ADMINISTRATIVE AND SUPPORT SERVICES BENCHMARKING REPORT

FINANCE PERFORMANCE FINDINGS
FY 2013/14

Contents

1. COMMENTARY

By Paul Helm, Chief Government Accountant, The Treasury

Commentary (1 of 2)

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

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

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

Commentary (2 of 2)

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

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

In 2014 The Treasury established a new unit known as the Office of the Government Accountant (OGA). Its role includes responsibility for the Financial Statements of the Government as well as leading the finance profession across the public sector. The next 12-24 is months will see OGA working to strengthen strategic financial management across the public sector by focusing on:

2. HIGHLIGHTS

Highlights (1 of 2)

Agencies spent $127.7m on the Finance function in FY 2013/14. The vast majority (approximately 95.3%) of this expenditure is in the medium and large agency cohorts. Across all cohorts, personnel is the largest component of expenditure at 71.3%.

Expenditure is up $7.4m (or 6.2%) since FY 2011/12 when adjusted for inflation. Without adjusting for inflation, there is a nominal spending increase of $8m since FY 2012/13, and a total increase of $10m since FY 2011/12. The net nominal spending increase since FY 2012/13 results from 11 agencies spending $3m less and 15 agencies spending $11m more.

Agencies that reported changes in expenditure cited that restructures had a huge impact on agency resourcing and increased personnel costs. These costs include recruitment costs to fill vacancies, increased use of contractors and consultants, and a greater number of software and training costs in response to an increase in technical roles resulting from restructures.

Agencies reported small efficiency gains in the small and medium cohorts, but the large cohort has become less efficient and there are still opportunities for improvement. Annual gross savings of between $15m and $32m are possible if agencies below median or upper quartile efficiency meet those levels in their cohorts.

Greater gains are possible from a more effective finance function than from a more efficient one. A lower cost finance function is not attractive unless it can meet agency requirements for business insight and value management. Even a 1% improvement in the value of organisational running costs across the participating agencies for FY 2013/14 ($15.1b) represents $151m annually.

Highlights (2 of 2)

New Zealand Agencies have a greater proportion of Finance staff in transactional versus strategic roles than international comparators. New Zealand agencies allocate over half (55.7%) of finance FTE's to three transactional processes; process of payroll, accounts payable and general accounting, compared to 35.1% for international comparators. There is opportunity to create a more efficient finance function through leveraging scale of these processes among agencies, which will allow for increased strategic finance activities.

The cost of strategic financial management activities makes up a very small portion of the total finance cost. A new indicator has been introduced for FY 2013/14 to measure the level of strategic financial management activity being undertaken by agencies. The results show that the median cost of strategic financial management activities as a percentage of the total Finance cost is less than 10% across all the agency cohorts, with the large cohort's median significantly lower at 4.6%. This also indicates that there is still a heavy focus on transactional activities rather than strategic financial management activities across agencies.

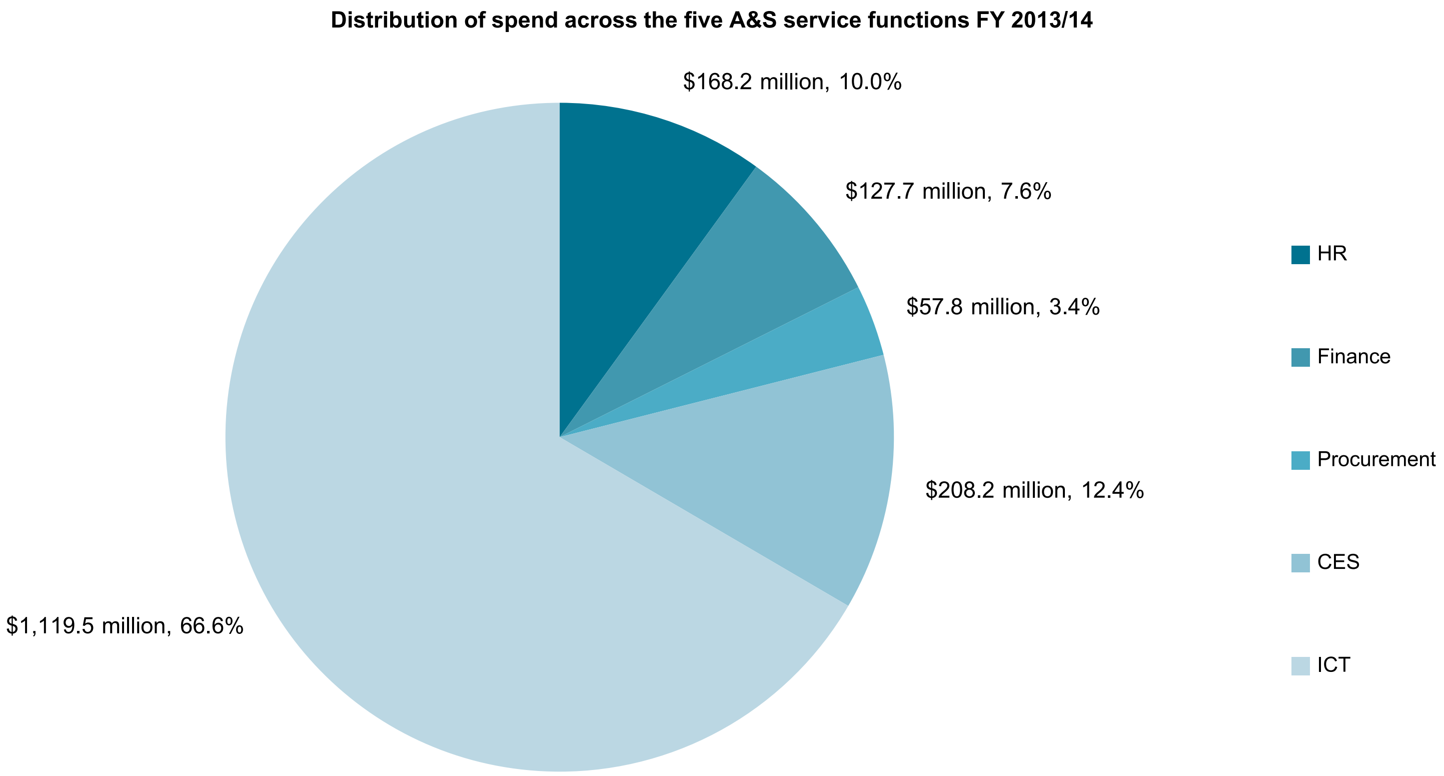
Agencies have aspirations to make significant improvements to increase the strategic value the finance function offers the agency . The two highest priority areas for improvement are historical versus proactive forward looking reporting and analysis; and forecast timeliness, accuracy and usefulness. Agencies also reported that there are the most initiatives currently in place for these two priority areas as well as Budget process linkage to strategic or business planning processes.

Agencies also continued to rank the organisation's view of finance's role, and the extent to which finance staff have the skill set and business acumen to partner with operations management, as the areas with the highest level of aspiration.

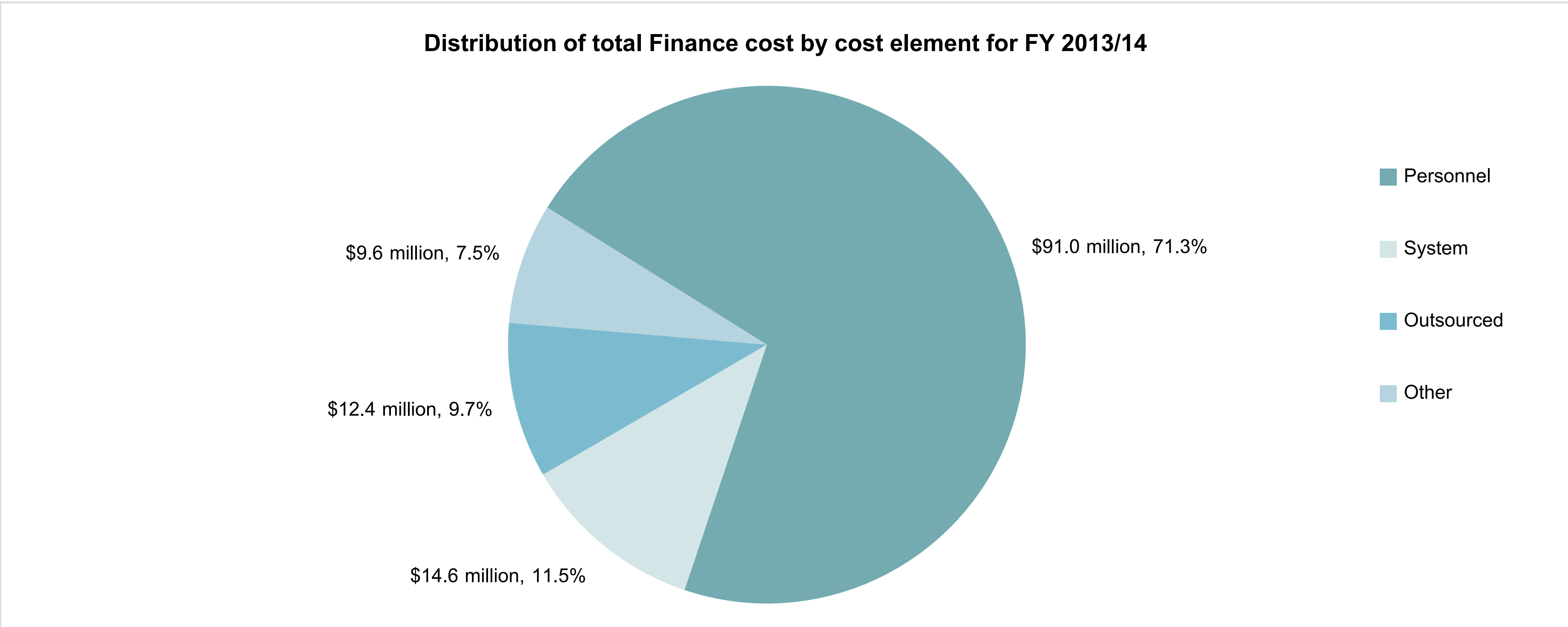
3. COST

Cost findings include total spending overall and by agency cohort. This section also provides information about changes in spending since the previous reporting period both in nominal and inflation-adjusted terms.

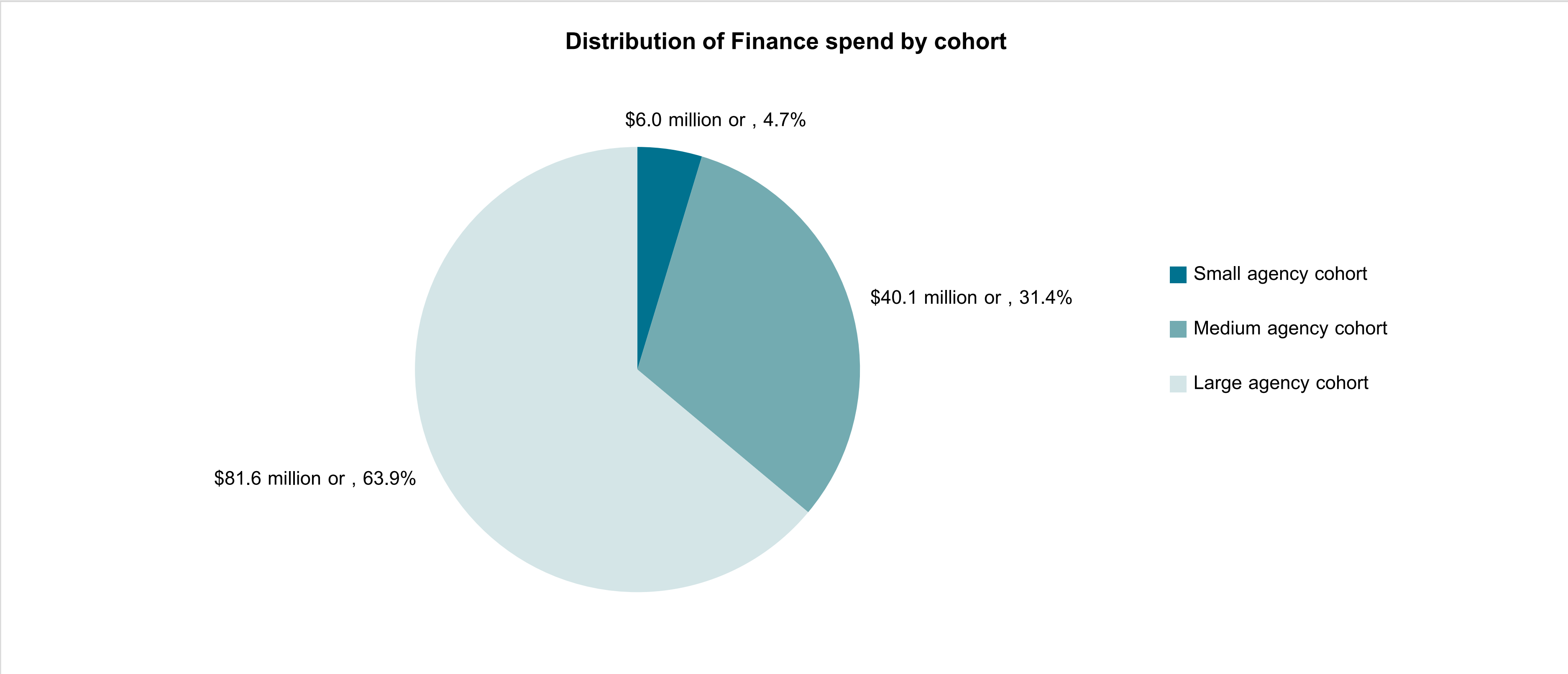
Agencies spent $127.7m on Finance in FY 2013/14, making it 7.6% of A&S service spending and the fourth largest function by expenditure



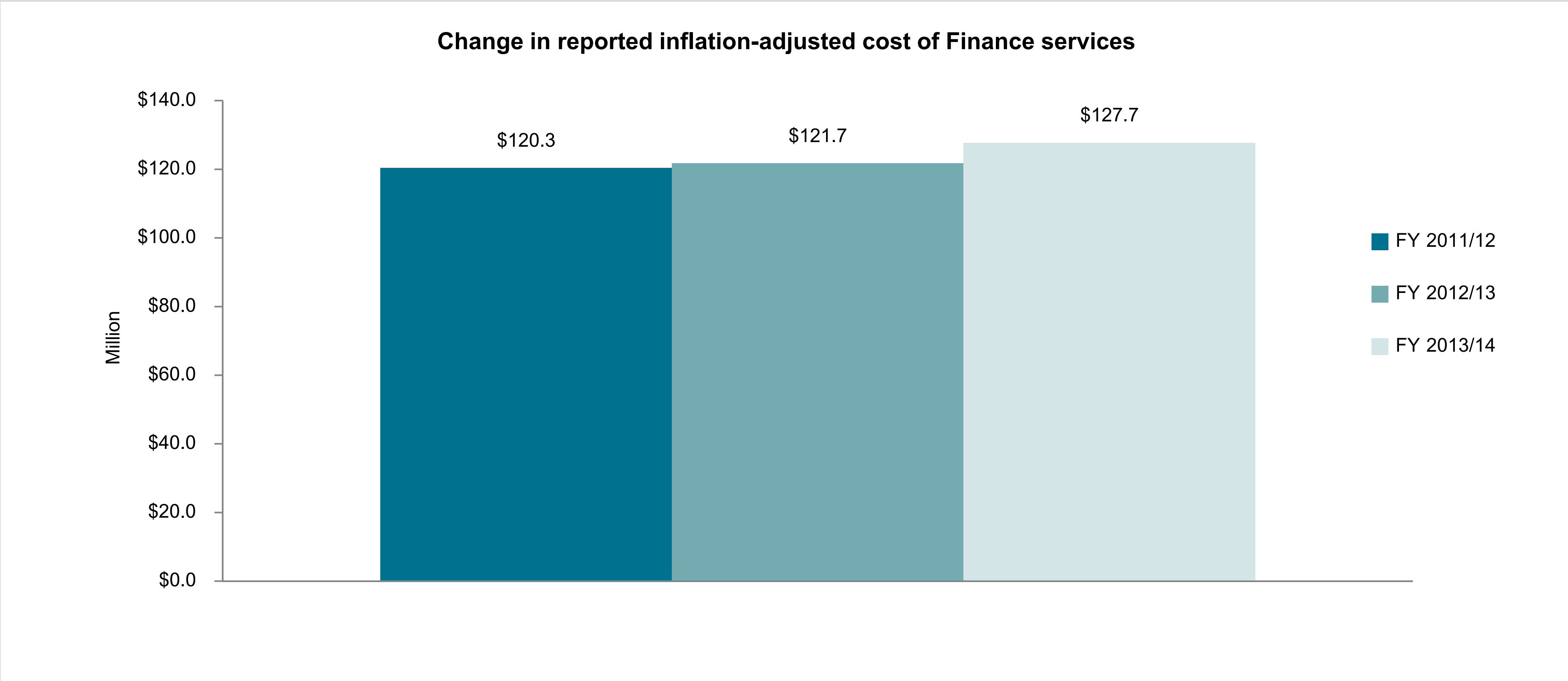
Personnel costs of $91m made up 71.3% of Finance expenditure in FY 2013/14



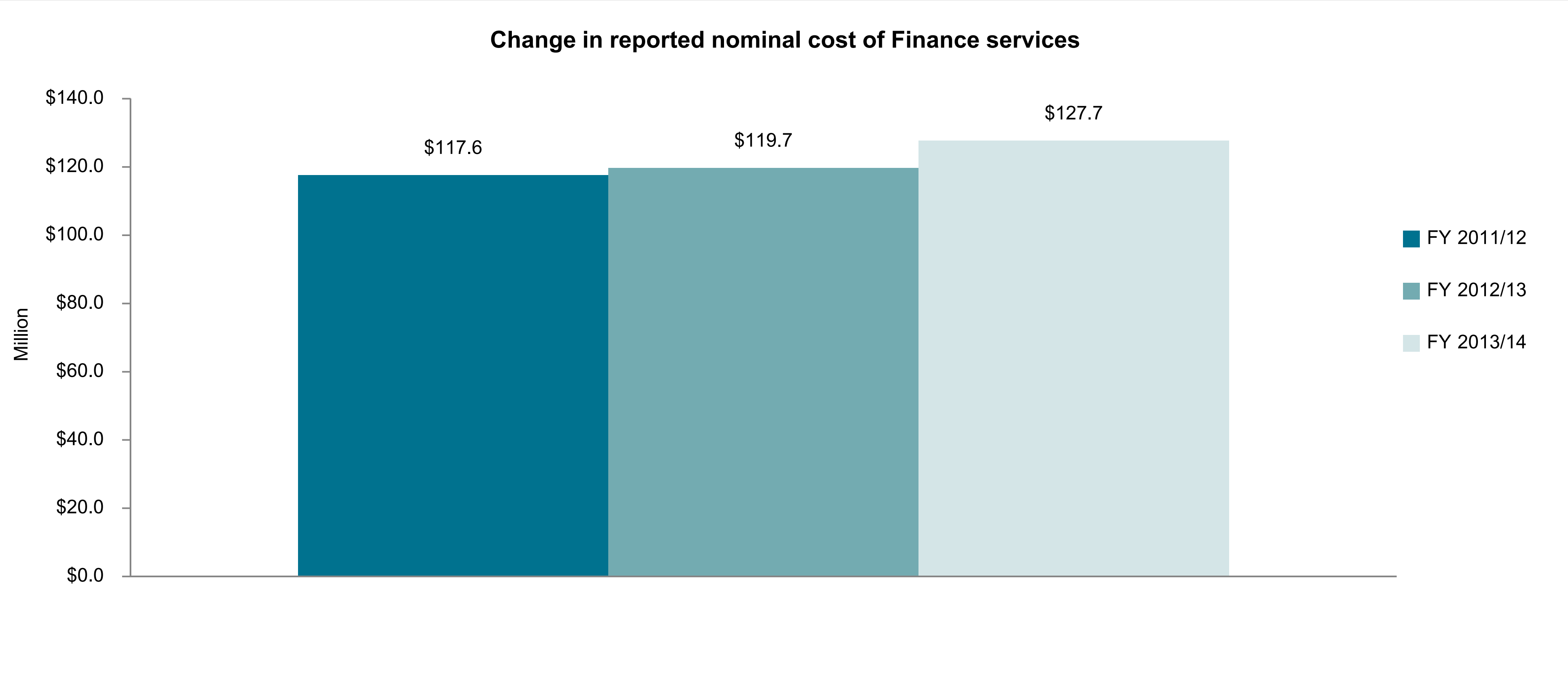
The medium and large agency cohorts made up 95.3 % of Finance service expenditure



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



Agencies reported a nominal spending increase of $8m (or 6.7%) between FY 2012/13 and FY 2013/14



A closer look at spending within agencies shows that changes resulting from restructures affected agency resourcing and personnel costs which were the main cost drivers

A net nominal spending increase of $8m between FY 2013/14 and FY 2012/13 results from 11 agencies spending $3m less and 15 agencies spending $11m more

What we learned from agencies that spent less this year

- Two of the 11 agencies reported $2.5m (or 81%) of the reported $3m reduction
- Two common reasons cited for cost reductions were:

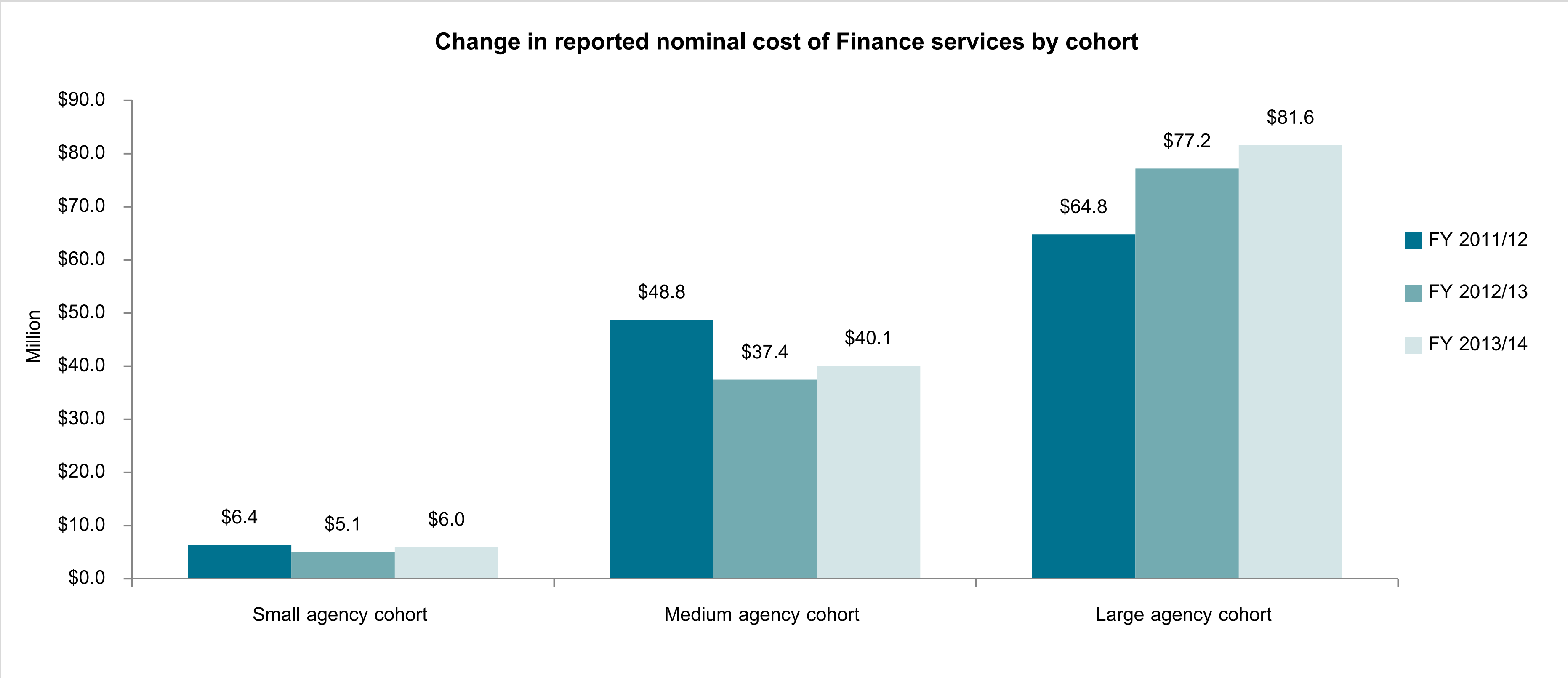
1. Reduction in redundancy costs
2. The integration of finance systems , and reductions in resources to support the new systems

What we learned from agencies that spent more this year

- Five of the 15 agencies reported $9m (or 82%) of the reported $11m increase
- Common reasons cited for cost increases were:

1. Increased personnel costs related to filling vacancies, and the establishment of new positions post restructures
2. Increase in contractors filling vacancies in response to the FTE cap
3. Greater number of software and training costs in response to increase in technical roles resulting from restructures

The small and medium agency cohorts have remained flat since FY2012/13 while the large cohort has reported year-on-year increases, even when the MBIE merger is taken into account



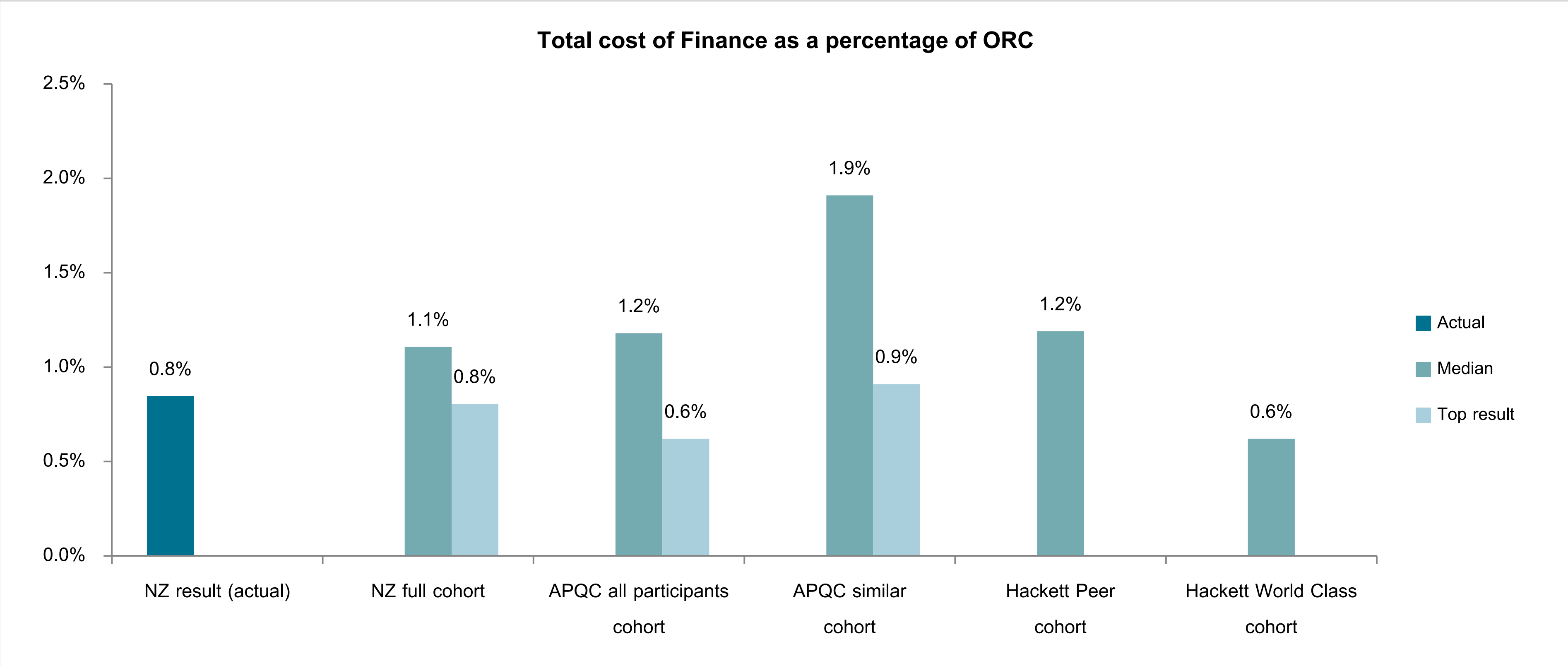
Note Caveat : The Ministry of Business, Innovation and Employment (MBIE) merger had an impact on the comparative metrics across cohorts, with Department of Building and Housing (DBH) moving out of the small agency cohort, and Department of Labour (DOL) and Ministry of Economic Development (MED) out of the medium agency cohort, to now all be included in the large agency cohort as MBIE. Note that the significantly lower costs for the large cohort, and higher costs for the small and medium cohorts in FY 2011/12, relate to this merger. DBH, DOL and MED spent $1.3m, $4.7m and $2.5m respectively on Finance in FY 2011/12. If these costs ($8.5m) were reflected in the large cohorts costs for FY 2011/12 the relative cost would be $73.3m. Please see the data quality section of this chapter for more detail.

4. EFFICIENCY

Efficiency findings report on the ratio of input to output (or the use of resources in a manner that minimises cost, effort, and time) as well as opportunities for efficiency gains and their implications for gross savings. This section also compares cohort efficiency with international comparators (American Productivity and Quality Center (APQC) and The Hackett Group) and examines changes in efficiency since previous reporting periods.

Efficiency findings are predominantly based on one metric: the total cost of Finance as a percentage of ORC, where a lower cost is considered more efficient.

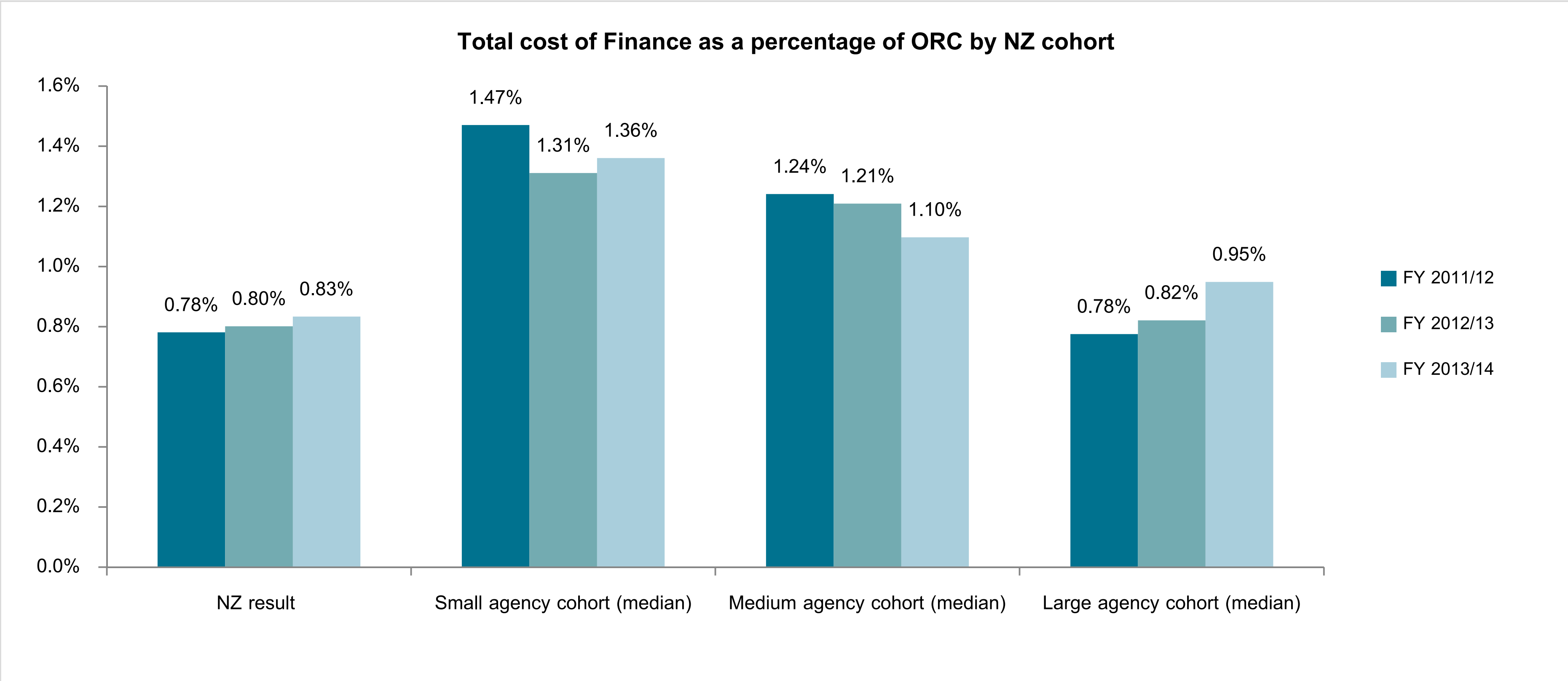
Finance cost as a percentage of ORC is unchanged from FY 2013/14 and continues to show strong efficiency against benchmarks, but there are reasons to be cautious with this assessment



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

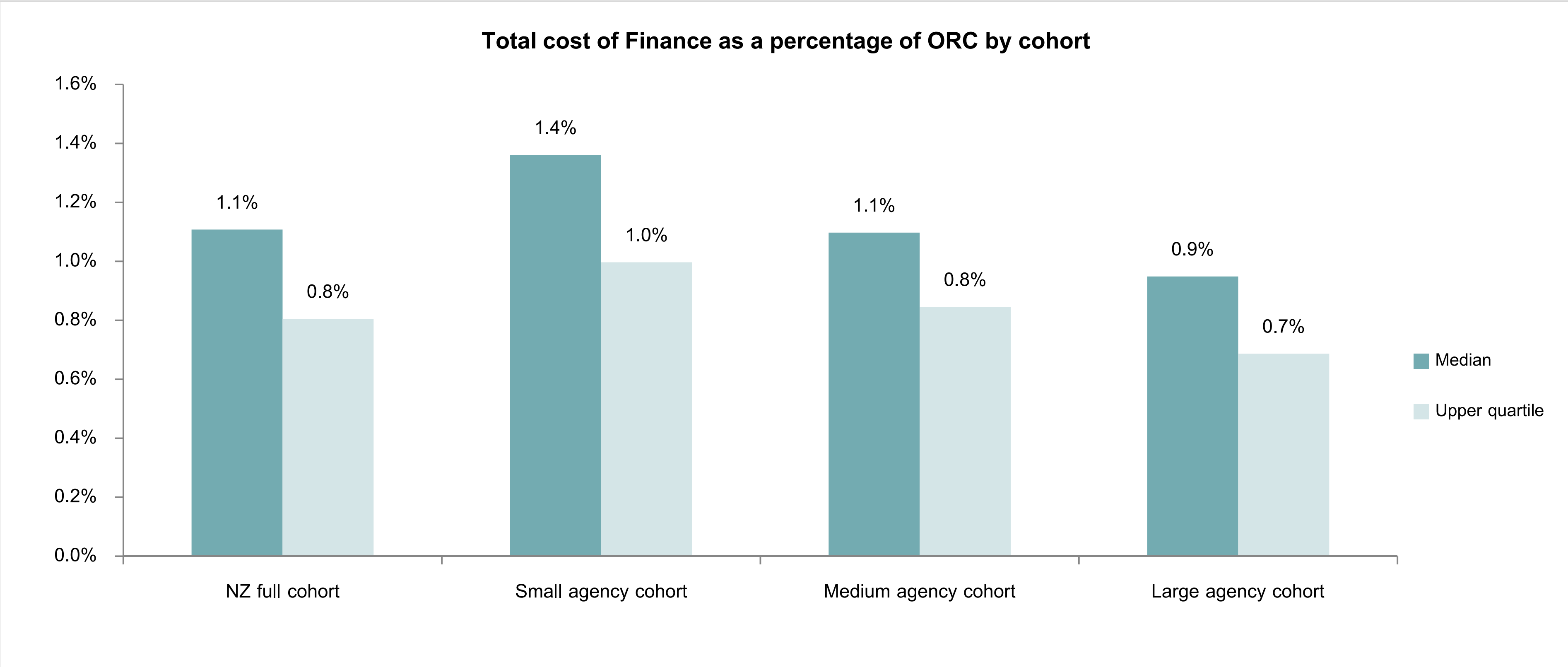
1. In many agencies, the strategic end of the Finance function is not being performed effectively, and these activities are being completed (and costed) for international comparators. A new indicator has been introduced for FY 2013/14 to measure the level of strategic financial management activities being undertaken by agencies.
2. New Zealand remuneration for the Finance function is lower than international comparator organisation countries, which has a material impact on the efficiency findings. Efficiency measurement exercises undertaken by the Hackett Group outside of BASS over the same period show a large number of FTEs performing this function compared to top quartile comparators.

Small efficiency gains can be seen in the small and medium cohorts since FY 2012/13, whereas the large cohort has become less efficient since FY 2011/12



The New Zealand result has remained relatively flat since FY 2011/12.

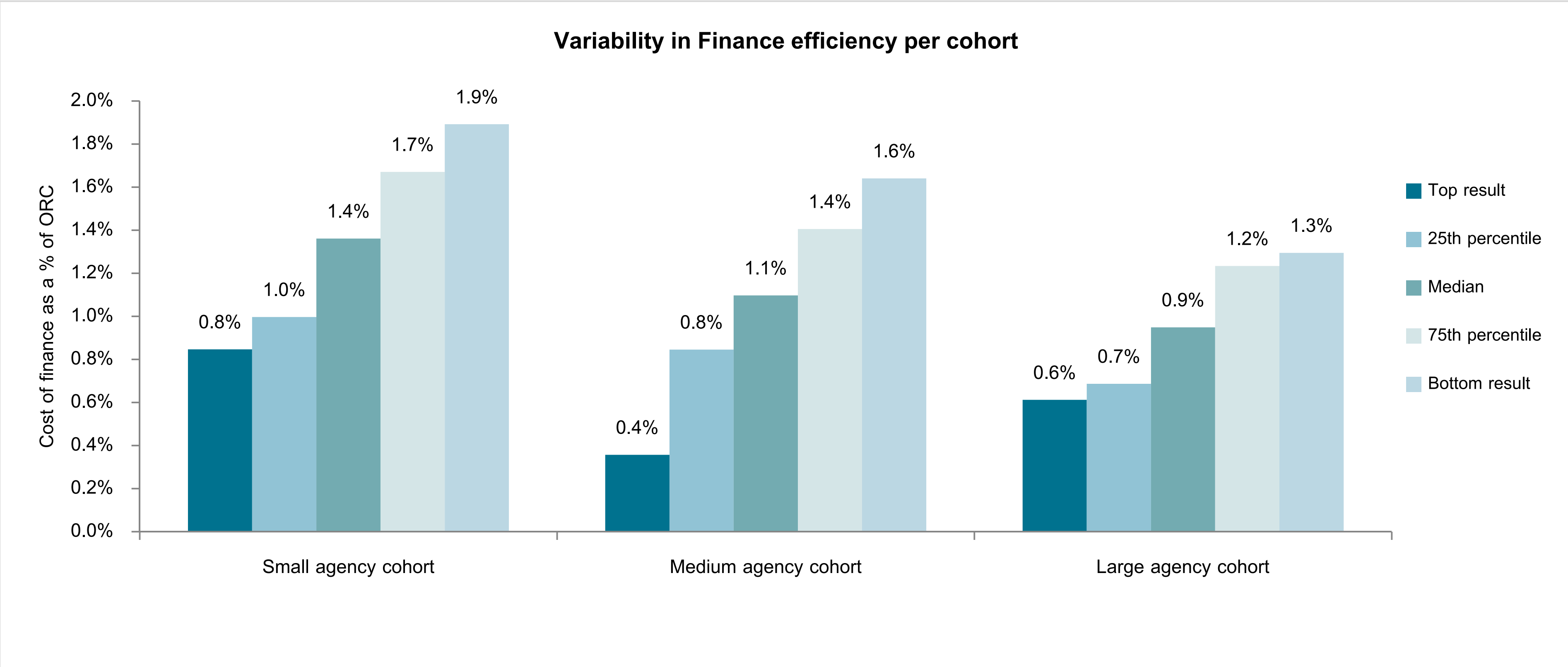
Across the cohorts results are relatively unchanged from FY 2012/13, as with previous years, the small agency cohort is less efficient than the other cohorts



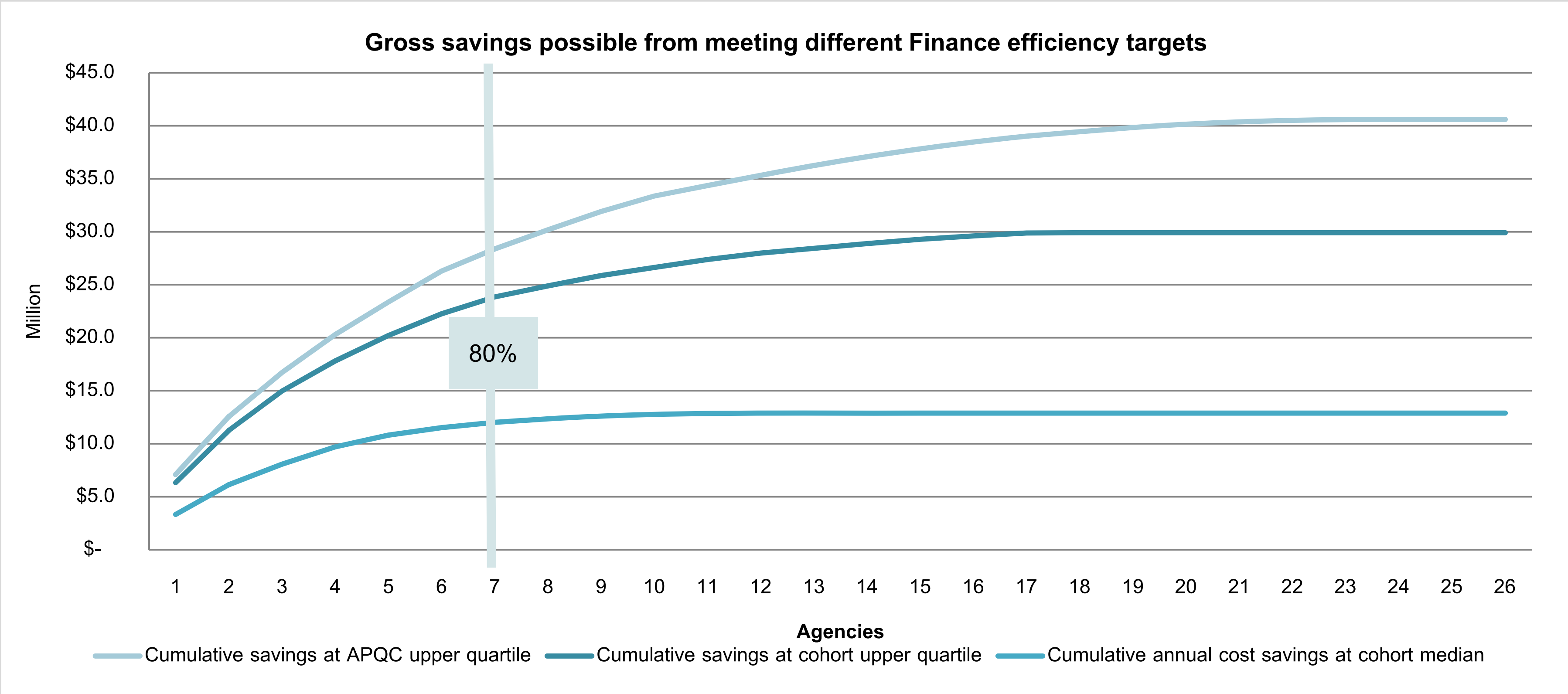
Three factors are likely to have contributed to this result:

- 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.

Across all New Zealand cohorts, there is variability in the cost of Finance as a percentage of ORC

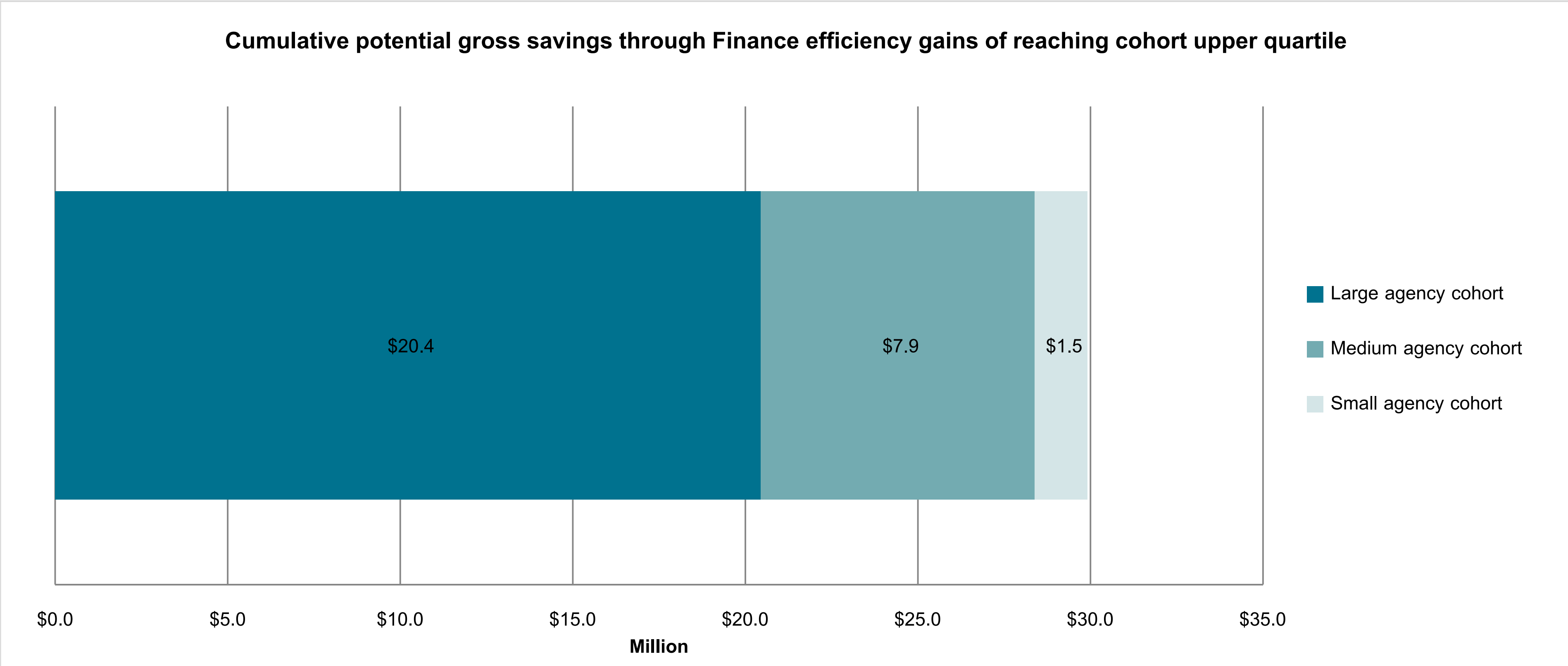


Annual gross savings of between $12.9m and $29.9m are possible if agencies below median or upper quartile efficiency meet those levels in their cohorts

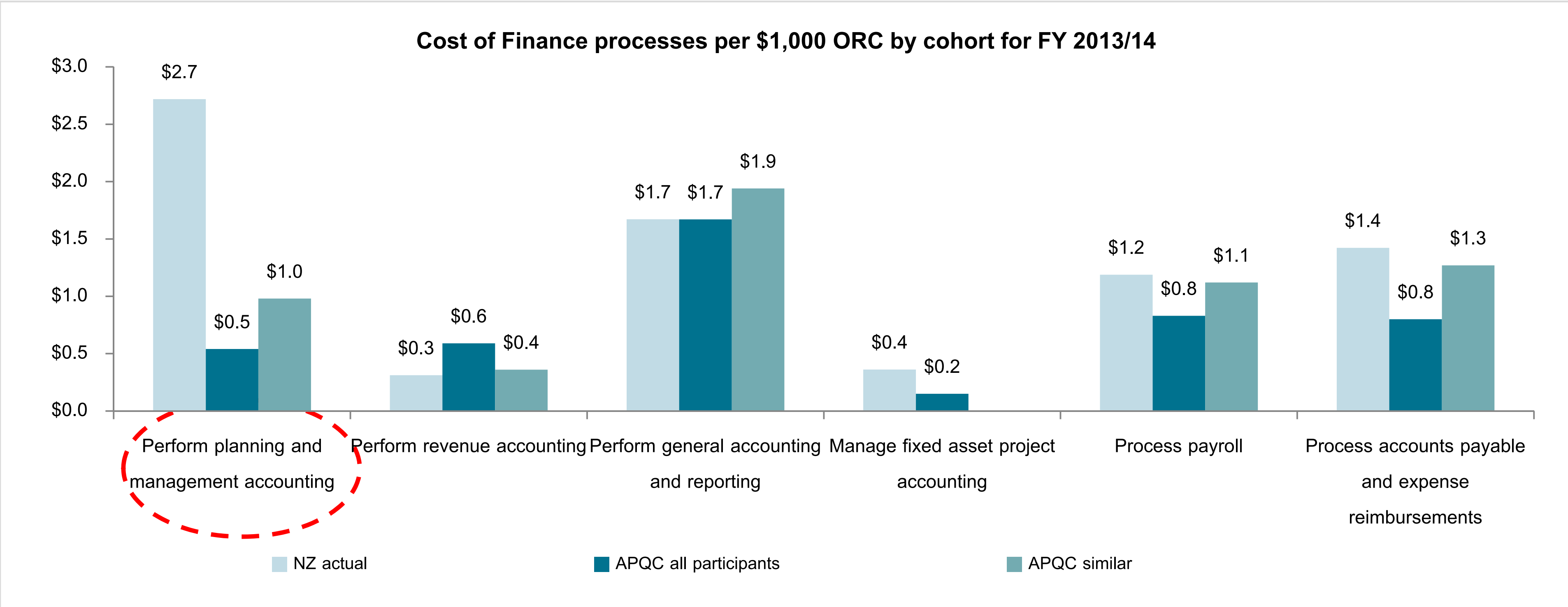


The New Zealand full cohort upper quartile result is significantly lower than the APQC upper quartile. If New Zealand agencies met the APQC upper quartile level; this would result in significantly greater savings of $40.6m.

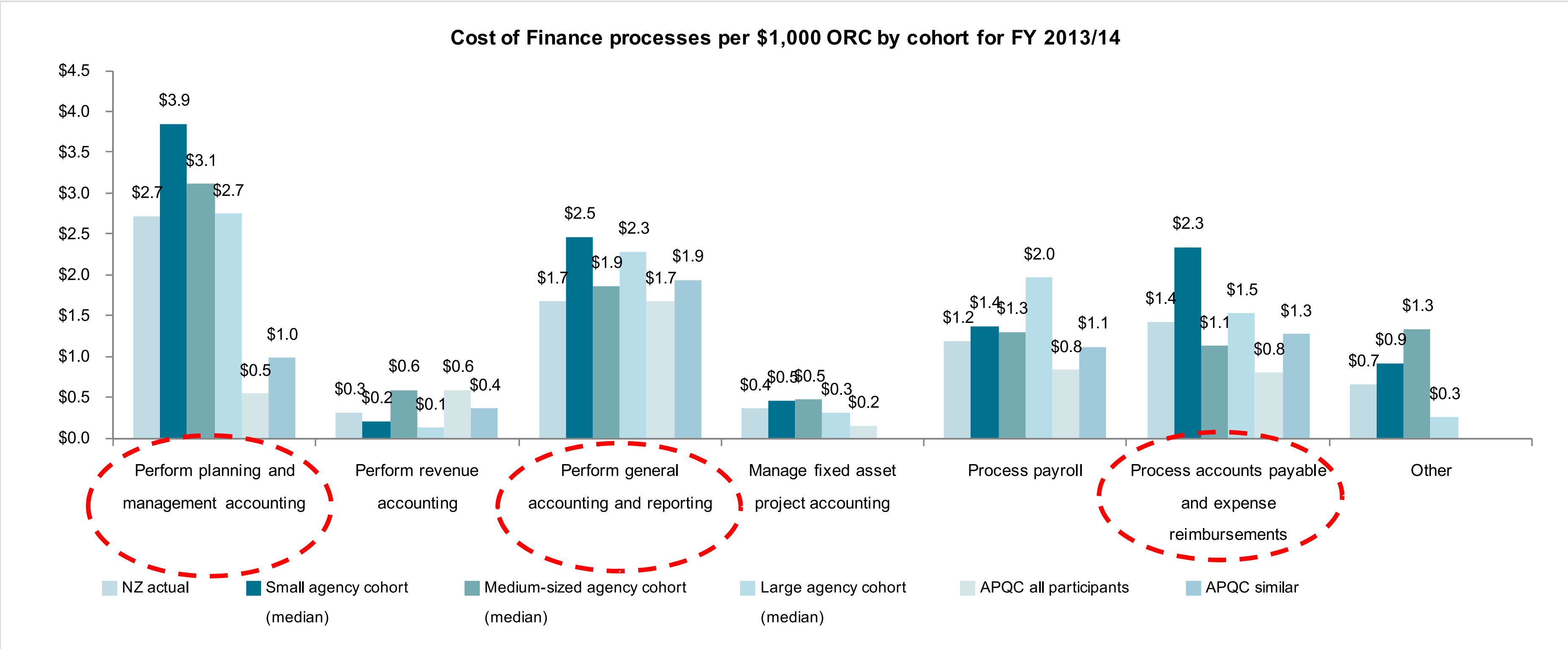
While small agencies are the least efficient overall, the greatest potential for gross savings are in medium and large agency cohorts



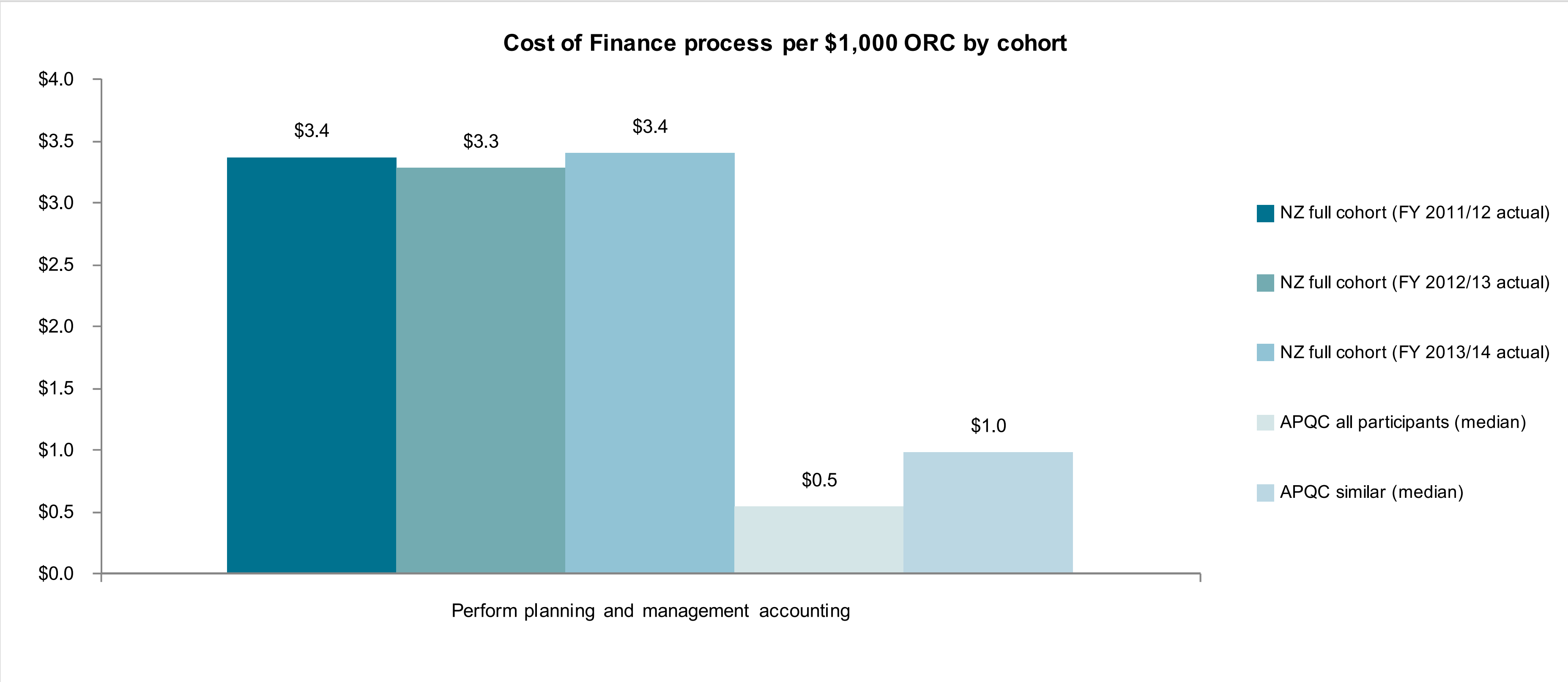
At a process level , overall the New Zealand full cohort efficiency is fairly consistent with benchmarks, except for the planning and management accounting process which is significantly less efficient



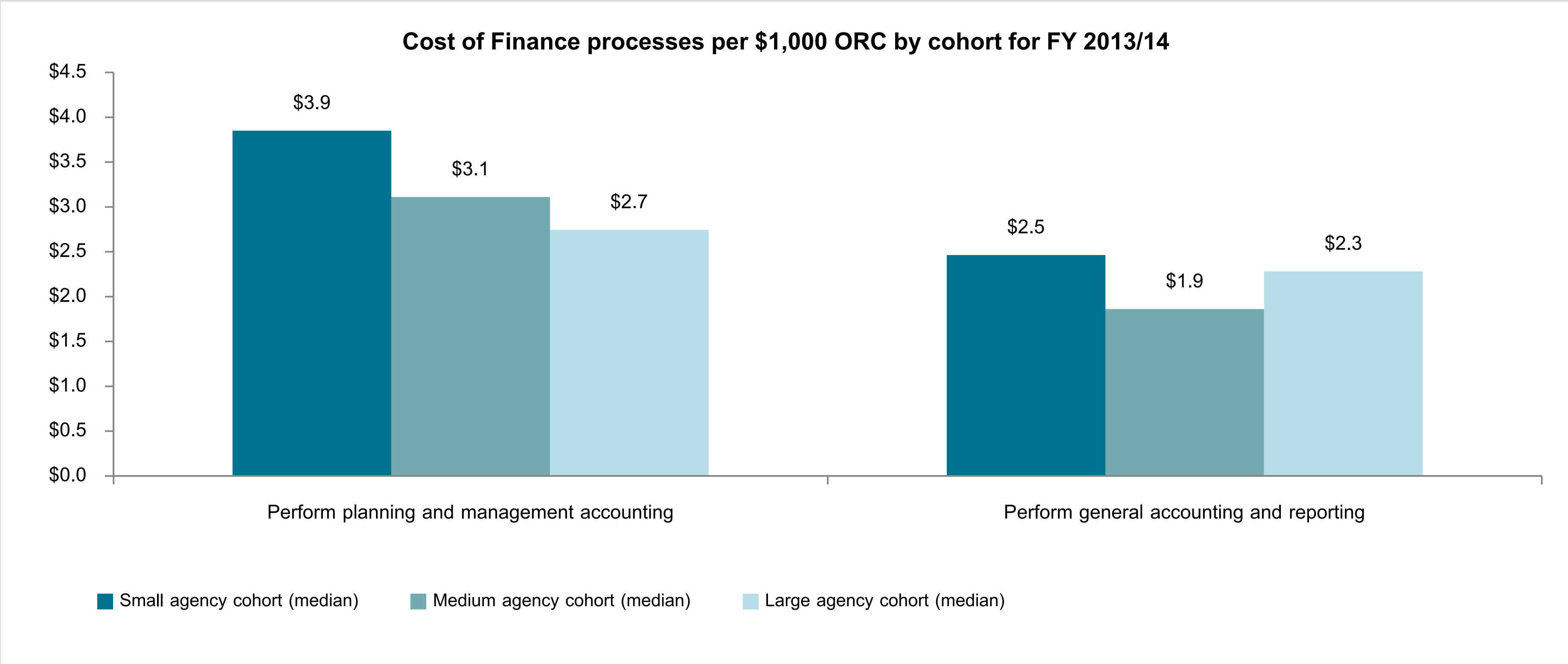
The small agency cohort is less efficient than the medium and large cohorts in three of the seven processes



New Zealand agencies have reported minimal efficiency gains in planning and management accounting and continue to lag international comparators considerably



The small agency cohort is significantly less efficient for two processes



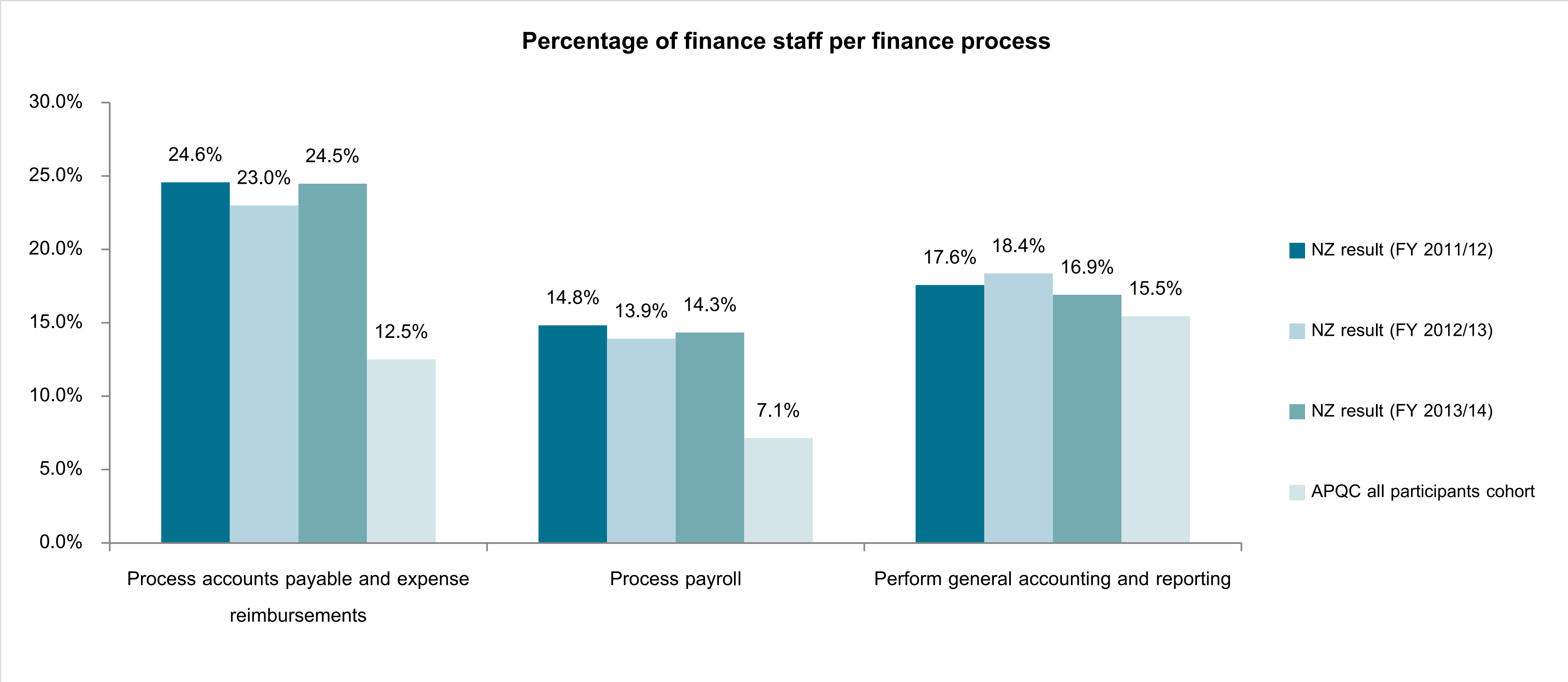
The percentage differences in process costs against the leading cohort for the two processes are as follows:

- Planning and management accounting for the small agency cohort is 44% higher than the large agency cohort
- Process accounts payable and expense reimbursements for the small agency cohort is 31% higher than the medium agency cohort.

5. EFFECTIVENESS

Effectiveness findings report on the extent to which Finance activities achieve intended or targeted results. Effectiveness is measured by percentage of finance staff per finance process, the cost of strategic financial management activities and a Capability Maturity Model (CMM).

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

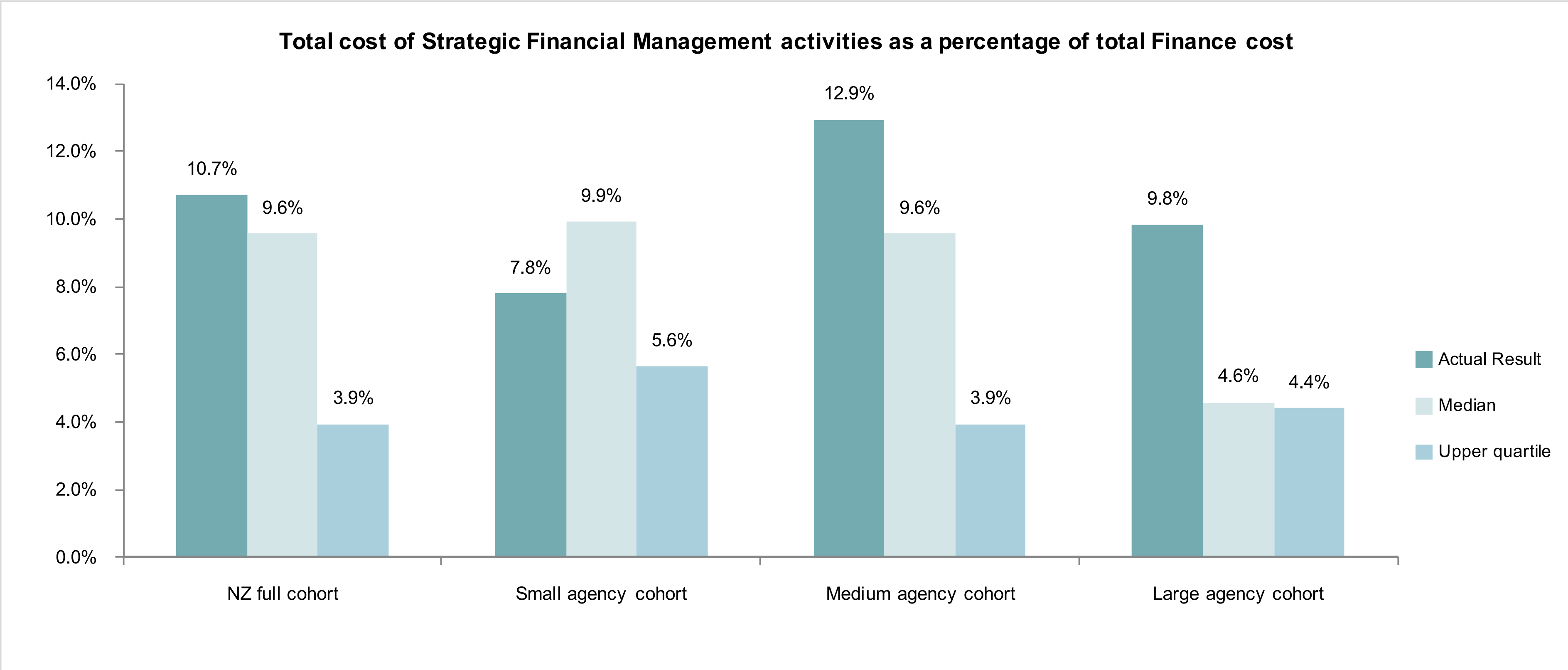


For New Zealand agencies, 55.7% of all Finance FTEs are allocated to the three processes displayed in the graph above, compared to 35.1% for the APQC all participants cohort. This difference shows that New Zealand agencies spend a disproportionate amount of effort on transaction processing.

The leveraging of scale among the finance processes of payroll, accounts payable and general accounting represents the easiest opportunity to create a more efficient finance function for the agencies.

These processes lend themselves to easier and faster consolidation than can be achieved for processes such as planning and management accounting.

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



The median cost of Strategic financial management activities is less than 10% across all the agency cohorts, with the large cohort's median significantly lower at 4.6%. This indicates that there is still a heavy focus on transactional activities rather than strategic financial management activities across agencies.

This is a new Metric for FY 2013/14

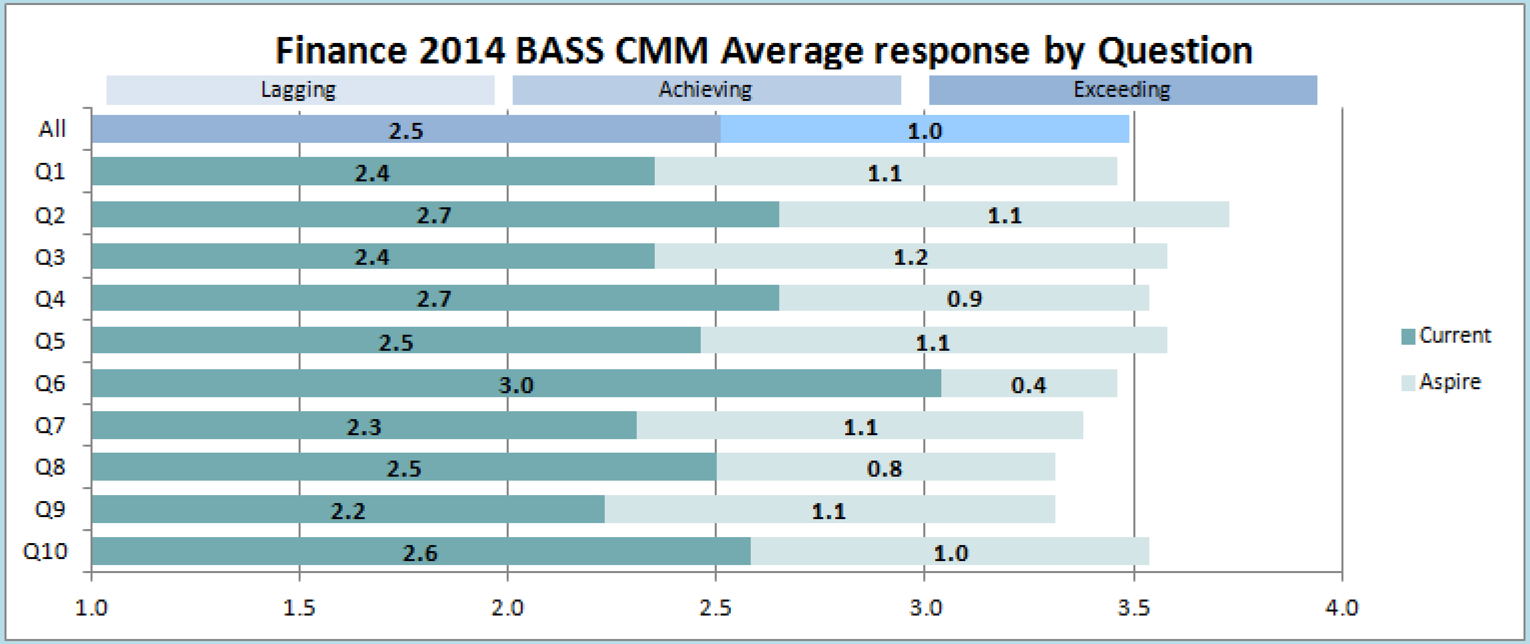
The Finance Capability Maturity Model (CMM) was introduced in FY 2011/12 to improve the effectiveness measurement of the Finance function

The CMM framework enables agencies to indicate current and future assessments of their financial maturity, their priorities and any initiatives in progress.

Agencies were asked to respond to ten questions with a rating of 1-4 for both their current and aspirational state, where 1 = lagging, 2 = achieving, 3 = exceeding, 4 = leading.

The model is based on a methodology from The Hackett Group.

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



Q1 - Historical versus proactive forward looking reporting and analysis.

Q2 - Organizations' view of Finance's role.

Q3 - Budget process linkage to strategic or business planning process.

Q4 - Management's ease of access to relevant, timely and consistent information.

Q5 - Forecast timeliness, accuracy, and usefulness.

Q6 - Length of close and reporting cycle time, along with focus of time spent during that process.

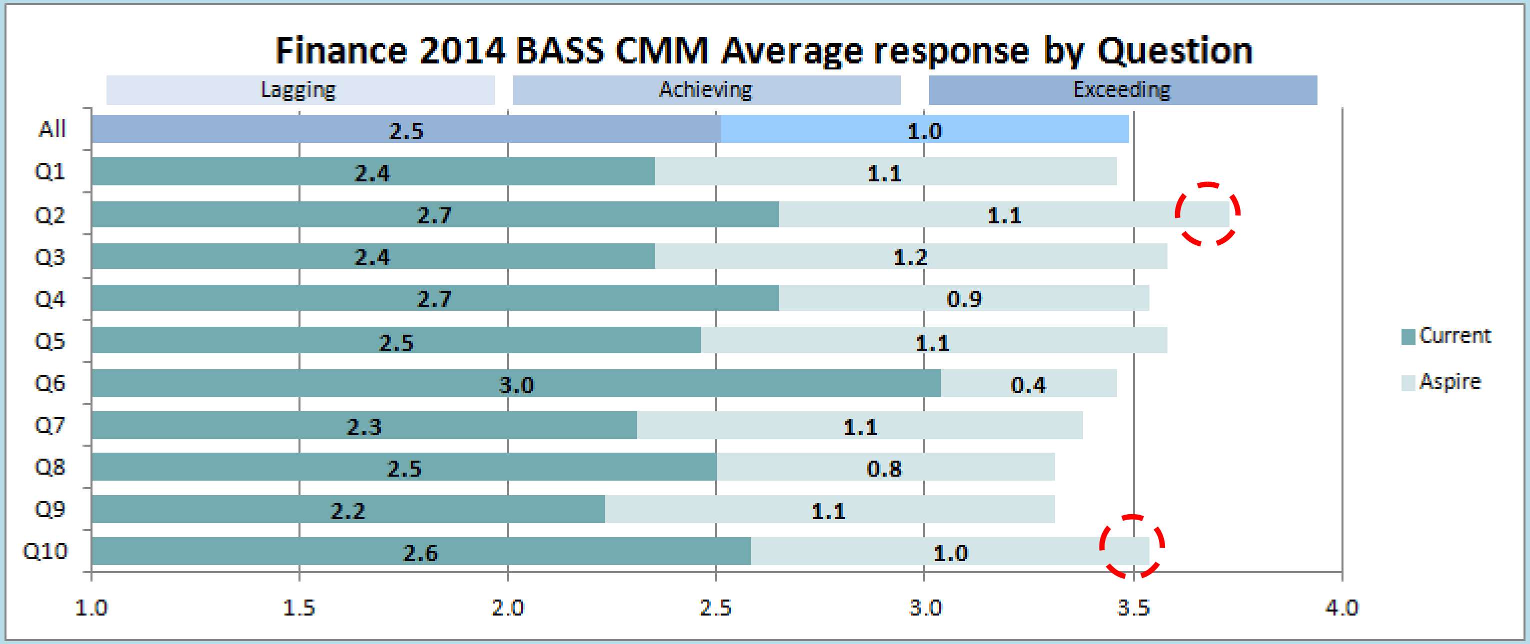
Q7 - Extent systems are cost-effective and leverage information.

Q8 - Extent to which transaction processes are automated

Q9 - Focus with respect to value of actions, decisions and processes.

Q10 - Extent to which finance staff have skill set and business acumen to partner with operations management.

Across agencies, organisation's view of finance's role (Q2) and business partnering (Q10) continue to have the highest level of aspiration



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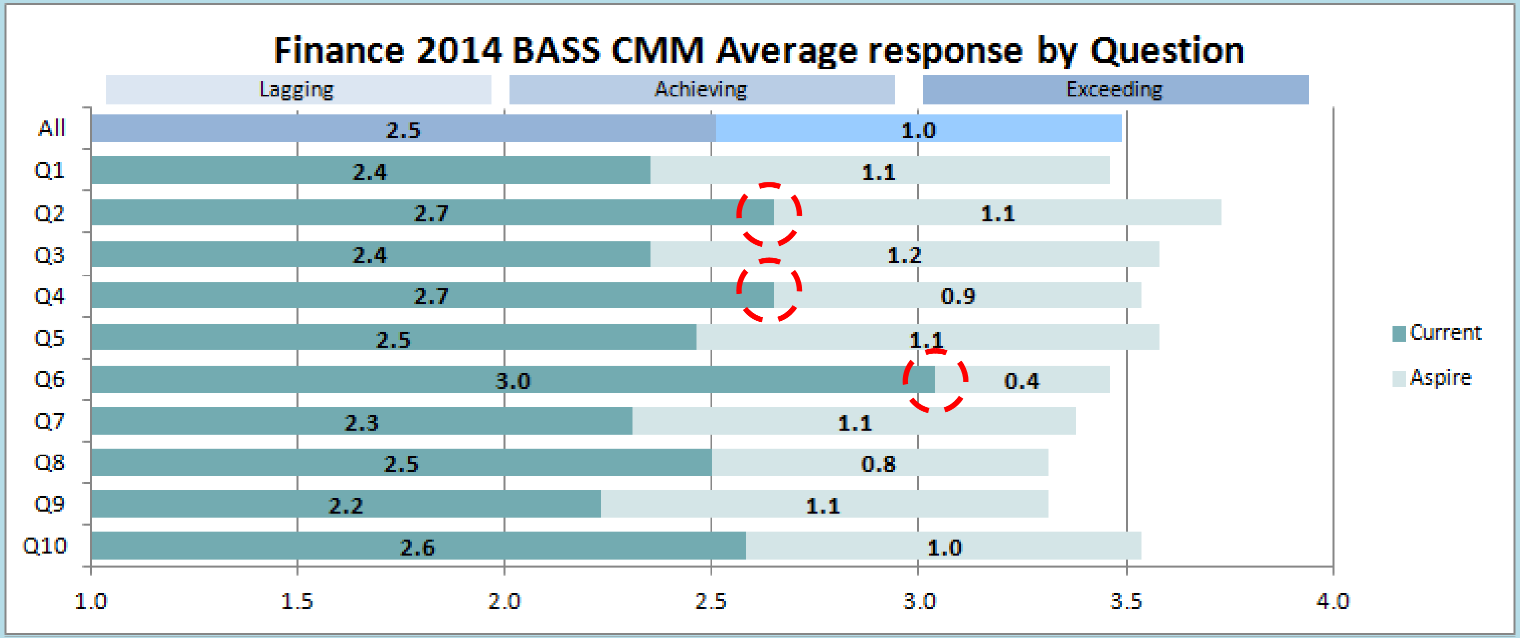
Agencies rated the organisation's view of finance's role(Q2) Management's ease of access to relevant, timely and consistent information (Q4)and length of close and reporting cycle time (Q6) as their most mature practices



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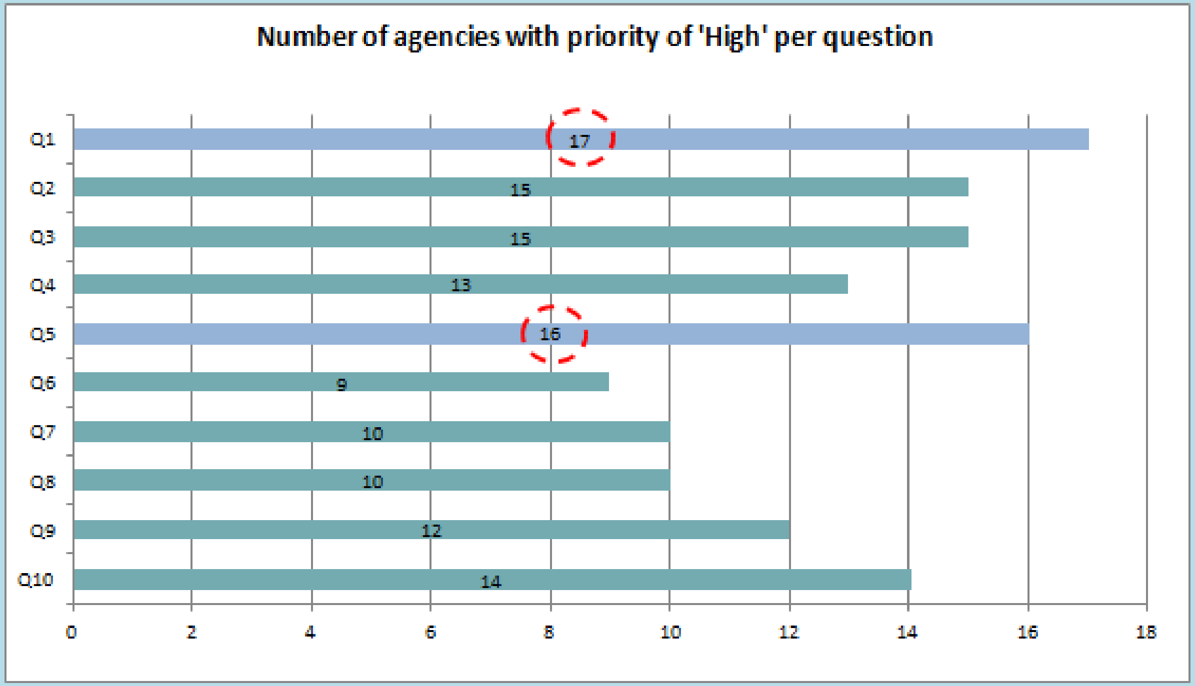
There has been significant improvement in current maturity for Q6, moving from 2.7 to 3.0 since FY 2012/13

The two highest priority areas for improvement are historical vs proactive forward-looking reporting and analysis; and forecast timeliness, accuracy and usefulness



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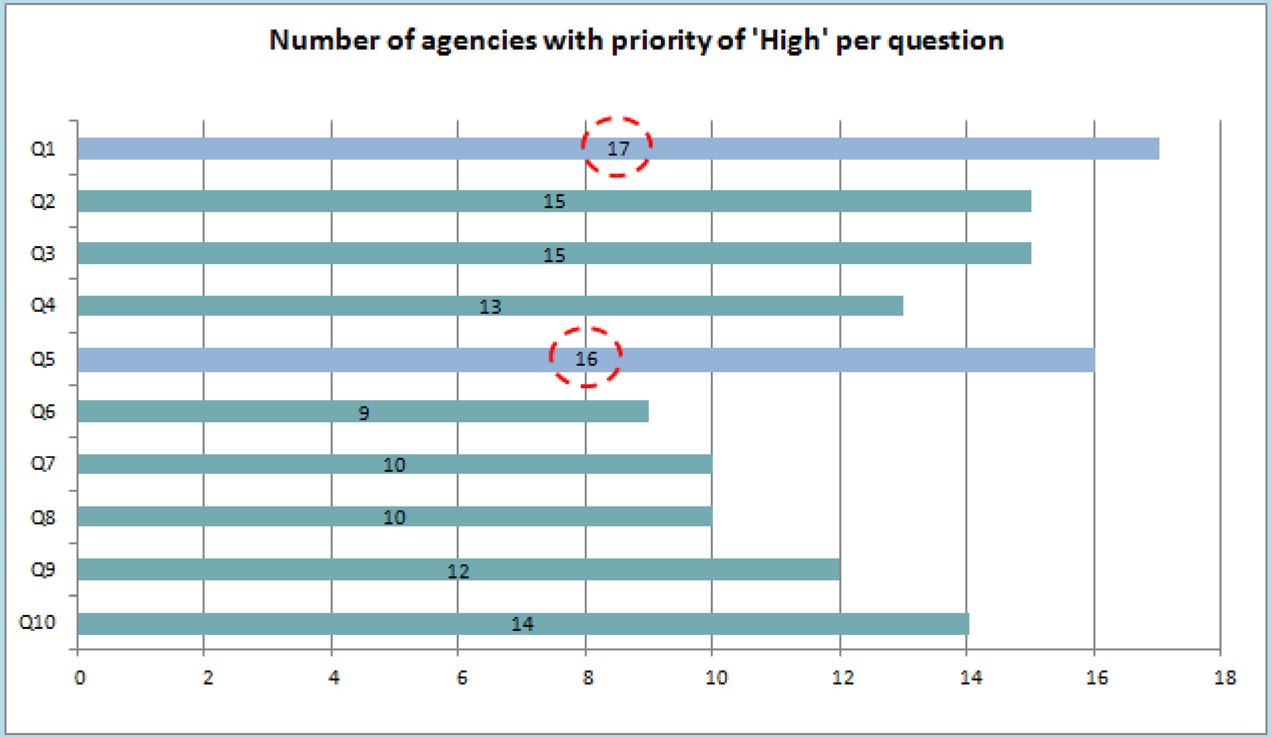
Q9 - Focus with respect to value of actions, decisions and processes.
Q10 - Extent to which finance staff have skill set and business acumen to partner with operations management.

…and the three areas with the most improvement activity are historical vs proactive forward-looking reporting (Q1), budget process linkage to planning (Q2) and forecast timeliness, accuracy and usefulness (Q5)



Number of Agencies with Initiatives in Progress

Q1 - 24

Q2 - 20

Q3 - 23

Q4 - 21

Q5 - 23

Q6 - 14

Q7 - 20

Q8 - 20

Q9 - 22

Q10 - 20

Q1 - Historical versus proactive forward looking reporting and analysis.

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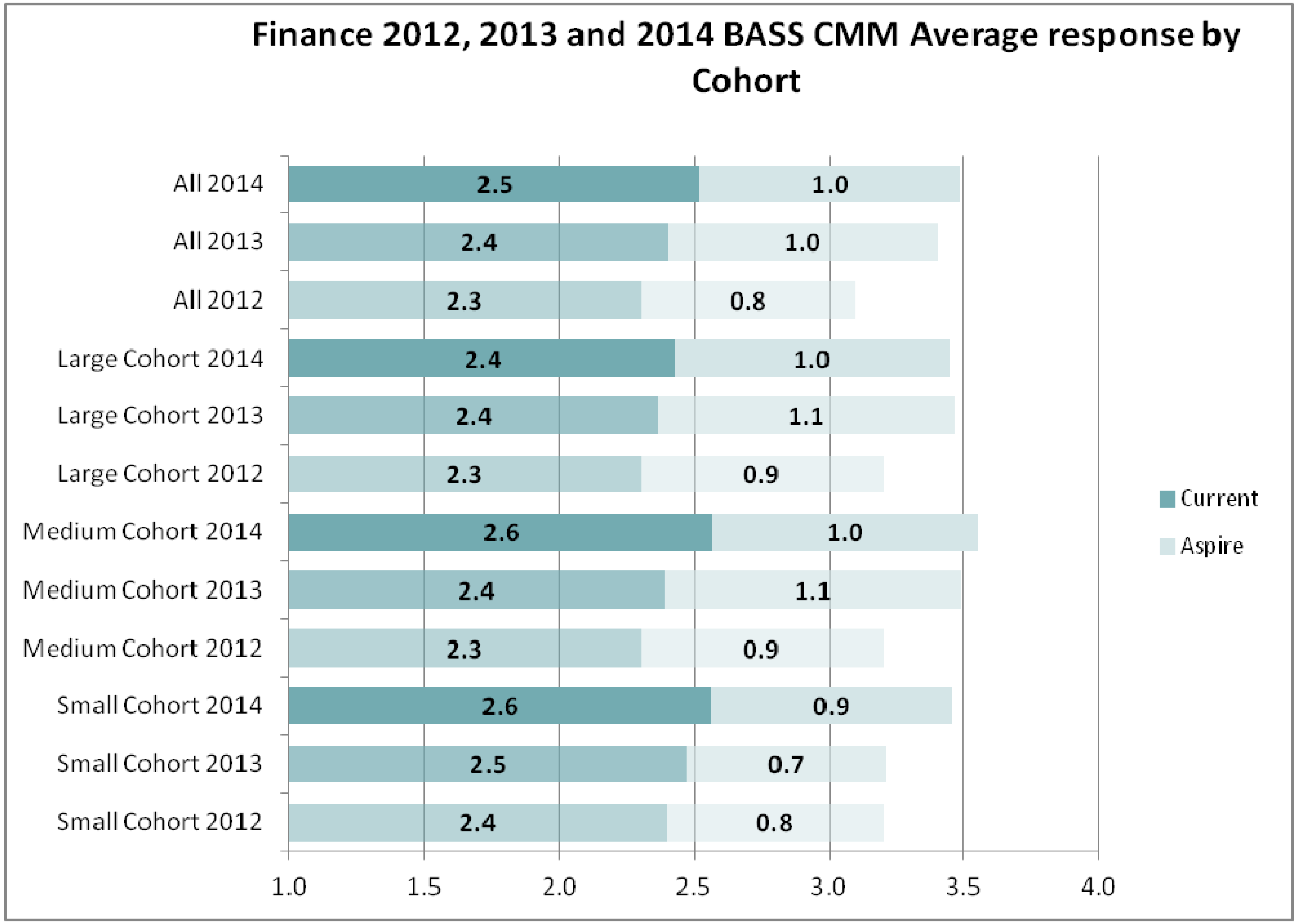
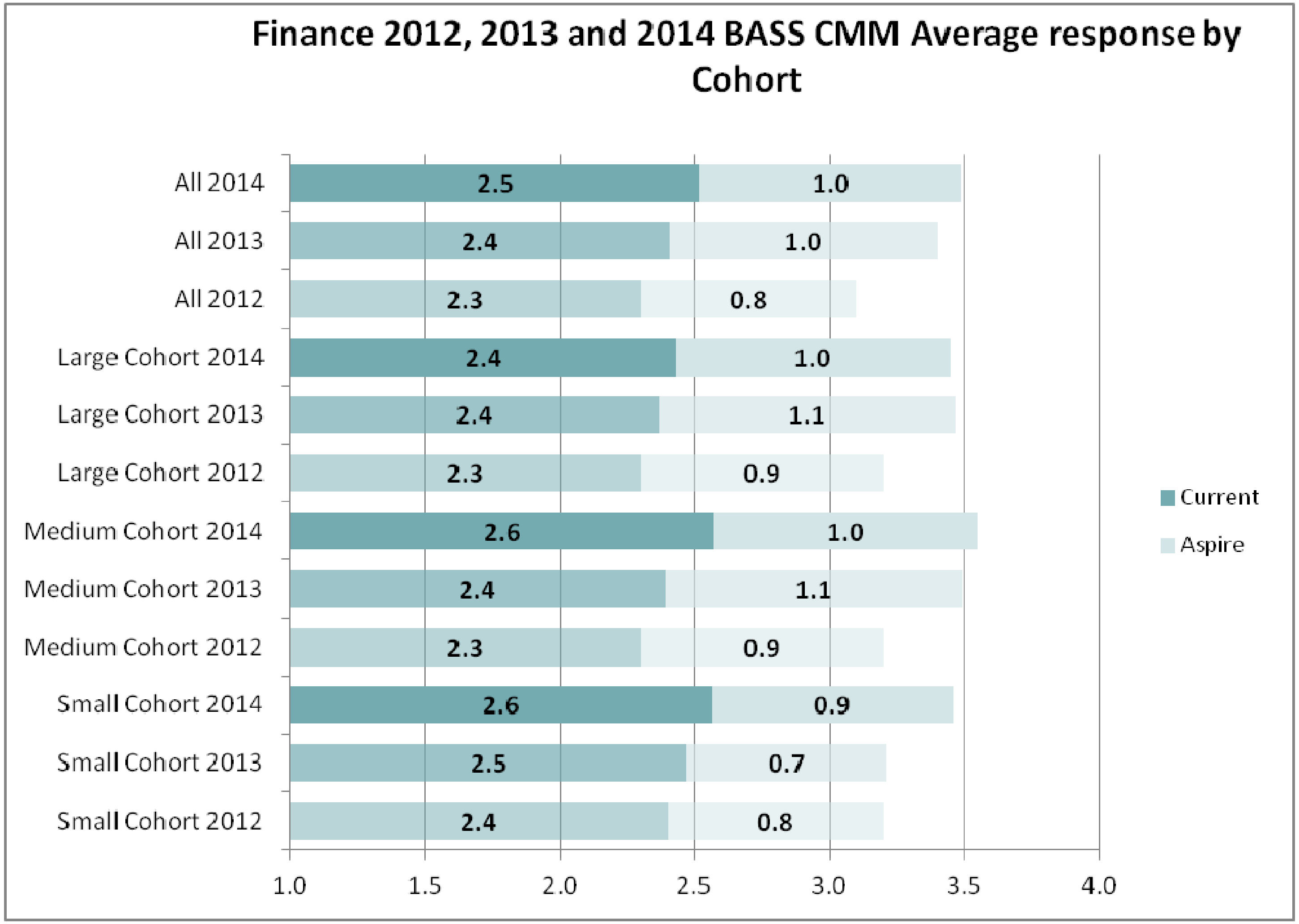
Overall and in each cohort, agencies reported improvements in their practice maturity levels since FY 2012/13



...and future aspiration levels have increased for all cohorts except the large cohort since FY 2012/13



6. 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 section in the summary BASS report includes common quality of management information findings across all functions that are not repeated in this chapter.

Benchmarking of Administrative and Support Services is guided by five principles:

1. **Metrics are selected with practitioners across government.** Selection is based on three criteria:
   - Metrics reflect performance – they provide meaningful management information that can support business decisions.
   - Results can be compared – they are comparable across New Zealand agencies and comparator groups.
   - Data is accessible within agencies – the measurement costs are reasonable.
2. **Methods and results are transparent.** The Treasury makes its metric calculation methods and underlying definitions publicly available along with the results of individual measurement agencies to promote transparency, facilitate discussion and debate, and to support collaboration with other jurisdictions undertaking similar exercises.
3. **Performance results should be understood within the operational context of each agency.** While agencies have common features, each has their own unique functions and cost drivers that need to be considered when interpreting results. For example, results can be expected to differ depending on whether an agency is asset intensive, has large service delivery activities, has a wide range of activities (eg, multiple votes) or is supporting significant non-departmental activity. Accordingly, benchmarking results are only a guide to relative performance, and conclusions regarding efficiency and effectiveness should be made in light of each agency's operational context, with comparators chosen according to which function within a particular agency is being reviewed.
4. **Results should be used constructively, not punitively.** In leading practice organisations, performance information supports discussion, decision making, and learning.
5. **The quality of management information should improve each year.** Metric sets and data collection methods are refined and improved year-to-year based on lessons learned.

Quality of Management Information (1 of 2)

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

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

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

Capability Maturity Model (CMM) assessment by agencies may vary. Quality of data may vary due to self-assessment and self reporting. No peer review has been undertaken across the time series.

Measurement practice across agencies and international comparator groups. Agencies use common definitions and data collection practices, and these definitions and practices are aligned with those used by three main sources of comparator data: UKAA, APQC, and The Hackett Group. Nevertheless, results will be influenced by judgements necessary in applying these definitions and the management information systems used by agencies to support data collection.

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

Quality of Management Information (2 of 2)

Caveat to time series: The Ministry of Business, Innovation and Employment (MBIE) merger, which was effective from 1 July 2012, had an impact on the comparative metrics across cohorts. The significant lower cost for the large cohort, and higher costs for the small and medium cohorts in FY 2011/12 related to the merger of the Department of Building and Housing (DBH), Department of Labour (DOL), Ministry of Economic Development (MED) and the Ministry of Science and Innovation (MSI) to form the Ministry of Business and Innovation and Employment (MBIE). DBH, DOL, and MED were previously in the small, medium and medium cohorts respectively. MSI did not previously participate in BASS. DBH, DOL and MED spent $1.3m, $4.7m and $2.5m respectively on Finance in FY 2011/12. If these costs ($8.5m) were reflected in the large cohorts costs for FY 2011/12 the relative cost would be $73.3m.

Where there are concerns with data quality, the underlying problems are based in the maturity of measurement methods and are common in the private and public sectors around the world. For example, agencies are asked to only include function activity costs for staff that spend more than 20% of their time on the relevant function. The implication of this data collection practice is that, if agencies have highly devolved processes for a function, the true cost of the activity is likely to be understated as the data excludes line managers' time and effort.

Management Practice Indicator (MPI) and Capability Maturity Model (CMM) scores are self reported. It should be noted that MPI and CMM scores are self reported by agencies, and the responses have not been moderated across agencies for consistency. In these instances, the focus should be on the reported score for an agency and how this has changed over time, rather than comparison of scores across agencies.

More information

A glossary of terms, definitions and source material can be accessed via the main report, available on the Treasury website: http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2013-14

A full set of BASS data can also be accessed via the Treasury website:
http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2013-14

Questions about the findings in this report should be directed to performance.info@treasury.govt.nz