
Policy Measurement Report 2013/14

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New Zealand Government



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About this report

This report covers the financial years (FY) 2012/13 and 2013/14. This is the second year the Policy Advice function has been measured, across 12 agencies with larger policy appropriations. This measurement exercise is part of the government's response to the 2010 *Review of Policy Advice and Expenditure*¹.

The value from undertaking this exercise is mainly derived by the agencies involved in it. Many of the key performance indicators in this report are already reported in the 2013/14 Annual Reports of each participating agency. The consolidation of this data, along with the collection of additional metrics, provides agencies with further insight into their policy advice function and can facilitate conversations between agencies on how they could support each other to improve the policy advice function across government.

Since this measurement exercise commenced DPMC has launched the *Policy Project*² which aims to improve the performance of the policy function and quality of policy advice across government. The *Policy Project* is focused on improvement activities; the policy measurement exercise should support that programme and help monitor improvement over time. The *Policy Project* aims to drive excellence in the policy system through improved policy capability, policy standards and enhanced policy design and delivery. The *Policy Project* work programme has been co-developed with the Tier Two Policy Leaders Network (deputy chief executives with policy responsibilities).

This report has been compiled with input from policy practitioners. Their input is essential to helping interpret the data, understand the caveats, and tell the overall performance story.

FY 2012/13 was the first year of measurement providing the opportunity to learn from that year's exercise and make necessary improvements. The Treasury worked with agencies to ensure the robustness and understanding of the indicator set, as well as supporting improved data collection in preparation for the FY 2013/14 measurement exercise. Even with these improvements, care is needed in interpreting the overall findings with further improvement still to be made in some areas.

A glossary of terms and performance indicators used in this report can be found in the Appendices.

Lessons from the FY 2012/13 measurement exercise

The FY 2012/13 results set out in this report need to be seen in the context of being the first year of data collection. The robustness of the data will improve from year to year.

A number of lessons were learnt from the 2012/13 measurement exercise and the following improvements were made for FY 2013/14, including:

- Improving the guidance provided to agencies; including on the definition of policy advice, how metrics are calculated, the technical quality robustness scores, and the Capability Maturity Model (CMM).
- Reporting the actual overhead cost recharged by finance for all agencies, rather than using BASS to calculate it, to achieve consistency of reporting.
- Inclusion of a new data point to record outsourced costs relating to policy advice outputs.

¹ see <http://www.treasury.govt.nz/statesector/policyexpenditurereview>

² see <http://www.dPMC.govt.nz/policyproject>

- Removing the following metrics and associated data points:
 - Ministerial Deadlines
 - Number of Analyst FTEs per Manager and Principal Advisor FTEs.
- Removing the split between prioritised and BAU policy advice output hours.

The FY 2013/14 measurement exercise has also highlighted further improvements that can be made to support the robustness and quality of the management information in future.

Quality of management information

This report covers the first and second years of reporting, and management information quality is expected to improve over time. For any function, it takes several reporting periods to get fully reliable data and management information. Improvements will be made to data collection methods and metrics based on lessons learnt year to year, and successive years of data will start to provide valuable trend information.

For many metrics, underlying data is accurate. In particular, agencies are able to easily provide results for existing indicators such as staff engagement and technical quality scores. Other indicators, such as information collected from the Treasury for Regulatory Impact Statements, are also relatively easy to access and are considered accurate.

Underlying data is less accurate for costs, FTEs and time. This was particularly so in FY 2012/13, as not all agencies had systems in place to report accurately on time, and those with devolved policy functions have to identify which FTEs are to be included in the measurement exercise. For metrics that rely on time data, the report is clear that the first year of measurement was not successful in establishing an accurate baseline. Although there have been improvements for FY 2013/14, there remains concern amongst agencies that the data is still not sufficiently accurate to be confident in drawing conclusions from it. Time data should continue to improve in quality in future reporting periods as agencies get more familiar with the time allocation categories in the measurement methodology. Efforts toward better time recording across agencies could potentially be repaid with more useful management information in future, but these efforts must be commensurate with the expected benefits.

Management practice maturity is self-assessed. Because these assessments are not moderated, there might be inconsistencies in how management terms and maturity levels are interpreted across agencies.

All agencies with large policy appropriations, except for MFAT, are included. While MFAT has a large policy appropriation, it does not apply the common definition of policy advice to this appropriation so the data is not comparable. As a result, MFAT's policy advice function is excluded from this measurement exercise.

The indicator set will likely evolve over future reporting periods as a result of lessons learnt in FY 2012/13 and 2013/14 and other improvement activities. The Treasury is working with DPMC, policy agencies, and practitioners to ensure that the indicator set fully supports policy improvement activities across government.

Executive summary

Purpose and scope of the report

The performance of the policy function is important because it shapes the cost, quantity, and value of total government expenditure. Policy advice is an input into government decision-making on the expenditure of a large proportion of GDP, as well as taxation, regulation and other interventions. It is therefore critically important that policy advice is of high quality, that it is focused on issues and services that matter for New Zealanders, and is managed effectively.

This report provides an all-of-government view of the policy advice function for the Financial Years (FY) 2012/13 and 2013/14. The 12 participating agencies represent approximately 95 percent of policy expenditure across the State sector (excluding MFAT)³.

This report provides a picture of policy advice expenditure, the policy workforce, how time is allocated, capability maturity in terms of management practices, and opportunities for improvement. This picture is possible because of efforts undertaken by agencies to align to standardised definitions of policy advice, job levels, cost types, and activity types for the purpose of this policy measurement exercise. Together with a common indicator set, this standardisation provides a more unified way of talking about this function and how it is resourced and managed. Nevertheless, care is needed in drawing conclusions from this aggregate data as there is still room for further improvement in the accuracy of some of the data, notably in relation to time recording.

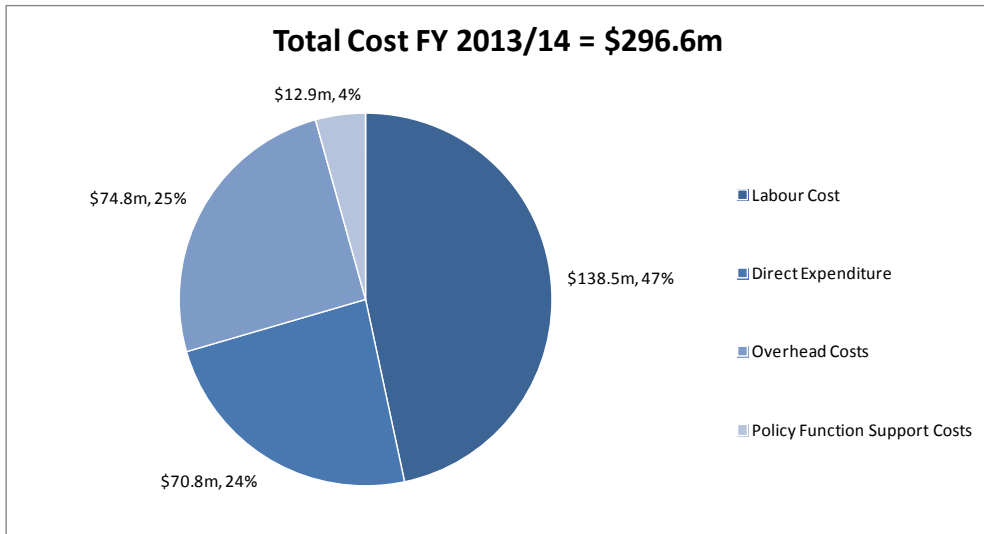
The overall findings in this report provide a starting point for identifying and exploring opportunities to improve the policy function within and across agencies – it does not draw conclusions about individual agencies. As agencies have unique functions and cost drivers, these results are a guide to relative performance, and conclusions regarding efficiency and effectiveness should be made in light of each agency's operational context. Participating agencies each receive their specific results and sample individual agency reports to provide insights into their policy function and interpret within the context of their operations.

Highlights of findings

Participating agencies reported spending \$274.5 million (\$279 million CPI-adjusted) on policy advice in FY 2012/13 and \$297 million in FY 2013/14 (a net 6.5 percent increase). The reported increase appears to be due primarily to better cost data reporting by specific agencies, especially around outsourced costs, rather than an actual increase in costs. As expected, agencies reported that policy staff labour cost is the largest cost element, at approximately 48 percent of total costs in FY 2012/13 and 47 percent in FY 2013/14.

³ MFAT has not aligned its appropriation to the common definition of policy advice so is not included in this report as its data is not comparable.

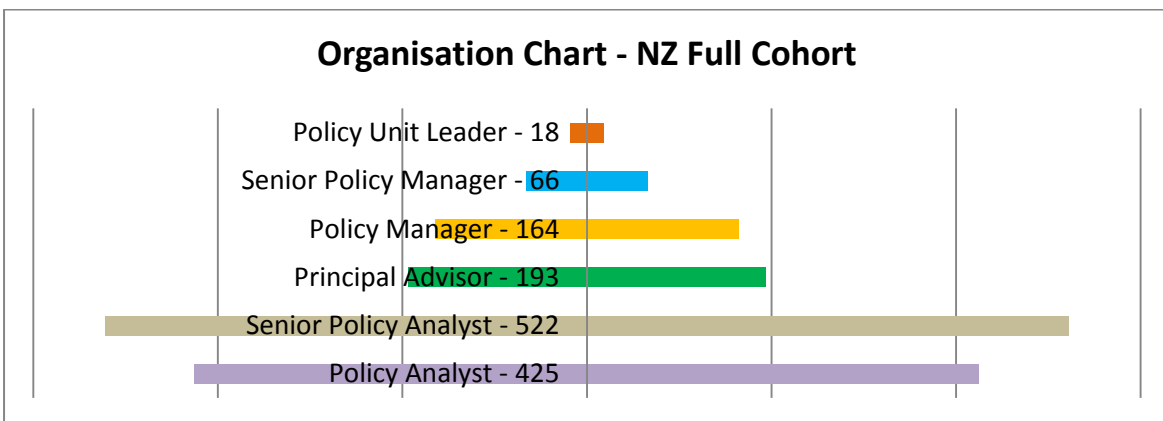
Graph 1: Total cost of the policy function included in the measurement exercise



Overall, the workforce has a relatively high number of staff at management levels, and the highest number of staff at the Senior Analyst level. This overall shape is seen within most participating agencies, and when the combined participating agencies’ policy advice workforce of 1388 FTEs is rolled up into a single organisation chart. This organisation chart shows about 18 percent of the policy workforce is in managerial and leadership roles. This means that, on average, there is one management or leadership FTE for every four to five FTEs focused on policy output production. However, policy leaders can have additional FTEs reporting to them focused on non-policy output production, such as ministerial servicing functions.

Most, but not all, participating agencies have this organisation chart shape, and whether this is the desired shape of the workforce, or if it is the shape agencies have because of labour market constraints, warrants further discussion.

Graph 2: NZ full cohort organisation chart FY 2013/14



Reported overall utilisation (similar to “billable hours”) of about 70 percent (71 percent in FY 2012/13) suggests a relatively strong focus on delivery, but data quality issues preclude clear findings for this two year combined report. While three agencies recorded staff time to understand the cost of outputs, see trends, and plan future work for the reporting period, others used methods such as sampling and surveys to estimate time allocation. Those that had time recording systems found that when these systems are first implemented they can significantly challenge the organisation’s beliefs about how it spends time, and its productivity. This suggests that estimates provided by agencies that do not regularly record time might not be accurate. If utilisation results across the two years were

based on more reliable data, it would be a positive finding given a theoretical maximum of 83 percent utilisation⁴, which is equivalent to 215 work days per FTE focused on output production.

Variability in utilisation, with agencies reporting approximate rates between 64 percent and 78 percent, shows opportunities for improvement; but again, data quality issues preclude clear findings. Eight agencies reported overall utilisation between 64 and 70 percent in FY 2013/14.⁵

Table1: Utilisation by job level – NZ Full Cohort

Job Level	Mean Utilisation	Median Utilisation	Highest Reported Utilisation	Lowest Reported Utilisation
Policy Unit Leader	51.8%	53.6%	71.9%	27.4%
Senior Policy Manager/Advisor	41.9%	42.0%	70.3%	20.1%
Policy Manager	53.7%	54.2%	72.5%	38.9%
Principal Advisor	72.0%	71.8%	80.0%	64.4%
Senior Policy Analyst	74.6%	74.4%	79.1%	71.4%
Policy Analyst	75.2%	75.6%	86.1%	62.6%
All Job Levels	70.0%	67.2%	86.1%	20.1%

Utilisation across different job levels shows reasonably high utilisation rates for senior and junior staff. As expected, reported utilisation rates are generally higher for more junior staff, but overall, utilisation rates for very senior staff seem high enough to suggest more time could be spent on management rather than output activities. Six of the eleven agencies reported that Policy Unit Leaders, the most senior management and leadership role in the policy function, spend 50 percent or more of their time on policy advice output delivery. Agencies might wish to use utilisation information to support a discussion on desirable levels of delegation for output production, so that managers can spend more time on the priority areas identified by agencies for performance improvement through the Capability Maturity Measurement (CMM) assessment exercise. These areas are quality management, HR management, knowledge management, and longer term planning. In each of these areas, reported management maturity was significantly below agencies' aspirations.

Agencies report it costs \$158 per hour, on average, to provide advice to Ministers, but there are some data quality issues. This was also \$158 in FY 2012/13. The total cost per output hour metric is designed to be a unit cost for policy advice, which reflects what policy organisations might have to bill per hour to break-even on a cost recovery basis.

The total cost per output hour ranges across agencies from \$129 to \$220⁶ (\$95 to \$247 in FY 2012/13). The cost drivers of utilisation, remuneration and staff mix are all under the control of managers and amenable to change. In particular, agencies might have opportunities to reduce the total cost per output hour by delegating work to the lowest level of seniority where it can be completed competently, which could involve changing their staff mix to have more junior staff, and pursuing utilisation targets. These are common practices in professional services because they drive value for customers while minimising costs.

⁴ Maximum utilisation is based on 215 of 260 days per year, which is 260 days less an estimated 5 weeks annual leave, 1 week domestic or sick leave 1 week professional development and 2 weeks public holidays.

⁵ One agency reported an outlier figure, and has been excluded from this data.

⁶ The high figure is distorted due to a high level of outsourced input.

There is significant variability in pay at the Analyst, Senior Analyst, and Principal Advisor levels. Principal Advisor pay per hour ranges from \$48 to \$90; Senior Analyst pay per hour ranges from \$30 to \$57; and Analyst pay per hour ranges from \$18 to \$42. Some variability is expected because although participating agencies aligned to standard job levels for this measurement exercise, in practice, there is variability in job roles, responsibilities and sizes. Importantly, Policy Unit Leaders and Managers can also have leadership and management responsibility beyond the Policy function, for example for ministerial servicing staff.

Staff engagement is high relative to other parts of the NZ State sector. Seven of the ten agencies that reported policy staff engagement scores reported scores above the NZ public sector benchmark, whether they used Gallup or Kenexa.

There was significantly less variation in Regulatory Impact Statement (RIS) results in FY 2013/14 than FY 2012/13. The number of significant RIS assessments, which are assessed by the Treasury, represents approximately 25 percent of RISs produced by agencies. Some agencies only completed one or two such RISs, and some did not complete any in a reporting year. Combining the results for the two years gives a more normal distribution of results, with a median of 67 percent of an agency's significant RIS assessments meeting all or most requirements, with a 75th percentile of 92 percent and a 25th percentile of 56 percent. This is against the Treasury's target of 90 percent. The fact that some agencies did not meet requirements for any of their RISs as assessed in one or both years demonstrates a need for improvement in this area.

Note: In addition to assessment of 'significant' RISs by the Treasury, a wider sample is assessed by agencies' internal but independent panels. A sample of these and the Treasury's assessments are independently assessed by an external consultancy.

Results for technical quality and Minister satisfaction were similar across agencies. These metrics were selected by policy practitioners as standard metrics for reporting in the Estimates of Appropriations based on their value to individual agencies.

Introduction

Background

This is the first published report on the state of the policy function for the New Zealand State sector. In November 2012, Cabinet directed selected agencies to submit performance data for their policy functions to the Treasury. The participating agencies represent approximately 95 percent of policy expenditure across the State sector (excluding MFAT)⁷.

This report starts to provide better performance information for the policy function. The Review of Expenditure on Policy Advice⁸ reported that many agencies lacked the management information necessary to deliver policy advice efficiently and effectively. In response to this review, Ministers directed the Treasury to establish a common definition of policy advice⁹; establish and report on a common set of performance measures for the policy function; and report on the performance of the policy advice function across agencies. FY 2012/13 was the first year of measurement and provided the opportunity to learn and make necessary improvements. The Treasury has worked with agencies to ensure the robustness and understanding of the indicator set, as well as supporting improved data collection processes and preparing for publication of this report, which covers FY 2012/13 and FY 2013/14. Since this measurement exercise commenced DPMC has launched the *Policy Project*¹⁰ which aims to improve the performance of the policy function and quality of policy advice across government. The work of the *Policy Project* could result in the identification of additional capability metrics, or necessitate changes to the existing metric set. The quality of performance information for the policy function is expected to improve over time as a result of these complementary Treasury and DPMC-led initiatives.

Measurement approach

The Treasury is responsible for managing an annual measurement exercise 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 and data quality based on lessons learnt.

Measurement is based on a common definition of policy advice developed by a policy working group in FY 2011/12. Agencies¹¹ reorganised their policy appropriations in Budget 2012 to align with this new common definition of policy advice. Having a common definition is essential to understanding the cost of this function and undertaking consistent measurement across agencies.

Eleven agencies took part in a pilot exercise with the Treasury in FY 2011/12 to develop and test a common indicator set for policy advice. Many of these indicators were already in use in some agencies, and some were adapted from private sector professional services organisations. At the end of this pilot, participating agencies agreed

⁷ MFAT has not aligned its appropriation to the common definition of policy advice so is not included in this report as its data is not comparable.

⁸ <http://www.treasury.govt.nz/statesector/policyexpenditurereview>

⁹ http://www.treasury.govt.nz/publications/guidance/mgmt/rapa/06.htm#_toc3.2

¹⁰ see <http://www.dPMC.govt.nz/policyproject>

¹¹ All agencies aligned their policy advice costs except for MFAT who retained their same appropriation structure.

to the common indicator set. These indicators were subsequently modified following lessons from the FY 2012/13 measurement exercise, with the common indicator set used for FY 2013/14 exercise provided in the table below.

Fourteen agencies participated in the FY 2012/13 measurement exercise. Twelve agencies participated in the FY 2013/14 exercise as two agencies no longer met the criteria for participation because they exceeded the threshold cost of data collection and one agency's policy appropriation has decreased below the materiality threshold.

Table 2: Policy performance measures: common indicator set FY 2013/14

	Indicator	Description of Indicator
1	Total cost per output hour	Total cost of an hour of professional staff time devoted to policy advice outputs.
2	Management Practice Indicator	Extent to which the agency has adopted key management practices underpinning policy function performance.
3	Minister satisfaction	Score on a standardised Minister satisfaction survey.
4	Technical quality	Standardised scores for technical quality assessments already undertaken by the Agency.
5	Regulatory Impact Assessment (RIS)	Percentage of RISs categorised as 'meets requirements' in external, independent quality reviews undertaken by the Treasury's Regulatory Impact Analysis Team.
6	Staff engagement	Standardised scores for policy staff engagement surveys already undertaken by the Agency.

Consistency in data collection is a key component of effective measurement, and there is a deliberate investment in data quality. A Metrics Guide with detailed definitions for all data points supports consistency in data collection, and participating agencies attended workshops to understand the methodology. During data collection, the Treasury provided helpdesk support, and once data collection was complete, agencies submitted draft versions of their data for validation prior to final submission.

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.
 - 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 to agencies, to promote transparency, and facilitate discussion and debate.
3. **Performance results should be understood within the operational context of each agency.** While agencies have common features and results are broadly comparable, some have unique functions and cost drivers, so results are a guide to relative performance and conclusions regarding efficiency and effectiveness should be made in light of each agency's operational context.

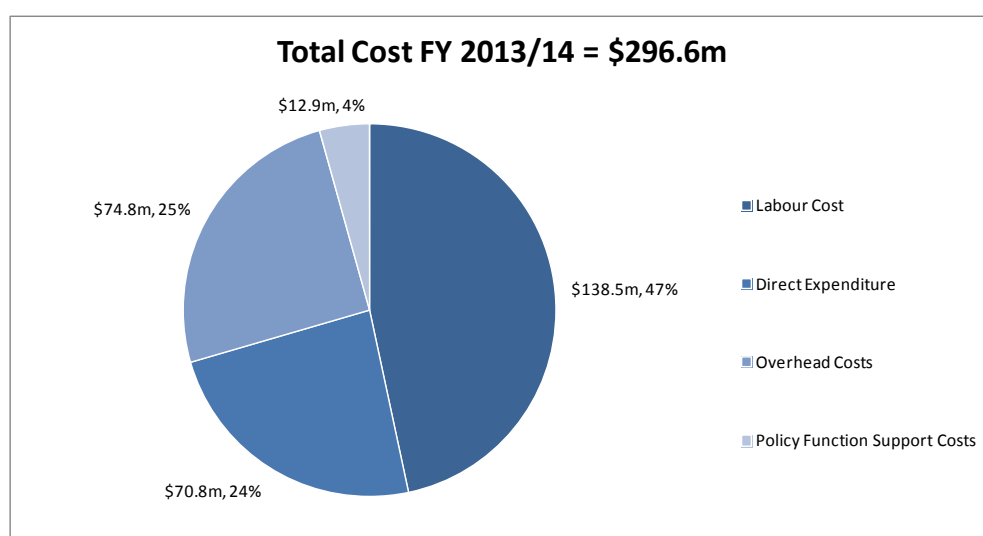
4. **Results should be used constructively, not punitively.** In leading practice organisations, whether private or public, performance information supports discussion, decision making, and learning toward achieving performance improvement, without necessarily pursuing a perceived 'best practice target' or competing with similar organisations for a higher place on a 'league table'.
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

Cost findings

The total cost of the policy function in scope for this exercise is \$297 million in FY 2013/14.¹² This is \$24.5 million less than the figure quoted in agencies' annual reports. As expected, agencies reported that policy staff labour cost is the largest cost element, at approximately \$138 million (approximately 47 percent). In FY 2012/13 this was \$133 million, or 48 percent of the total cost.

25 percent in FY 2013/14 (28 percent in FY 2012/13) of spend was allocated to overhead, and direct expenditure (including consultancy support) made up 24 percent (19 percent in FY 2012/13).

Graph 3: Total cost of the policy function included in the measurement exercise



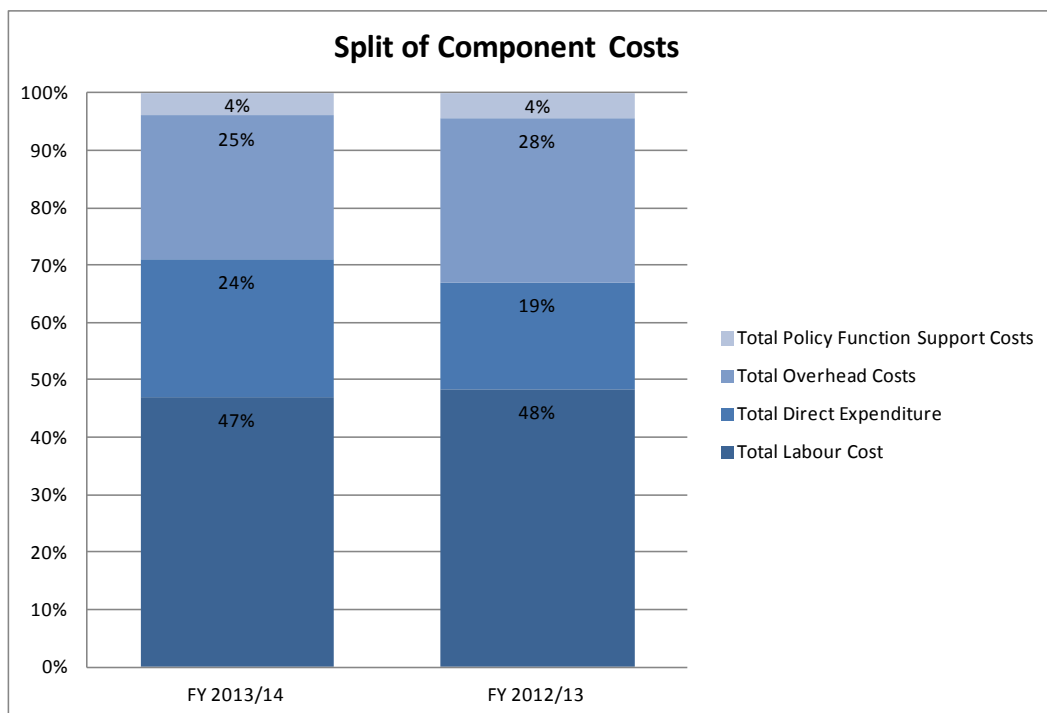
The total cost of the policy function in scope for this exercise in FY 2012/13 was \$274.5 million (\$279 million inflation-adjusted). At \$297 million in FY 2013/14, this is an inflation-adjusted 6.5 percent increase. The reported increase appears to be due primarily to better cost data reporting by specific agencies, especially around outsourced costs.

The distribution of costs varies significantly across agencies. Labour costs make up the bulk of spending for each agency, but relative spend on Direct Expenditure (including spend on consultancy) is large for some agencies (24 – 39 percent) while very low for others (7 – 13 percent). Overhead costs also vary significantly by agency from 16 percent to 43 percent.

Distribution of cost information can support discussion on agency differences and cost drivers. In particular, levels of expenditure on contractors, and the impact on these on costs and knowledge management, might warrant further discussion within the context of agencies' individual needs.

¹² This is just for the 12 agencies within scope of this measurement exercise; not the total amount spent on Policy functions across government.

Graph 4: Split of reported component costs FY 2013/14 and FY 2012/13



While some agencies maintained similar cost profiles between FY 2012/13 and FY 2013/14, others varied noticeably. The variability was not always correlated to the total expenditure and we would have expected greater stability in the cost structure. Two of the five agencies that showed unexpected variation were the same two that largely accounted for the reported total cost increase between FY 2012/13 and FY 2013/14. Again, it seems likely that these variations might have been due to changes in cost allocation and reporting, rather than reflecting actual changes in the cost structure of the agencies concerned. Time series analysis in successive reporting periods should be useful for identifying any truly changing profile of costs and resources in the Policy function.

Changes in Proportion of Labour Costs – FY 2013/14 and FY 2012/13

Between FY 2012/13 and FY 2013/14 the lowest proportion of labour costs out of total costs for the respective agencies increased from 33 percent to 39 percent; the highest proportion and quartiles remained almost the same; and the median proportion moved from 53 percent to 48 percent.

Changes in Proportion of Direct Costs – FY 2013/14 and FY 2012/13

Between FY 2012/13 and FY 2013/14 the proportion of direct costs out of total costs reported for the respective agencies remained essentially the same. This figure includes outsourced costs. We expect the proportion of direct costs will stabilise as reporting of outsourced costs normalises.

Changes in Proportion of Overhead Costs – FY 2013/14 and FY 2012/13

Between FY 2012/13 and FY 2013/14 the proportion of overhead costs out of total costs reported for the respective agencies remained essentially the same, although the highest proportion increased from 38 percent to 43 percent.

Changes in Proportion of Support Costs – FY 2013/14 and FY 2012/13

Between FY 2012/13 and FY 2013/14 the range of proportions of support costs out of total costs reported for the respective agencies remained essentially the same.

Effectiveness findings

The table below outlines the overall result for the NZ cohort, and the median, highest, lowest and 75th and 25th percentile (upper and lower quartile) reported scores for the primary effectiveness indicators in FY 2012/13 and FY 2013/14.

Table 3: Effectiveness measure headline results

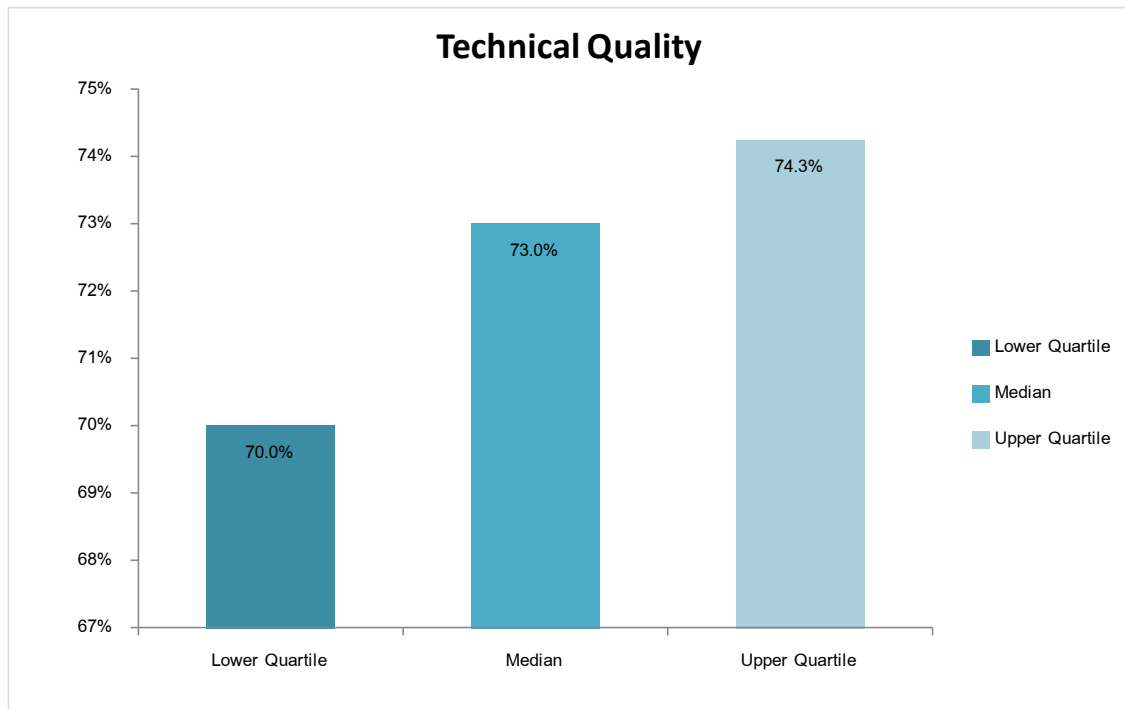
Indicator	NZ full cohort	Median	Highest	Upper Quartile (75 th Percentile)	Lower Quartile (25 th Percentile)	Lowest
Technical quality score						
FY 2013/14	72%	73%	77%	74%	70%	64%
FY 2012/13	72%	73%	77%	74%	71%	65%
Significant Regulatory Impact Statements that meet requirements						
FY 2013/14	88%	100%	100%	100%	86%	0%
FY 2012/13	59%	79%	100%	100%	50%	0%
Service Quality – Minister Satisfaction						
FY 2013/14	75%	77%	87%	80%	73%	60%
FY 2012/13	68%	67%	95%	75%	63%	62%
Staff Engagement – Kenexa						
FY 2013/14		67%	80%			48%
FY 2012/13		67%	90%			54%
Staff Engagement – Gallup						
FY 2013/14		4.0	4.1			3.7
FY 2012/13		4.0	4.1			4.0
Capability Maturity Model Indicators (maximum score of 4)						
FY 2013/14		2.6	3.1	2.7	2.4	2.0
FY 2012/13		2.6	2.8	2.7	2.4	1.8

Technical quality

Technical Quality is measured on the standardised scores for technical quality assessments already undertaken by the agency for the reporting period. These are commonly conducted by NZIER.

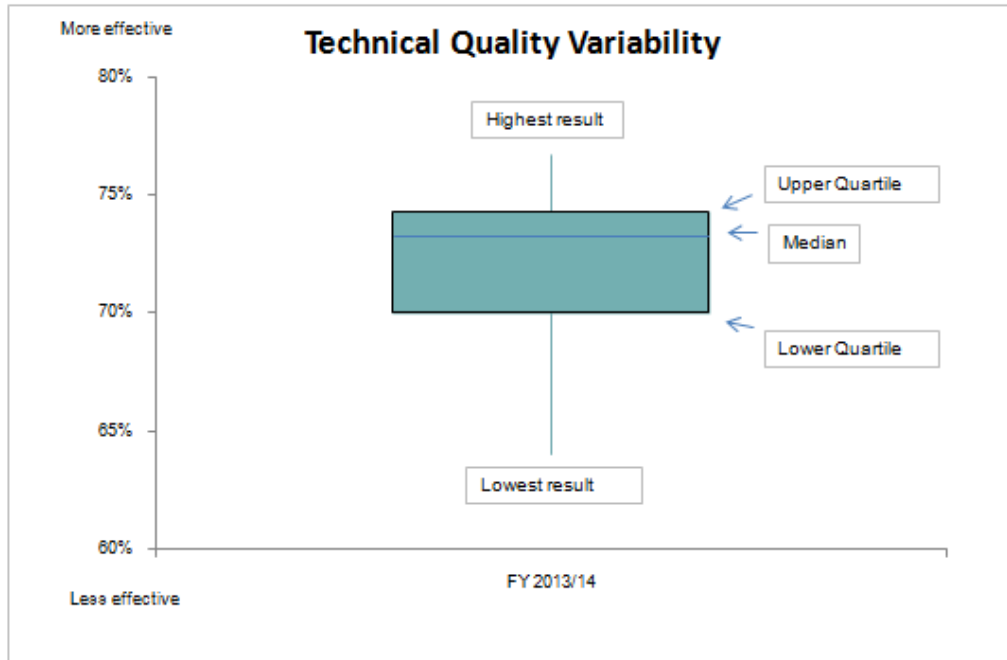
The median technical quality score is 73 percent with limited variability. During consultation over the FY 2012/13 results, the general view expressed by agencies was that the median technical quality score of 73 percent was acceptable, that agencies should be aspiring to a score of 80 percent, and that a score of 60 percent would be low.

Graph 5: NZ cohort technical quality scores



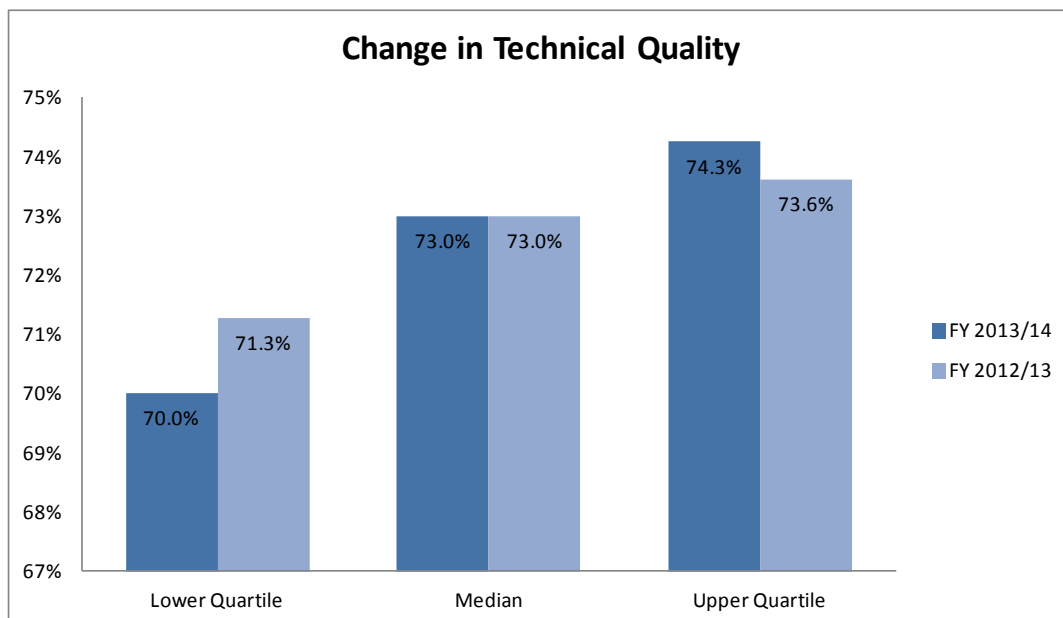
In FY 2013/14 one agency had a score of 64 percent, with the remainder scoring between 69 percent and 77 percent, while in FY 2012/13 two agencies had lower scores, ranging from 65-67 percent. Differences in technical assessment methods should be considered when assessing relative performance against this metric.

Graph 6: Technical quality variability



Technical quality has improved slightly from FY 2012/13.

Graph 7: Change in technical quality FY 2012/13 to FY 2013/14



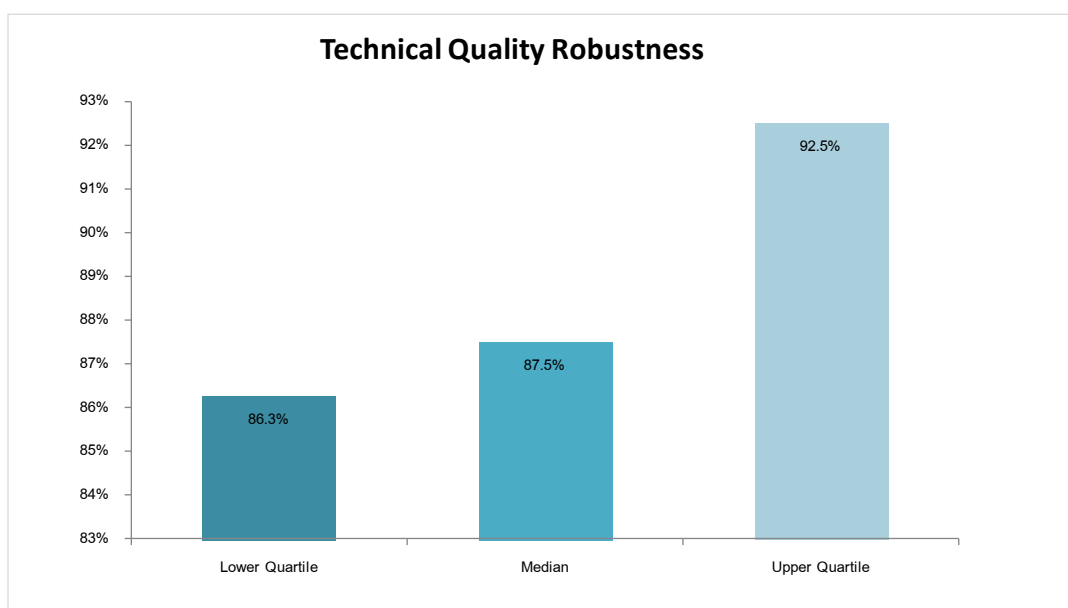
Technical quality robustness results show that agencies have varied methods of assessing technical quality.

Robustness scores provide some context to the technical quality scores and provide an assessment of the methodology used across four areas, being:

- sample size, the number of policy outputs assessed out of the total policy outputs in a FY
- average years policy advice experience the reviewers have
- how many of the following five components are assessed: clarity, accuracy, analytical rigour, fitness for purpose and relevance to the wider context
- how the policy advice outputs were selected e.g. random sample.

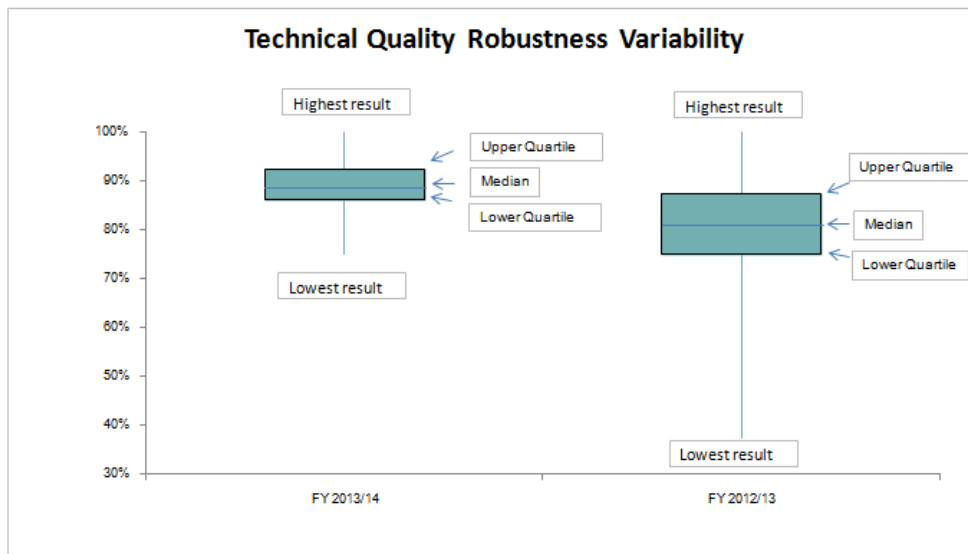
The median level of technical robustness for FY 2013/14 was 87.5 percent

Graph 8: Technical quality robustness



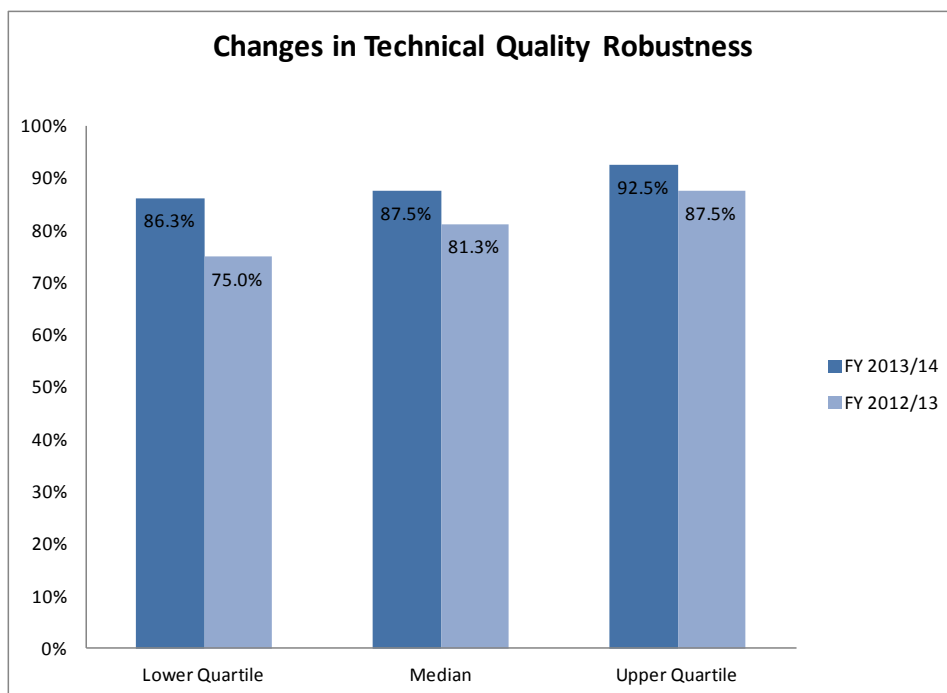
Most agencies scored 87.5 percent or higher for technical quality robustness, with only two agencies at 80 percent or lower. Variability in robustness is not surprising as agencies employ different suppliers and methodologies to suit their operational needs and budget. It is not clear if this variation is based on deliberate decisions regarding preferred assessment methods. Several agencies have expressed interest in strengthening assessment practices.

Graph 9: Technical quality robustness variability



Variability in robustness has reduced significantly between FY 2012/13 and FY 2013/14, while the overall scores have improved.

Graph 10: Technical quality robustness FY 2013/14 and FY 2012/13



With 9 of 12 agencies reporting that it is a high priority to improve quality management practices, results against technical quality scores and assessment robustness scores can support a discussion of good practice across this function. There is limited agreement on, and sharing of, good quality management practices across agencies, suggesting opportunities exist to work collaboratively to establish minimum standards and share lessons learnt. These scores would have more value if policy practitioners established a shared view of acceptable and desirable standards for both the technical quality score and the robustness of quality assessments. The DPMC-led *Policy Project* is working with agencies to share good practice and develop greater consistency across government in terms of both policy quality and assessment processes.

Regulatory Impact Assessments

88 percent (60 percent in FY 2012/13; 70 percent over the two years) of significant Regulatory Impact Statements (RIS) met all or most requirements¹³ via the independent Treasury assessment, against a Treasury target to support agencies to achieve 90 percent¹⁴. The Treasury assesses RISs for policy projects that consider options with significant impacts or risks. This comprises about 25 percent of total RISs completed by agencies. The number of RISs varied significantly between agencies.

Nine agencies had a total of 24 significant assessments completed in FY 2013/14, and there were also nine agencies with a total of 37 significant RIS assessments completed in FY 2012/13. Three agencies did not have any significant RIS assessments for FY 2012/13 and three for FY 2013/14. When looking across the two years (combining FY 2012/13 and FY 2013/14), only one agency did not have any significant RIS assessments for both years.

Table 4: Regulatory Impact Statement assessments

Number of agencies with significant RIS assessments in each category			
	FY 2013/14	FY 2012/13	Combined
All RIS assessments met all or most requirements	6	3	3
Some RIS assessments met all or most requirements	1	4	7
No RIS assessments met all or most requirements	2	2	1
Total	9	9	11

The combined figures in the above table are not totals of the two individual years because, for example, an agency could have all RIS assessments in the 'met all or most' category one year but in the 'some assessments met' category in the other year, placing it in the 'some assessments met' category on a combined year basis.

The fact that some agencies did not meet requirements for any of their RISs as assessed in one or both years demonstrates potential for improvement in this area. Care is needed though when analysing these results given some agencies has few significant RISs.

The following table gives the breakdown of individual RIS assessments (across all agencies). Combining the results for the two years gives a more meaningful picture of the distribution of results, as it provides a larger sample size, than looking at each individual year's results.

Table 4A: Regulatory Impact Statements that met, met some, or did not meet requirements

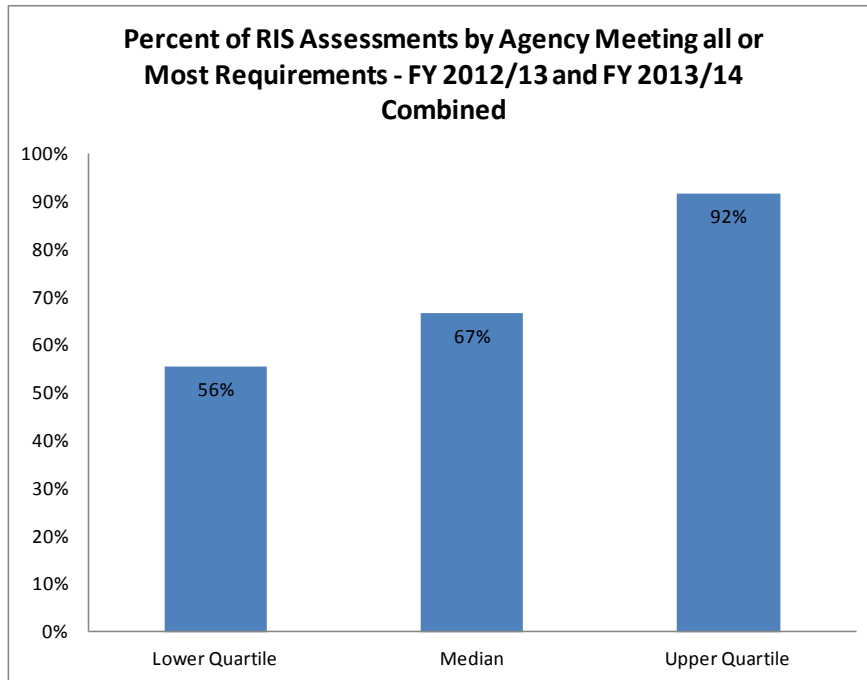
Number of significant RIS assessments in each category			
	FY 2013/14	FY 2012/13	Combined
RIS met all or most requirements	21	22	43
RIS met some requirements	0	11	11
RIS did not meet requirements	3	4	7
Total	24	37	61

¹³ <http://cabguide.cabinetoffice.govt.nz/procedures/regulatory-impact-analysis>

¹⁴ <http://www.treasury.govt.nz/publications/abouttreasury/annualreport/13-14/032.htm>

The proportion of significant RIS assessments meeting all or most requirements varies considerably by agency, but again the small volumes in some agencies mean these figures should be treated with caution. Graph 11 below shows the distribution of results for the two years combined.

Graph 11: Agency RIS assessments meeting all or most requirements – FY 2012/13 and FY 2013/14 combined

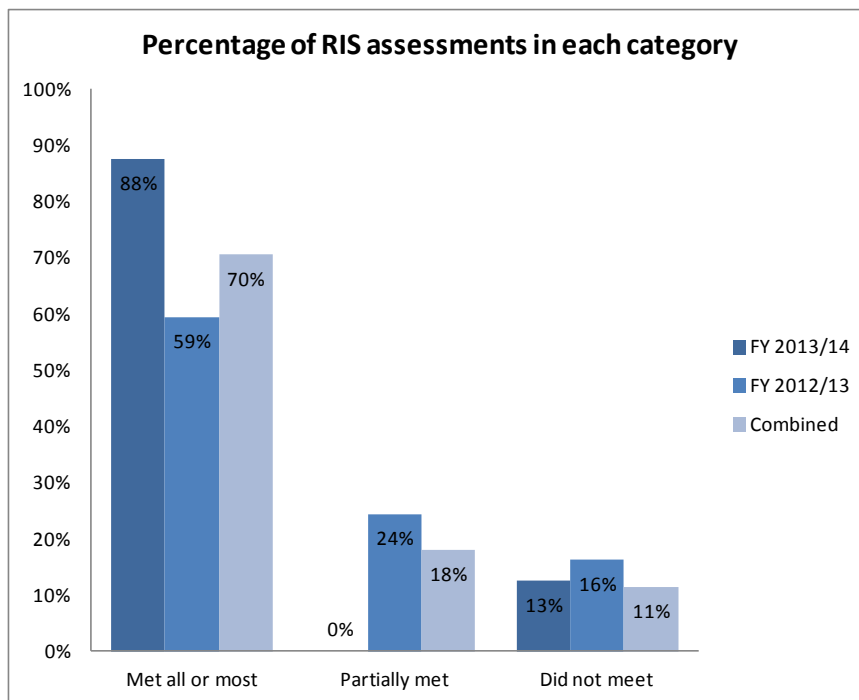


There was significantly less variation in RIS results in FY 2013/14 than FY 2012/13. In spite of the improvement seen in FY 2013/14, the variability in results between years suggests there is room for agencies to improve consistency. The Treasury is working with agencies to support them to have more of their RIS assessments meet all or most requirements, and are working to achieve a Treasury target of 90 percent of significant RIS assessments meet all or most requirements for FY 2014/15.

The relatively small number of significant RIS assessments measured (25% of total RIS assessments) can heavily influence results. In addition to assessment of 'significant' RISs by the Treasury, a wider sample is assessed by an external provider, which also assesses a sample of the Treasury's assessments for moderation. As the threshold for identifying a 'significant' RIS for assessment is unlikely to change, and independent audit has shown the Treasury's assessments to be consistent, a possible approach would be to accumulate the results over reporting years to provide a larger sample for analysis, rather than focus on individual years' results.

There appears to be an improving trend over FY 2012/13 to FY 2013/14. A further year's data will help clarify this.

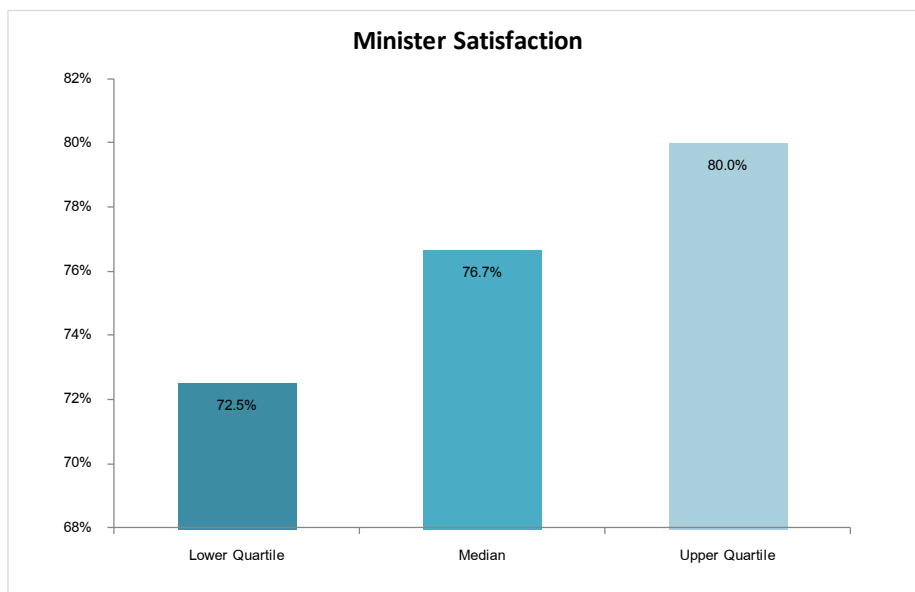
Graph 12: Percent of Agency RIS assessments meeting all or most requirements – FY 2012/13 and FY 2013/14 combined



Service quality – Minister satisfaction

The median Minister satisfaction result for the NZ cohort is 76.7 percent (66.9 percent in 2012/13), and the majority of agencies are seeking to improve Minister relationship management practices.

Graph 13: Minister Satisfaction



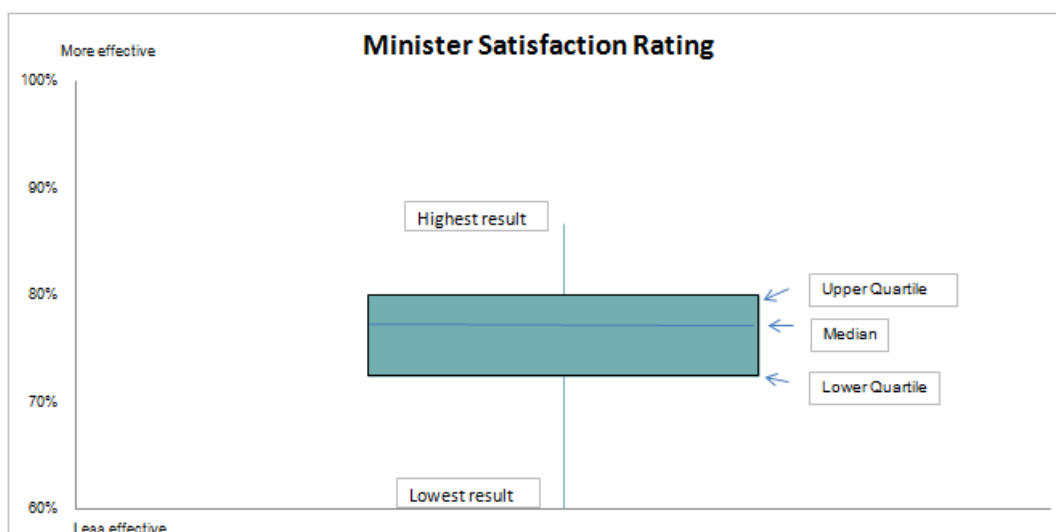
Minister satisfaction results show some variability, with two agencies results being above 80 percent, and two agencies having scores less than the 73 percent NZ cohort lower quartile.

The following points should be noted in relation to this measure:

- Some Ministers did not complete the survey
- Ministers might only have held the portfolio for a short period at the time of completing the survey, while others will have held their portfolio for some years. A new Minister is likely to find it difficult to assess the agency over such a short timeframe
- Ministers are likely to base their satisfaction level on the performance of the agency as a whole, rather than the output of the policy function alone. This is especially so for agencies whose policy function is disbursed, rather than being in a stand-alone unit. As an indicator of performance, it still has value in that context
- The measure is dependent on the standards expected by the Minister concerned, and Ministers place different weightings on the components contributing to the total score.

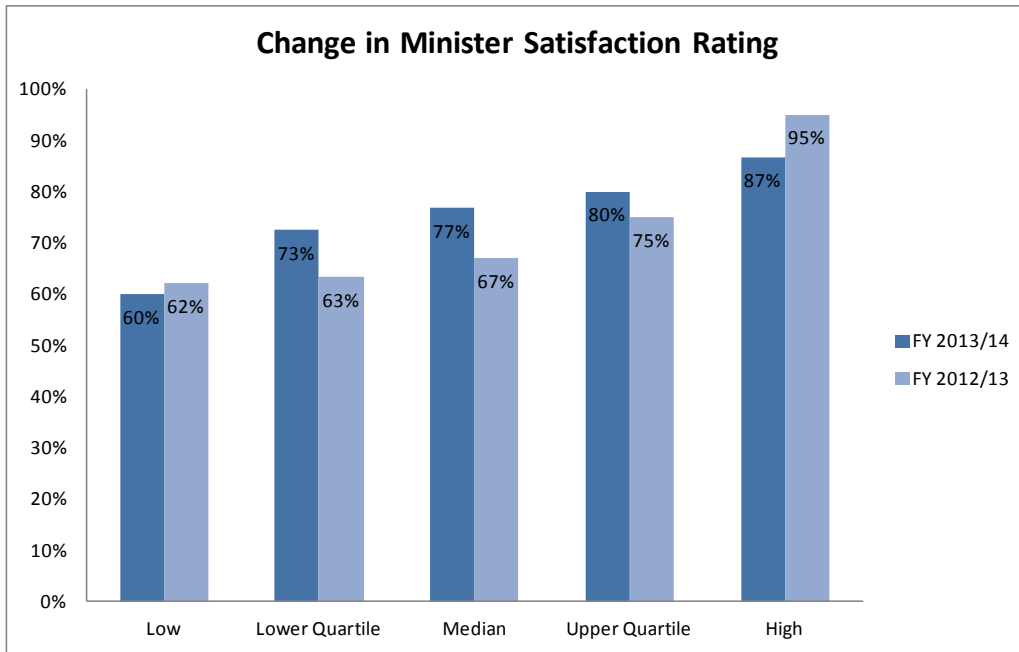
Although Ministerial satisfaction is subjective, it is an important measure of effectiveness, and should be read in the context of other effectiveness measures.

Graph 14: Minister Satisfaction Variability



The range of results is slightly narrower in FY 2013/14 than it was in FY 2012/13, with a general shift upward in the median and quartiles. The NZ cohort median minister satisfaction result of 76.7 percent is based on responses from all 12 agencies, while the FY 2012/13 result of 66.9 percent is based on responses from seven of the 12 agencies.

Graph 15: Change in Minister Satisfaction FY 2012/13 to FY 2013/14

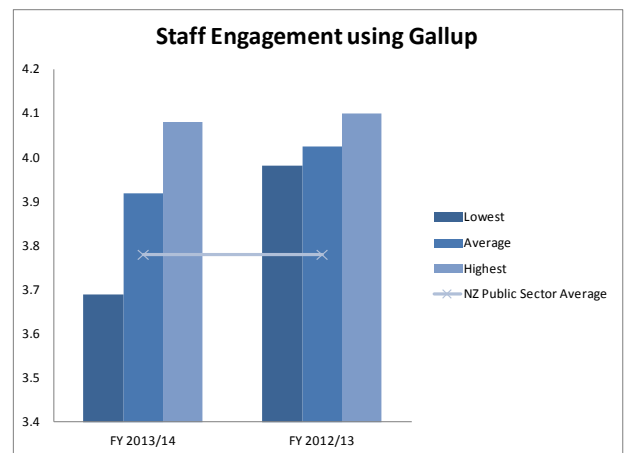
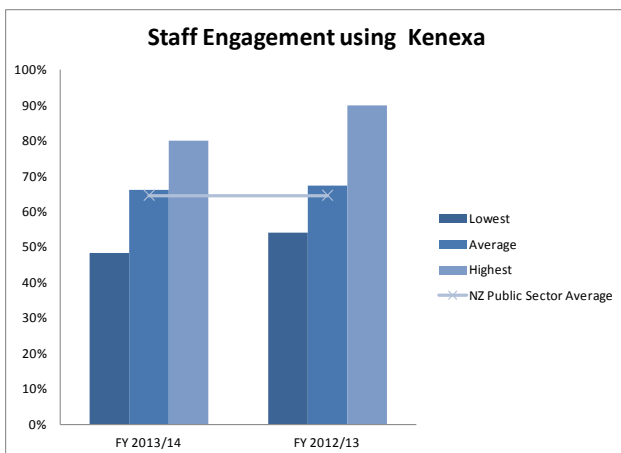


Staff engagement

Staff engagement is high relative to other parts of the NZ State sector. Ten of the twelve agencies reported policy staff engagement scores. Seven reported scores above the NZ public sector benchmark, whether they used Gallup or Kenexa:

- **The six agencies that used the Kenexa survey had an average and median of about 66 to 67 percent.** This compares favourably to the Kenexa NZ State Sector benchmark of 64.6 percent.
- **The four agencies that used the Gallup survey had an average and median of 3.9 to 4 in both years (out of maximum score of 5).** This compares favourably to the Gallup NZ Public Sector Grand Mean score for 2012 of 3.78, and is on par with the upper quartile NZ Public Sector Grand Mean score of 4.05.

Graphs 16 and 16A: Staff engagement results FY 2013/14 and FY 2012/13.



Capability Maturity Model

The Capability Maturity Model (CMM) was originally used as a tool to objectively assess the ability of software development contractors to government to implement software projects, but has become more widely used to aid in business processes generally. There has been a range of variants developed from the original model. The model is based on the process maturity framework. The term "maturity" relates to the degree of formality and optimisation of processes, from *ad hoc* practices, to formally defined steps, to managed result metrics, to active optimisation of the processes.

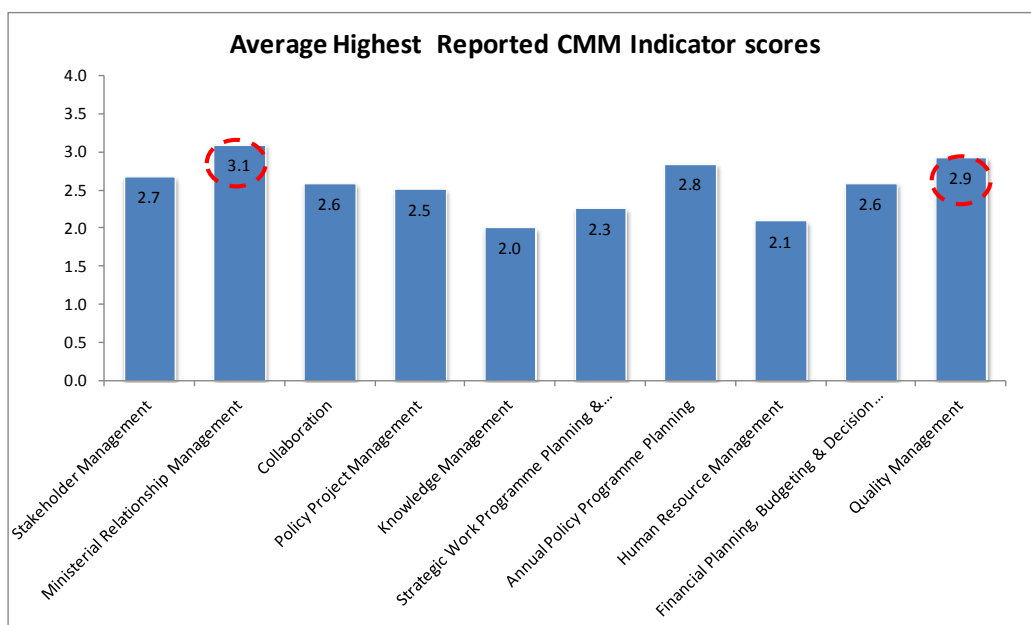
The model used for the Policy Measurement exercise was developed for this project by the Treasury from the Capability Assessment Tool created by McKinsey and Company for Venture Philanthropy Partners, and published in *Effective Capability Building in Nonprofit Organisations (2001)*. It replaced the former Management Practices measure, which did not meet requirements in the view of the Treasury and agencies participating in the pilot measurement exercise.

The median CMM score for the 12 agencies was 2.6 (out of a maximum score of 4) in both FY 2012/13 and FY 2013/14. It should be noted that scores are self assessed and no moderation of reported scores so there might be inconsistencies in how management terms and maturity levels are interpreted across agencies. Some moderation of scores was suggested for FY 2013/14 with a goal to achieve better comparability. However, a suitable approach for achieving such moderation has yet to be determined.

CMM results suggest that a greater focus by policy managers and leaders on management activity could support improvements in priority areas noted by agencies. These priority areas are Human Resource (HR) management, knowledge management, longer term strategic planning, and policy project management. In each of these areas, reported management maturity was significantly below agencies' aspirations.

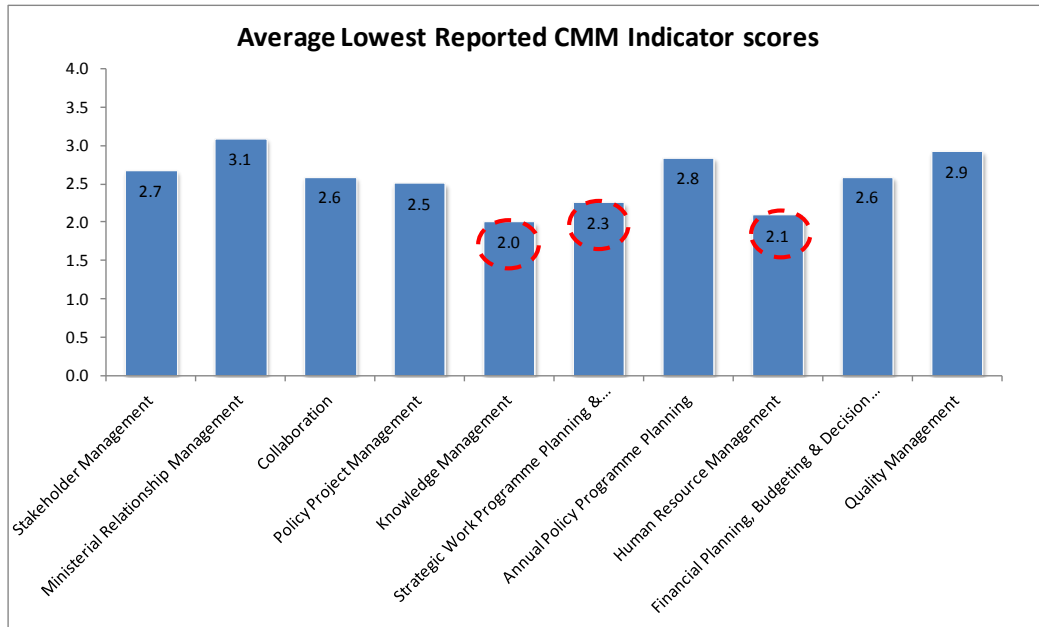
The management practice areas with the highest reported maturity are Ministerial Relationship Management and Quality Management (circled below).

Graph 17: Highest CMM indicator scores by question



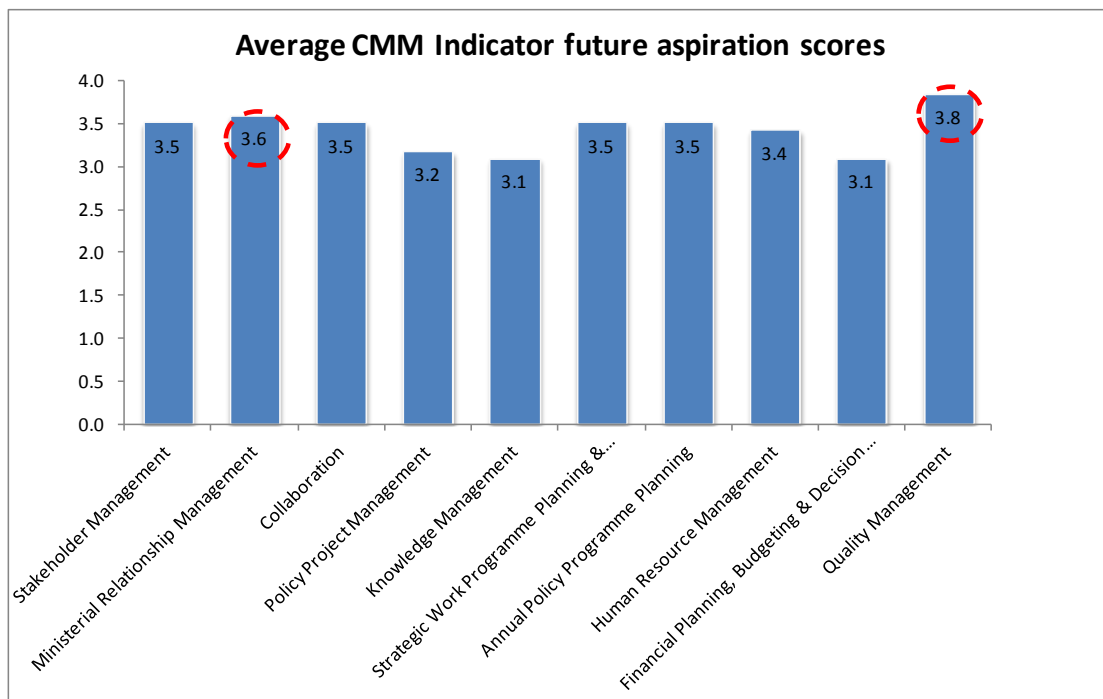
Reported scores for knowledge management (2.0), human resources management (2.1), and strategic work programme management (2.3), indicate these are the least mature management practices across the policy function (circled below).

Graph 18: Lowest CMM indicator scores by question



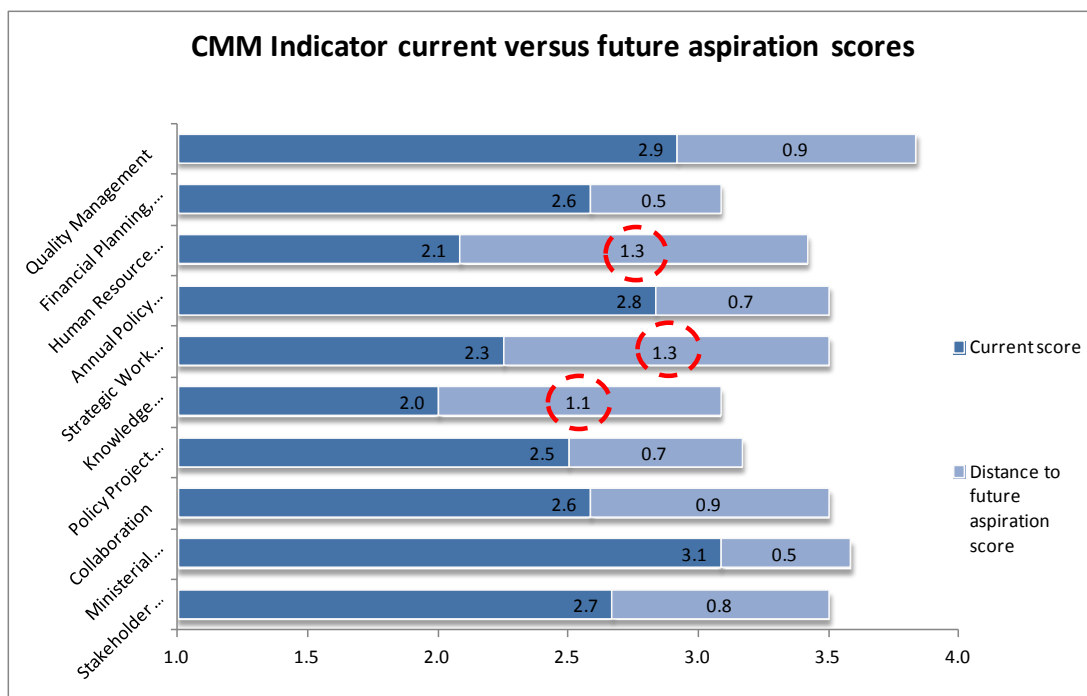
The future aspiration score across all the capabilities has a median of 3.5, compared to current practices assessed at 2.6 over the past two years, which will require a substantial lift in management practices to improve capability. Management practices with highest future aspiration levels include quality management (3.8) and ministerial relationship management (3.6) (circled below). Four management practices have aspirational levels of 3.5 (stakeholder management, collaboration, strategic work programme planning, and annual policy programme planning).

Graph 19: Future Aspiration CMM indicator scores by question



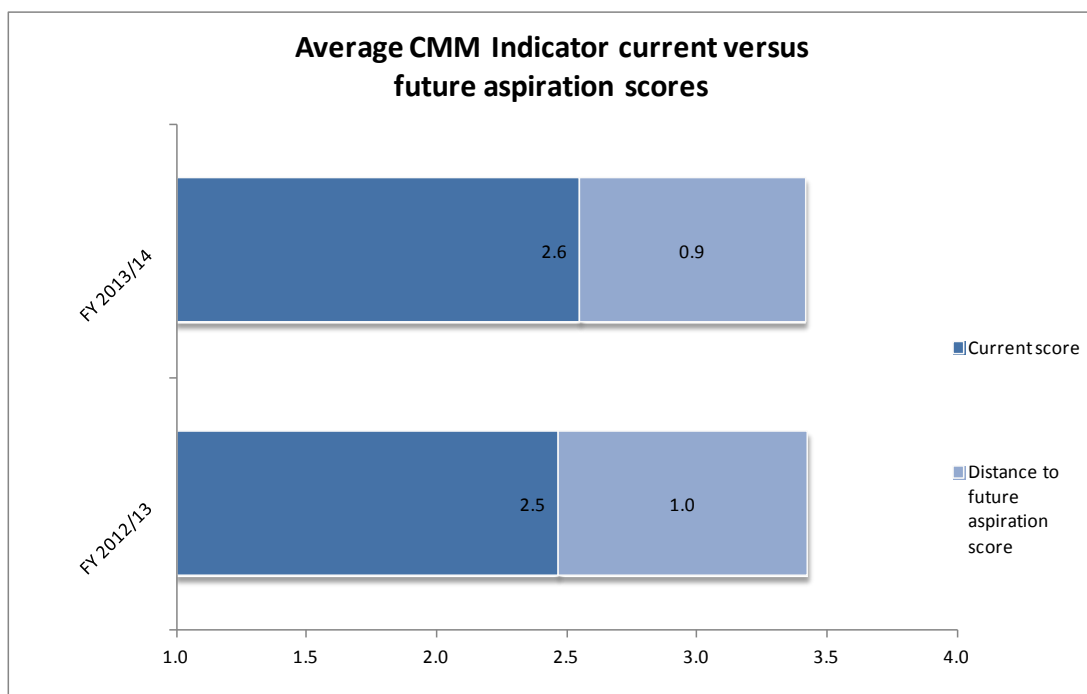
Management practices that have the furthest distance to travel to meet future aspirations levels include human resource management and strategic work planning (both 1.3), and knowledge management (1.1) (circled below).

Graph 20: Current versus future aspiration CMM indicator scores by question



Current capability has increased slightly from FY 2012/13 but future aspiration is unchanged

Graph 21: Current versus future aspiration CMM indicator scores by question – FY 2012/13 vs FY 2013/14

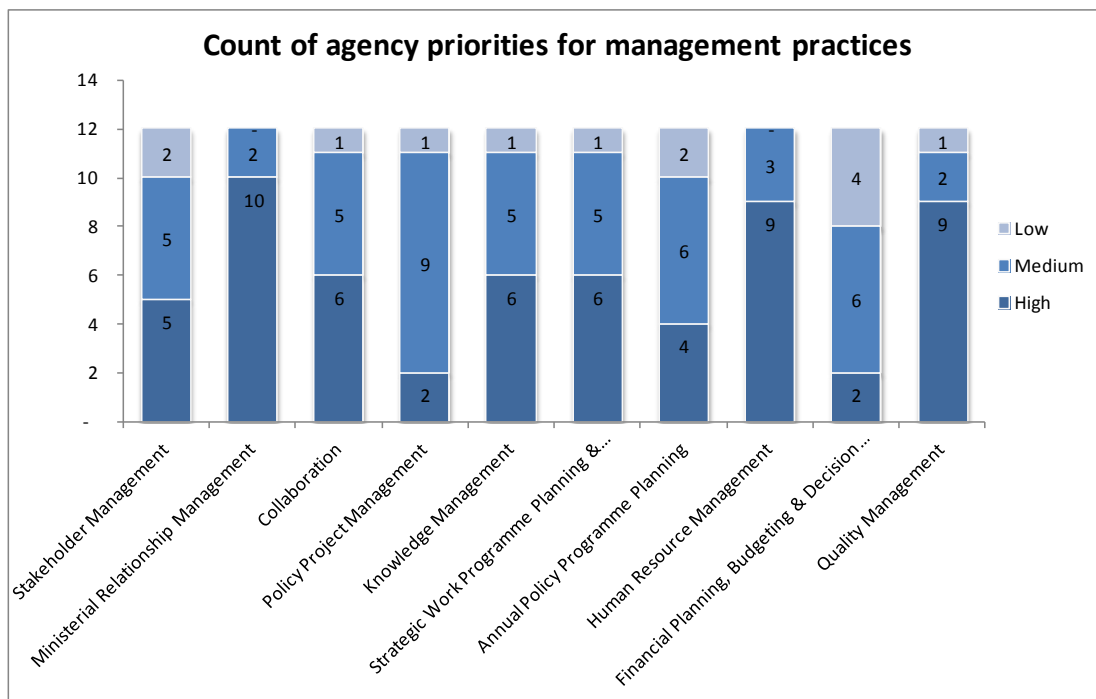


At an individual indicator level there have been some shifts in both current maturity scores and aspirations between the two years of reporting, notably:

- maturity in policy project management has increased, as has the aspirational goal. This is consistent with stated priorities
- the overall score for quality management has increased while the aspirational goal has decreased, in spite of nine agencies reporting that it remains a high priority
- the aspirational goal for collaboration has increased, while the current maturity score has decreased.

A number of agencies share similar views of priorities for management practices. Ten agencies reported that Ministerial relationship management is a high priority, nine agencies reported quality management and human resource management as a high priority. In FY 2012/13 seven agencies reported collaboration as a high priority. This reduced slightly to six in FY 2013/14. Overall, policy project management; and financial planning, budgeting and decision making reported the lowest numbers for high priority (both 2).

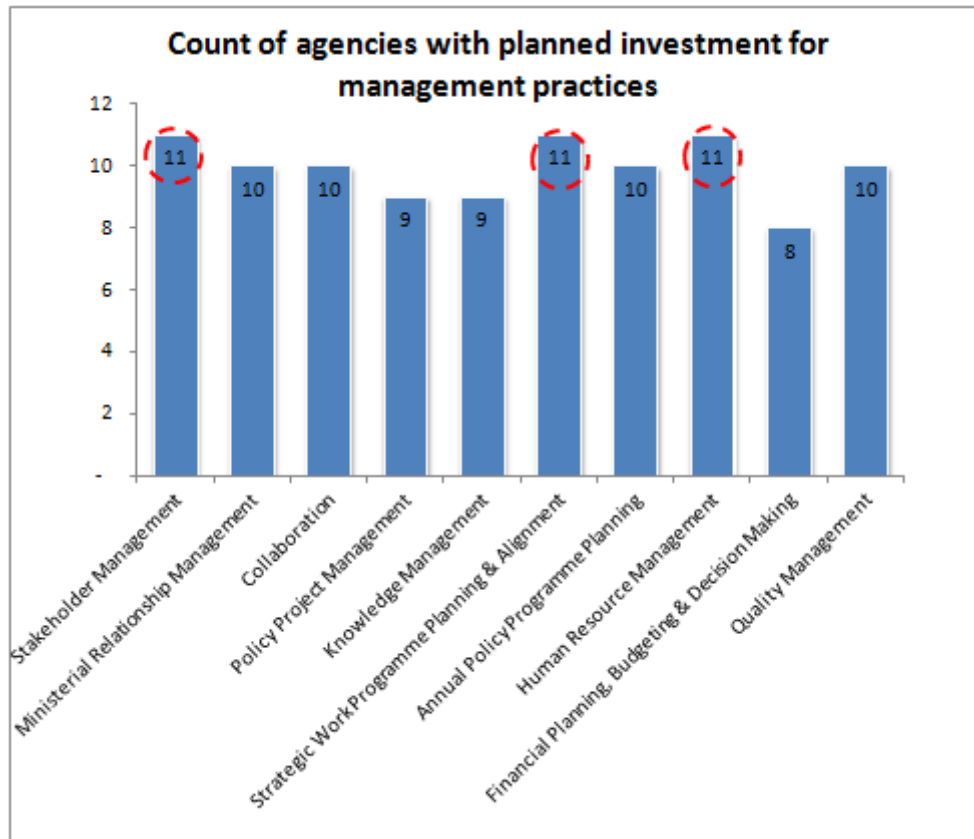
Graph 22: Count of agency priorities by CMM indicator question



Agencies have similar planned investment priorities. In FY 2012/13 the management practices with the highest number of agencies indicating investment as a priority included human resource management (12), policy project management, quality management, and strategic work programme planning (all 11). Human resource management and policy project management were also both the management practices that reported among the lowest overall (then) current scores (2.2 and 2.3 respectively).

Human resource management continued to have one of the lowest scores in FY 2013/14, as well as remaining one of the top priorities¹⁵. Stakeholder management and strategic work programme planning were the other two top priorities in FY 2013/14 (all with 11 agencies planning investment – circled below).

Graph 23: Count of agencies with planned investments by CMM indicator question



Potential benefits from agencies collaborating on these investment priorities include:

- **Reduced expense** – through agencies purchasing advice and systems once on behalf of the Crown and sharing these across agencies. (Example: agencies sharing access to policy analyst training courses that they have incurred costs to develop, such as the aPAD course developed by the Ministry of Transport).
- **Less opportunity cost** – sharing tools and resources, and thereby reducing effort on efficiency and management practice initiatives, helps policy units focus on their substantive policy business. (Example: sharing tools and resources, such as policy quality standards; commissioning peer review templates and joint commissioning of analytical frameworks)

¹⁵ At the higher levels of performance, the policy advice function will have: competency frameworks, professional training and continuous professional development in place; an annual HR plan that sets out specific goals and actions with respect to organisational culture, structure, skills mix, professional development, rewards system, and performance support that are appropriate for a knowledge-based service organisation; and a multi-year workforce plan with clear links to a multi-year policy programme strategy that clarifies skill and leadership requirements and how these will be fulfilled.

- **Greater access to high quality experts** – common programmes of work can provide better access to the right subject matter expertise, and support higher quality initiatives and better results. (Example: emerging centres of expertise that are beginning to share their knowledge beyond their home agencies, such as the Ministry of Justice (OIA management) and MPI (agile policy project management)).
- **Better interoperability/personnel capability** – common development work and sharing can support policy staff in working together on cross agency projects or moving to employment in different agencies, with lower costs of orientation and turnover. (Example: DPMC is currently leading the development of a generic policy quality assurance framework with a cross-agency sub-group of experts.)

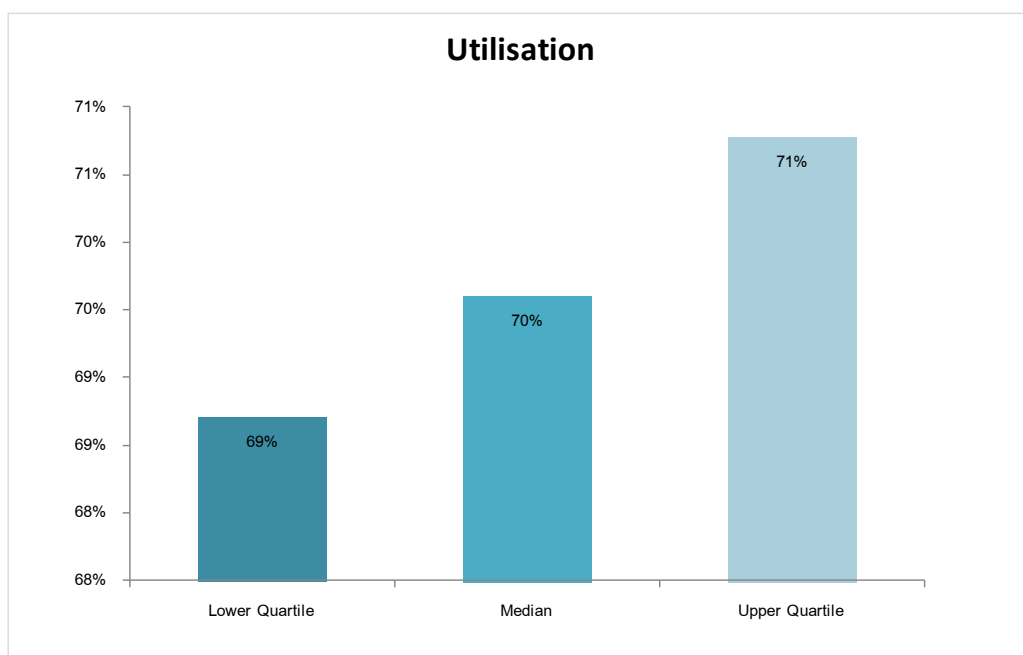
Efficiency and resource allocation findings

Utilisation

Overall utilisation provides a picture of what proportion of time is spent on output production, and is similar to “billable hours” in professional services. Utilised time consists of time spent on non-policy output hours (10.2 percent), and policy advice output hours (64.3 percent). In general, higher utilisation is seen as a positive, but when utilisation gets too high, it can interfere with staff getting the development and leave time required to be high performing on a sustained basis.

Reported overall utilisation of about 70 percent across the two years suggests a relatively strong focus on delivery, but data quality in this area is not as robust as for other indicators. While some agencies recorded staff time to understand the cost of outputs, see trends, and plan future work for the reporting period, most others used methods such as sampling and surveys to estimate time allocation. Those that had time recording systems found that when these systems are first implemented, they can significantly challenge the organisation’s beliefs about how it spends time and its productivity, suggesting that estimates provided by agencies that do not record time may not be accurate. If the 70 percent figure were based on more reliable data, it would be a positive finding given a theoretical maximum of 83 percent utilisation¹⁶, which is equivalent to 215 work days per FTE focused on output production.

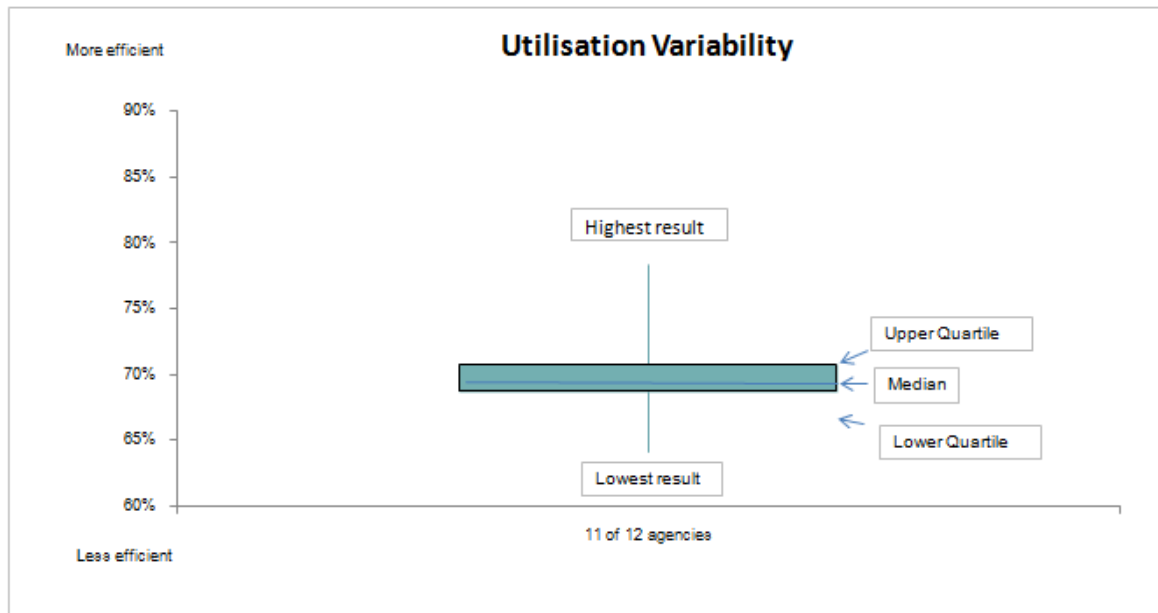
Graph 24: Utilisation



¹⁶ Maximum utilisation is based on 215 of 260 days per year, which is 260 days less an estimated 5 weeks annual leave, 1 week domestic or sick leave, 1 week professional development and 2 weeks public holidays.

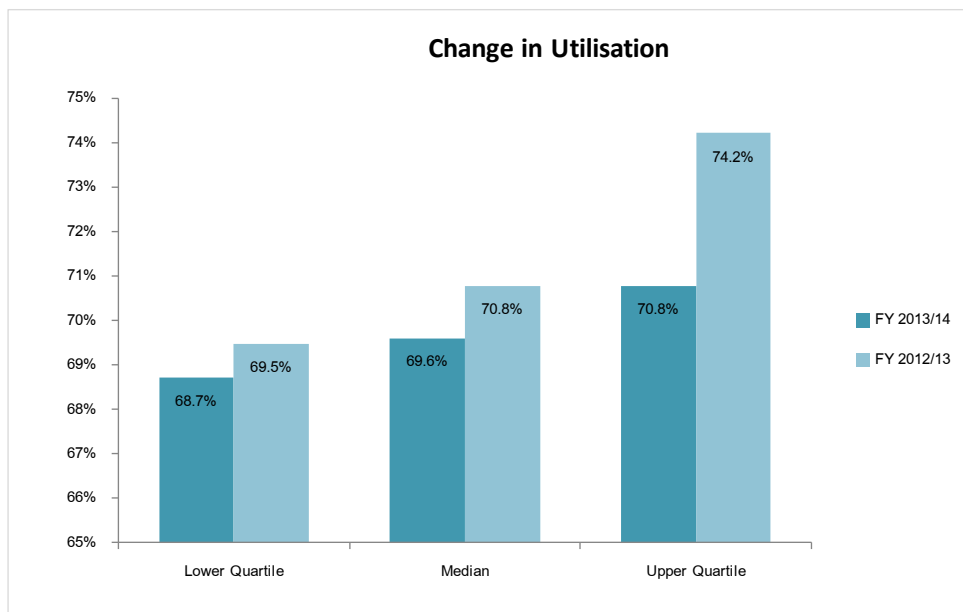
Variability in utilisation, with agencies reporting approximate rates between 64 percent and 78 percent, indicate opportunities for improvement, although differences might be due to differences in recording rather than practice. Two agencies reported overall utilisation levels at around 65 percent, with the remainder being at 69 percent or higher. The results from one agency have been removed from this data set, as they were not consistent with the specified costing structure and returned a result significantly higher than the theoretical maximum (of 83 percent).

Graph 25: Utilisation variability



Overall utilisation has reduced by about one percent since FY 2012/13.

Graph 26: Change in utilisation: FY 2013/14 and FY 2012/13



Utilisation across different job levels shows similar utilisation rates for senior and junior staff. As expected, reported utilisation rates are generally higher for more junior staff, but overall, utilisation rates for very senior staff seem high enough to suggest more time could be spent on management activities such as the priority areas identified in the CMM, rather than output activities. Six of the relevant eleven agencies reported that Policy Unit Leaders, the most senior management and leadership role in the policy function, spend 50 percent or more of their time on policy advice output delivery.

Agencies may wish to use utilisation information to support a discussion on desirable levels of delegation for output production.

Table 5: Utilisation by job level and NZ Full Cohort

Job Level	Mean Utilisation	Median Utilisation	Highest Reported Utilisation	Lowest Reported Utilisation
Policy Unit Leader	51.8%	53.6%	71.9%	27.4%
Senior Policy Manager/Advisor	41.9%	42.0%	70.3%	20.1%
Policy Manager	53.7%	54.2%	72.5%	38.9%
Principal Advisor	72.0%	71.8%	80.0%	64.4%
Senior policy Analyst	74.6%	74.4%	79.1%	71.4%
Policy Analyst	75.2%	75.6%	86.1%	62.6%
All Job Levels	70.0%	67.2%	86.1%	20.1%

Total cost per output hour

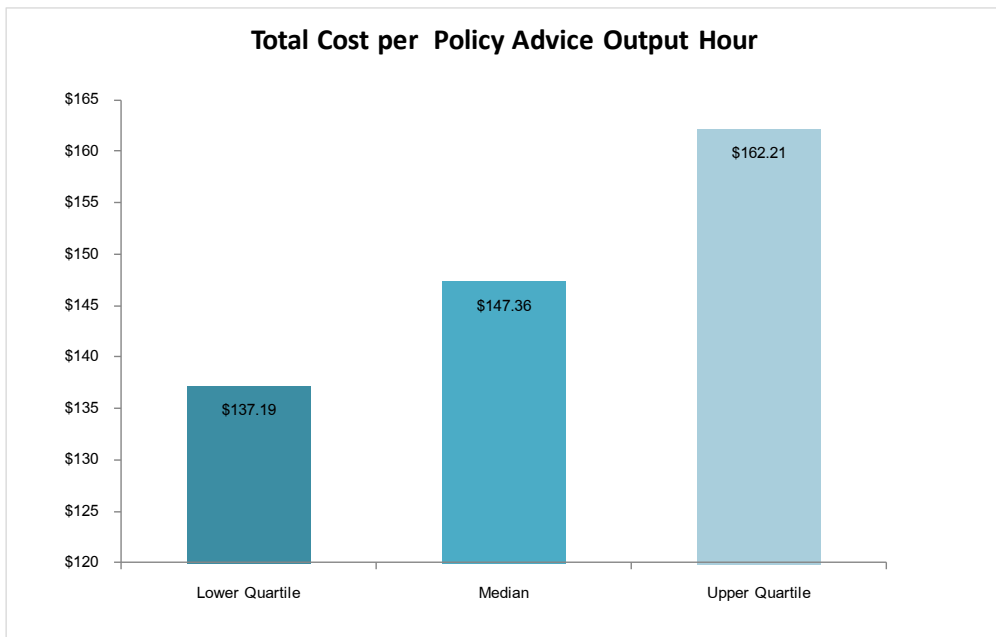
Agencies report it costs \$158 per hour, on average, to provide advice to Ministers. However, this can be impacted by the level of outsourced costs, as discussed below. The total cost per output hour metric is designed to be a unit cost for policy advice that reflects what policy organisations might have to bill per hour to break even if they were contracted for services on that basis.

It is important to note that the costs include the cost of outsourced policy input, but, for practical reasons, the output hours associated with those costs have not been able to be included. As a consequence, where outsourcing is a significant proportion of costs, this will result in an artificially high cost per hour figure. This is the case with the agency reporting the highest figure in the group. Figures with outsourced costs excluded are also reported below.

The cost drivers for total cost per output hour are utilisation, remuneration, and staff mix, and these are all under the control of managers and amenable to change. Agencies might have opportunities to reduce labour cost per hour by delegating work to the lowest level of seniority at which it can be completed competently, which could involve changing their staff mix to have more junior staff, and pursuing utilisation targets. These are common practices in professional services because they drive value for customers while minimising costs.

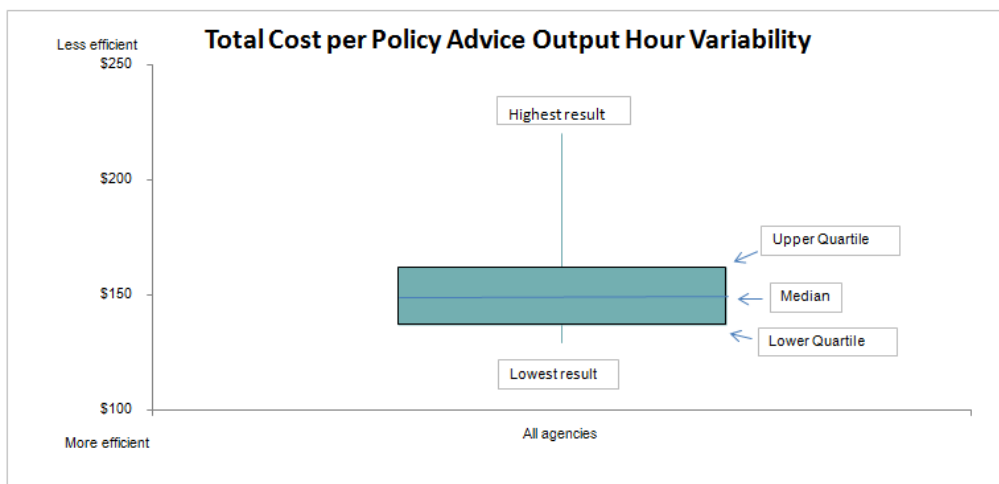
The median total cost per output hour is \$147.

Graph 27: Total cost per output hour



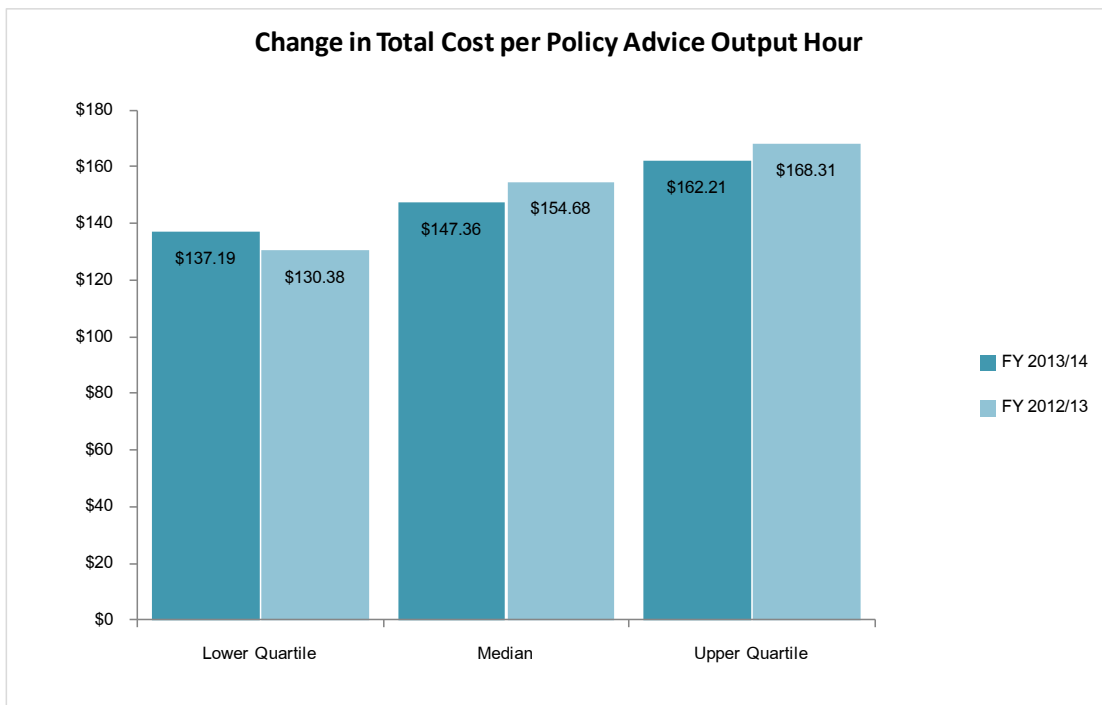
The total cost per output hour varies across agencies. The cost ranges from \$129 to \$220 as shown in Graph 28 below, with quartile figures for FY 2012/13 and FY 2013/14 being shown in Graph 29. Considering the outsourcing issue discussed in the previous paragraph, to keep the results in perspective it is worth noting that the second highest cost reported is \$203. This variation is significantly less than in FY 2012/13.

Graph 28: Total cost per output hour variability



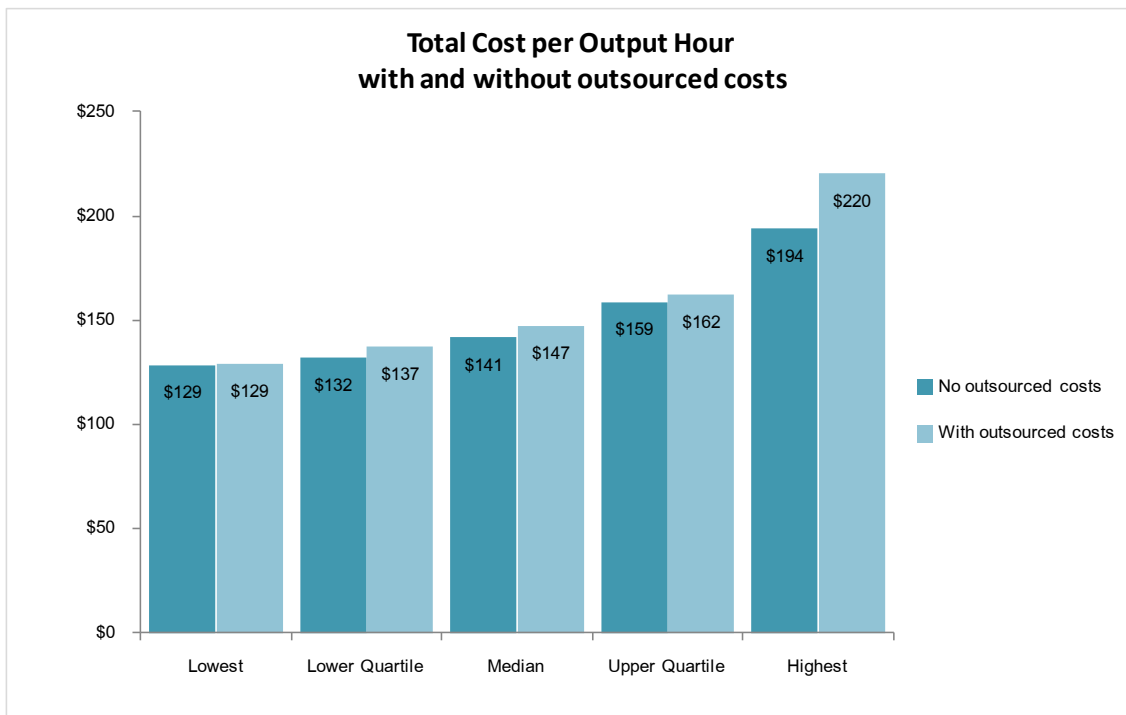
The average total cost per output hour has remained stable in nominal terms but reduced by 1.6 percent in inflation-adjusted terms.

Graph 29: Change in total cost per output hour FY 2013/14 and FY 2012/13 (nominal)



The following graph shows the comparison between total costs per output hour with and without outsourced costs. It shows that including outsourced costs, but not the hours worked by contractors, can change the cost per hour metric for some agencies. As a consequence, the ranking of agencies changes between these two metrics, as some agencies utilise outsourcing more than others due to their different operating models. FY 2012/13 figures are not available for comparison, as outsourced costs were not separately collected in that reporting year.

Graph 30: Comparison of total cost per output hour with and without outsourced costs

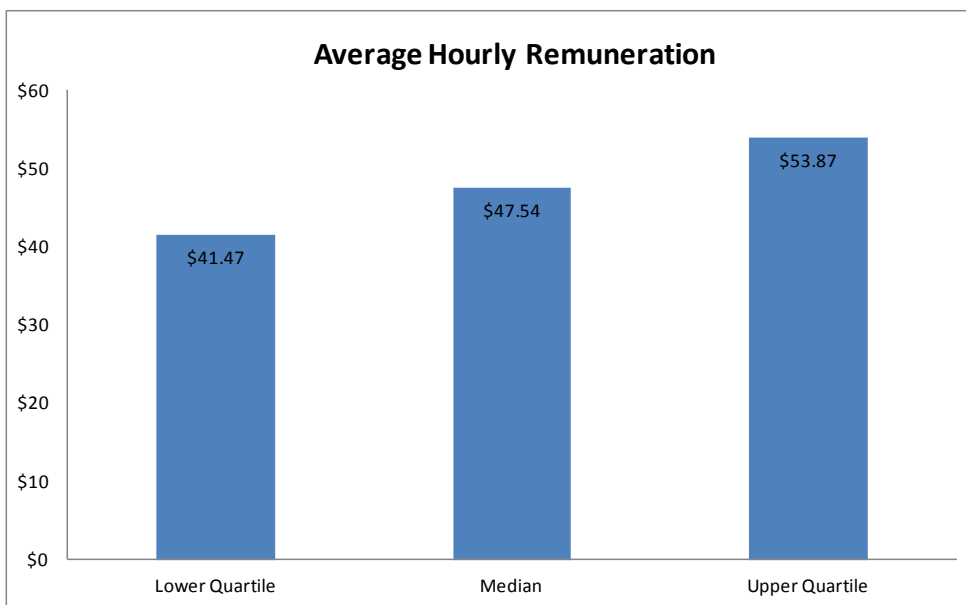


Remuneration

There is significant variability in pay at the Analyst, Senior Analyst, and Principal Advisor levels. Principal Advisor pay per hour ranges from \$48 to \$90 (\$46 to \$88 in FY 2012/13); Senior Analyst pay per hour ranges from \$30 to \$57 (\$32 to \$62 in FY 2012/13); and Analyst pay per hour ranges from \$18 to \$42 (\$22 to \$38 in FY 2012/13). No inflation adjustment, which would be 1.6 percent, has been built into these comparative figures. Some variability is expected because although participating agencies aligned to standard job levels for this measurement exercise, in practice there is variability in job roles, responsibilities and sizes. In particular, some Policy Unit Leaders and Managers may have leadership and management responsibility beyond the Policy function.

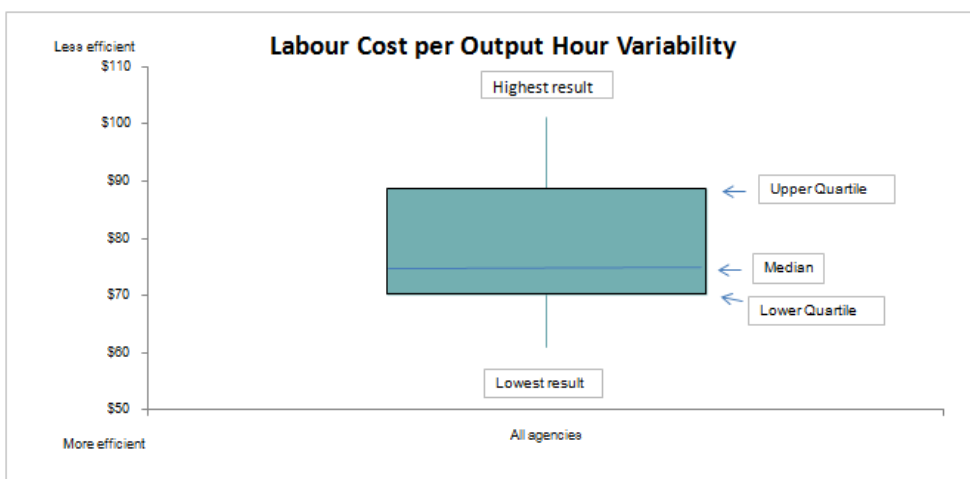
The median hourly remuneration is \$47.54, and average hourly remuneration varies across agencies from \$37 to \$57.

Graph 31: Average hourly remuneration variability



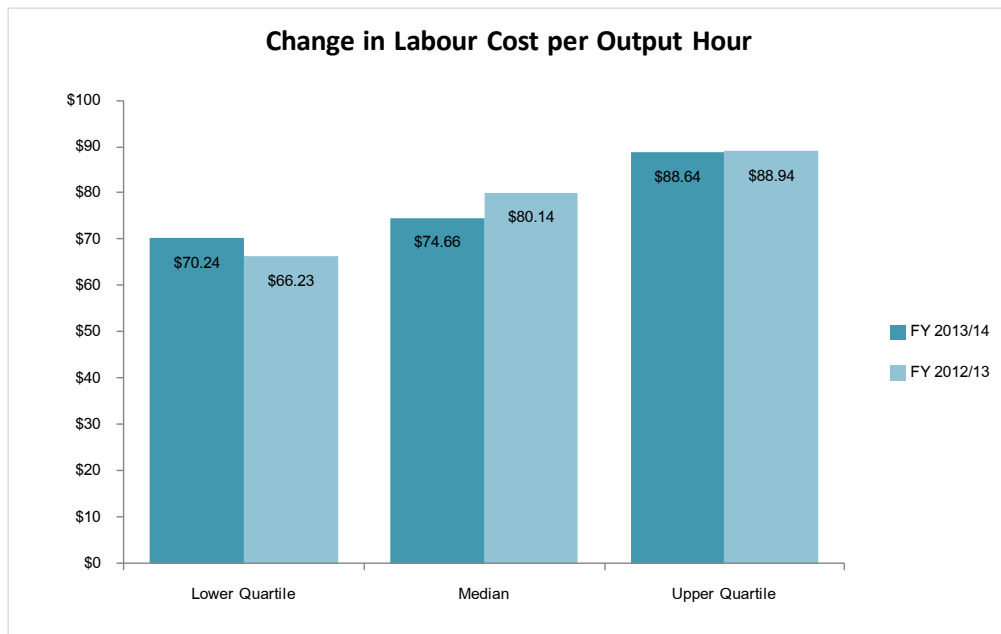
The average hourly remuneration is a key factor of the total labour cost and therefore drives the variability in the labour cost per output hour. This variability in labour cost per output hour is the primary driver of variability in total cost per output hour.

Graph 32: Labour cost per output hour variability by agency



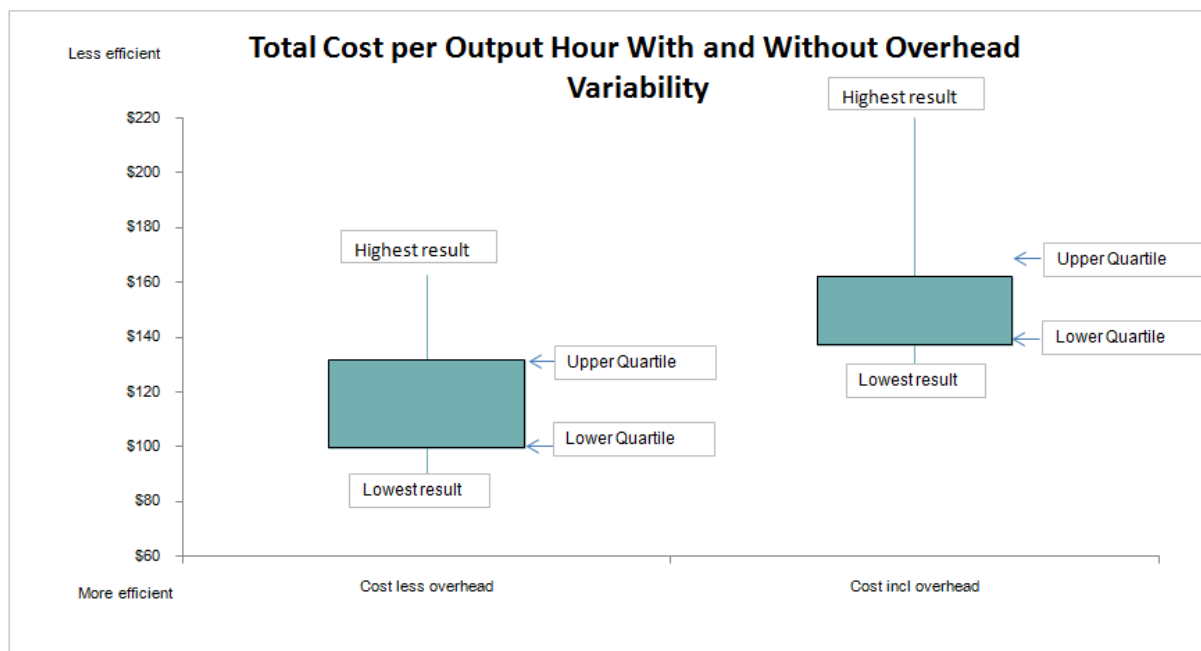
Labour cost per output hour has shown some movement from FY 2012/13, especially at the lower end of the scale.

Graph 33: Change in labour cost per output hour between FY 2013/14 and FY 2012/13 (nominal)



Overhead costs per output hour vary by agency; however, they are not a main driver of variability in total cost per output hour. Removing overhead from the Total Costs, we continue to see roughly the same variability in Total Cost (less overhead) per Output Hour (see Graph 34). That means Total Cost per Output Hour variability is driven by costs other than overhead, primarily labour costs.

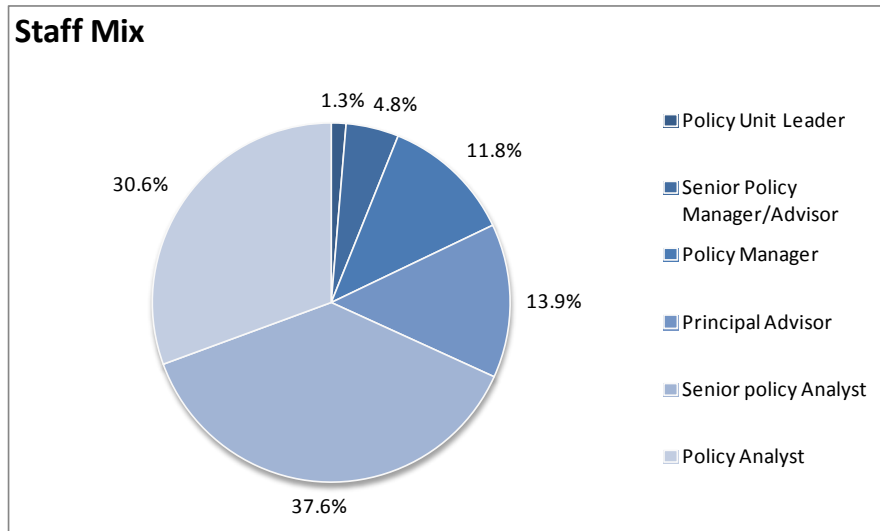
Graph 34: Total cost with and without overhead per output hour variability



Workforce

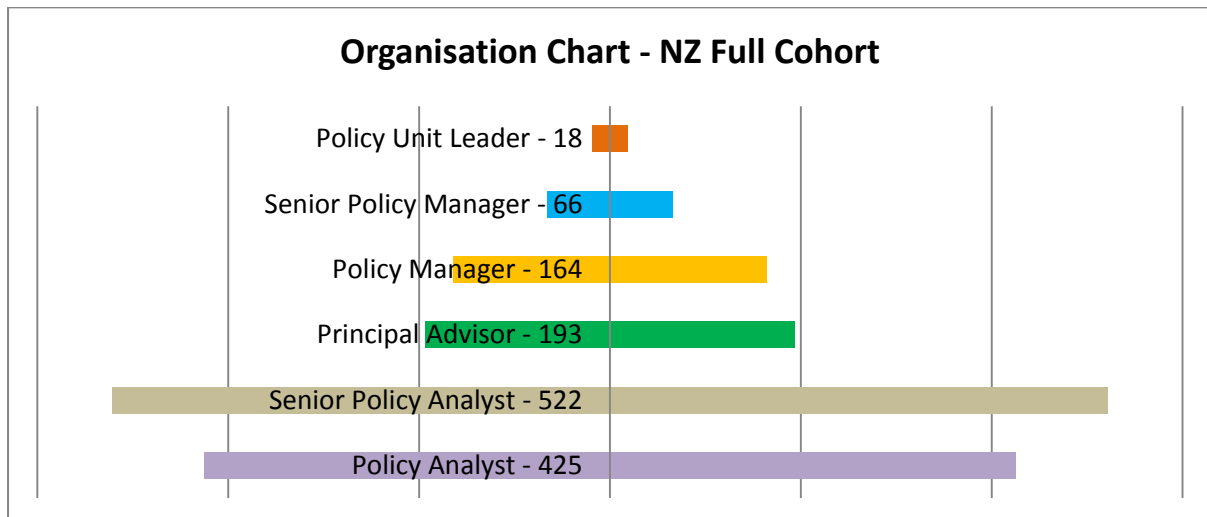
The total policy advice workforce in the scope of this exercise is almost 1400 FTEs, with 18 percent of staff in managerial and leadership roles (similar to FY 2012/13). This means that there is one management or leadership FTE for every 4.6 FTEs focused on output production. However, there is considerable variability with the lowest ratio of analyst, senior analyst and principal advisor FTE per manager FTE of 5.1 and a highest ratio of 10.8. Policy leaders can have additional FTEs reporting to them focused on non-policy output production (which are not captured in this data), such as ministerial servicing functions.

Graph 35: Staff mix by job level across agencies



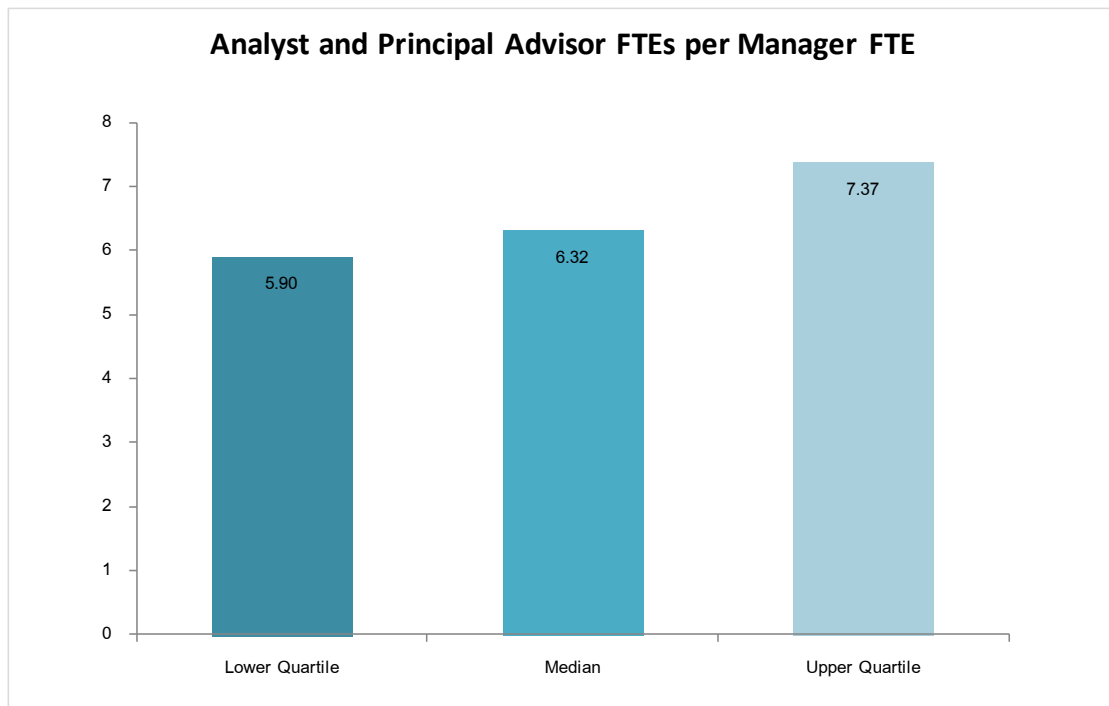
Overall, and within most participating agencies, the organisational chart shows that the highest number of staff are at the Senior Analyst level. Whether this is the desired shape of the workforce, or whether it is the shape agencies have because of labour market constraints, warrants further discussion.

Graph 36: NZ full cohort organisation chart



The average number of analyst and Principal Advisor FTEs per Manager FTE is 6.95 FTEs , with a median of 6.32 FTEs (5.75 in FY 2012/13).

Graph 37: Number of Analyst and Principal Advisor FTEs per Manager FTE

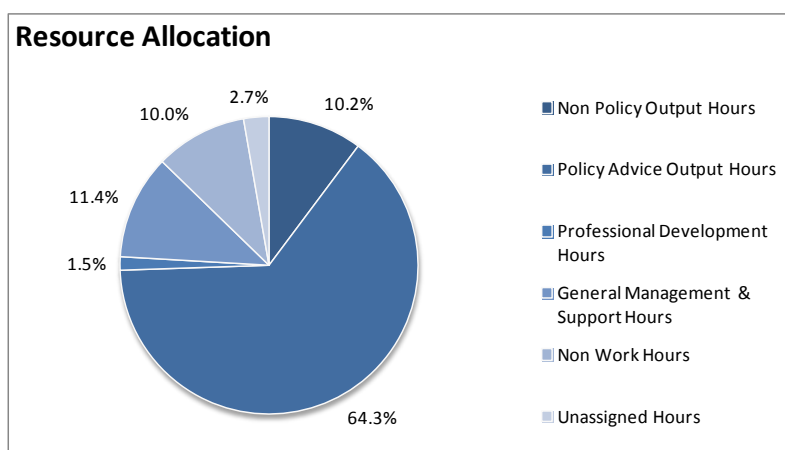


Time allocation

Time data might not be accurate for agencies that relied on estimates rather than time recording practices. It is expected time data will improve in quality over time as agencies get more familiar with the time allocation categories in the measurement methodology.

Graph 38 shows that policy advice output hours is the largest proportion of staff time at 64 percent.

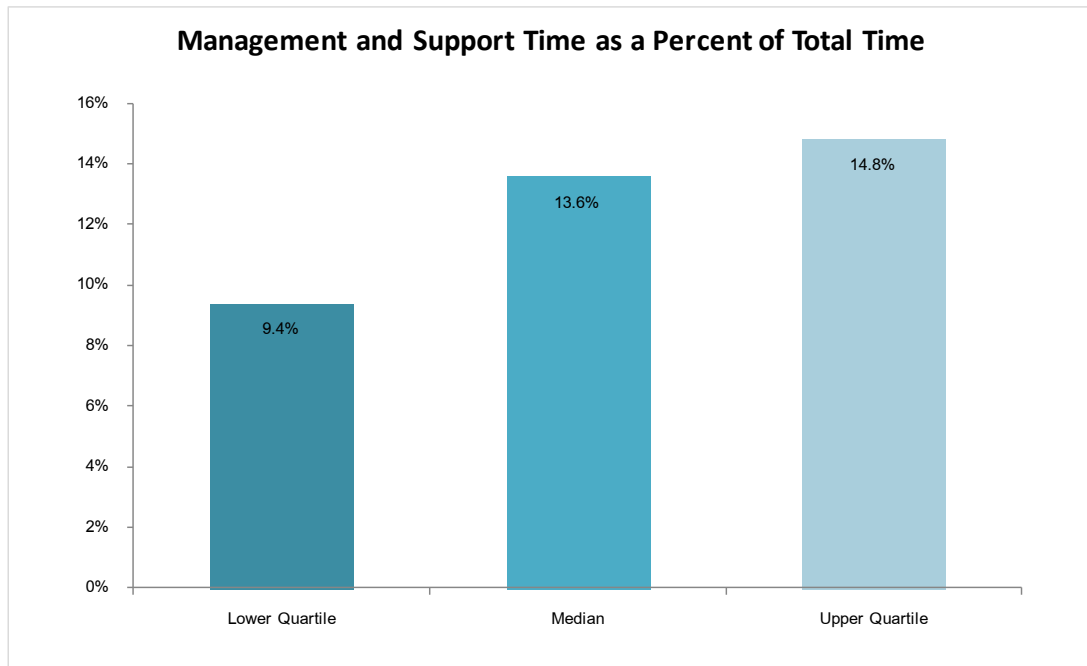
Graph 38: Resource allocation by work type



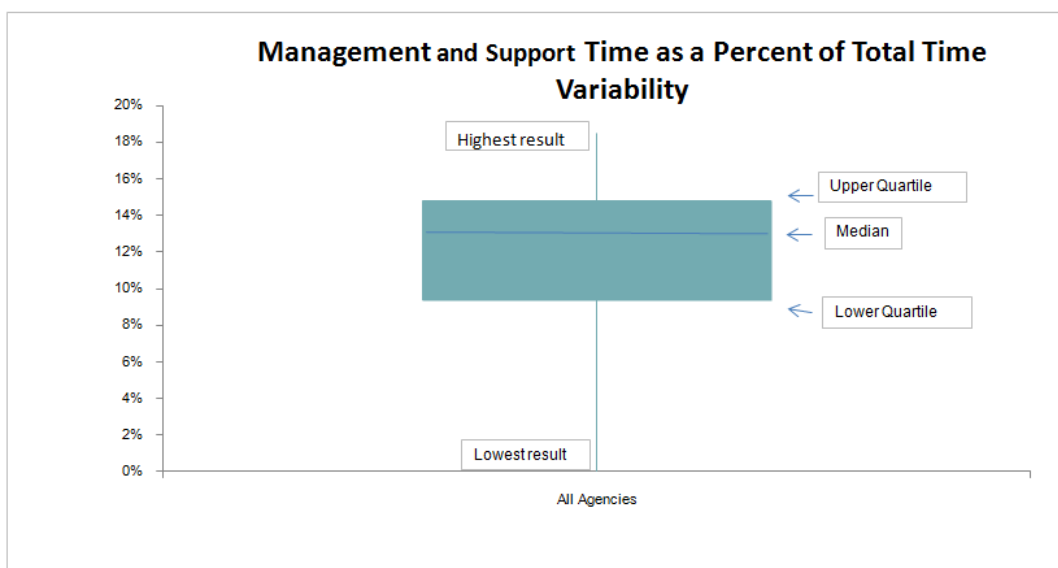
Management and support time as a percentage of total time was 11.4 percent (12.7 percent in 2012/13). While increased management and support time reduces utilisation rates and in turn drives up labour cost per output hour rates, too little management and support time can also have a detrimental impact, particularly if it reflects less focus on developing capability in priority areas.

The proportion of policy staff time allocated to management and support varies significantly across the NZ cohort but is likely to increase in future reporting periods. This activity category currently represents almost 11.4 percent of how the policy advice workforce spends its time. The median figure is higher than this, at 13.6 percent. Note that one agency reported no management and support hours, and one large agency reported 6.9 percent support hours, both bringing the sector average down. Given the high level of activity planned or underway to improve the management of the policy function in areas such as HR, and quality management, hours spent on management and support might increase over time.

Graph 39: Management and Support Time as a percent of Total Time

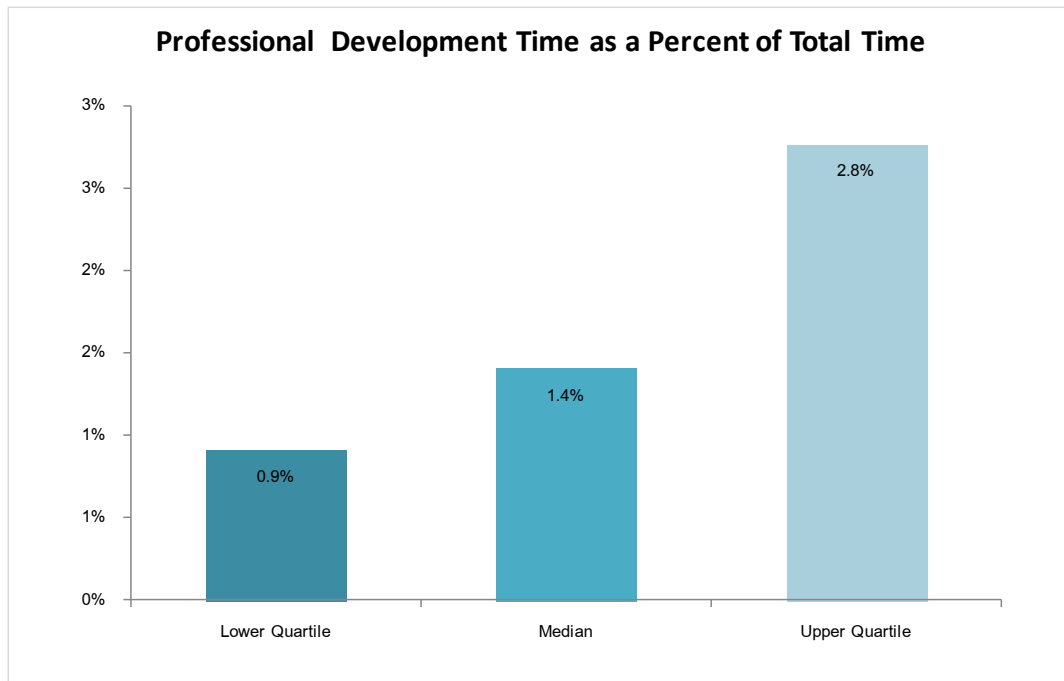


Graph 40: Management and Support Time as a percent of Total Time – variability across agencies



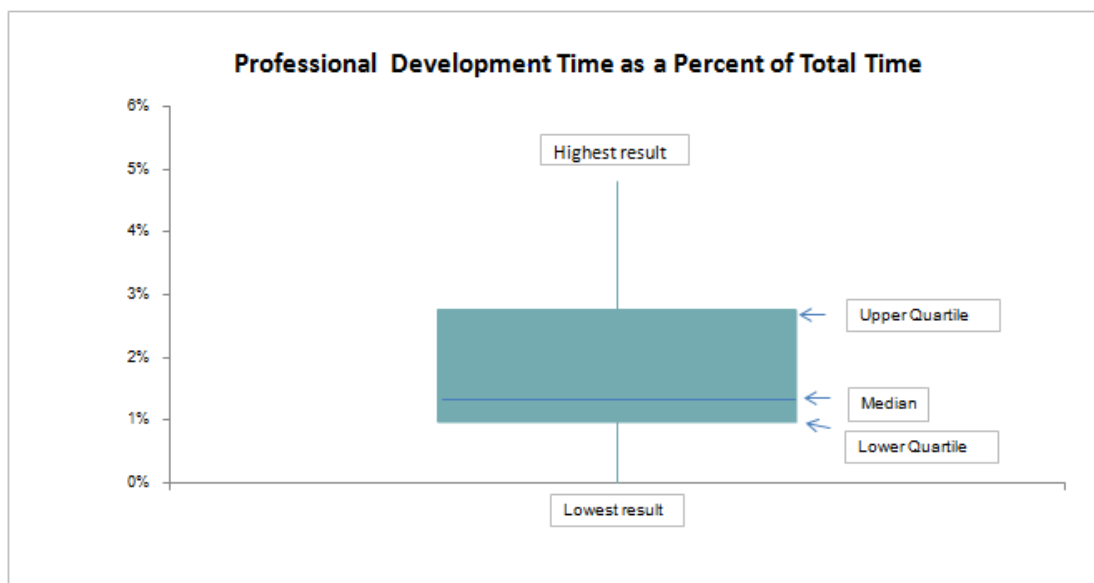
The median amount of time spent on professional development (recorded by 10 of the 12 agencies) is about 1.42 percent, or about 45 minutes per week per staff member, similar to FY 2012/13. This indicator provides the proportion of professional staff time devoted to staff members' own professional development. Professional development activities are defined broadly to include any time related to training and capacity building (formal training, coaching, informal internal information sharing sessions). It does not include time developing others.

Graph 41: Professional Development Time as a percent of Total Time



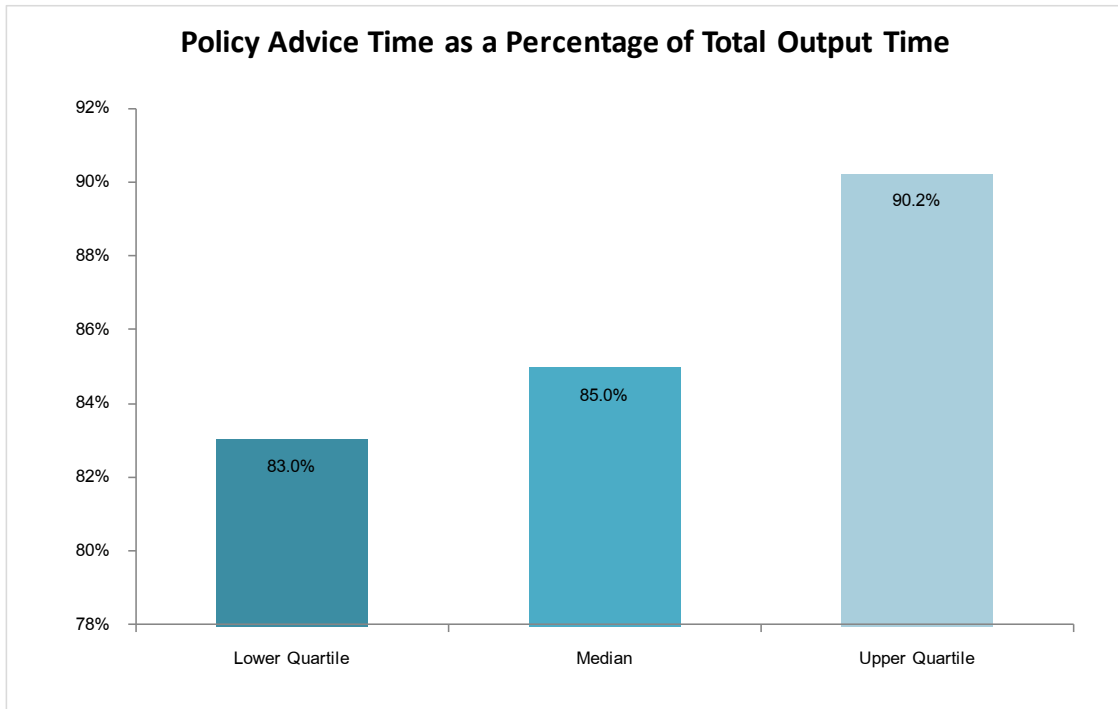
Professional development time as a percentage of total time is relatively consistent across the NZ cohort.

Graph 42: Professional Development Time as a percent of Total Time Variability



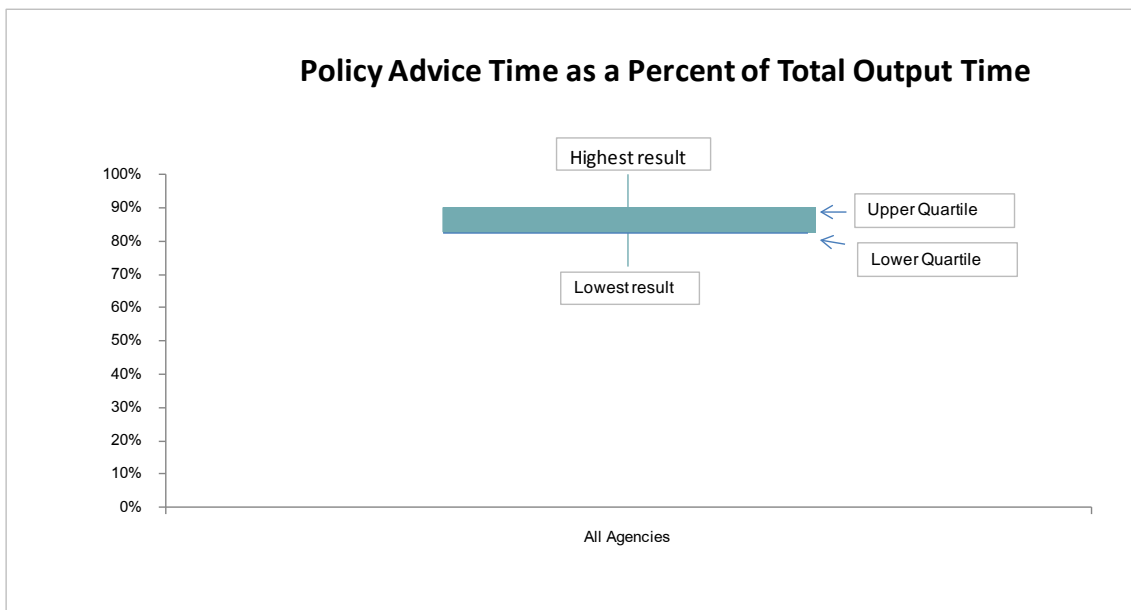
The majority of agencies have high levels of policy advice as a percentage of total output time, suggesting high levels of staff specialisation. The median result is 85.0 percent (87.1 percent in 2012/13). Total output time includes time devoted to policy advice and other policy unit outputs.

Graph 43: Policy Advice Time as a percent of Total Time



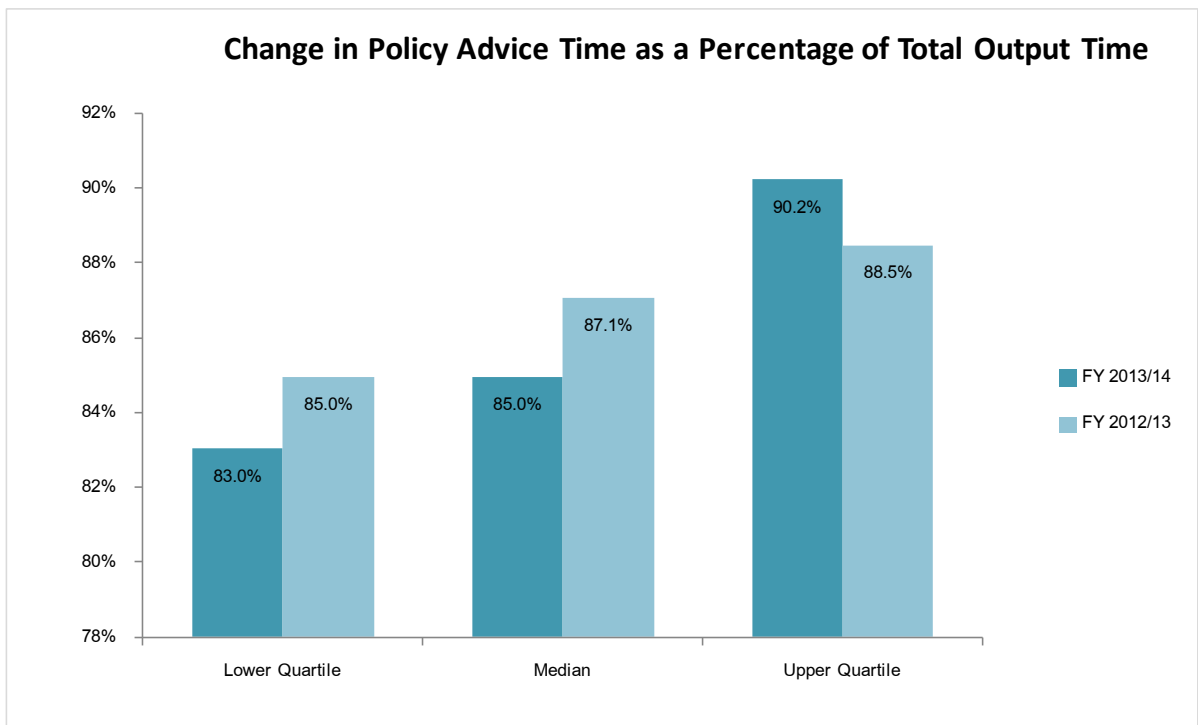
There is little variability in Policy advice time as a percentage of total output time with only two agencies reporting results below 80 percent.

Graph 44: Policy Advice Time as a percent of Total Time Variability



The total sector figure for policy advice as a percentage of total output time has remained relatively unchanged from 85.1 percent in FY 2012/13 to 86.3 percent in FY 2013/14.

Graph 45: Change in Policy Advice Time as a percent of Total Time FY 2012/13 to FY 2013/14



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 6: Glossary of terms

Terms	Definition
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. The point of reference for a benchmarking activity is often the current status or best practice.
Capability Maturity Model	A capability maturity model is a set of structural levels that when assessed describe how well the behaviours, practices and processes of an organisation can reliably and sustainably produce required outcomes.
Direct Expenditure	Expenditures incurred by policy units during the FY reporting period for operating and support items such as travel, publications, equipment, information systems, consultants engaged to assist in producing policy outputs. This expenditure does not include: <ul style="list-style-type: none"> ▪ expenditures on consulting services that do not contribute to production of outputs produced by the policy unit ▪ any costs included in corporate overhead ▪ cost of long term contract personnel included in the compensation data.
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.
General Management & Support Hours	Management includes planning, administration, staff supervision, staff coaching etc. Support includes internal efforts to develop and maintain infrastructure and systems to support policy work (e.g. data bases, analytical tools, models, networks, etc).
Informal policy advice output hours	Time associated with Policy Advice outputs that are handled informally or as BAU. This includes day-to-day QA time and management of BAU policy advice.
Labour cost	Labour Cost e.g. salary including the cost of benefits, for staff included in the FTE count. Compensation information for fewer than seven staff has been based on the midpoint of compensation levels rather than actual compensation to protect the confidentiality of individual staff members.

Terms	Definition
Non Policy Output Hours	<p>Time associated with ministerial services or other non-policy advice output activities such as:</p> <ul style="list-style-type: none"> ▪ development of internally focused operational policies that do not require a ministerial decision ▪ services to support Ministers in relation to Ministers' accountability to Parliament and the public, such as: drafting replies to correspondence to Ministers; Official Information Act requests; responding to Parliamentary Questions; Select Committee appearances on non-legislative matters such as Estimates and financial review ▪ drafting replies to correspondence to the agency or chief executive ▪ monitoring the performance and compliance of Crown entities ▪ board appointments processes ▪ administration of grants ▪ support services for statutory bodies ▪ drafting of legislation (as distinct from issuing drafting instructions).
Non Work Hours	<p>Vacation, sick leave or other time off activities such as bereavement leave, domestic days and study leave.</p>
NZ cohort	<p>To support comparison among participating agencies, the 12 agencies have been grouped in to one cohort called the NZ cohort.</p>
Overhead cost	<p>Costs including the cost of HR, finance, procurement, corporate and executive services, ICT, and accommodation.</p>
Policy advice	<p>Policy advice is defined under budget appropriations as "This appropriation/output class is limited to the provision of advice (including second opinion advice and contributions to policy advice led by other agencies) to support decision-making by Ministers on government policy matters [relating to policy area x]." Further details are found on Treasury's website, under the Reorganisation of Appropriations for Policy Advice ¹⁷.</p>
Professional Development Hours	<p>Defined broadly to include time related to training and capacity building (formal training, coaching, informal internal information sharing sessions, etc.) However, this does not include time providing professional development to others.</p>
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.

¹⁷ http://www.treasury.govt.nz/publications/guidance/mgmt/rapa/06.htm#_toc3.2

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.
Support Staff Labour Costs	Salary costs, including the cost of benefits, for policy function support staff
Unassigned Hours	Unassigned or unaccounted for time, perhaps while waiting for approvals or instructions.

Table 7: Abbreviations used in this report

Abbreviation	Description
BAU	Business as usual
CMM	Capability Maturity Model
FTE	Full time equivalent
HR	Human resources
ISE	Information Supporting the Estimates (in Budget documents)
MFAT	Ministry of Foreign Affairs and Trade
RIS	Regulatory Impact Statement (Assessment)

Appendix 3: Dataset descriptions

This appendix describes the datasets used in the report, which includes data from twelve NZ agencies.

New Zealand cohort (NZ cohort)

The NZ cohort comprises all agencies measured in a specific reporting period. The twelve agencies that participated in the policy measurement exercise for this report are listed alphabetically below:

- Department of Internal Affairs
- Ministry of Health
- Inland Revenue
- Ministry of Justice
- Ministry for the Environment
- Ministry of Social Development
- Ministry for Primary Industries
- Ministry of Transport
- Ministry of Business, Innovation and Employment
- Te Puni Kokiri
- Ministry of Education
- The Treasury

Job levels

For this measurement exercise we have agreed to use six standard job levels to benchmark.

Table 8: Standard Job Levels

Job Titles	Job Description
Level 1: Policy Unit Leader	The most senior policy position in the agency or one of a small number of policy leaders at the top management tiers with broad responsibility for leading a major policy unit encompassing several policy units with a broad range of subject matter responsibilities.
Level 2: Senior Policy Manager/Advisor	A Senior Policy Manager/Advisor is generally part of the agency's policy management team and accountable for a significant policy unit or a major sub-component. This is generally a manager of manager positions with direct reports who are themselves responsible for managing policy staff. In addition to day to day management, the Senior Policy Manager/Advisor is responsible for designing and leading complex policy thrusts and coordinating major policy initiatives. This level may also include experts who do not have any direct reports but are recognized as exceptional for their ability to advise on complex matters of direct relevance and importance to the agency's core mandate.
Level 3: Policy Manager	A Policy Manager is responsible for leading and coordinating major policy initiatives with minimal guidance and supervision. The Policy Manager will generally be responsible for managing a small policy unit and usually supervise up to eight policy staff.
Level 4: Principal Advisor	A highly qualified policy analyst primarily responsible for designing, leading and supporting complex policy projects and initiatives. A substantive expert with limited or no policy staff direct reports.
Level 5: Senior Policy Analyst	A qualified policy analyst with a minimum of five years of experience primarily responsible for carrying out complex analysis with periodic guidance from more senior policy staff. The Senior Policy Analyst manages small and mid-sized projects but does not have policy staff direct reports.
Level 6: Policy Analyst	An analyst with up to five years of experience who conducts policy analysis with regular guidance and support from more senior policy staff. Generally an entry level position & includes graduates hired on a probationary basis.

Appendix 4: Indicator definitions

Common indicator set and supplementary indicator definitions

This section describes the indicators that were used for the FY 2013/14 measurement exercise.

Table 9: Common indicator set definitions

	Metric name	Metric description
1	Total cost per output hour ¹⁸	Total cost of an hour of professional staff time devoted to policy advice outputs. We have also calculated the Total cost (less overhead) per output hour, and the Total cost less outsourced policy input.
2	Management Practice Indicator	Extent to which the agency has adopted key management practices underpinning policy function performance.
3	Minister satisfaction	Score on a standardised Minister satisfaction survey.
4	Technical quality	Standardised scores for technical quality assessments already undertaken by the Agency.
5	Regulatory Impact Statement Assessment (RIS)	Percentage of RISs categorised as 'meets requirements' in external, independent quality reviews undertaken by the Treasury's Regulatory Impact Analysis Team.
6	Staff engagement	Standardised scores for policy staff engagement surveys already undertaken by the Agency.

Table 10: Supplementary indicator definitions

	Metric name	Metric description
Indicator 1	Utilisation	This indicator provides the percentage of professional staff time devoted to output related activities. Output time is the equivalent to what professional services firms call chargeable or billable time and includes time spent on both policy advice and other policy unit outputs.
Indicator 2	Labour Cost Per Output Hour	This indicator provides the cost of professional staff compensation (including benefits) for an hour of output time. Output time is time devoted to both policy advice and other policy unit outputs.
Indicator 3	Total Cost Per Output Hour	This indicator provides the total cost of an hour of professional staff time devoted to both policy advice and other policy unit outputs. Total cost includes labour, overhead, support staff, and direct costs (which includes outsourced work to support output production). Outsourced costs have also been recorded separately in FY 2013/14.

¹⁸ The underlying data required for the Total Cost per Output Hour indicator allows for calculation of additional indicators including: labour cost per output hour, utilisation, overhead as a percentage of total policy expenditure, professional development time, management and support time, median compensation, and the number of analysts per manager. These supplementary Performance Indicators are outlined in the following table.

	Metric name	Metric description
Indicator 4	Professional Development Time	<p>This indicator provides the proportion of professional staff time devoted to their own professional development. Professional development activities are defined broadly to include any time related to training and capacity building (formal training, coaching, informal internal information sharing sessions, etc.).</p> <p>It does not include time developing others.</p>
Indicator 5	Management & Support Time	<p>This indicator provides the percentage of professional staff time devoted to management and support activities as defined below:</p> <p>Management time includes planning, administration, staff supervision, etc.</p> <p>Support time includes internal efforts to develop maintain infrastructure and systems to support policy work (e.g. data bases, analytical tools, models, networks, etc).</p> <p>Management and support time does not include time devoted to managing specific policy projects.</p>
Indicator 6	Median Compensation	<p>This indicator provides median compensation overall and for each job level.</p> <p>Compensation includes salary and paid benefits, but does not include a calculated cost of vacation and other time off.</p>
Indicator 7	Number of Analyst FTEs Per Manager & Principal Advisor FTE	<p>This indicator was discontinued for FY 2013/14.</p> <p>This is the preferred span of control metric for those agencies that perceive Principal Advisors to be members of the management team because of their planning, quality assurance, and staff development roles, even if they do not have direct reports.</p>
Indicator 8	Number of Analyst & Principal Advisor FTEs Per Manager FTE	<p>This indicator provides the number of Analyst & Principal Advisor FTEs (Job Levels 4, 5, & 6) for each Manager FTE (Job Levels 1, 2, & 3).</p> <p>This is the preferred span of control metric for those agencies that perceive Principal Advisors to be focused on complex analysis and deliverable production with a limited role in managing the policy function overall.</p>
Indicator 9	Overhead as a Percentage of Total Policy Expenditure	<p>This indicator provides the proportion of overhead costs. Total cost includes labour, overhead, support staff, and direct costs (which include outsourced work to support output production).</p>
Indicator 10	Policy Advice Time as a Percentage of Total Output Time	<p>This indicator provides the time devoted to policy advice as a percentage of total output time. Total output time includes time devoted to policy advice and other policy unit outputs.</p>
Indicator 11	Outsourced policy costs	<p>Outsourced costs are the amount paid to external providers of policy advice services, as well as contractors and casuals. While this is identified separately in FY 2013/14, it is included in Direct Costs in the analysis.</p>

Capability Maturity Model indicator descriptions

This section describes the CMM indicators

Table 11: CMM indicator descriptions

	Metric name	Metric description
1	Stakeholder management	Stakeholder management is the practice of building and maintaining relationships with internal and external stakeholders to support the quality of policy advice and timely decision-making and implementation.
2	Ministerial relationship management	Ministerial relationship management is the practice of supporting Minister satisfaction with the focus, quality and timeliness of policy advice.
3	Collaboration	Collaboration is the practice of improving the efficiency and effectiveness of the policy function by encouraging partnerships and cooperation in the development of policy advice within the State sector, across other jurisdictions, and with the not-for-profit and private sectors.
4	Policy Project Management	Policy Project Management is the practice of organising policy work into projects (as appropriate) with plans, schedules and budgets to support the execution of work in a controlled manner (i.e. in line with quality expectations and timeline and resource constraints).
5	Knowledge Management	Knowledge Management is the practice of developing and managing systems to create, store, and share knowledge critical to the policy function's performance and to enhance its capacity to learn, innovate, and solve problems.
6	Strategic Work Programme Planning and Alignment	Strategic Work Programme Planning and Alignment are practices for developing and updating multi-year plans to align policy function activities and resources with ongoing and changing priorities.
7	Annual Policy Programme Planning	Annual Policy Programme Planning is the practice of developing and updating annual plans to align policy function activities and resources with ongoing and changing priorities.
8	Human Resource Management	Human Resource Management supports the effective use of personnel within the policy function to achieve a high level of organisational performance.
9	Financial Planning, Budgeting, and Decision-Making	Financial Planning, Budgeting, and Decision-Making are the practices of developing and updating financial plans and budgets and using management information to support decision-making within the policy function.
10	Quality Management	Quality Management is the practice organisations use to direct, control, and coordinate quality. These activities include formulating a quality policy and setting quality objectives. They also include quality planning, quality control, quality assurance, and quality improvement.

Each CMM is assessed on a scale of 1 to 4:

- **Level 1** – Informal: Non-systematic and/or ad hoc practices are in place.
- **Level 2** – Enabled and Practiced: There are formal or informal practices in place, but there is limited accountability, consistency, coordination, or effectiveness.
- **Level 3** – Managed: There are formal practices, clear expectations, consistency in practice, and accountability for execution. Practices are generally effective, and there is coordination among teams as appropriate.
- **Level 4** – Optimised: Practices are mature and highly effective, and they are subject to periodic scrutiny and refinement to support continuous improvement.

In addition to assessments of current management practice levels, agencies are also asked to complete data in four further worksheet columns:

- **Future aspiration level** – Agencies need to assign a future aspiration level using a scale of 1-4.
- **Priority level** – Agencies need to assign a **high, medium** or **low** priority for achieving the future aspiration score for each question.
- **Planned investment** – Agencies need to mark 'yes' or 'no' to indicate if they are planning to invest any time or resources to achieve the future aspiration level.
- **Timeframe for investment** – Agencies are asked to indicate the timeframe for when the planned investment will take place.