments across all key service areas within the last three years, and is implementing an action plan which targets areas of vulnerability.
3	There is employee self-service through desktop access to modify non-sensitive HR data.
4	All employees have clear and measurable outcome-based targets set at least annually.
5	All employees have had a formal, documented performance review, at least on an annual basis which can track personal / professional development.
6	The organisation carries out a survey of staff satisfaction levels at least biennially, publishes the results, has developed an action plan and monitors delivery of that plan on at least a quarterly basis.
7	The organisation explicitly requests that employees declare that they have complied with any Continuous Professional Development requirements of their professional institute (where applicable).
8	The organisation has a statement which anticipates the workforce requirements of the organisation over the medium-term (at least three years) and an action plan agreed by the Executive / Corporate Management Team which sets out how those requirements are met and is monitored on a 6 monthly or more frequent basis.
9	A comprehensive professional development programme is in place for professional HR staff which ensures that they receive at least five days of continuing professional development per annum.
10	It is possible to apply online for all vacancies for which external applications are invited.

Table 10 | ICT management practice indicator definition

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

Table 11 | Property Management practice indicator definition

Ref	Metric Description
1	The organisation has strategies, policies, decision-making structures and roles to manage assets as a corporate resource to meet priorities, operational and service needs and provide sustainable outcomes for local communities.
2	The organisation has comprehensive information on assets which supports its strategies and decision making on investment and disinvestment.
3	The organisation is narrowing the gap between the current condition of the asset base and an acceptable standard of maintenance with high levels of required maintenance being reduced.
4	Capital investment supports the delivery of corporate priorities. There is a systematic process in place for appraising competing demands for spending on assets against corporate priorities.
5	The organisation performance manages the value for money of assets by challenging, managing, benchmarking and monitoring targets for improvement. Asset management performance indicators are used to track performance.
6	The organisation undertakes property reviews that challenge whether all its assets are required, fit for purpose and provide value for money to meet current and future needs. Underperforming or surplus assets are rationalised or disposed of in ways that deliver best value.
7	The organisation is improving the performance of its assets. It is: reducing health, safety and security risks from its assets; upgrading and monitoring facilities; improving access to services; protecting architectural and historical heritage, where applicable.
8	The organisation uses and develops its assets in a way that mitigates environmental impacts, limits the consumption of natural resources and is resilient to the effects of climate change.
9	The organisation evaluates the best option for significant investment decisions in asset developments using option appraisal and whole life appraisals.
10	The organisation is working with others, for example, NGOs, local government and community groups, to identify opportunities for shared use of assets, and alternative options for the management and ownership of its assets, to derive better value for money and wider community benefits.

Table 12 | Communications management practice indicator definition

Ref	Metric Description
1	Communication strategy and activity is explicitly linked to organisational business objectives (in central government, Public Service Agreements and Departmental Strategic Objectives).
2	Communication activity, for the most part, is underpinned by a recorded communications strategy.
3	Communication strategy and annual plan are signed off by the relevant board or equivalent governance group.
4	Communication strategy, plan and activity are based on customer / audience understanding and insight where appropriate.
5	External communication activity is integrated across channels and includes an appropriate mix of marketing, media, digital and stakeholder activity.
6	Communication outputs and outcomes are evaluated through appropriate methods and the findings used to inform future activity.
7	The most senior officer in the organisation with a dedicated communication role is a member of or has a direct report to the board or equivalent management group.
8	Communicators regularly advise policy and business delivery colleagues on the development of strategy.
9	The organisation offers continuing professional development for all our communication staff and all members of staff undertook this activity over the last year.
10	The organisation has driven down the cost of acquiring procured communication products and services this year (i.e. procured services included in Indicator 1: Costs), based on a like-for-like comparison with the previous year.

Table 13 | Legal management practice indicator definition

Ref	Metric Description
1	A time recording system is in place and all legal staff record their time against legal matters.
2	The most senior officer in the organisation with a dedicated legal role has a seat on the corporate management team.
3	The legal unit has costed its internal legal services and developed charge-out rates for its internal lawyers.
4	All requests for legal services are coordinated through the legal services unit.
5	The legal unit has a formal business planning process which deals with its ability to deliver programmes and services.
6	A rigorous process of market testing is adopted when purchasing external legal services involving comparative analysis of all relevant costs and benefits.
7	Our tender specification(s) accurately reflect the expected needs for legal services.
8	We do not have 'evergreen' contracts (contracts that have no expiry date or that include a 'perpetual option').
9	The legal unit undertakes periodic reviews (at least biennially) of their legal services arrangements to ensure that arrangements continue to give value for money to the organisation.
10	There are personal development plans for all legal staff linked to the business planning process and the organisation's objectives.

Capability Maturity Model descriptions

This section describes the capability maturity models (CMMs) that were measured in FY 2011/12 for the Finance and Procurement functions. Capabilities are described along four increasing lines of maturity: 1. lagging; 2. achieving; 3. exceeding; 4. leading.

Table 15 | Finance Capability Maturity Model

Ref	Category	Capability element description
1	Business partnering	Historical versus proactive forward looking reporting and analysis
2	Business partnering	Organizations' 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 16 | Procurement Capability Maturity Model

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