

ADMINISTRATIVE AND SUPPORT SERVICES BENCHMARKING REPORT

**HUMAN RESOURCES PERFORMANCE FINDINGS
FY 2013/14**

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1. COMMENTARY

By Andrew Hampton, Government Chief Talent Officer, State Services Commission

Commentary (1 of 2)

The management truism that “people are our most important asset” resonates strongly in government.

Knowledge-based activities make up such a high proportion of day-to-day business, and staff costs are a major component of overall expenditure. Therefore, attracting and retaining the right people is crucial to our financial and non-financial performance. Additionally as we seek to reform the state services there is an important role for HR to shape the state services of the future.

Research indicates that high performing organisations have substantially better talent management practices than poor performing ones.¹ 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.²

Workforce strategy and plans are a key component of Four Year Plans. A Four Year Plan cannot be strong unless supported by a strong and integrated workforce strategy and plan. All Public Service Chief Executives have commitment to implementing talent management practices within their agencies that align to the system wide Career Board process and SSC and LDC are actively supporting agencies to do this in a joined up way.

Too often, strategic HR activities like talent management are displaced by transactional HR activities.

Cumbersome routine processes and low levels of automation give HR staff limited time for HR business partnering, or activities that support and challenge line managers to execute the agency’s people strategy. In some cases, HR staff lack not only the time, but also the capability, to partner with the business. Further work is being considered to provide common capability across government. This is being actively supported by the heads of HR in all public service organisations. This is a key focus for the newly developed Head of Profession for HR, a work programme which is being lead by the Government Chief Talent Officer.

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

2. PricewaterhouseCoopers. (2012). 15th Annual Global CEO Survey. Delivering results: Growth and value in a volatile world. Retrieved from <http://www.pwc.com/gx/en/ceo-survey/index.jhtml> (accessed 17 October 2012).

Commentary (2 of 2)

BASS results show that our HR services are not particularly efficient or effective by international standards, and we have the opportunity to contribute more to our agencies. These improvements require transforming HR service delivery models: an expanding body of evidence shows that incremental change on an agency-by-agency basis is an inadequate response to our HR service performance challenges. Working across agencies to leverage knowledge and scale, streamlining and automating processes that focus on the needs of customers will be fundamental to being successful. As will building the capability of HR practitioners to lead these changes from both a strategic and tactical perspective.

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

- Leadership and governance (43%)
- Values, behaviour and culture (33%)
- Leadership and workforce development (38%)
- Management of people performance (29%)
- Engagement with staff (38%).³

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

2. HIGHLIGHTS

Highlights (1 of 2)

Agencies spent \$168.2m on the HR function in FY 2013/14. The vast majority (approximately 95.8%) of this expenditure is in the medium and large agency cohorts. Across all cohorts, personnel is the largest component of expenditure at approximately 60.6%.

Expenditure is up \$3m (or 1.8%) since FY 2012/13 when adjusted for inflation. Without adjusting for inflation, there is a nominal spending increase of \$5.7m (or 3.5%) since FY 2012/13. The increase is consistent with the increase between 2011/12 and 2012/13. This net nominal increase of \$5.7m is the result of 14 agencies spending \$11.3m more and 13 agencies spending \$5.6m less in FY 2012/13.

The large agencies cohort contributed the most to the increase. The reported nominal increase for the large cohort was \$5m while small and medium agencies HR saw only small increases. Small agencies increased by only \$0.2m while medium agencies increased by only \$0.4m. The HR cost for small agencies has remained relatively consistent over the three years.

Agencies that reported changes in expenditure cited similar reasons. These reasons for the reported decreases in nominal spend were changes to processes and organisational structure. Increases in nominal HR spend were; increases in FTE's and consultants for new projects and the implementation of new systems, increases in software , licences and depreciation costs, and increases in remuneration and rewards.

Highlights (2 of 2)

There is significant variability in efficiency across agencies with opportunities for savings. Approximately \$38.5m in annual gross savings are possible if agencies below median efficiency in their cohort for cost of HR per employee met that benchmark.

Overall, HR services are becoming less efficient and are performing below international standards. Since FY 2012/13, the total cost of HR per employee has increased by 2% 1.4%. This change is driven by a 3.5% increase in expenditure and a 0.5% increase in HR FTEs over this period.

A strong HR function is essential to overall agency performance, so a low cost HR function can be a falsely represented if it is not effective. Core components of HR capability are captured for the first time in FY 2012/13 in a capability maturity model (CMM), which was developed based on IP from the Hackett Group and HR managers across New Zealand agencies. Factors include strategic workforce planning, rewards strategy and staff engagement.

Effectiveness indicators show mixed results and room to improve. The rate of new hires in the same role after 12 months continues to be considerably lower than international comparators, and this result has declined overall since FY 2011/12. The introduction of the Capability Maturity Model (CMM) for FY 2013/14 shows that agencies overall describe themselves as lagging in obtaining leading practice.

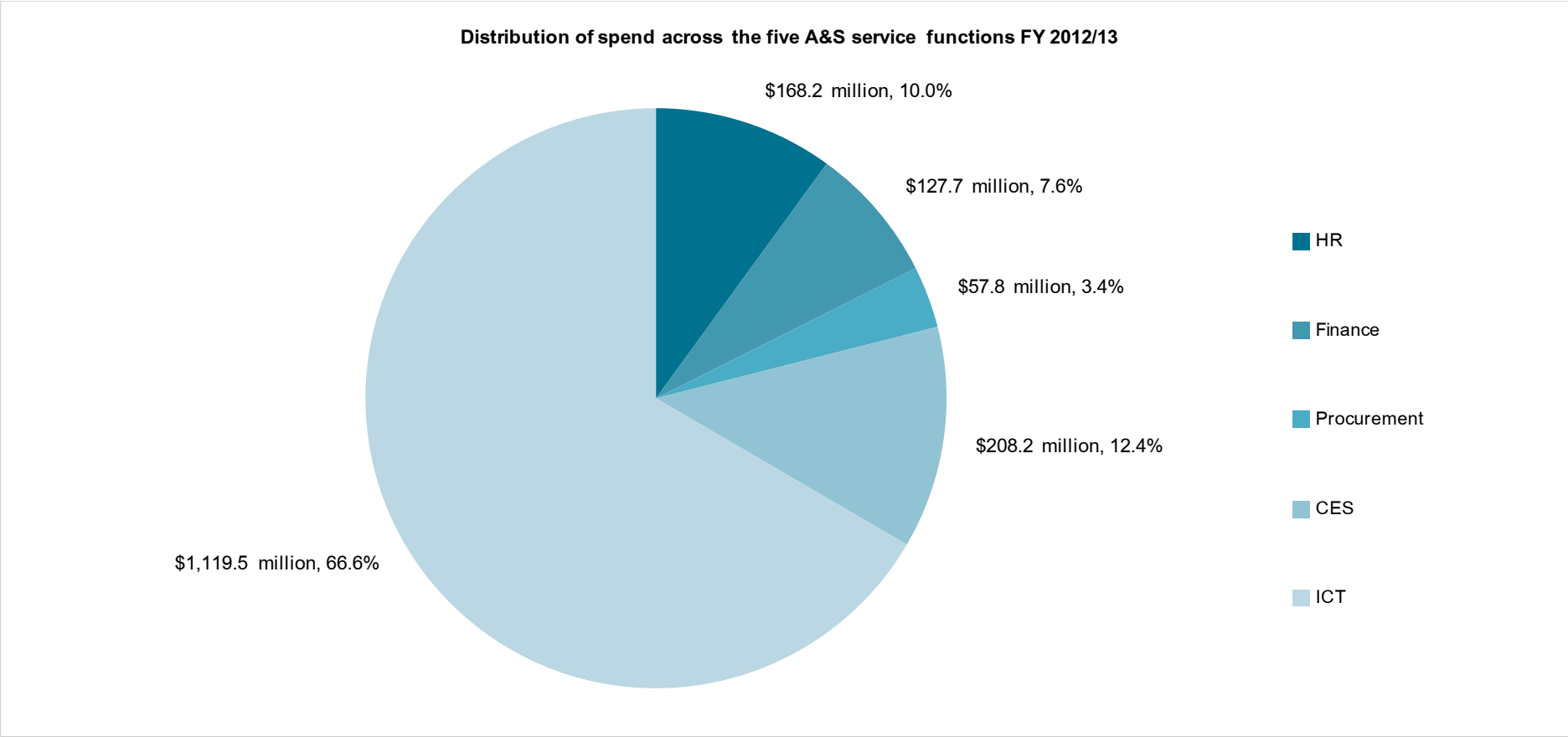
Agencies reported aspirations to make significant improvements to the value they offer agencies. The two highest priority areas for improvement are developing people skills of managers and staff engagement. Agencies aspire to make significant changes to a large range of strategic HR practices and reported having the greatest number of initiatives (>21) in progress in the following areas:

- People management skills of managers
- Strategic workforce planning
- Linkage of HR polices and practices to broader HR/business goals

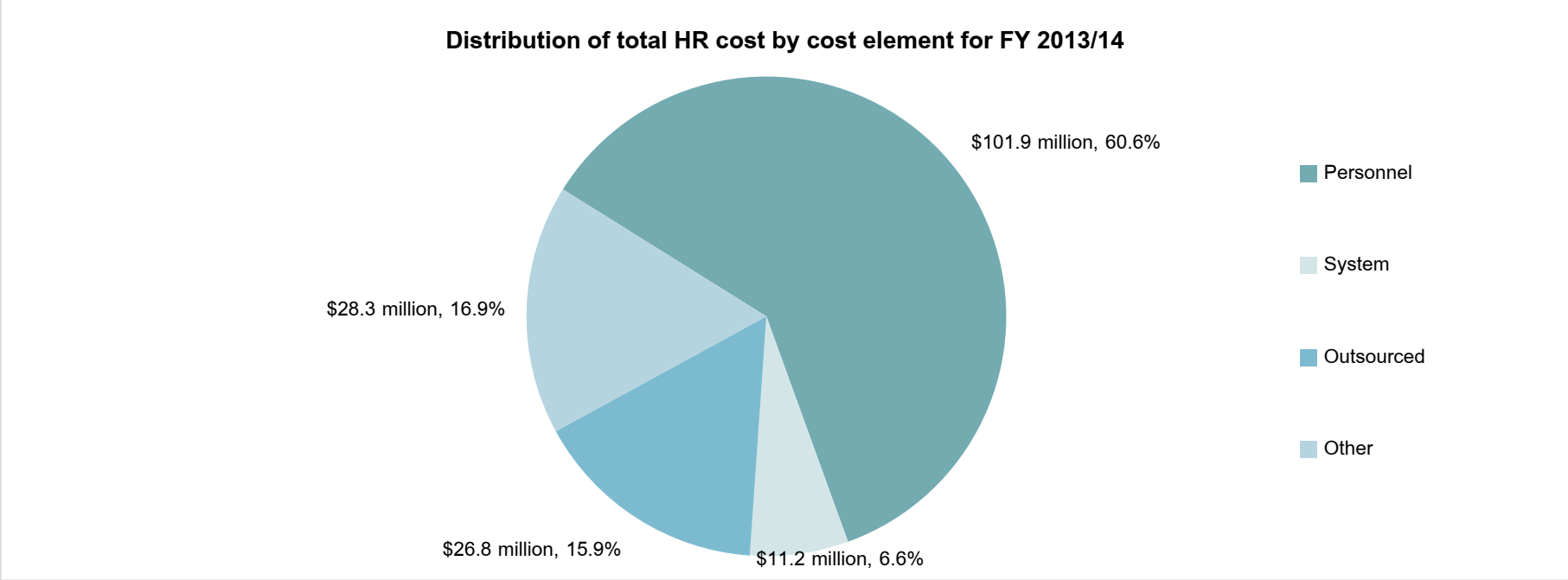
3. COST

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

Agencies spent \$168.2m on HR in FY2013/14 making it 10.0% of A&S service spending and the third largest A&S function by expenditure

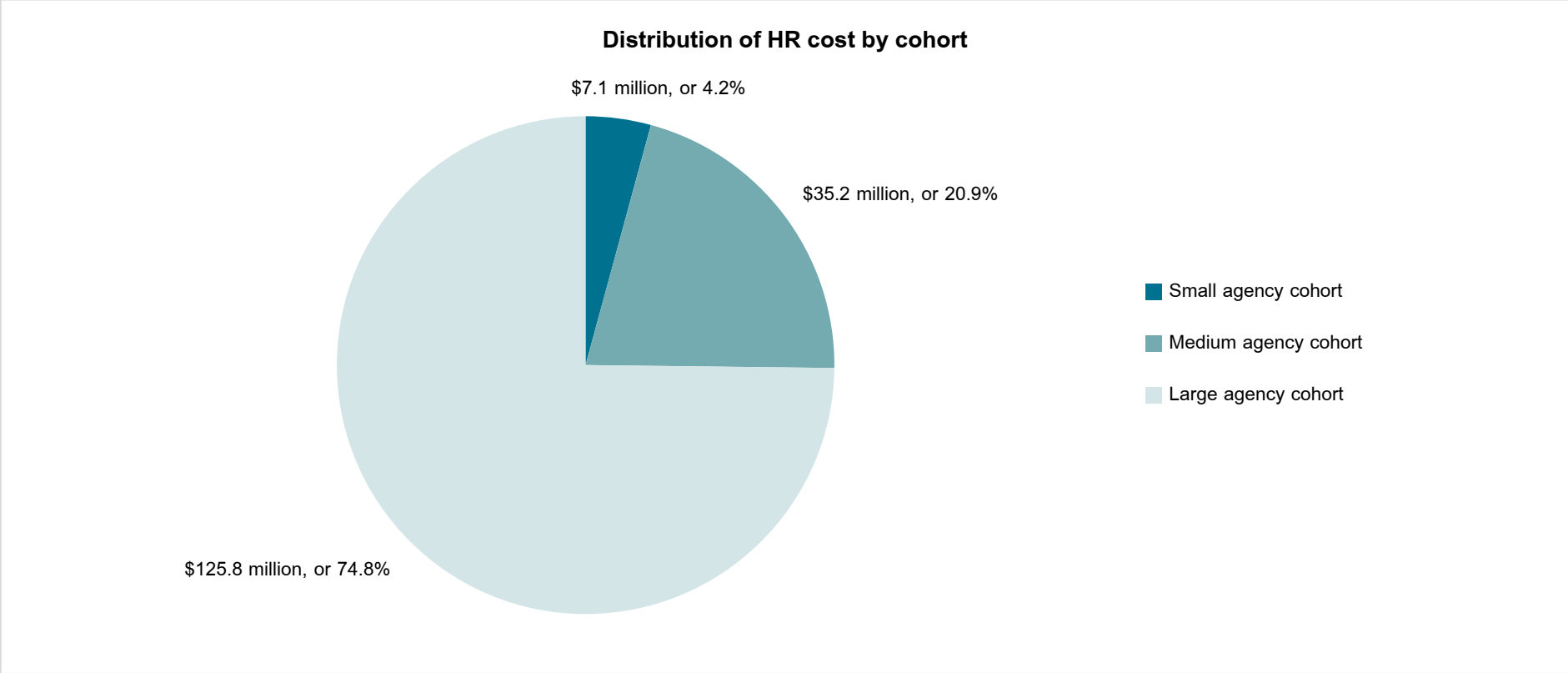


Personnel costs of \$101.9m made up 60.6% of total expenditure in FY 2013/14

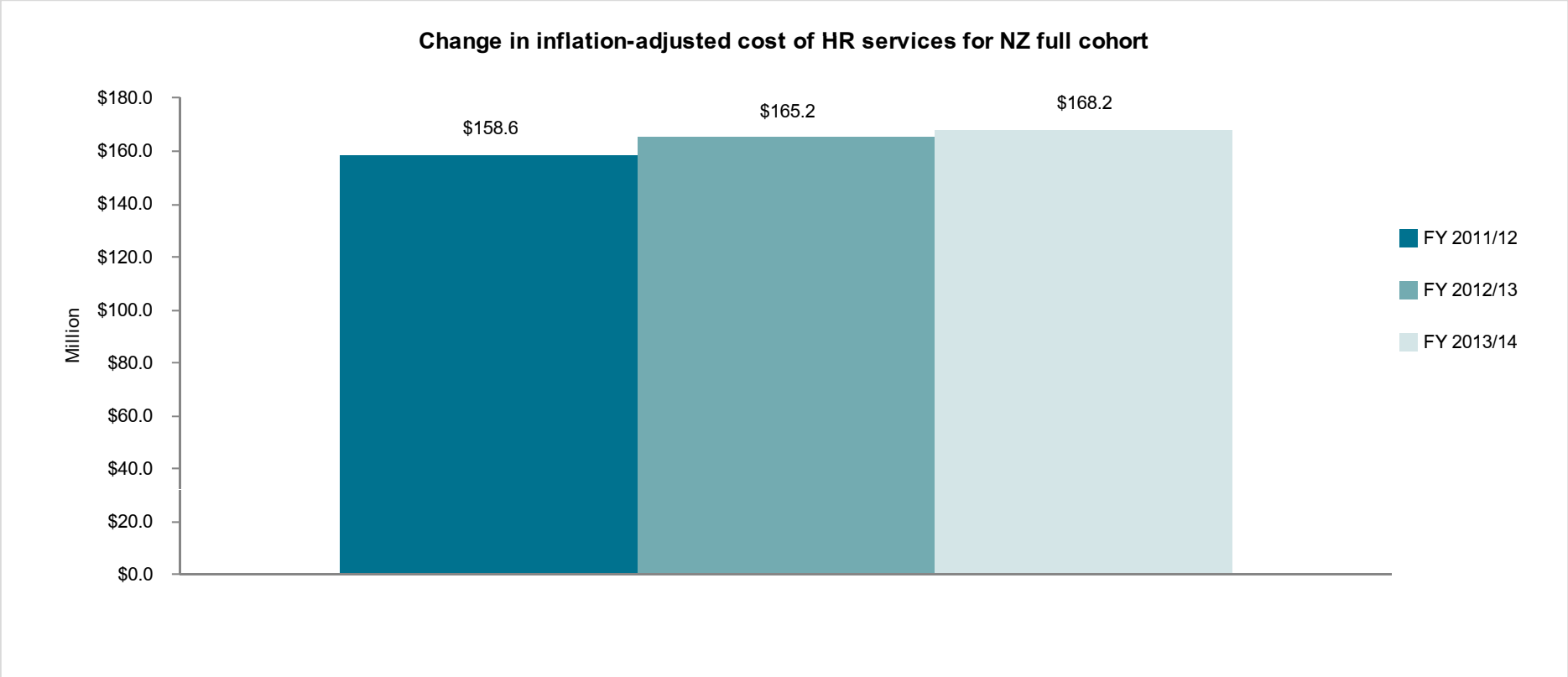


Other costs in HR are comparatively higher than the other BASS functions. The 'other' category seems to be higher as a result of additional redundancy and recruitment costs from restructuring.

Medium and large agency cohorts made up 95.7% of reported HR service expenditure in FY 2013/14

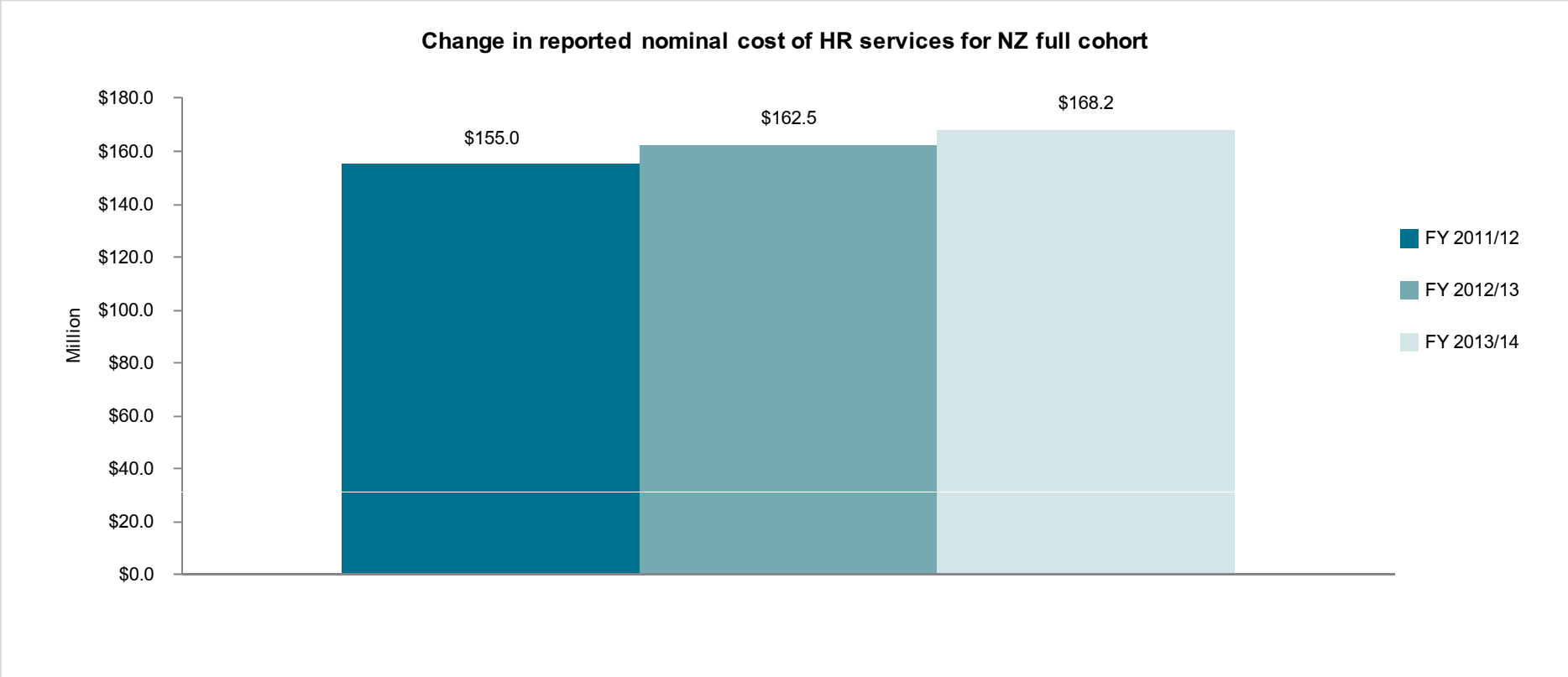


When adjusted for inflation, HR spending increased by \$9.6m (or 6.1%) since FY 2011/12



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

In FY 2013/14, agencies reported a nominal spending increase of \$5.7m (or 3.5%) since FY 2012/13



An increase of \$13.2m (or 8.5%) was reported for FY 2013/14 since FY 2011/12.

A closer look at spending within agencies shows that changes in processes, structures, and FTE remuneration; and investment in HR systems were the main cost drivers

A net nominal increase of \$5.7m is the result of 12 agencies spending \$5.6m less and 14 agencies spending \$11.3m more in FY 2013/14 – which remains relatively consistent with spending in FY 2012/13

What we learned from agencies that spent less this year

Four of the 12 agencies reported \$4.4m (or 81%) of the reported reduction

Two common reasons cited for cost reductions were:

1. Reductions due to change of operating models which redistributed FTE effort and processes
2. A reduction in recruitment costs due to attrition and unfilled vacancies

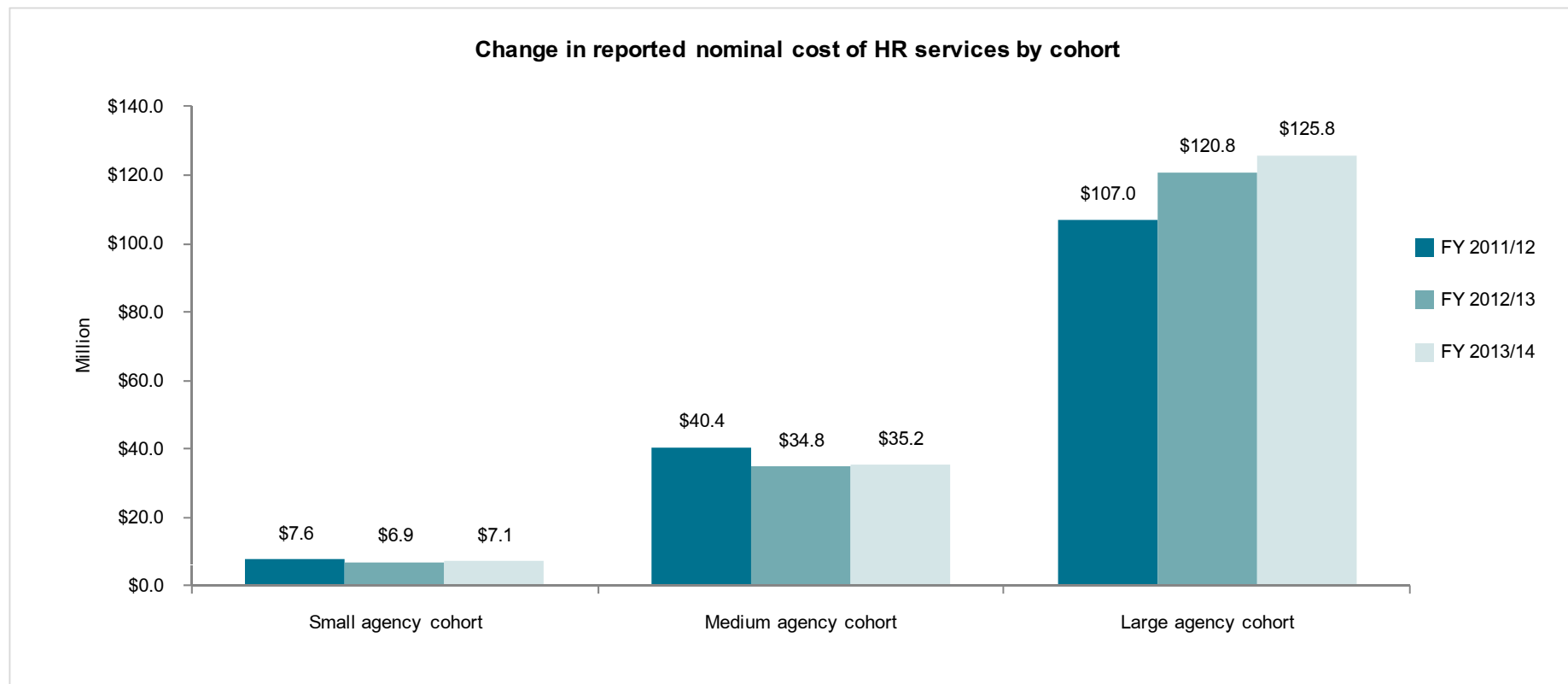
What we learned from agencies that spent more this year

Six of the 14 agencies reported \$9.8m (or 83%) of reported increase

Reasons cited for cost reductions were:

1. Increased FTE's and consultants for new projects and implementation of new systems
2. Increases in software , licences and depreciation costs
3. Increases in remuneration and rewards

The large agency cohort has reported year-on-year increases in HR service expenditure, whereas other cohorts have remained relatively flat, when taking into account the effects of the MBIE merger



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 significant lower cost 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 \$1.2m, \$4.5m and \$1.4m respectively on HR in FY 2011/12. If these costs (\$7.1m) were reflected in the large cohort costs for FY2011/12 the relative cost would be \$114.1m. Please see the data quality section of this chapter for more detail.

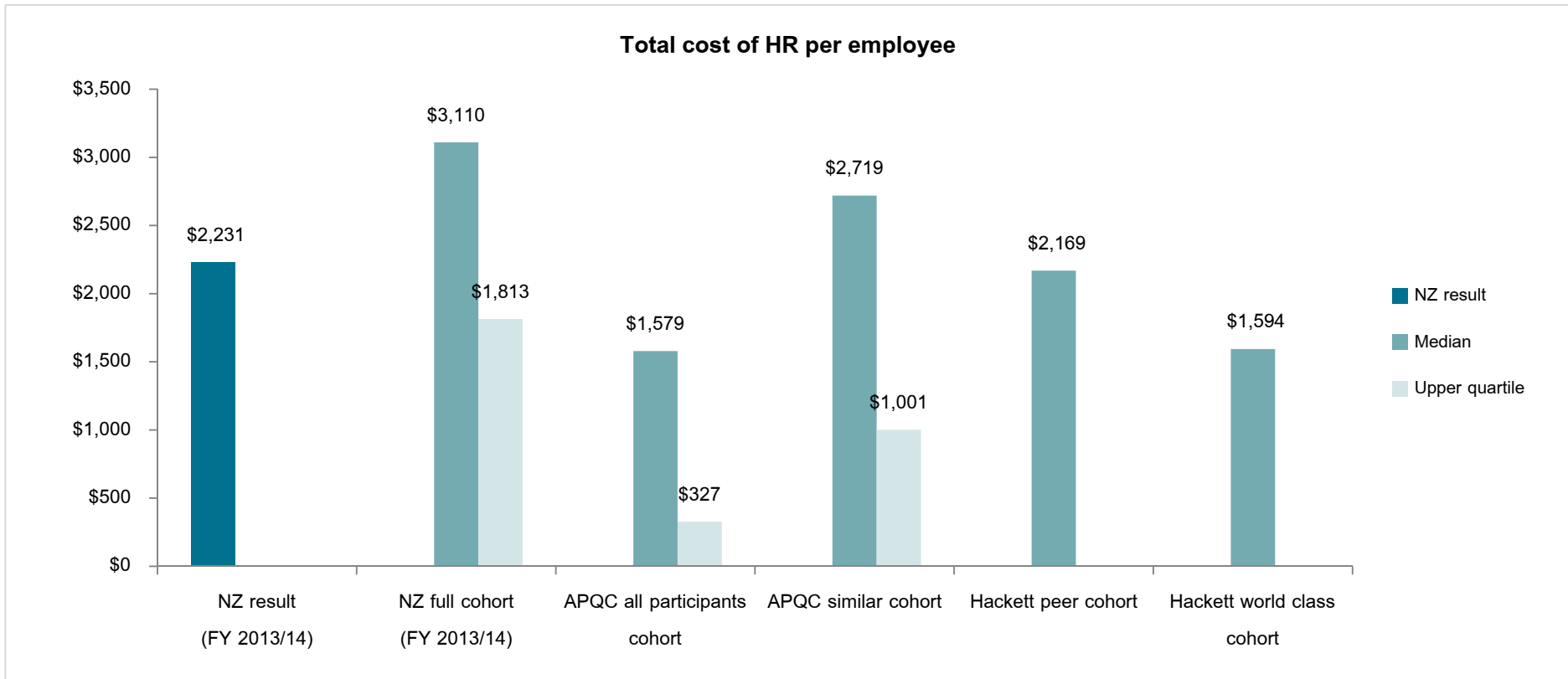
4. EFFICIENCY

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 potential gross cost 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 based on three metrics:

- The total cost of HR per employee, where a lower cost is considered more efficient.
- The number of employees per HR FTE, where a higher number is considered more efficient.
- The cost of recruitment per new recruit where a lower cost is considered more efficient.

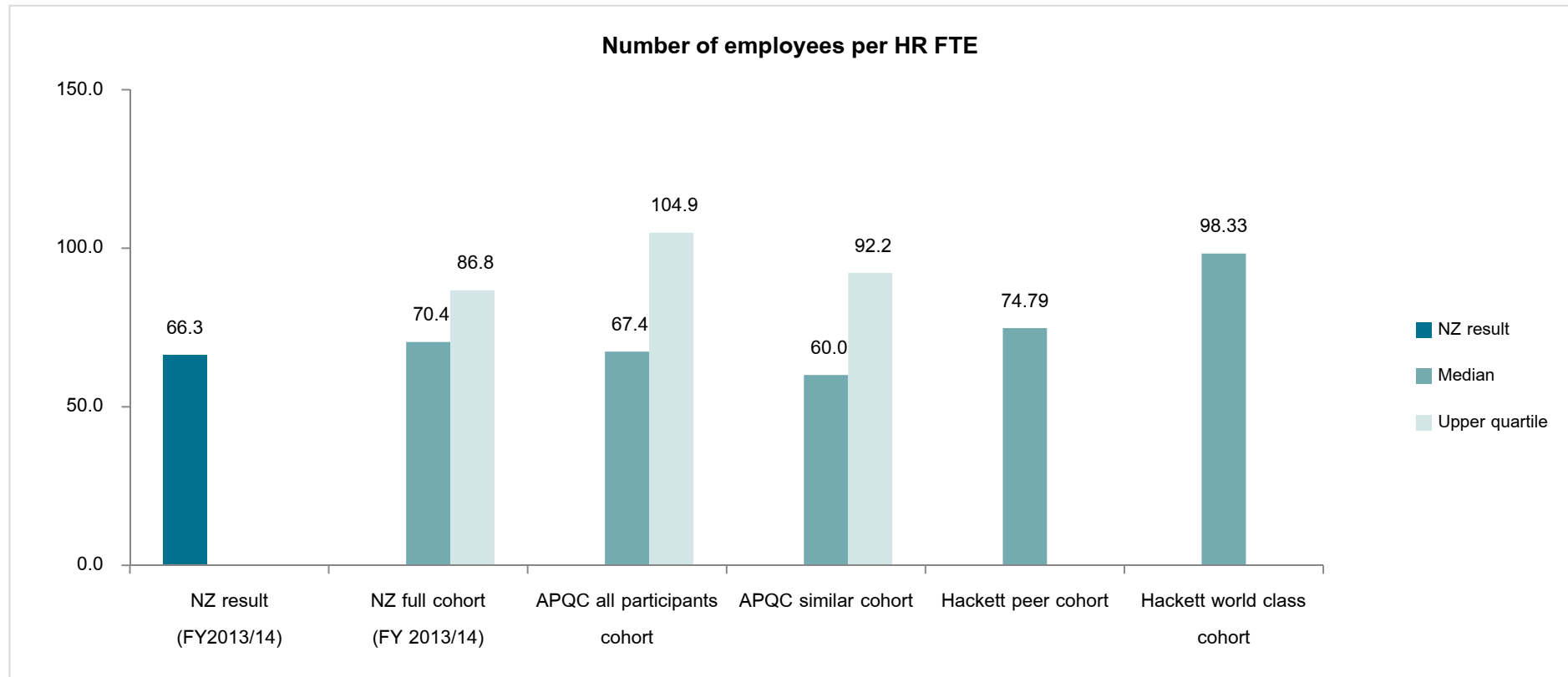
The cost of HR per employee is \$2,231, and median efficiency shows significant room for improvement when compared with top performers



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

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

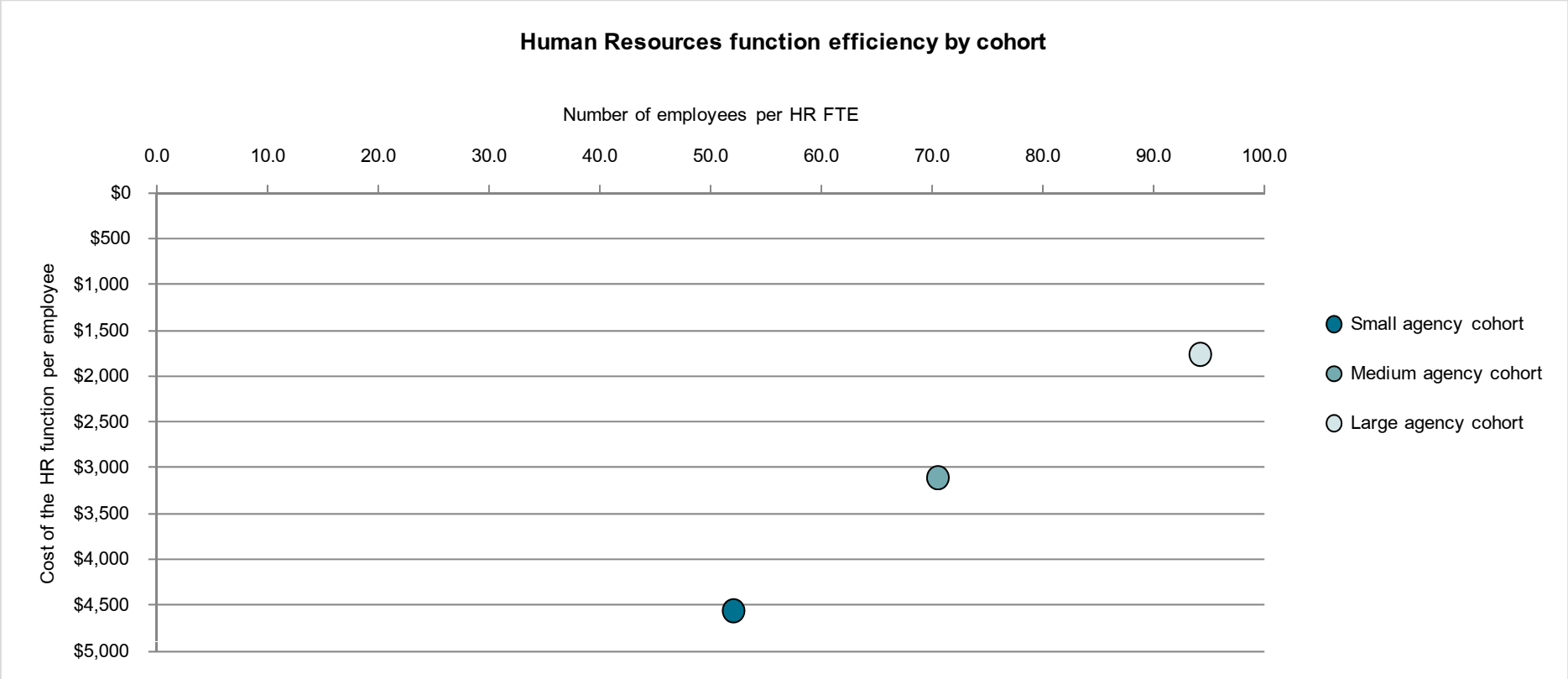
The number of employees per HR FTE in FY 2013/14 is 66.3, showing lower efficiency than international benchmarks, especially at the upper quartile



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

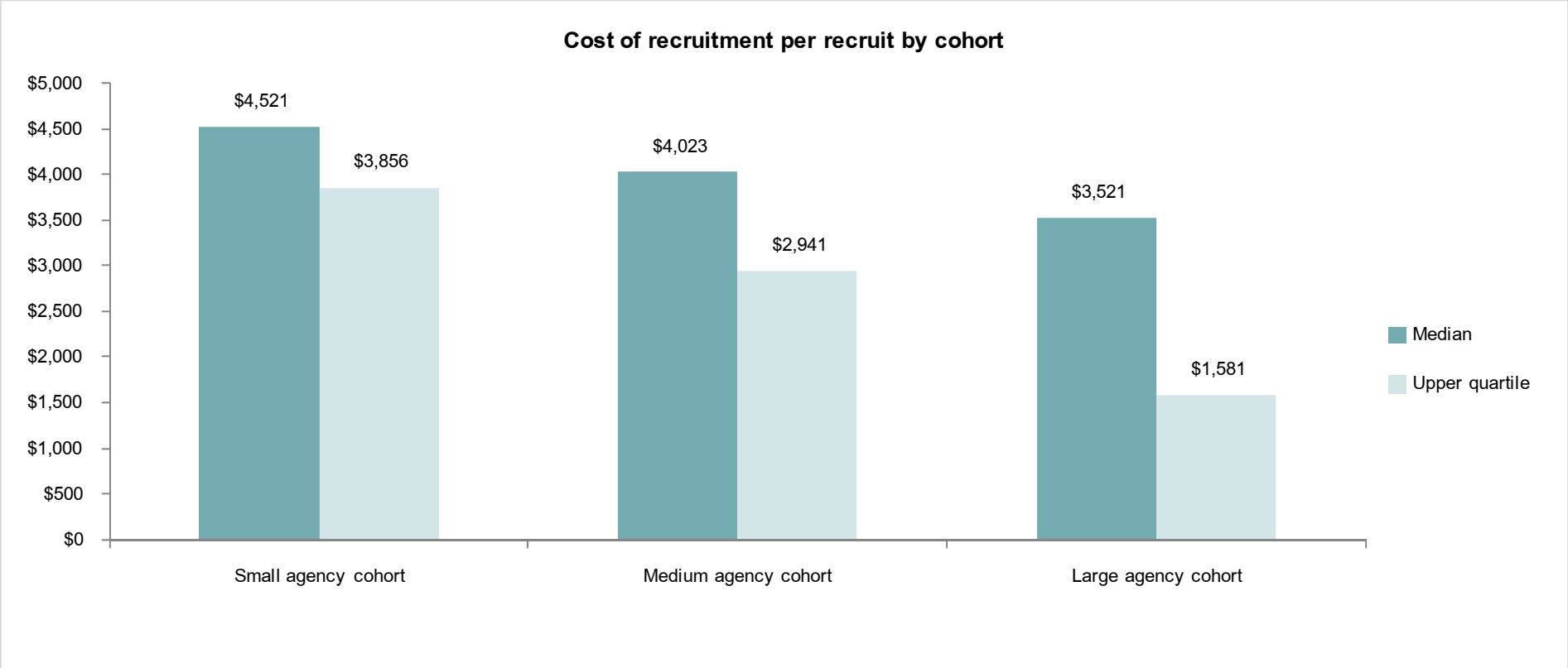
- at the median, the New Zealand full cohort (70.4) is 4% higher than the APQC all participants cohort (67.4) and 28% lower than the Hackett world class cohort (98.3)
- at the upper quartile, the New Zealand full cohort (86.8) is 17% lower than the APQC all participants cohort (104.9) and 6% more expensive than the APQC similar cohort (92.2).

The large agency cohort has more efficient HR services than the other cohorts by both HR efficiency measures



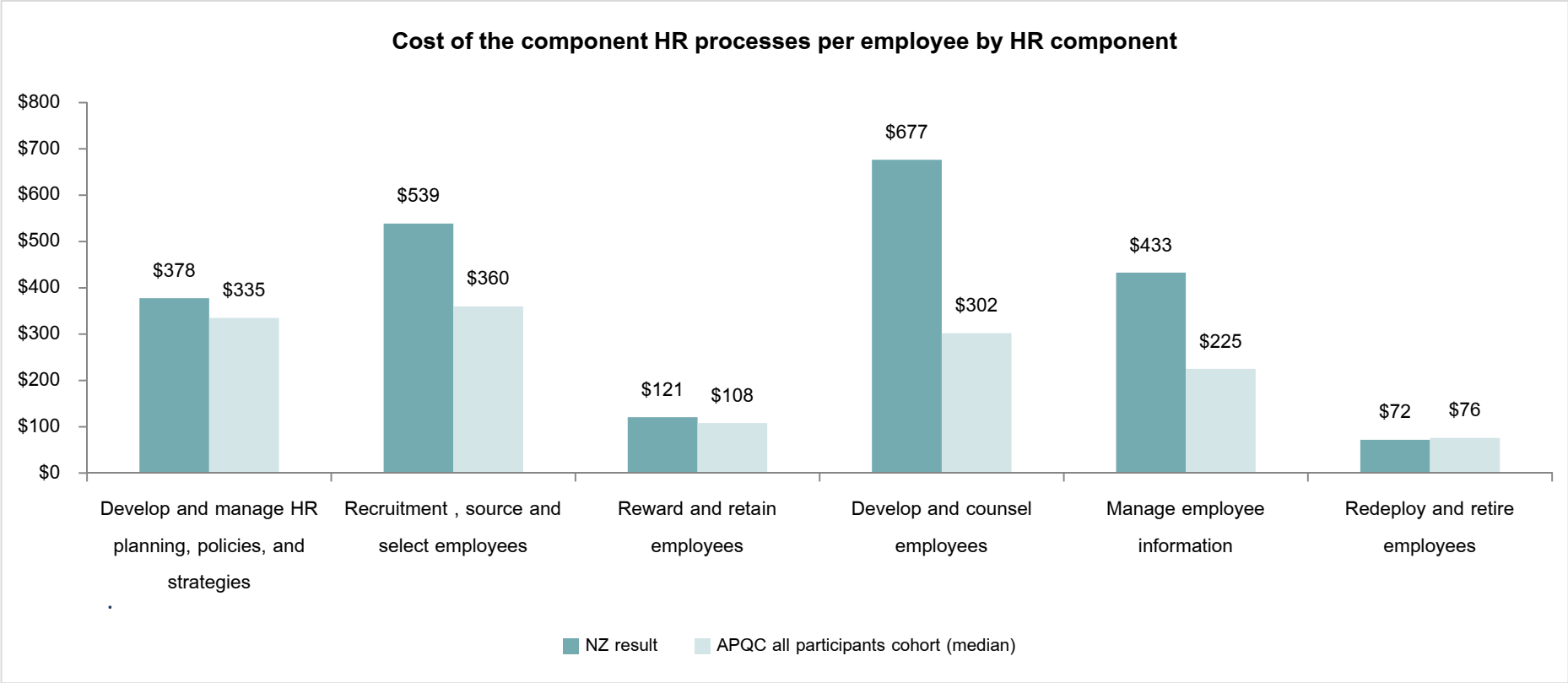
The efficiency gap between the small agency cohort and the large agency cohort remains the widest. In FY 2013/14, the small agency cohort median HR costs per employee were 159% higher than for the large agency cohort.

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



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

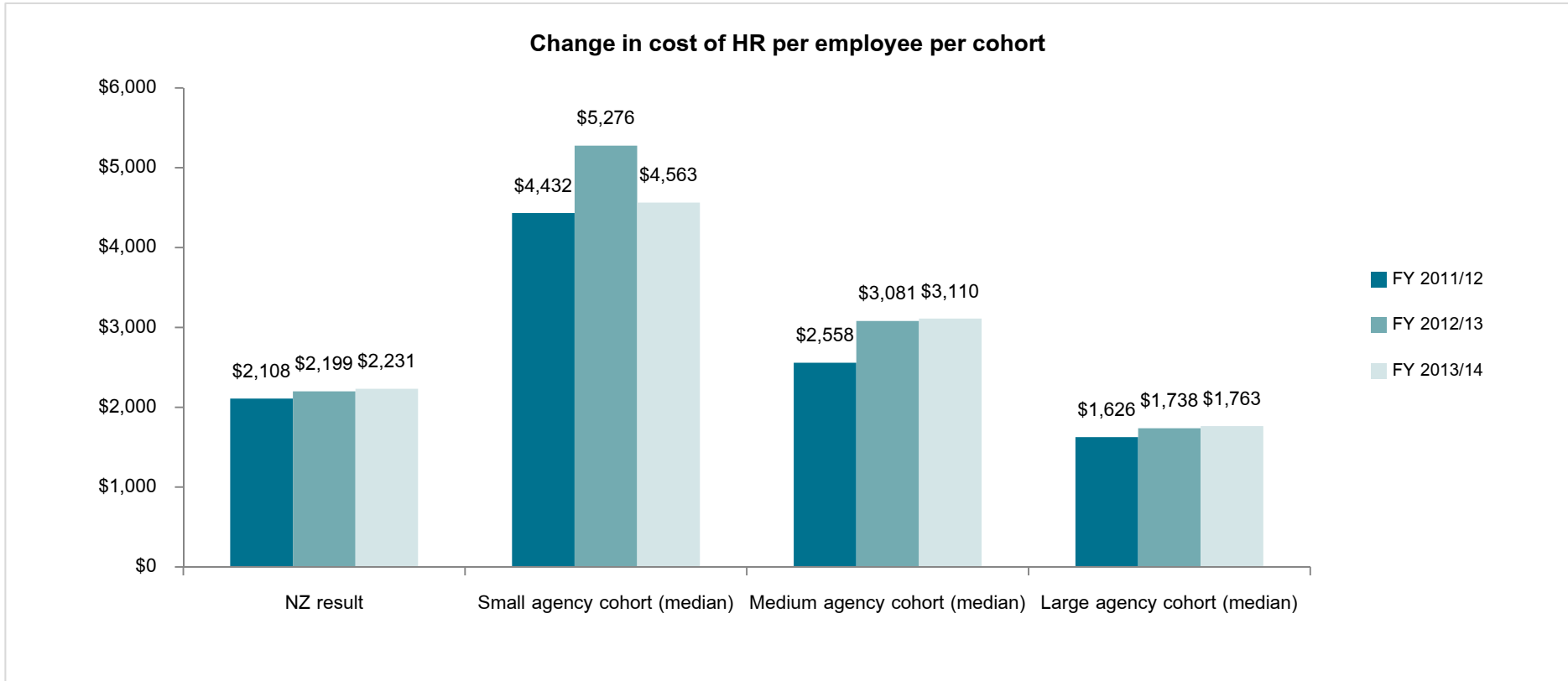
Relative to benchmarks, the two HR processes that are most expensive are develop and counsel employees, and manage employee information



The significant differences between the median APQC and New Zealand result in FY 2013/14 are:

- Develop and counsel employees – 124%
- Manage employee information – 92%
- Recruit, source and select employees – 49%.

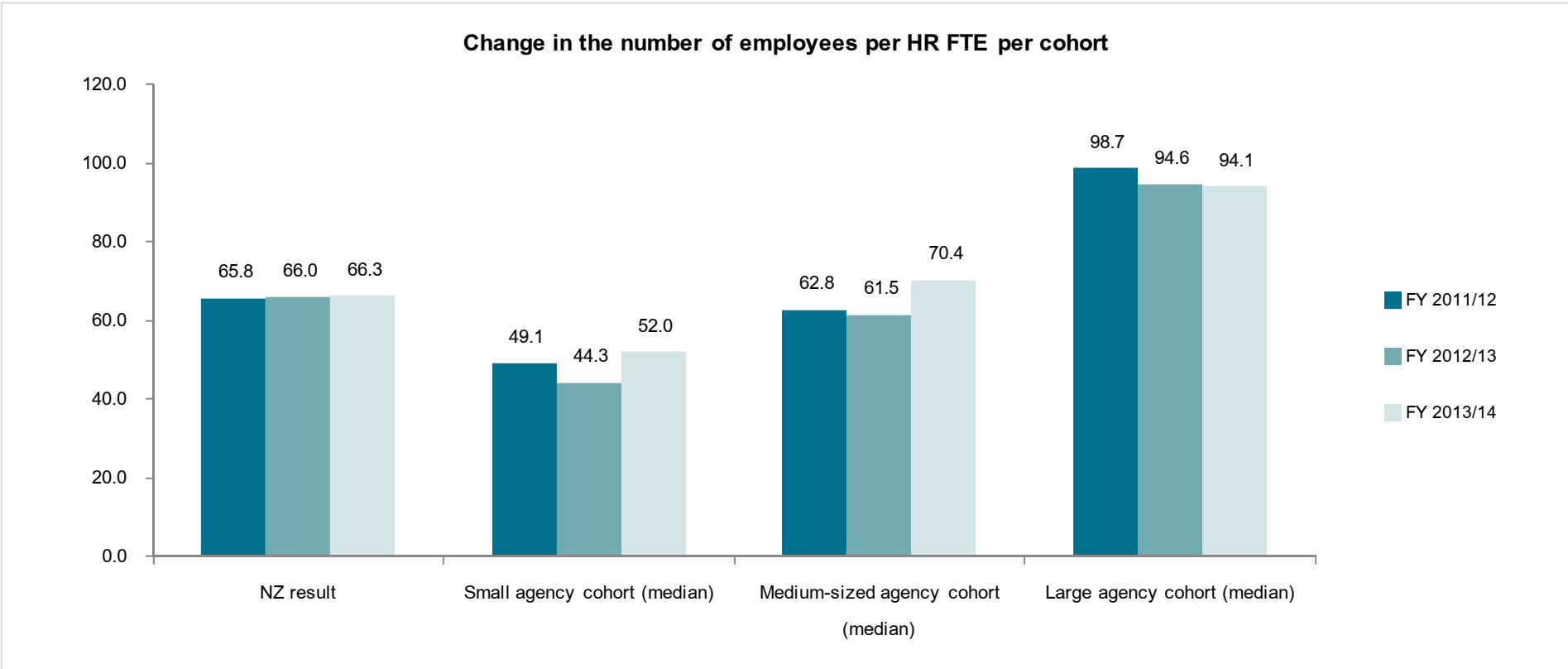
When measured by the cost of HR per employee, the small agency cohort median reduced its cost of HR per employee by \$713 (or 13.5%) since FY 2012/13, whereas there were small increases in the other cohorts



The overall cost of HR per employee has increased 1.4% and is mainly driven by changes in the medium and large agency cohorts:

- For the small agency cohort, this decrease is 13.5%
- For the medium cohort, this increase is 0.9%
- For the large agency cohort, this increase is 1.4%

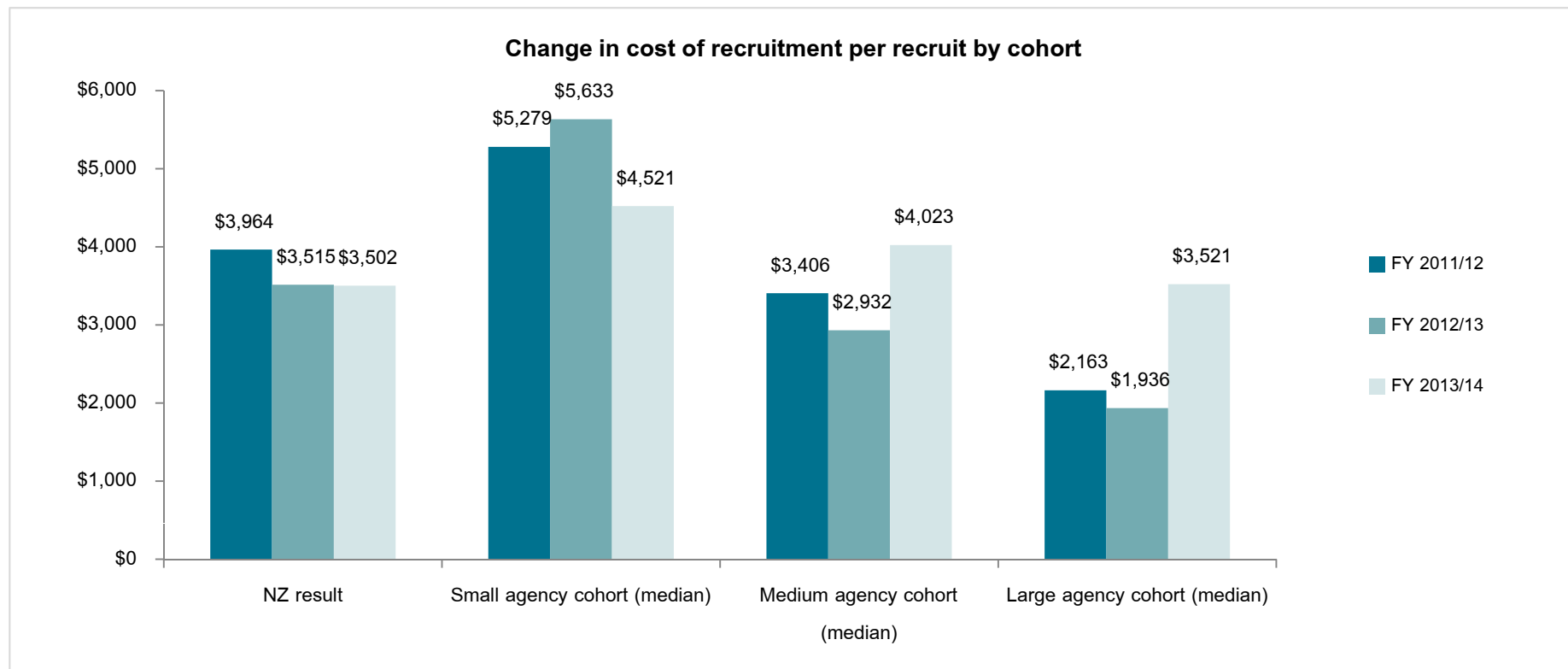
When measured by the number of employees per HR FTE, overall HR service efficiency has remained relatively consistent since FY 2011/12. However there has been some variation in the median results for the small and medium cohorts



The New Zealand result for the number of employees per HR FTE has increased from 65.8 in FY 2011/12 to 66.3 in FY 2013/14.

Note that lower HR FTEs can also reflect greater use of outsourcing, and therefore may not reflect greater efficiency.

The New Zealand result of total cost of per new recruit has remained relatively unchanged since FY 2012/13, reflected by a significant reduction for the small cohort and corresponding increases in the medium and large cohorts

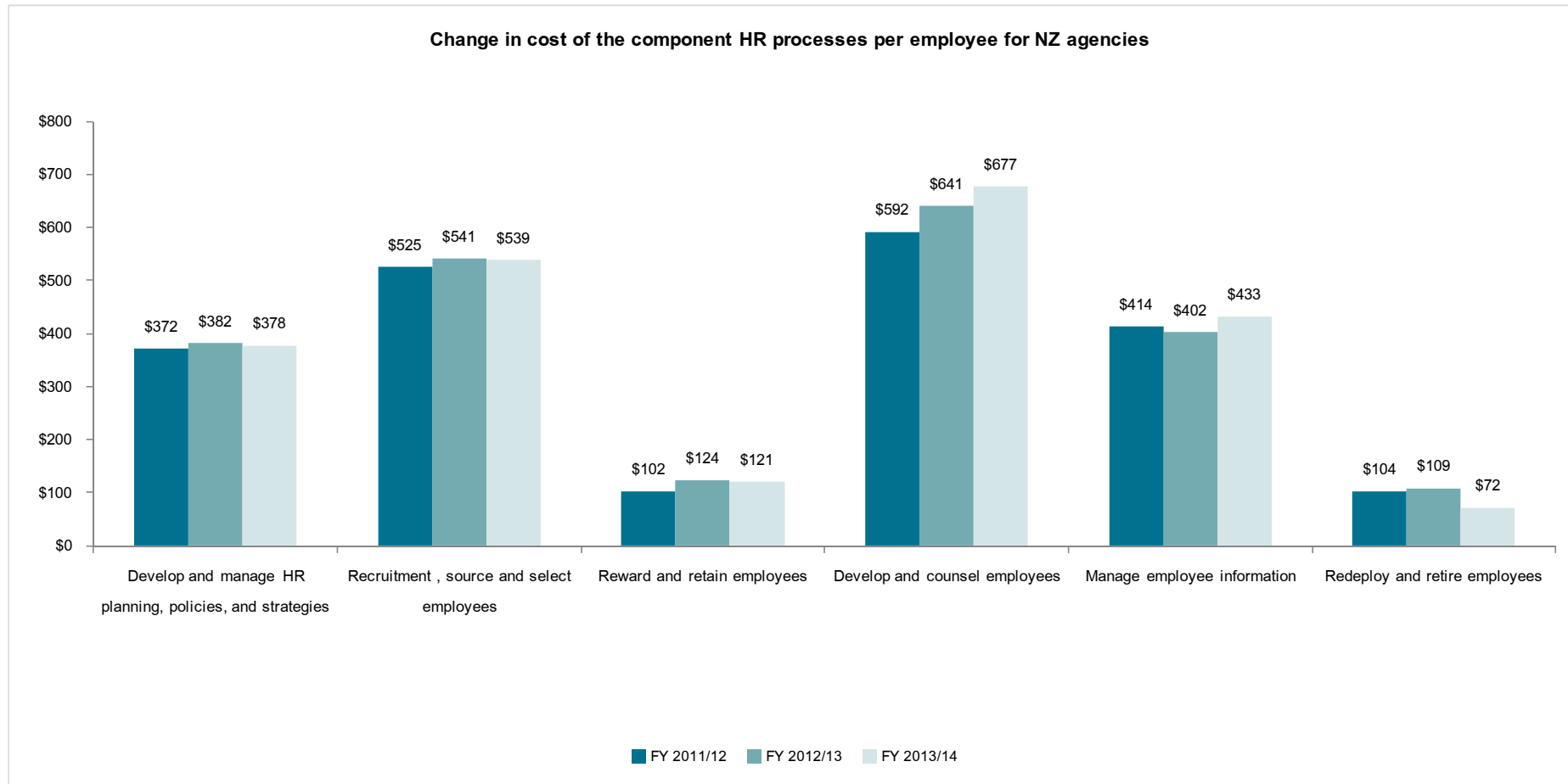


The medium and large cohorts increased by \$1,091 (or 37.2%) and \$1,585 (or 81.9%) respectively while the small cohort decreased by \$1,112 (or 19.7%).

The New Zealand result for the cost of recruitment per recruit has reduced by \$13 (or 0.37%) since FY 2012/13 and \$462 (or 11.7%) since FY 2011/12. The median cost in the small agency cohort has fallen \$1,112 (or 19.7%), but both the median costs of the medium and large agency cohorts have increase \$1091 (or 37.2%) and \$1,585 (or 81.9%) respectively from FY 2012/13.

The decreases in the cost of recruitment could be attributed to vacancy lags and increases due to restructuring.

Agencies have not delivered comprehensive process level efficiency gains since FY 2011/12

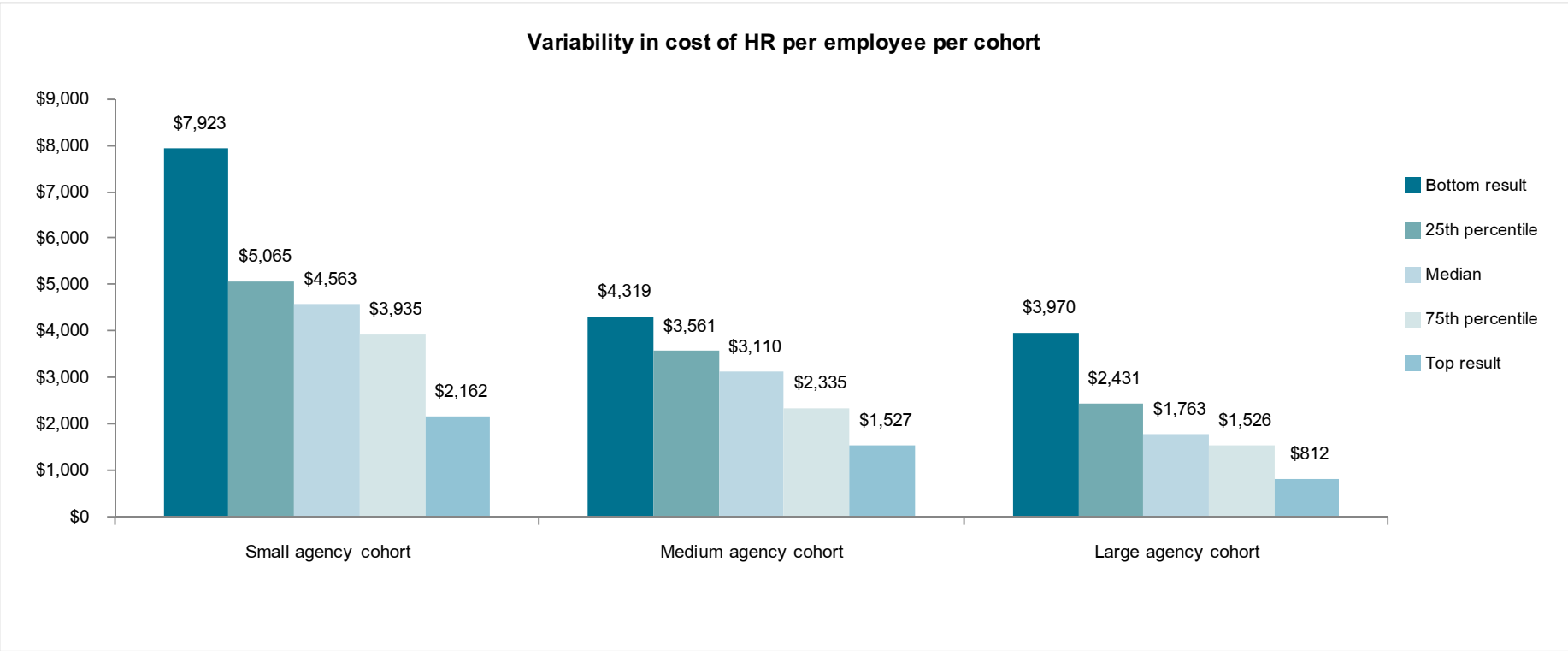


Only one process reported efficiency gains since FY 2011/12: redeploy and retire employees.

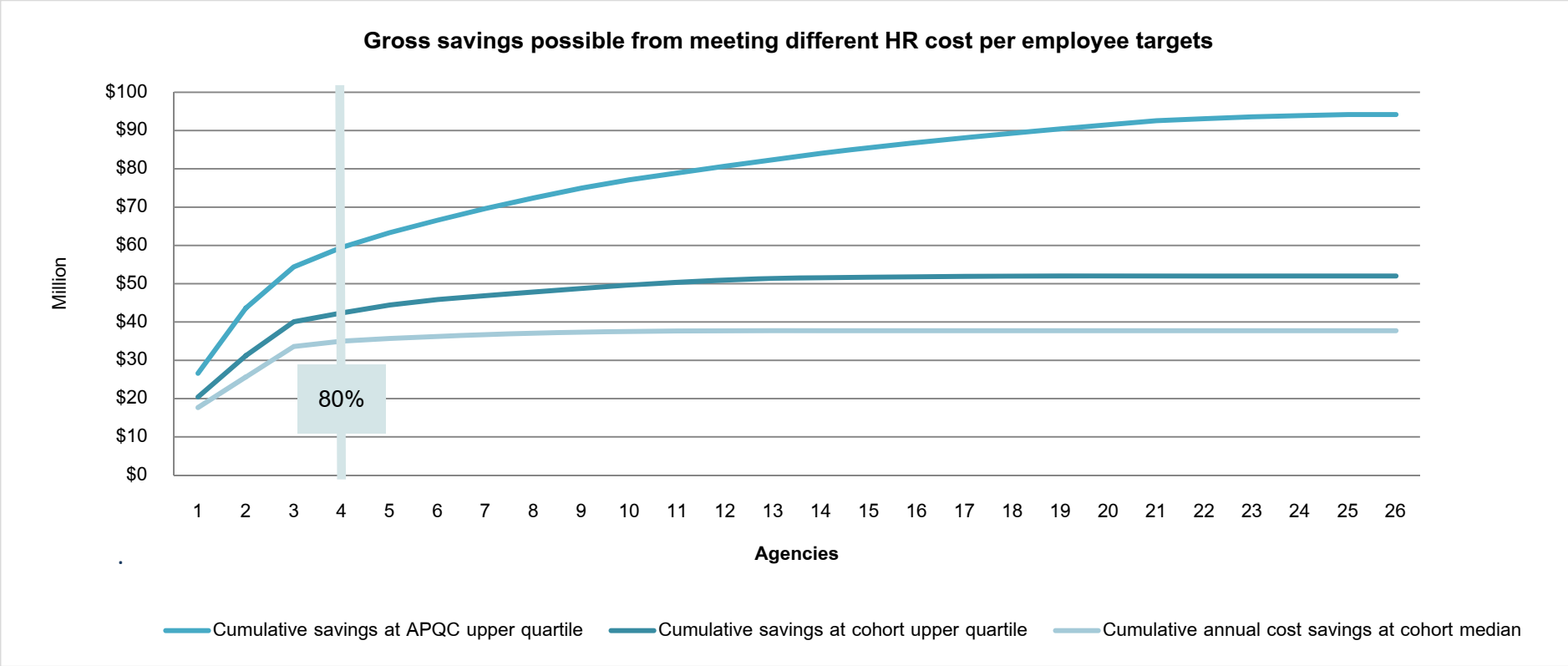
Reported efficiency has remained relatively flat since FY 2011/12 for four processes: develop and manage HR planning, policies, and strategies; reward and retain employees; recruit, source and select employees; and manage employee information.

One process has become less efficient since FY 2011/12: develop and counsel employees

There is variability in the cost of HR per employee within each cohort, suggesting opportunities to improve, regardless of agency size

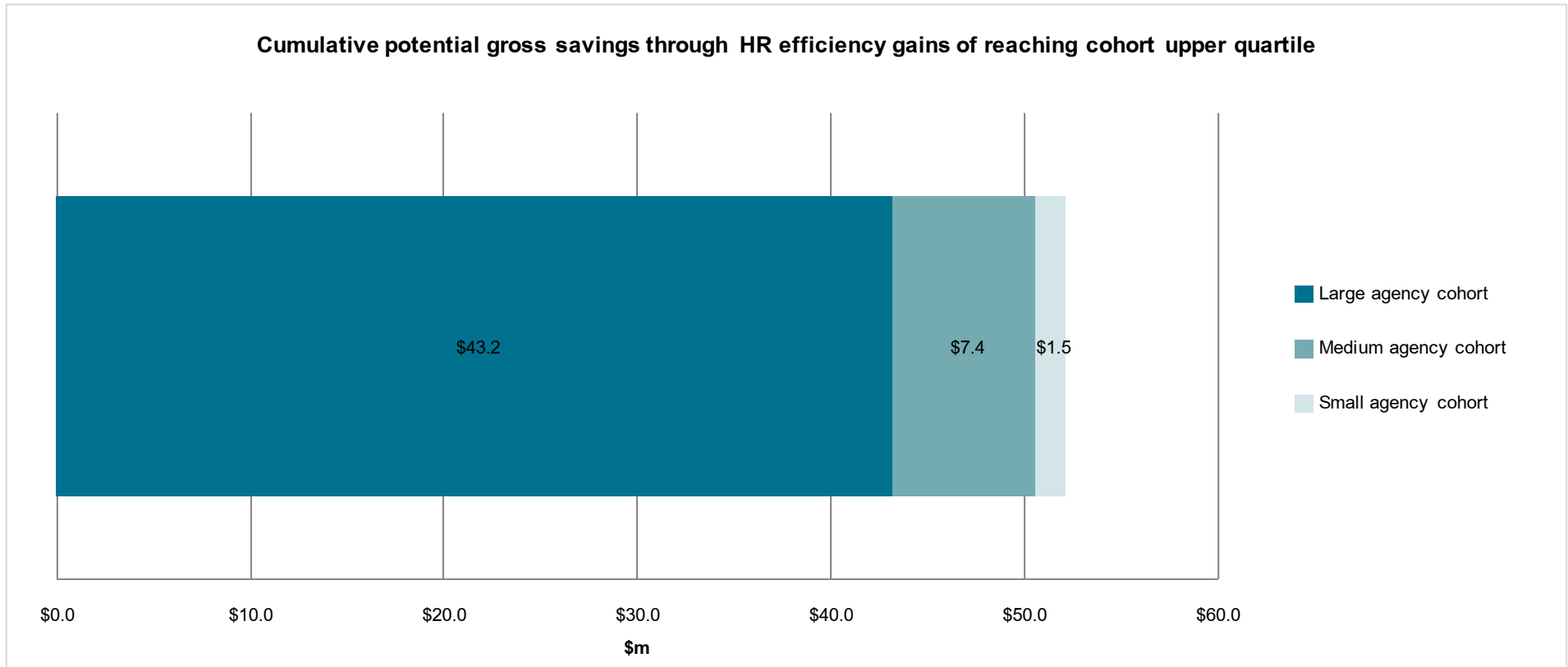


Annual gross savings of about \$37.7m to \$52m are possible if agencies below median or upper quartile efficiency met those levels in their cohorts



Annual gross savings of \$52m are possible if agencies below upper quartile efficiency for their cohort (18 of 26 agencies) reached upper quartile efficiency.
 Annual gross savings of \$37.7m are possible if agencies below median efficiency for their cohort reached median efficiency.
 If New Zealand agencies met the APQC upper quartile level, this would result in significantly greater savings of \$94.2m.

Despite smaller agencies being the least efficient overall, the greatest potential for gross savings are in the medium and larger agencies



Small agencies are not the major sources of potential gross savings because they make up only \$7.1m (or 4.2%) of annual HR service expenditure and do not have the potential to make large scale savings.

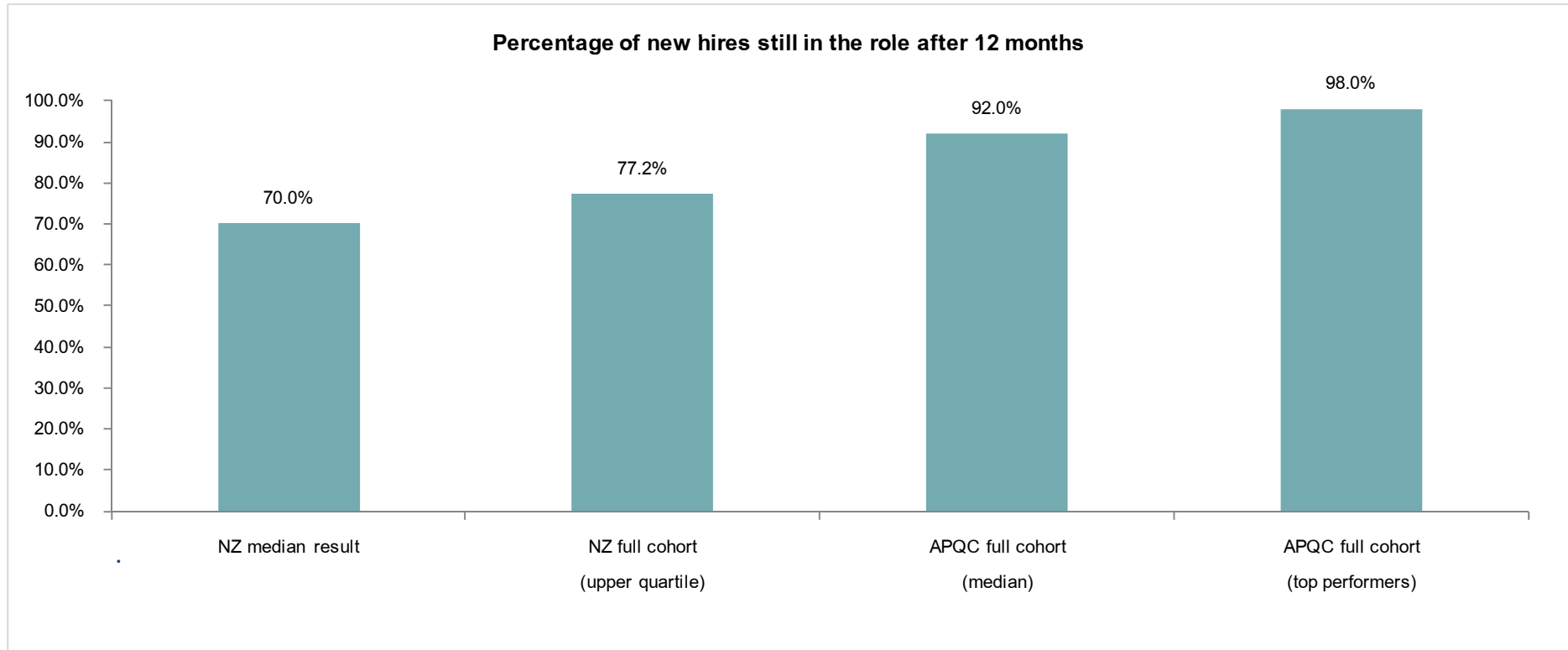
5. EFFECTIVENESS

Effectiveness findings report on the extent to which HR activities achieve intended or targeted results. This section compares New Zealand agency effectiveness with international comparators and examines changes in effectiveness since the previous reporting period.

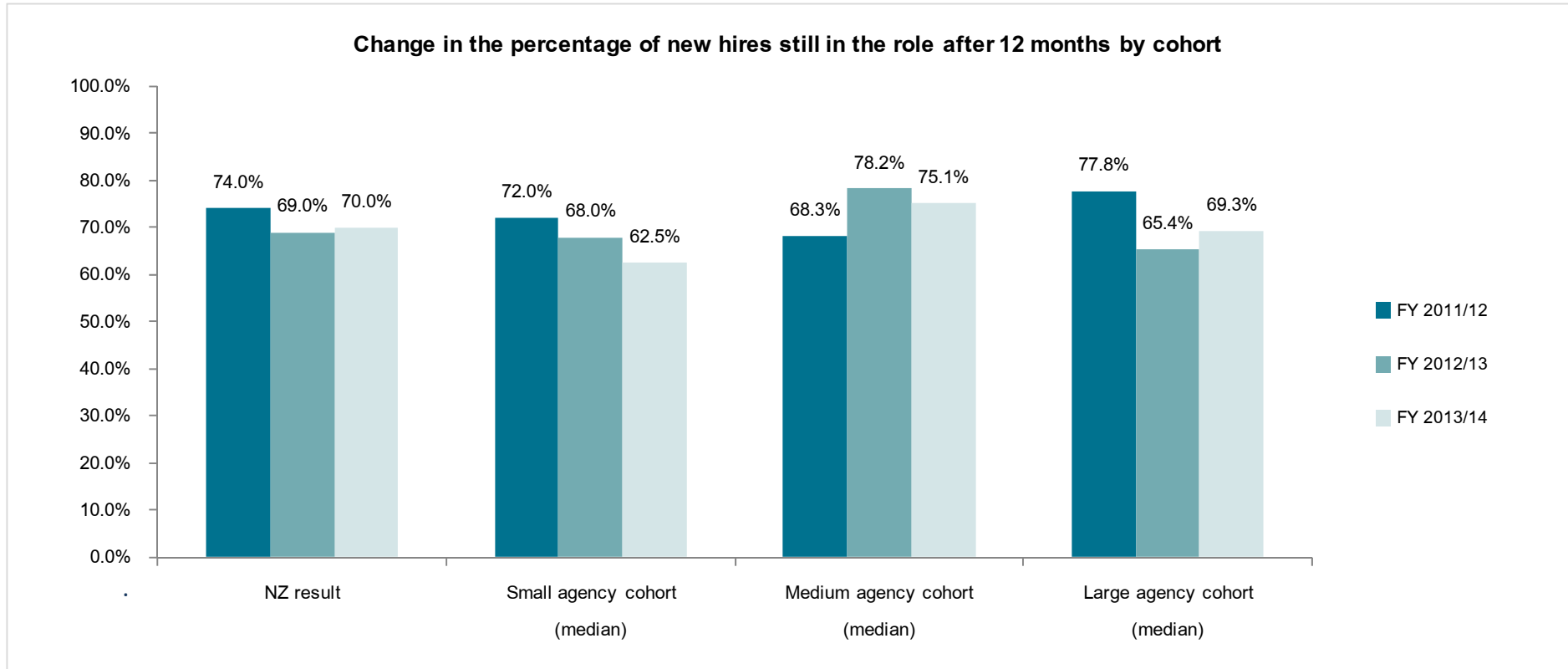
HR effectiveness findings are based on two metrics:

- Retention of new hires in the same role after 12 months, where a higher number is considered more effective.
- HR Capability Maturity Model (CMM) score, where a higher score is considered more effective.

In FY 2013/14, the proportion of new hires in the same role after 12 months is lower than international comparators



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



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

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

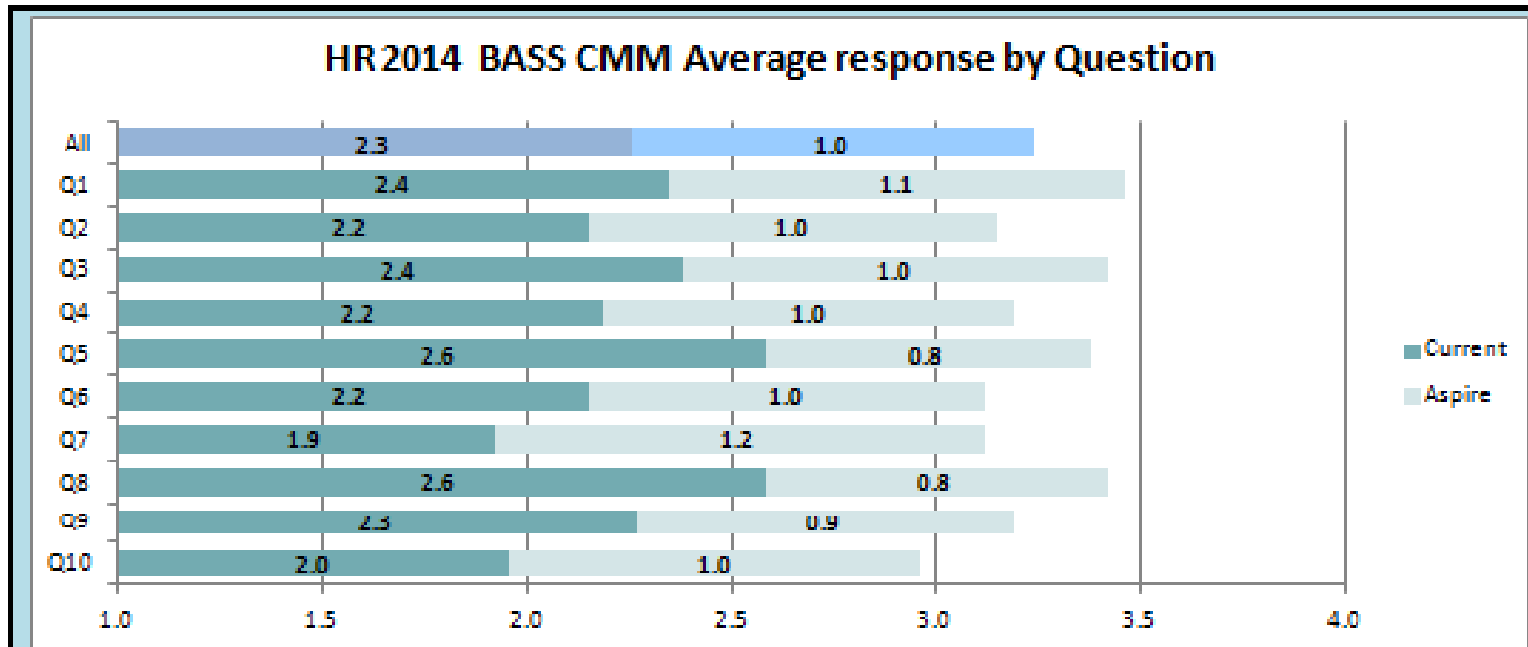
The HR Capability Maturity Model (CMM) was introduced in FY 2012/13 to improve the effectiveness measurement of the HR function

The CMM framework enables agencies to indicate current and future assessments of their HR 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.

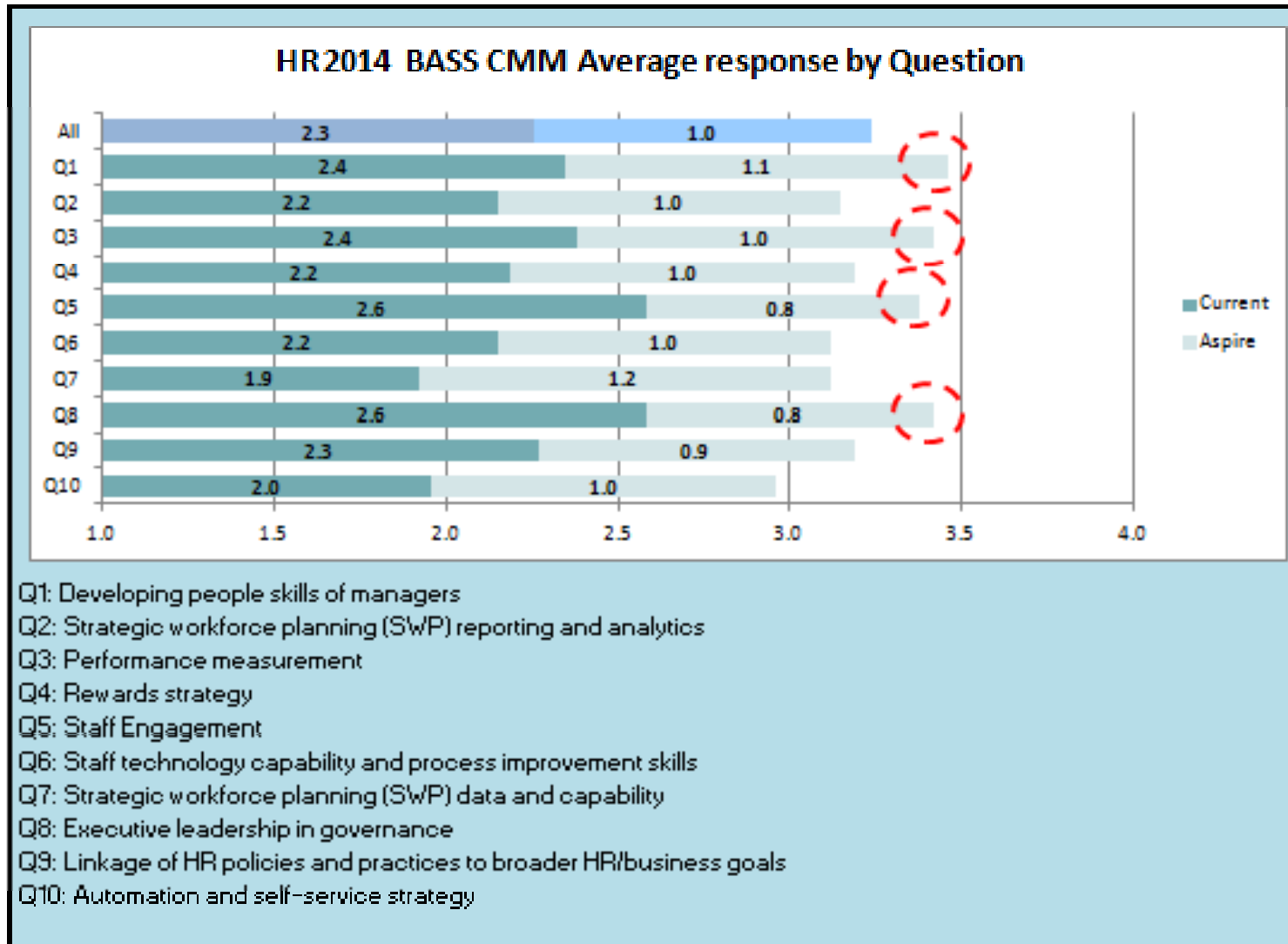
The model is based on a methodology from The Hackett Group.

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

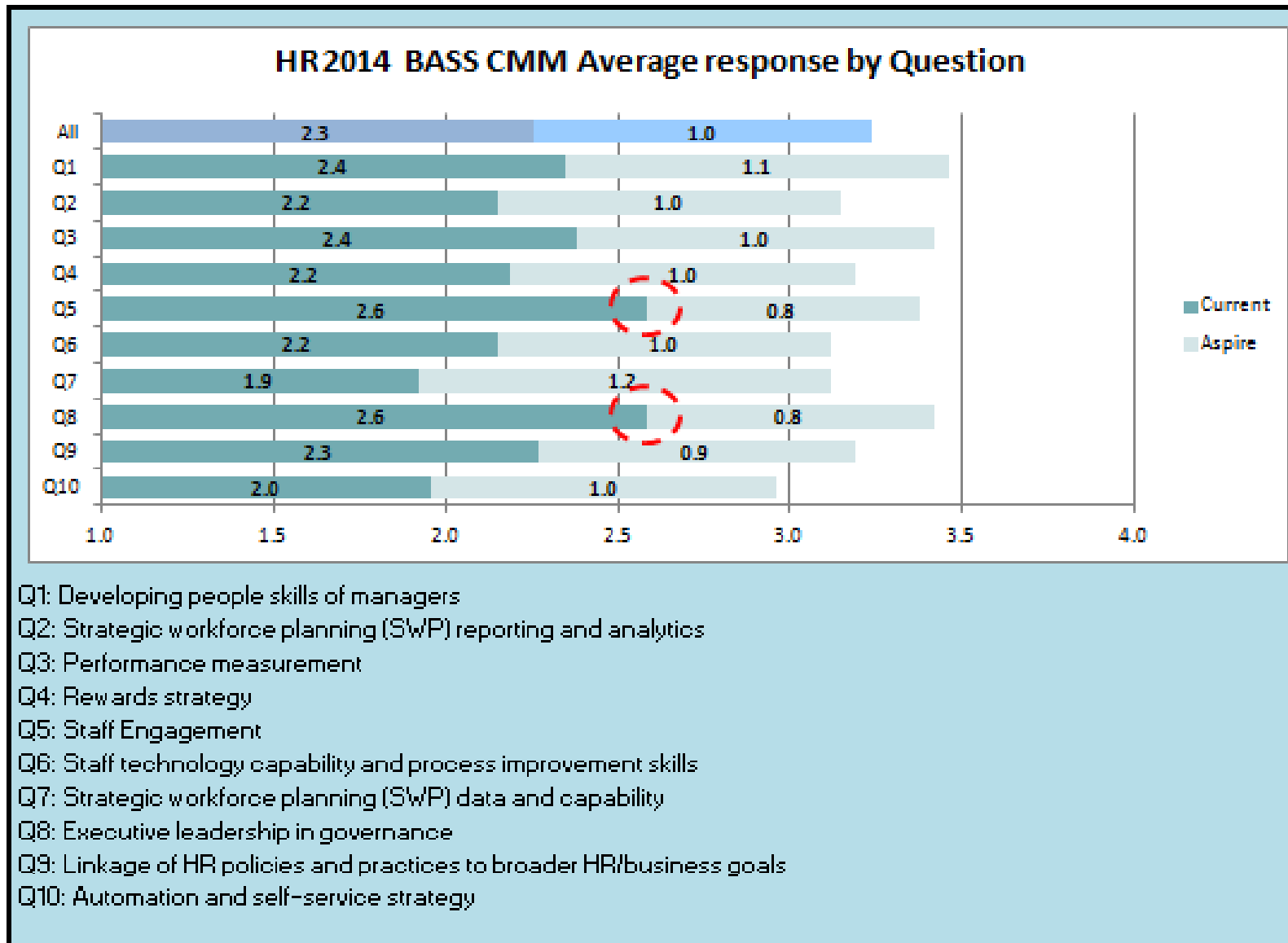


- Q1: Developing people skills of managers
- Q2: Strategic workforce planning (SWP) reporting and analytics
- Q3: Performance measurement
- Q4: Rewards strategy
- Q5: Staff Engagement
- Q6: Staff technology capability and process improvement skills
- Q7: Strategic workforce planning (SWP) data and capability
- Q8: Executive leadership in governance
- Q9: Linkage of HR policies and practices to broader HR/business goals
- Q10: Automation and self-service strategy

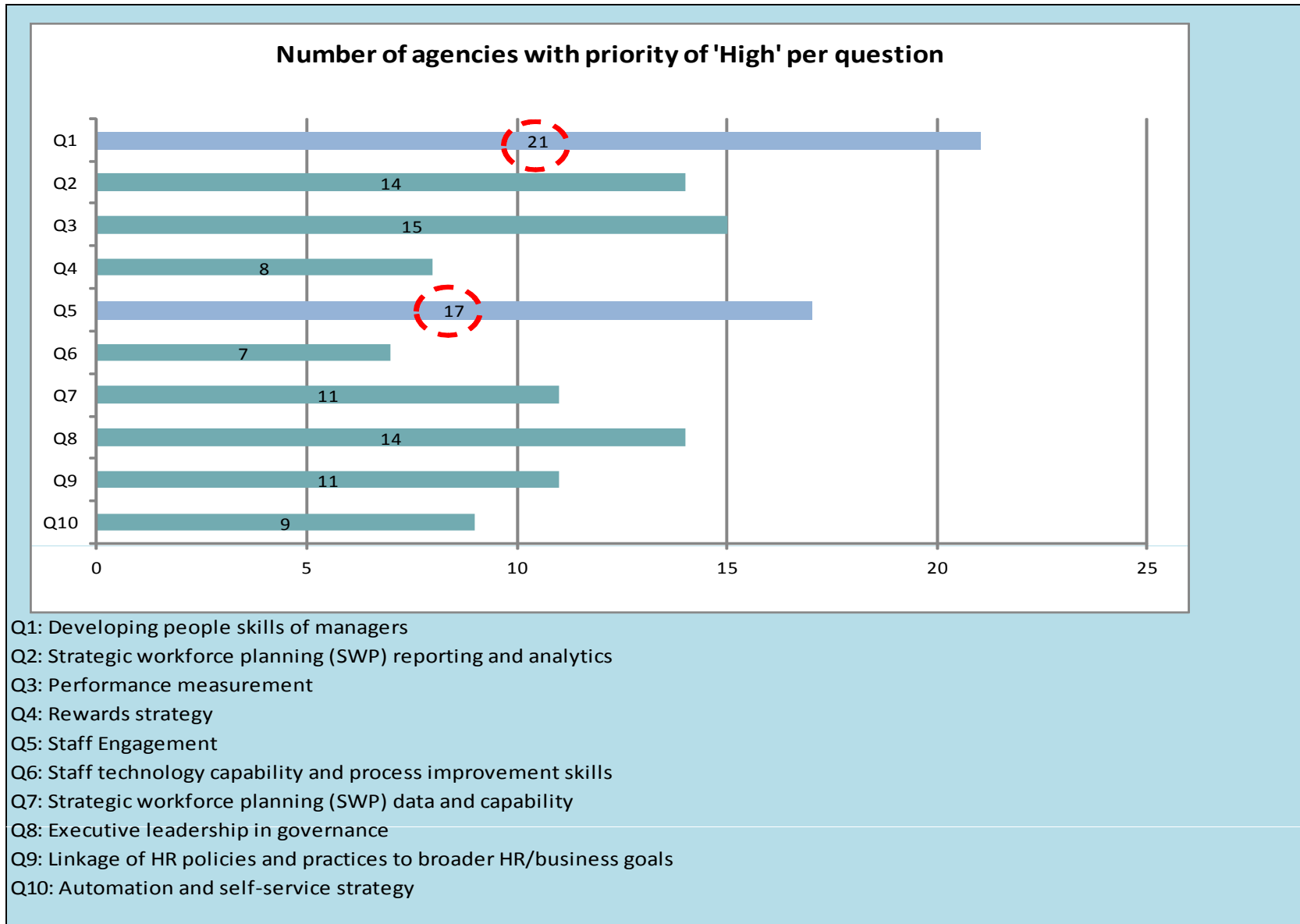
Across agencies, developing people skills of managers (Q1), performance measurement (Q3), staff engagement (Q5) and executive leadership in governance(Q8) continued to have the highest level of aspiration



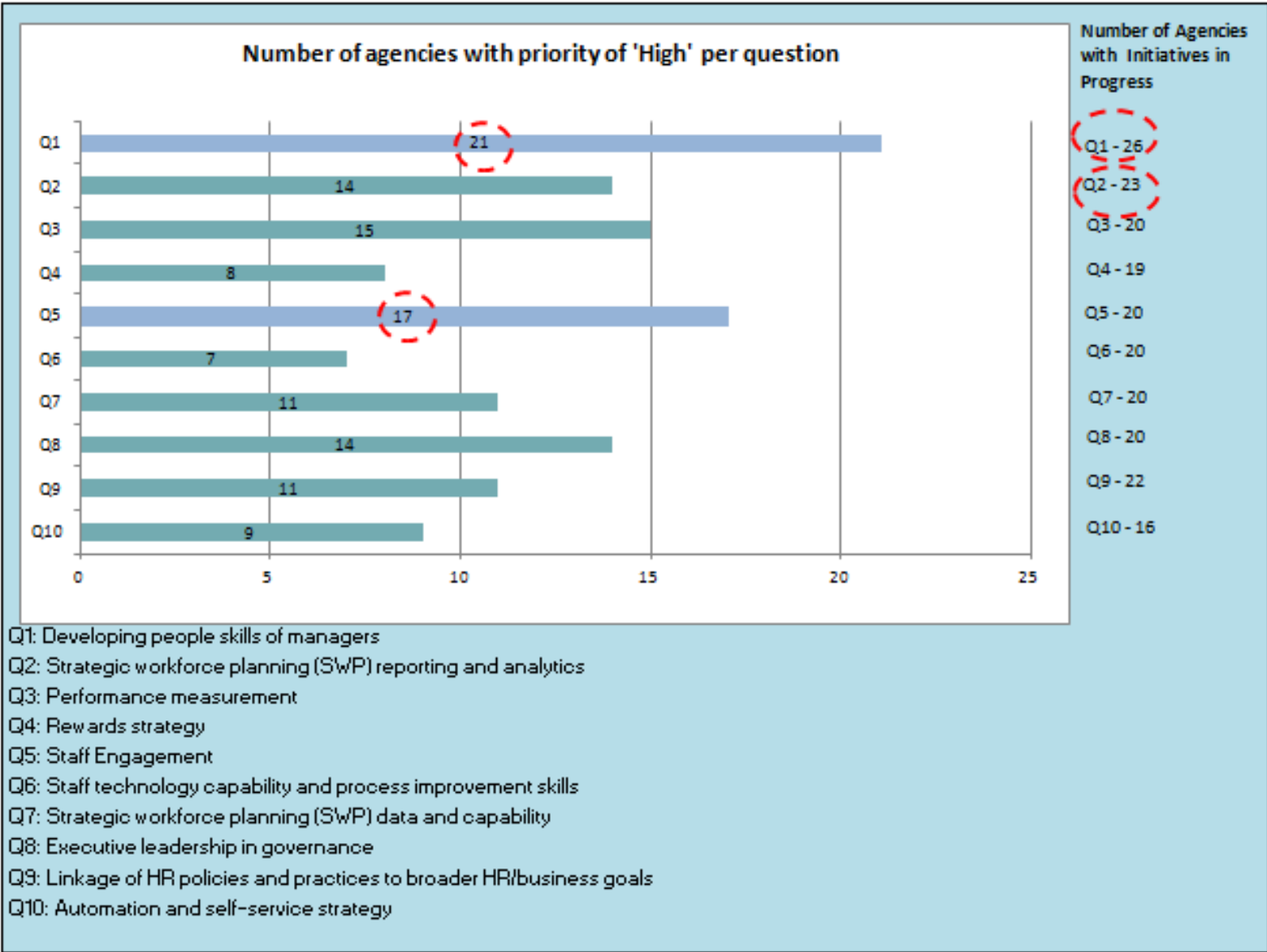
Agencies also continued to rate staff engagement (Q5) and executive leadership in governance (Q8) as their most mature practices



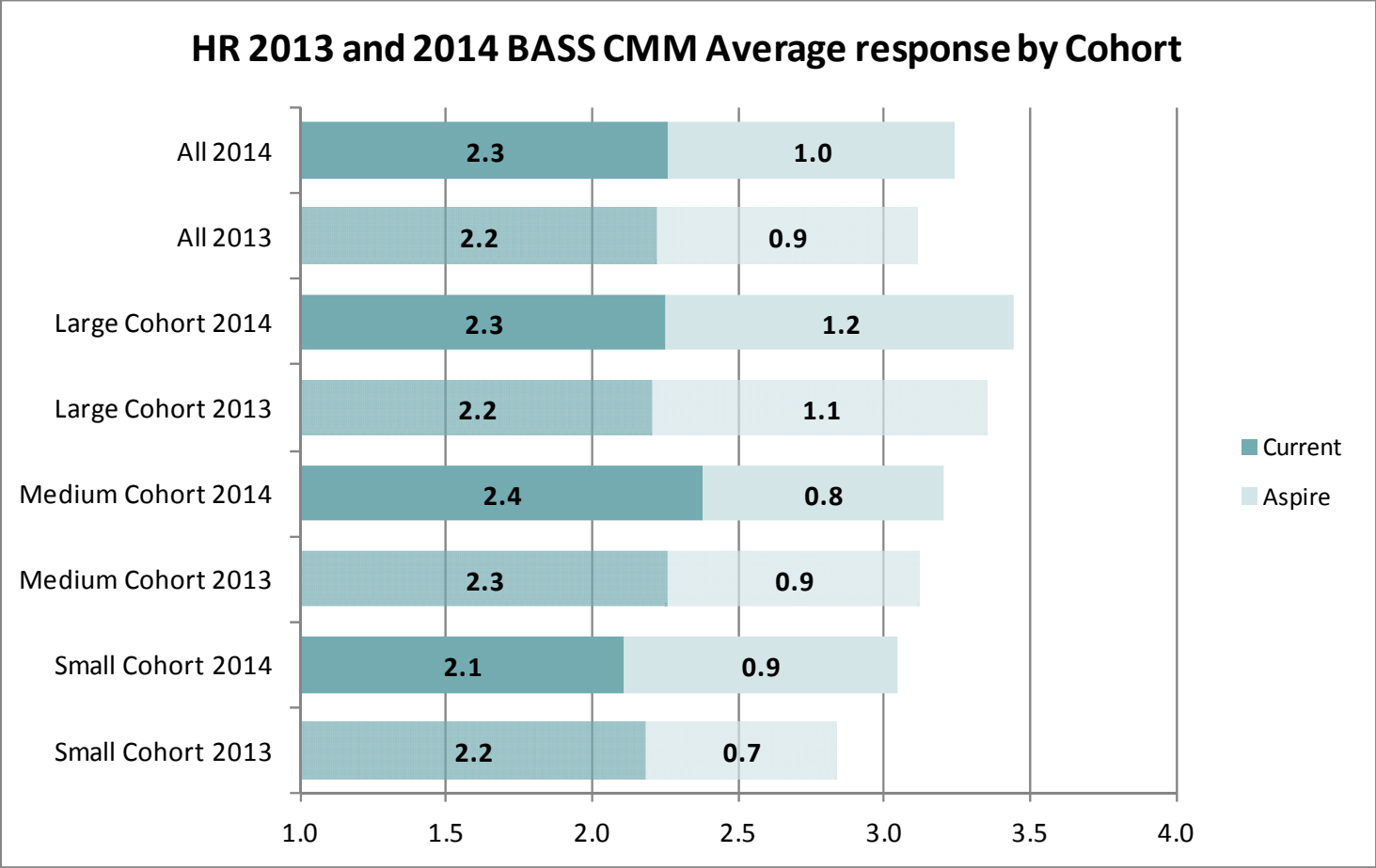
The two highest priority areas for improvement are still developing people skills of managers and staff engagement...



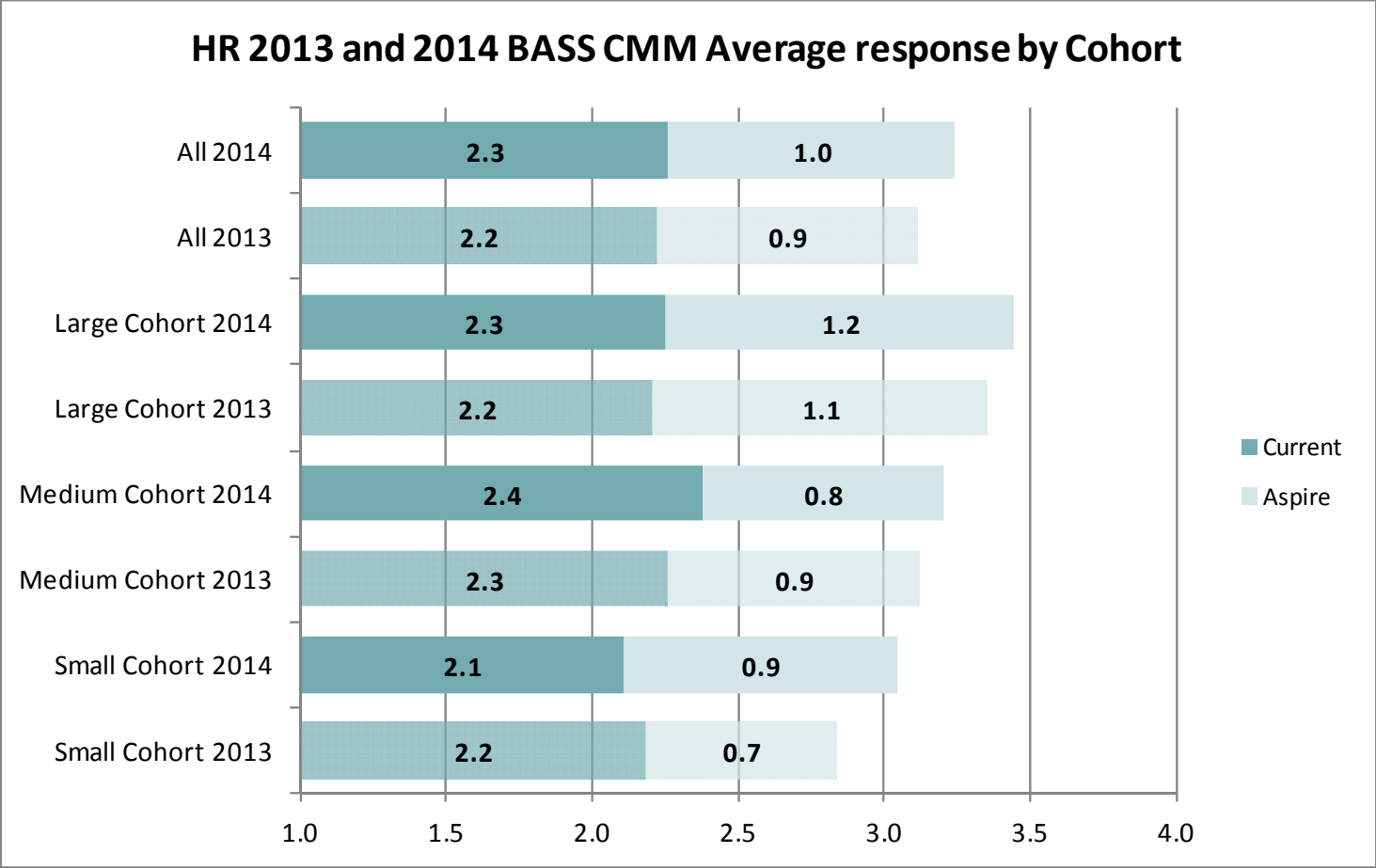
...and the two areas with the most improvement activity are developing people skills of managers and strategic workforce planning reporting and analytics



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



The levels of aspiration have increased for all cohorts since FY 2012/13



6. 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 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. 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.

The introduction of the Capability Maturity Model (CMM) for the HR function has enabled agencies to indicate current and future levels of maturity, their priorities and any initiatives in progress. The CMM is based on The Hackett Group's model, given this the second year of results, the quality of data may continue to vary due to self-assessment and self reporting. No peer review has been undertaken across the time series.

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, effective from 1 July 2012, has impacted on the comparative metrics across cohorts. The significant lower cost for the large cohort, and higher costs for the small and medium cohorts in FY 2011/12 related to the merger of the Department of Building and Housing (DBH), Department of Labour (DOL), Ministry of Economic Development (MED) and the Ministry of Science and Innovation (MSI) to form the Ministry of Business and Innovation and Employment (MBIE). DBH, DOL, and MED were previously in the small, medium and medium cohorts respectively. MSI previously did not participate in BASS. BH, DOL and MED spent \$1.2m, \$4.5m and \$1.4m respectively on HR in FY2011/12. If these costs (\$7.1m) were reflected in the large cohort costs for FY 2011/12 the relative cost would be \$114.1m.

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