# Administrative and Support Services Benchmarking

2014/15

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# Statement by the Secretary to the Treasury

Gabriel Makhlouf, Secretary to the Treasury

The performance of the State sector has a significant and direct impact on the living standards of New Zealanders. In recent years the State services have stood up well to the challenge of delivering 'more for less' in response to the challenges of the Canterbury earthquakes and Global Financial Crisis. Yet we still have some way to go to achieving our vision of putting New Zealanders' current and future needs at the heart of our operations.

Achieving this vision requires further progress across the State sector on a number of fronts: an unrelenting focus on results; leadership working effectively together to achieve outcomes; and being innovative in how we organise ourselves and deliver services to meet the changing needs of New Zealanders.

It also requires better information and better use of information to understand how we can be more effective.

The Benchmarking of Administration and Support Services (BASS) data summarised in this report is one of an expanding set of information providing insights into agency and system effectiveness and efficiency.

Other information includes the Performance Improvement Framework assessing "how prepared is an agency to deliver the contribution New Zealand needs from it", insights into regulatory practices through initiatives such as assessments of Regulatory Impact Statements, management of the Crown estate as captured in the *Crown Office Estate Report 2015*, and most recently Treasury's introduction of an Investor Confidence Rating for investment-intensive agencies and reporting on the status of government's largest and most significant investments through the *Major Projects Performance Report*.

Support for using this information has been strengthened in recent years through Functional Leads for ICT, Procurement and Property; Heads of Profession for Finance, Human Resources and the Legal Profession; and the Treasury's Investment Management and Asset Performance team.

As part of our commitment to be more efficient and effective, we regularly assess how the BASS approach can be improved. Following feedback from users, we redesigned this year's report to focus on key metrics and adopted a more reader-friendly format. We are also considering how to better align the BASS approach to the activities of Functional Leads and Heads of Profession, when to refresh the metrics to reflect lessons learnt, and the frequency of data collection given results are not expected to change significantly in any given year.

I would like to thank colleagues across the State sector for their continued efforts to improve the performance of their agencies and the sector as a whole.

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# In 2014/15

| | |
|---|---|
| **26 Agencies spent...** | $1.72 billion |
| **Supporting...** | $16.6 billion worth of activity |
| **Across five functions...** | ICT - $1,190m<br>Corporate and Executive Services - $176m<br>Human Resources - $163m<br>Finance - $131m<br>Procurement - $62m |
| **Overall costs increased by...** | 4% ($62.8 million) |
| **Individually some costs increased while some decreased...** | ICT – ↑ 6%<br>Corporate and Executive Services – ↓ 6%<br>Human Resources – ↓ 3%<br>Finance – ↑ 4%<br>Procurement – ↑ 6% |

**The following chapters provide greater insights into the Cost, Effectiveness and Efficiency of these corporate functions.**

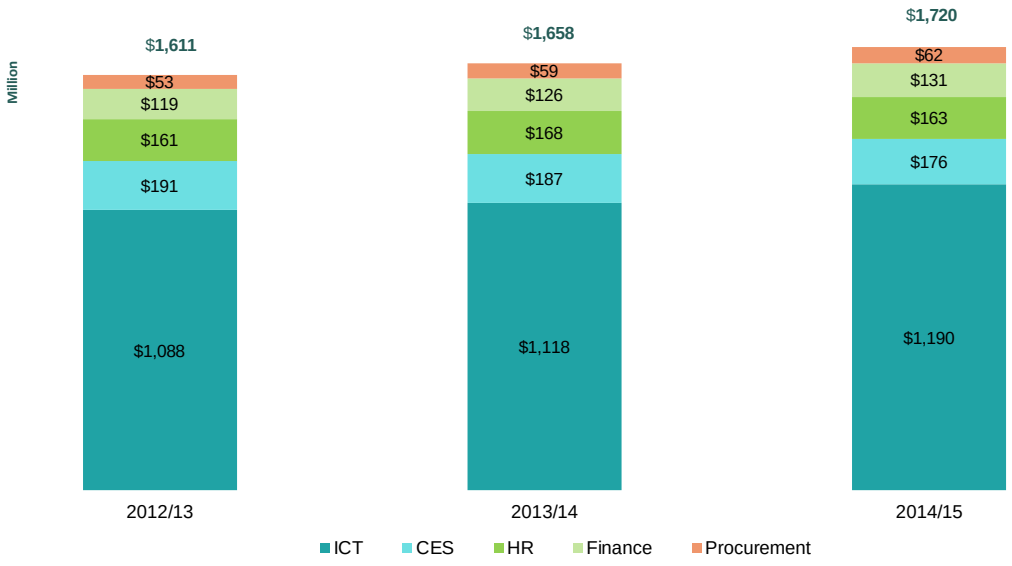
# Executive Summary

**In 2014/15 agencies spent approximately $1.7 billion on Administration &Support Services (A&S) to support total Organisational Running Costs (ORC) of $16.6 billion.** This represents a 3.8% increase in A&S cost since 2013/14.

**The ICT function accounts for the majority (69%) of A&S costs and has been the main driver of total A&S cost increases over time.** This reflects technology being a key enabler for agencies when they are transforming how they do business. The importance to an agency of ICT investment reinforces the need for agencies to be clear about the end-user and business value of the investment, and to capture the evidence base confirming benefits realisation after new technology is implemented. Given the role of ICT in delivering better public services, significant ICT projects are reported in the annual *Managing Government Investment Projects Report* and the tri-annual *Major Projects Performance Report*, which were both first published in 2015.

**Looking across all functions, there is significant variability in the efficiency and effectiveness of A&S services across agencies and opportunities for improvement.** Some variability is expected given the range of functions covered (from legal to ICT), the different sizes of participating agencies, and nature of their operations (eg, some agencies provide services, others are predominantly policy focused; some agencies are centrally located while others are geographically dispersed). As a general observation, smaller agencies are generally less efficient because they cannot leverage economies of scale in a way that larger agencies can. However, despite these differences the results still indicate opportunities for all agencies to improve the performance of their A&S services. To assist agencies in identifying where to put their effort, each agency has an individual report with their results and there are also Functional Leads and Heads of Profession supporting cross-agency discussion and actions for improving performance and lifting capability.

**Figure 1: Overall A&S cost distribution**



# Context

## Purpose and scope of report

**This report provides information about the cost, effectiveness and efficiency of Administrative and Support (A&S) Services for twenty-six[1] agencies in the State sector**. The purpose is to provoke discussion and action, by function professionals and agencies, to improve performance in these services.

**Five A&S service functions are covered by this report**: Information and Communications Technology (ICT); Corporate and Executive Services (CES); Human Resources (HR); Finance; and Procurement.

**Results for the three most recent reporting periods are analysed in this report (2012/13, 2013/14 and 2014/15)**. The data for all reported periods (2011/12 – 2014/15) is published alongside the underlying dataset for this report.

The following documents provide more in-depth analysis[2]:

- 'Individual Agency Reports' – provides analysis of individual agency performance across all metrics (available on each participating agency's website).
- 'Master Data Repository' – contains the full underlying dataset from which the analysis is drawn (available at www.treasury.govt.nz).

**Information on effectiveness and efficiency of the management of the Government's property portfolio is captured by the annual Crown Office Estate Report produced by Property Management Centre of Expertise.** A copy of the 2015 report is available at www.mbie.govt.nz/info-services/nz-govt-procurement-and-property/government-property-group/reports.

[1] Agencies that provided data for each of the three reporting periods are listed in Appendix 1.

[2] To increase the accessibility of the reported information the previously standalone functional 'performance findings' reports have been merged into this report.

# Interpreting results in this report

**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.

## Data Quality

1. On balance, the quality of the data underlying the metrics is generally of a high standard. There are some concerns with data quality for:
    a. the CES function due to data consistency issues and a limited pool of reliable comparator data; and
    b. the cost information for the Procurement Function due to the highly devolved nature of the function.
2. Data quality is reliant on:
    a. the maturity of the management information systems used by individual agencies, so reported values may vary from year to year as efforts are made to refine data quality;
    b. necessary judgements in applying data definitions to an agency's activities; and
    c. consistent interpretation of metric definitions by agencies.
3. To support data quality and comparability:
    a. agencies have been provided with the opportunity to assess the quality of their data and review significant variances from previous year's results prior to analysis and publication; and
    b. the data collection practices and definitions used to collect data for this report align, where practical, with those used internationally by The Hackett Group and the American Productivity and Quality Centre (APQC). Aspects of the ICT measurement model have also been developed to align with the model used by the New South Wales (NSW) Government.

**As per international methodologies, agencies only include function activity costs for staff that spend more than 20 percent of their time on the specific function.** As a result, if agencies have highly devolved processes for a specific function, the true cost of the activity is likely to be understated as the data excludes cost attributable to those who spend less than 20 percent of their time on that function.

**The international benchmarks used in this report are:** The Hackett Group 'peer cohort'[3], APQC 'similar cohort'[4], and NSW Government 'Other Jurisdiction'. Benchmark comparator data was updated in 2012.

[3] A subset of The Hackett Group full cohort database that includes government and military agencies, banks, utilities, not-for-profits, and research organisations deemed suitable for comparison with NZ State sector agencies.

[4] A subset of the APQC full cohort database that includes government and military agencies, banks, utilities, not-for-profits, and research organisations deemed suitable for comparison with NZ State sector agencies.

**As this is the second year the Department of Prime Minister and Cabinet (DPMC) has participated in the benchmarking exercise data for the agency is unavailable for 2012/13.** This has an impact on 2012/13 aggregated costs ('overall' or 'total' cost graphs) which are underreported by somewhere in the region of 0.6% (proportion of total A&S services cost attributed to DPMC in 2014/15). Other 2012/13 analysis that utilise agency averages was carried out based upon the remaining agencies.

**Management Practice Indicator (MPI) and Capability Maturity Model (CMM) scores are self-reported by agencies** and the responses have not been moderated across agencies.

**To simplify reporting and minimise the impact of data outliers, median values have been used throughout this report**, with the exception of CMM and MPI analysis where the mean value is used, and 'overall' or 'total' cost graphs where the aggregated cost is provided.

**For the purpose of summarising the dataset for this report, agencies have been assigned to three cohorts**[5]:

- Small agency cohort: agencies with <500 FTEs, organisational running costs (ORC) of <$100 million, mainly have a 'policy, regulatory or compliance focus', and/or mainly have centralised services.
- Medium agency cohort: agencies with 500 – 2,500 FTEs, ORC of $100 - $500 million, mainly have an operational or service delivery focus, and/or mainly have centralised or centre-hub led services.
- Large agency cohort: agencies with >2,500 FTEs, or ORC of >$500 million, mainly have an operational or service delivery focus, and/or mainly have distributed services.

A list of participating agencies, a glossary of terms, and a summary of metric definitions for each function can be found in Appendices 1, 2 and 3 respectively.

Appendix 4 provides an outline on how to interpret some of the uncommon type of graphs included in this report.

[5] Categorisation is based on whether the agency's profile meets three or more of the relevant criteria. NZ Fire Service has been classified as a 'large' agency due to the agency's profile mainly having an 'operational or service delivery focus' and 'mainly have distributed services', which is similar to other 'large' agencies.

## Five principles of Administrative and Support (A&S) Services Benchmarking

Metrics and methods used to develop this report have been adapted from established international methodologies used by two leading international benchmarking organisations: APQC and The Hackett Group. The ICT Function methodology was developed in conjunction with the New South Wales jurisdiction in Australia.

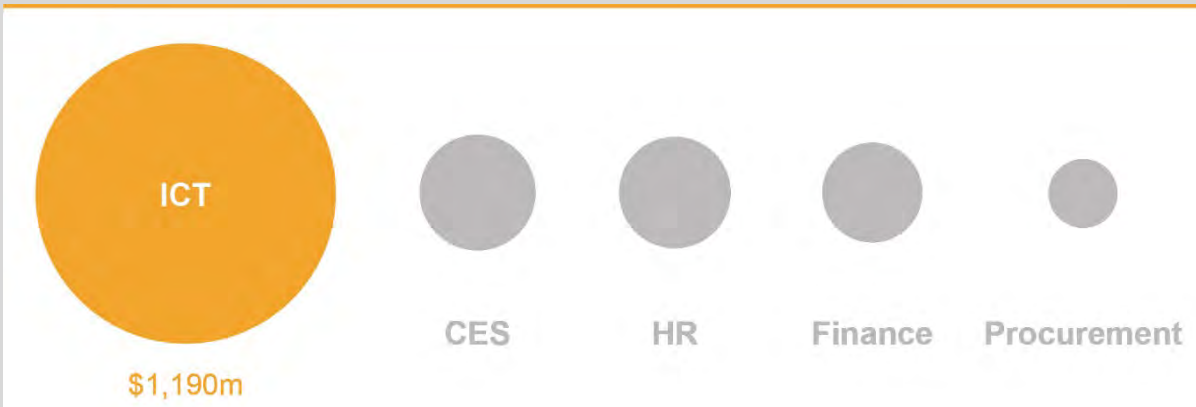
**Development of the methodology with agencies is guided by five principles:**

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

# Information and Communications Technology

For further information on the ICT Function please refer to:

- https://www.ict.govt.nz/strategy-and-action-plan/strategy/




Capital Expenditure
22%

Operational Expenditure
78%

Cost per internal end user
$15,920

## Spend per Service Tower

**10%** Mainframe & Midrange

**4%** Storage

**6%** WAN & Gateway

**1%** LAN & RAS

**46%** Applications

**2%** Facilities

**10%** Voice Services

**11%** End User Infrastructure

**3%** Helpdesk

**8%** ICT Managment

System Reliability **99.88%**

Time to resolve Service Commitments

3 hours

## Drivers of New Applications/ Major Enhancements

Legislative
7%

Internal
93%

# Functional Lead Commentary

*Duncan Reed, General Manager, Systems Transformation, GCIO, Department of Internal Affairs*

**The recent review of the Government ICT Strategy provided an opportunity to refocus the 'direction of travel' of the strategy so that the public sector can exploit the foundations laid and take advantage of several 'game changing' trends that have emerged since 2013.** The revised ICT strategy was launched in October 2015, supporting the intention that the *Government ICT Strategy and Action Plan to 2017* be reviewed after two years to ensure it remained relevant and incorporates emerging technologies and practices. The ICT environment has radically changed since 2013 and it is important that the public sector takes advantage of; the accelerated adoption of cloud services, unlocking the value of government-held information and data analytics, leveraging key components of an ICT ecosystem being delivered by major agency transformation programmes, and partnering with the private sector to drive innovation.

**The outcomes of the strategy show that ICT is not just about technology** – it is about the ways in which information and technology are used to deliver better services while enhancing trust and confidence in government.

**There is evidence that adoption of Common Capabilities by agencies has resulted in increased efficiency and cost savings.** ICT expenditure in 2014/15 makes up 69% of A&S service cost, making it the largest A&S function by expenditure. The primary reason for ICT cost increases is the current high level of capital investment in major agency transformation programmes. The majority of cost relates to line of business application and management expenditure. Although overall ICT cost has increased by 6% from last year, there is evidence that an increase in outsourcing activities and adoption of Common Capabilities such as Infrastructure as a Service (IaaS) are realising efficiencies and cost savings within agencies. Savings due to avoided costs from agency uptake of common capabilities are approaching $70 million per annum across 100 agencies. It is acknowledged that agencies incur transition costs in moving from capital (capex) to operating (opex) expenditure in the short term, but there are longer term benefits for agencies and the ICT ecosystem.

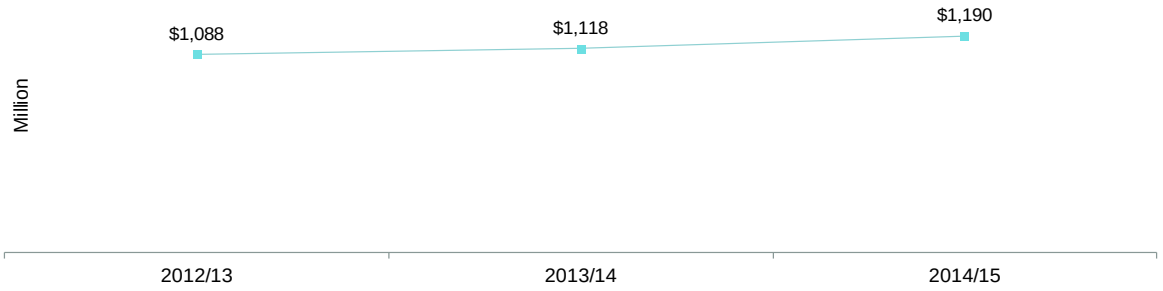
**Greater strategic insight will support better understanding of ICT investments and opportunities for cross agency collaboration.** The Investor Confidence Rating (ICR) was introduced by Treasury in September 2015 to provide an incentive mechanism that rewards good investment management performance. Over time the ICR is expected to improve key aspects of investment management maturity and performance as a means of delivering best value for money. The increased emphasis on benefits delivery and system performance drives the need to better understand the value of ICT investments, and effectively measure the contribution to business outcomes. Better Public Services is driven by digital change, so an increase in ICT investment is expected. There is a natural lag from ICT investments being made and agencies delivering benefits through business efficiencies. Opportunities for cross-agency collaboration are expected to emerge within strategy, planning and investment cycles, supported by current practices such as the Four Year planning process. The recent introduction of Long Term Investment Plans, with a 10 year horizon, is another mechanism that further enables capability sharing opportunities amongst agencies.

# Overall ICT Cost

ICT services accounted for 69% ($1.19b) of overall A&S cost in 2014/15 and have increased by $102m (8.6%) since 2012/13. This is most of the $109m increase in total A&S cost over this period.

**ICT services** accounts for **69%** of **A&S** cost and have **increased** by **8.6%** **since 2012/13**

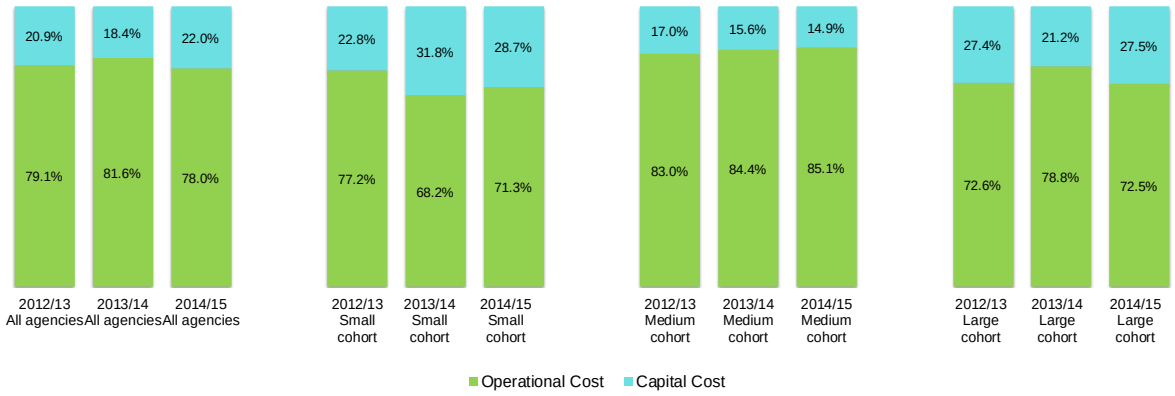
**Figure 2: Total ICT cost**




Capital expenditure accounted for 22% ($262m) of ICT cost in 2014/15. While the proportion of capital expenditure remained static for the medium cohort, in 2014/15, it increased by 23% for the large cohort and reduced by 11% for the small cohort.

**Capital expenditure** accounted for **22%** of **ICT** cost in **2014/15**

**Figure 3: Capital vs. operating cost as a proportion of ICT cost**



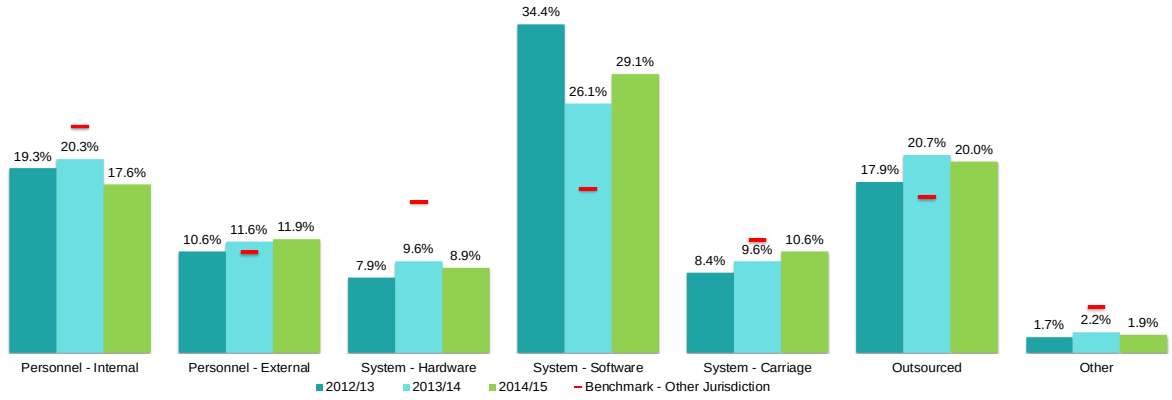
Reported 'System' costs ('Hardware', 'Software' and 'Carriage') increased by 12.6% ($73m) in 2014/15. This accounts for 49% ($579m) of total ICT cost.

'Personnel' costs account for 29.4% ($350m) of total ICT cost in 2014/15. Although this is a decrease of 2% ($7m), it was offset by a 3% ($7m) increase in 'Outsourced' costs.

**'System' costs** accounted for **49%** of all **ICT costs** in **2014/15**

The proportion of cost attributed to each cost element in ICT is not consistent with the Benchmark proportions, with the exception of the Personnel – External cost element.

**Figure 4: ICT cost elements as a proportion of ICT cost**

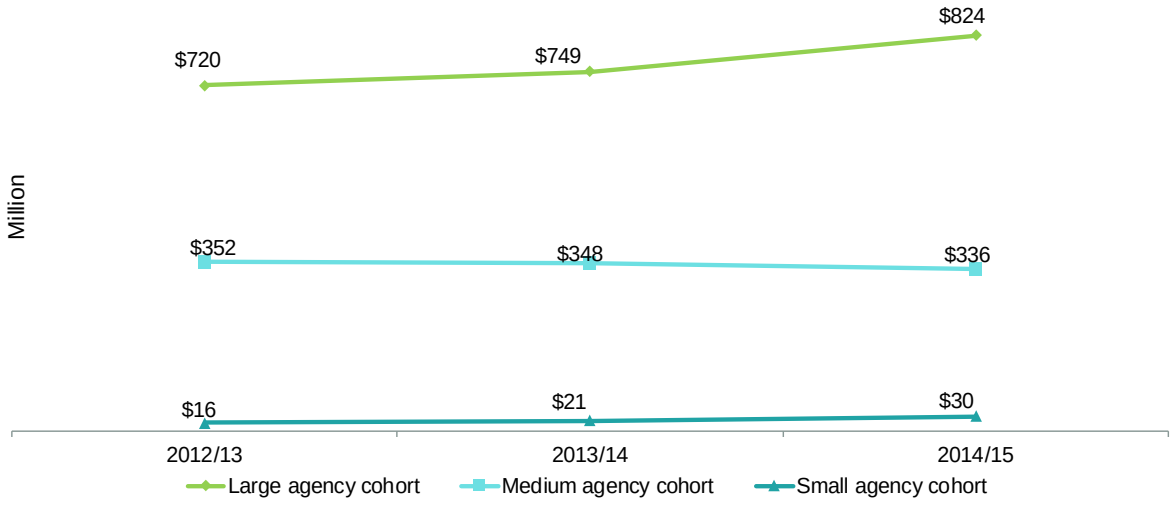



Costs for the large cohort increased by 9% ($75m) in 2014/15, while the small and medium cohorts have remained relatively static.

**Large cohort** costs ↑**9%** in **2014/15**

The medium and large cohort make up 97.4% of ICT services expenditure in 2013/14.

**Figure 5: ICT costs by cohort**



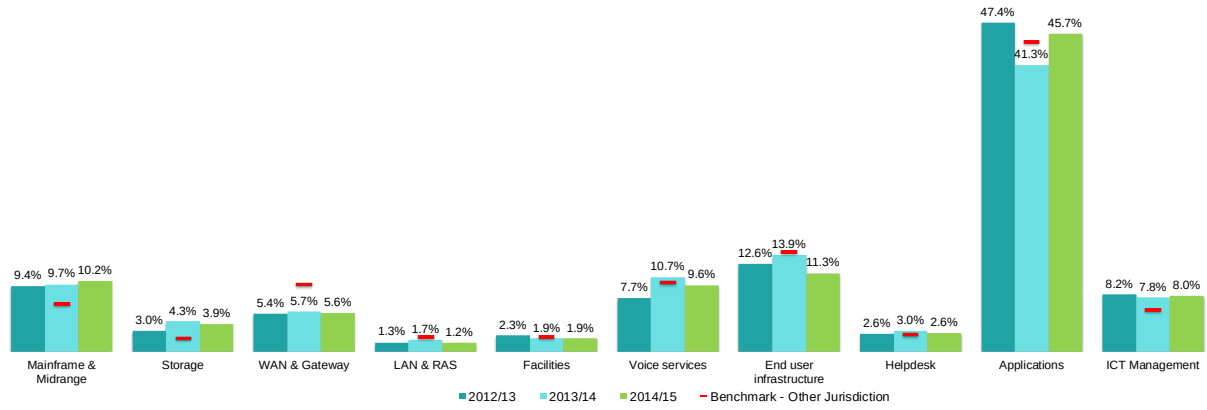
# ICT Service Towers

Service Towers are the categorisation and classification of the services provided by an ICT department. These are often aligned to similar sets of skills and service provider offerings observed in the market.

The 'Applications' Service Tower accounts for **45.7%** of ICT cost in 2014/15

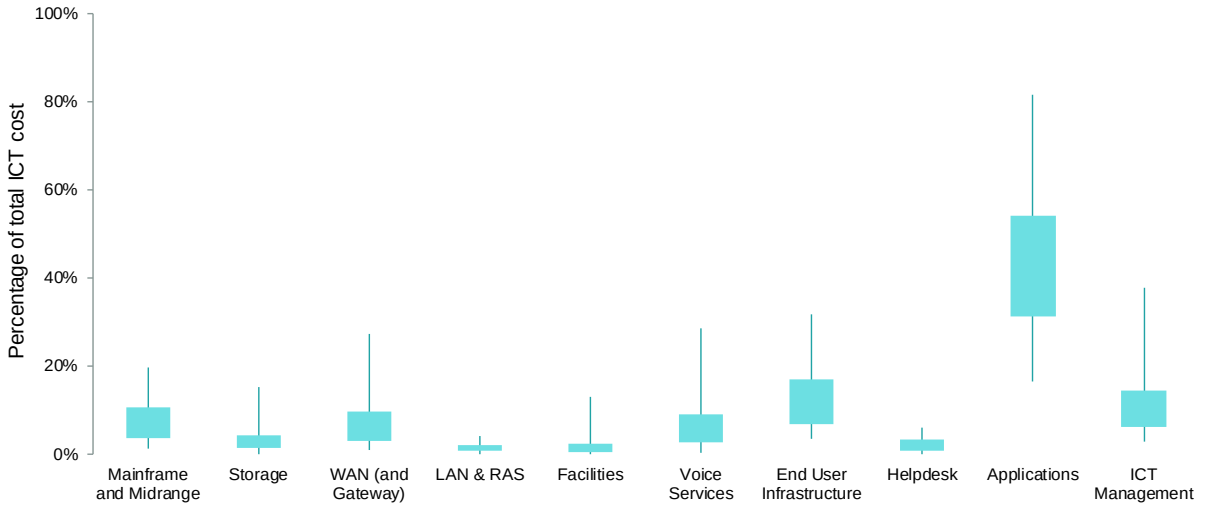
The 'Applications' Service Tower accounts for 45.7% ($543m) of ICT cost, having grown 10.7% in the past year. However, when looking back to 12/13, the proportion of cost has remained constant.

**Figure 6: Proportion of cost per Service Tower**




The operating context varies greatly between agencies and has a considerable impact on an agency's ICT requirements, as reflected in the variability in the proportion of agency cost per Service Tower.

**Figure 7: Variability in the proportion of agency cost per Service Tower (2014/15)**



Compared to international comparators there is a greater level of outsourcing across all Service Towers, with the exception of the 'Applications' Service Tower. In many cases the high 'Outsourced' cost is offset by a reduction in 'Hardware' and/or 'Personnel' cost.

**Figure 8: Distribution of total Service Tower cost by Cost Element – Reported agencies**

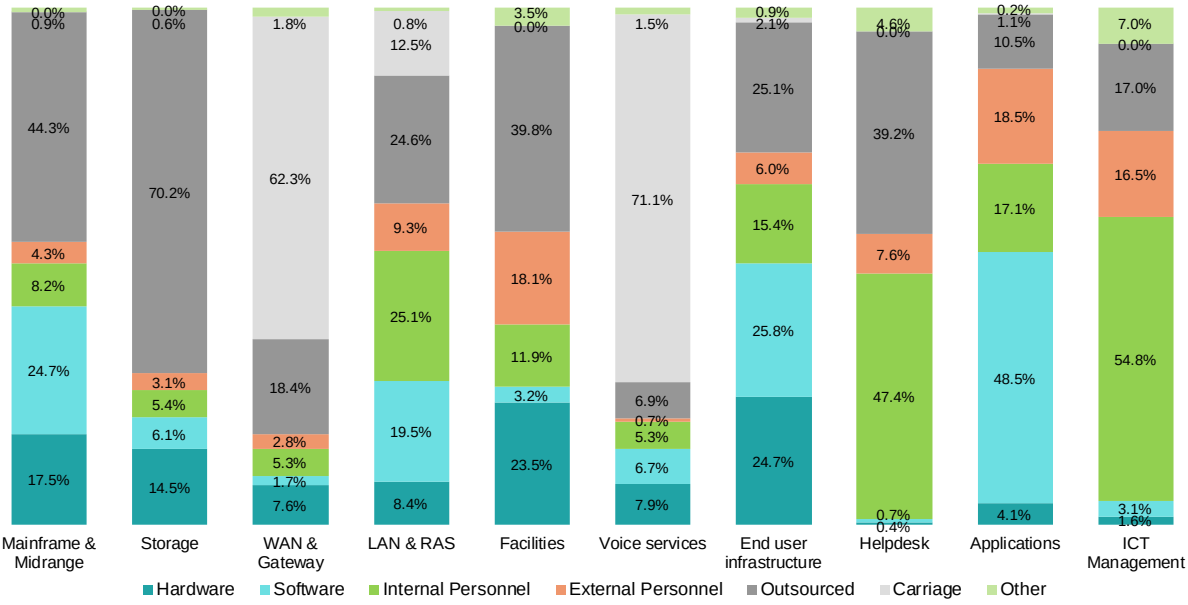
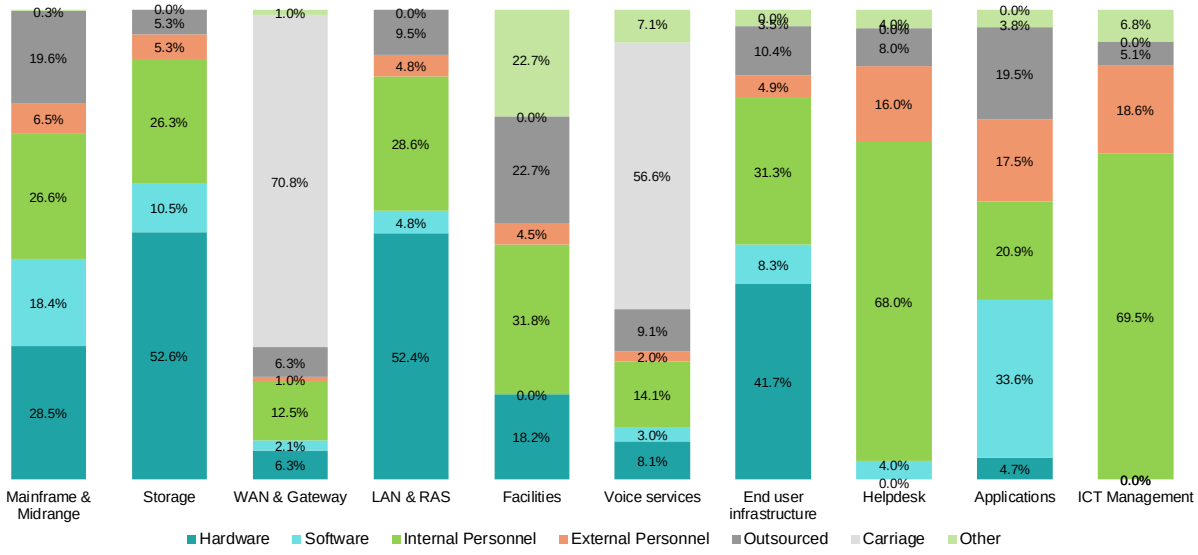


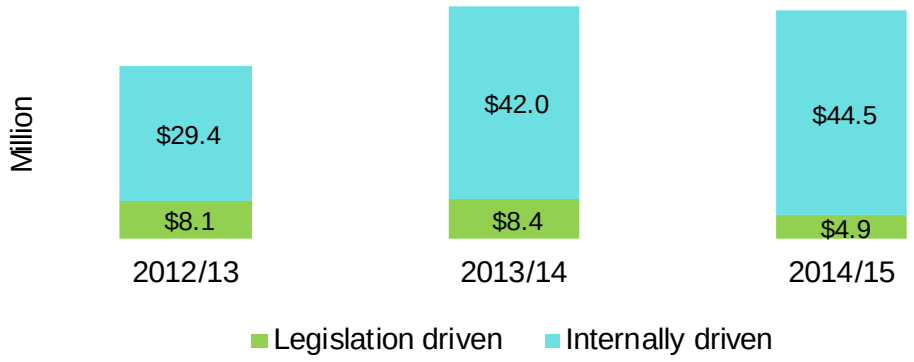

**Figure 9: Distribution of total Service Tower cost by Cost Element - Benchmark (Other Jurisdiction)**



# Drivers of ICT Enhancements

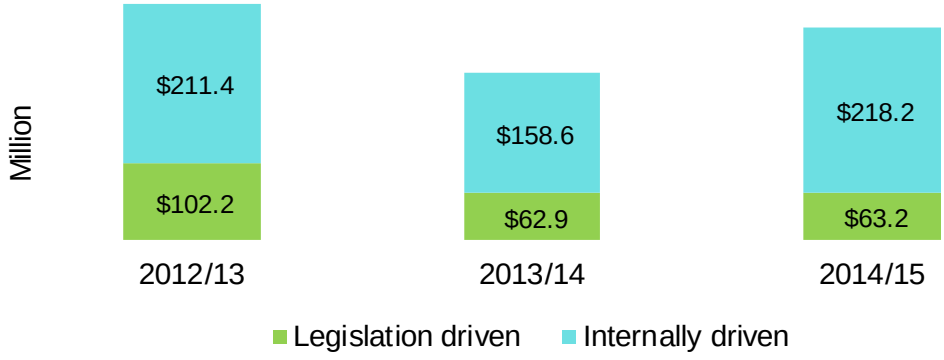
In 2014/15, 95.6% ($44.5m) of minor enhancements[6] were internally driven, a decrease of 6% ($2.5m) from 2013/14. Legislative driven[7] enhancements decreased by 71.4% ($3.5m) in the most recent period.

**Figure 10: Minor enhancements**




93% ($218m) of new applications/major enhancements were internally driven. This is an increase of 37.6% ($59.6m) since 2013/14.

**Figure 11: New applications/major enhancements**




[6] "Minor" is defined as: no more than $100k; "Major" is defined as: more than $100k

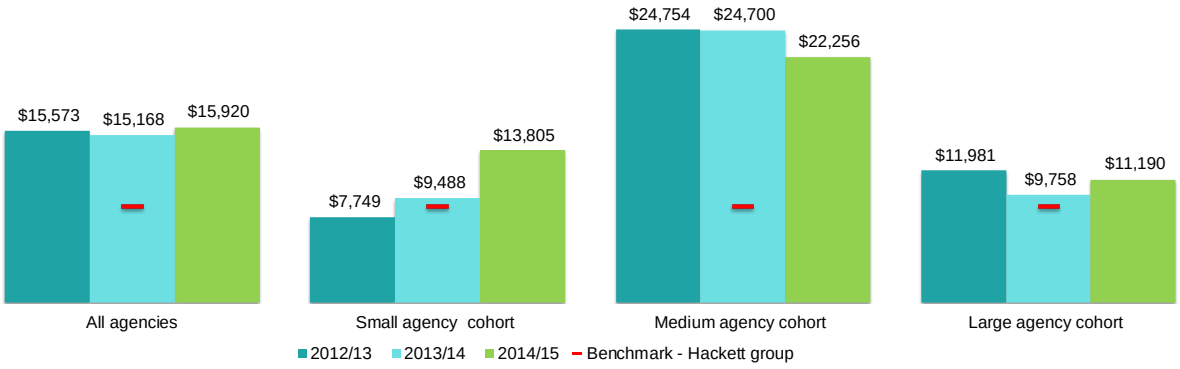
[7] "Driven by legislation" is defined as: development or enhancements that are a direct response to an external mandate for change eg, compliance, regulation, legislation and formal government decisions "Internally driven" is defined as: new software and enhancements not as a direct response to an external mandate for change.

# Cost Per End User

Although the overall cost of ICT per internal end user (ie agency employees who regularly access the system) has remained static there has been movement at the cohort level. In 2014/15 the cost per end user increased for the small and large cohort, yet dropped slightly for the medium cohort (although still considerably higher than the international benchmark).

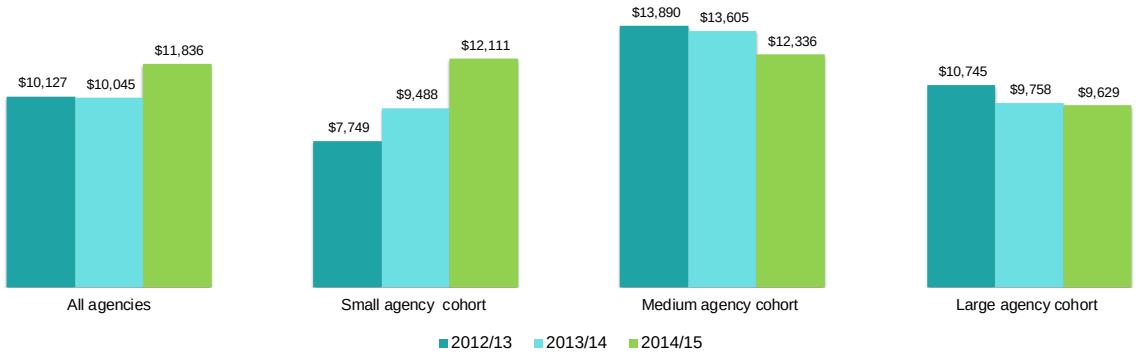
**ICT cost $15,920 per internal end user in 2014/15**

**Figure 12: ICT cost per *internal* end user**




In some instances, others deliver services on behalf of an agency (external users[8]) and, in doing so, use the agency's ICT services and infrastructure. The ICT cost reduces across all cohorts when assessed against total end users (ie internal and external users); most noticeably for the medium cohort which has three agencies with a high number of these external users.

**Figure 13: ICT cost per *total* (internal and external) end user**




[8] External users does not include general members of the public or casual users of an agency's ICT systems (eg taxpayers using Inland Revenue's online services).

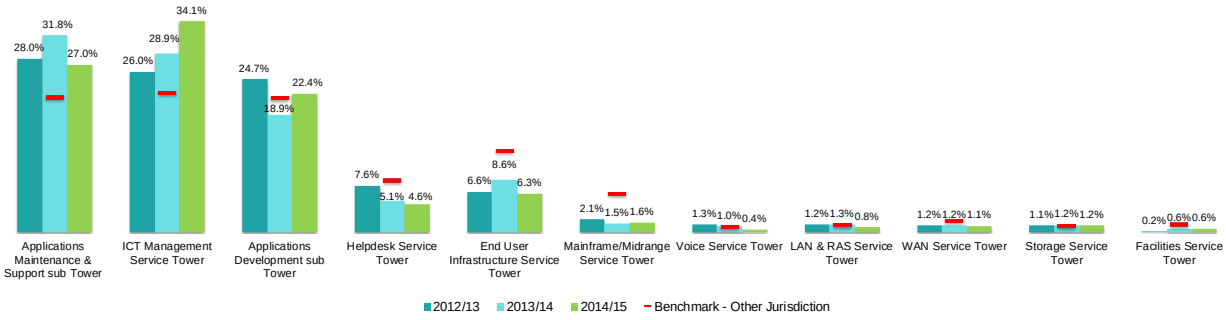
# ICT Personnel

In 2014/15 the percentage of FTEs allocated to the 'Applications Maintenance and Support' sub Tower and 'End User Infrastructure' Service Tower reduced notably, while the percentage increased for 'ICT Management' Service Tower and 'Applications Development' sub Tower.

83.5% of all ICT FTEs are allocated to 'Applications' and 'ICT Management' Service Towers.

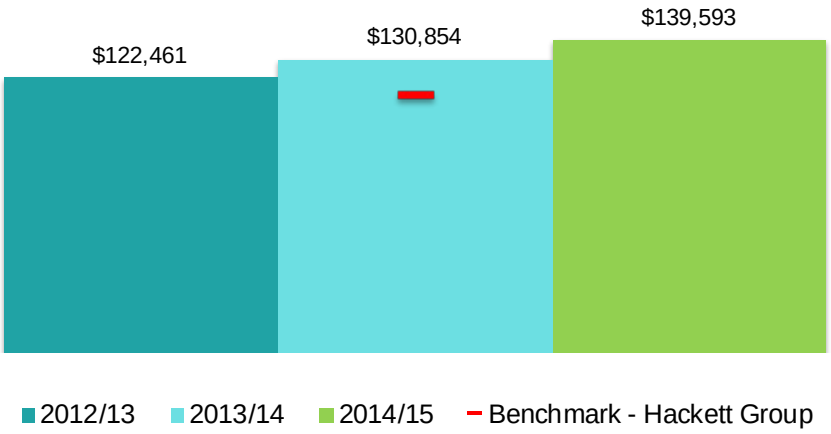
**83.5%** of **ICT FTEs** are allocated to **'Applications' and 'ICT Management' Service Towers**

**Figure 14: Percentage of ICT FTEs by Service Tower**




ICT internal personnel costs have increased by 6.4% in 2013/14 and 6.3% in 2014/15.

**Figure 15: Average fully loaded labour cost**

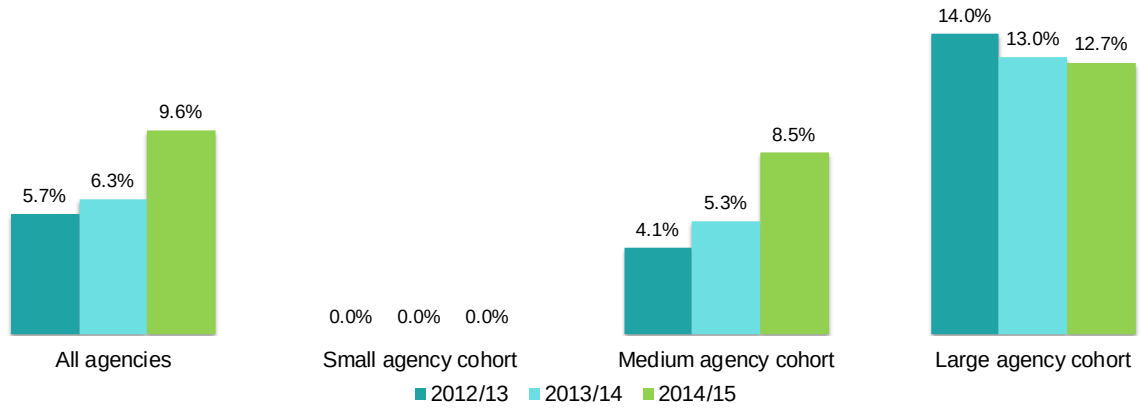


Overall the proportion of personnel costs capitalised increased by 34.4%. The medium cohort has increased by 37.6%, while the large cohort experienced a small decrease.

**9.6%** of **personnel costs** have been **capitalised**

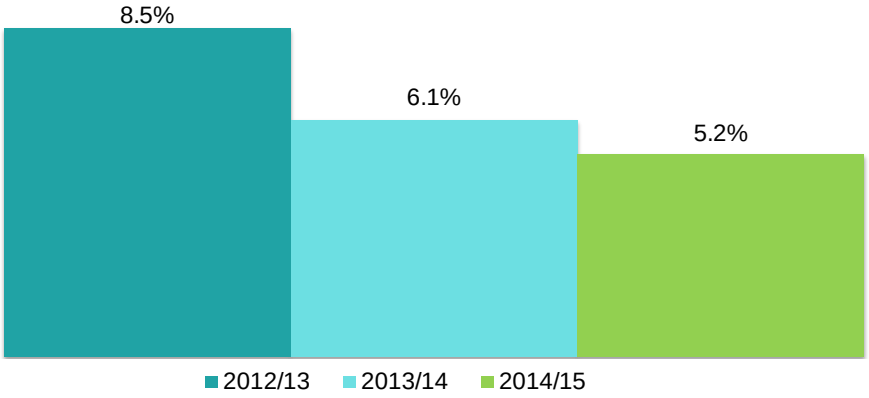
Only three agencies in the small cohort capitalised personnel costs. Their value was not enough to register a value for this cohort.

**Figure 16: Capitalised personnel costs as a % of total overall personnel costs**




The percentage of non-project positions that are occupied by contractors dropped 3% to 5.2% since 2012/13.

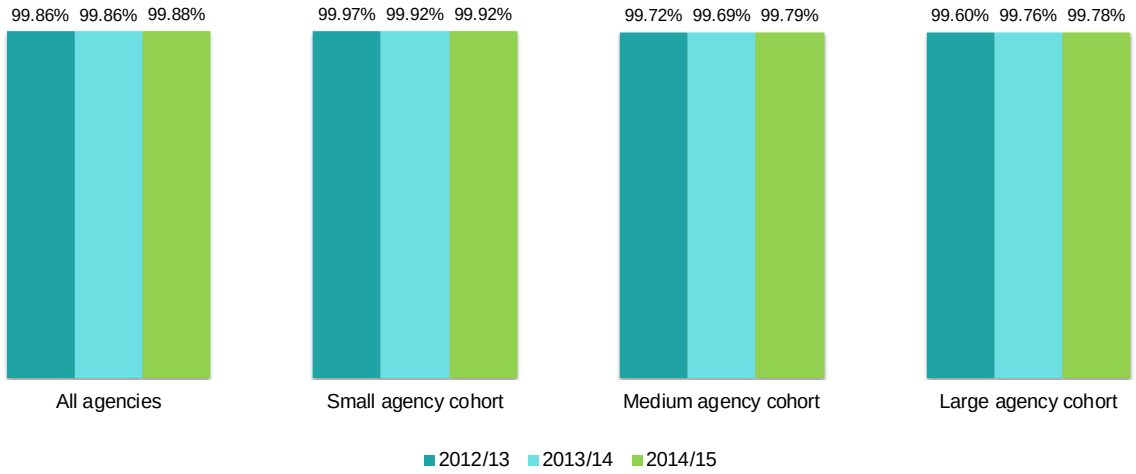
**Figure 17: ICT non-project positions occupied by contractors**



# System Reliability

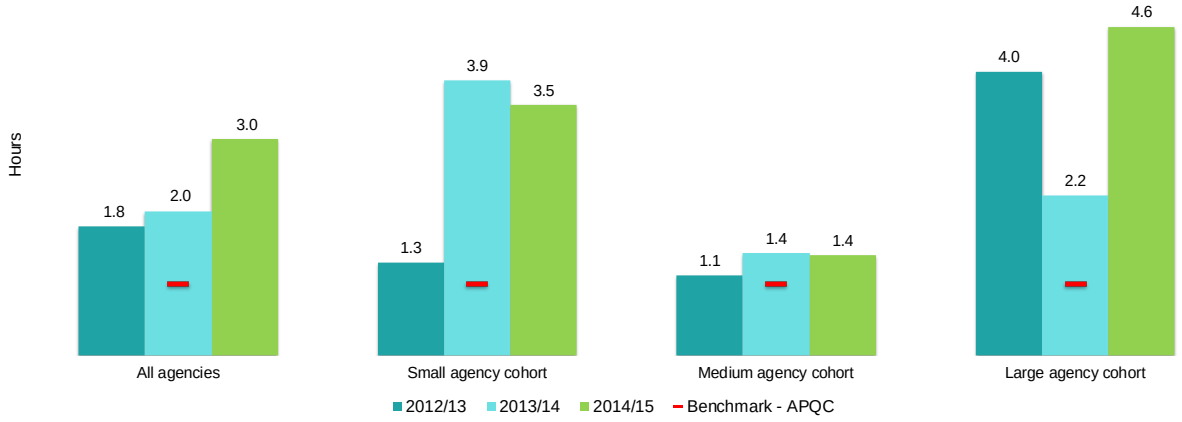
Reliability of ICT systems has been consistently high.

**Figure 18: ICT system reliability**




The overall average time to resolve a service commitment disruption has increased, driven by the average time in the large cohort more than doubling, in 2014/15, to 4.6 hours.

**Figure 19: Average time in hours to resolve a service commitment disruption**

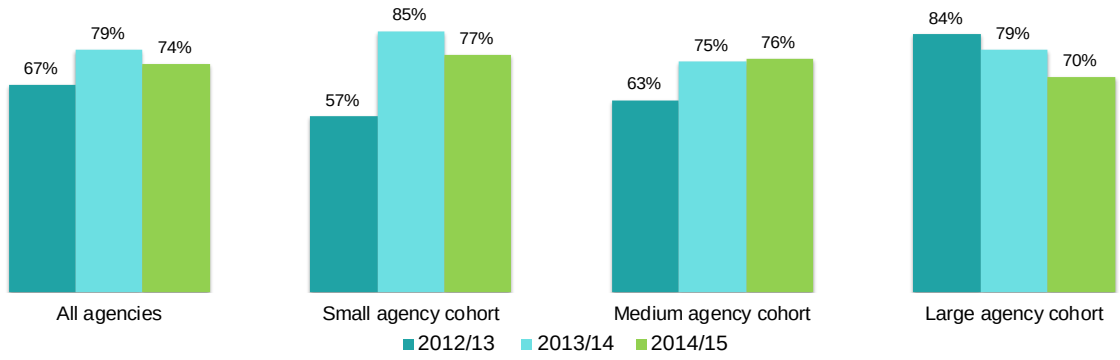


# ICT Capability

ICT capability is measured using the ICT Management Practice Indicator (MPI). This is a self assessment model[9] that allows agencies to assess their maturity in ten set ICT capability areas.

Overall scores have shown a slight decrease. The small and large cohorts have both had notable reductions while the medium cohort has remained static.

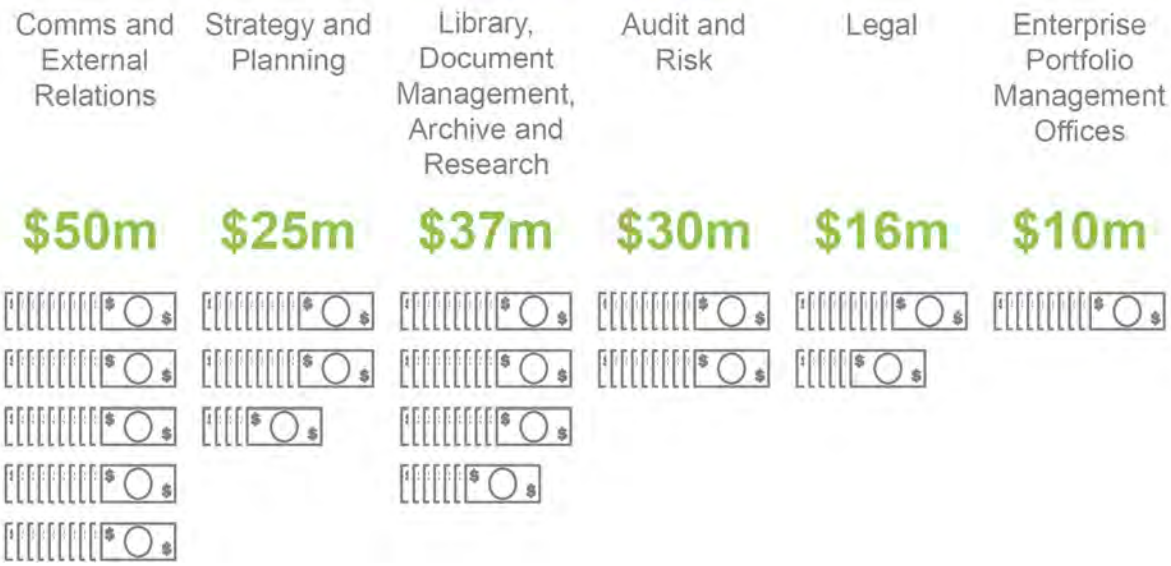
**Figure 20: Overall MPI Scores**



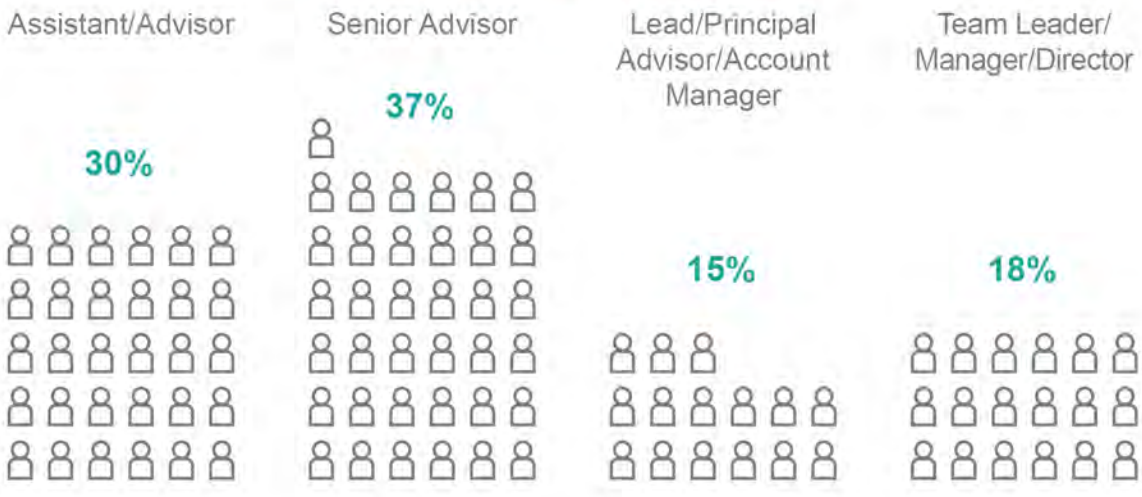

[9] MPI scores are self reported by agencies, and the responses have not been moderated across agencies for consistency.

# Corporate and Executive Services


## Spend per service




## Communications staff at each level



# Commentary – Communications Function

*Sarah Crysell, Director, Communications and Engagement, State Services Commission*

**Understanding and managing the capacity and capability of the communications profession across government is critical if we are to achieve the development, flexibility and agility needed to meet the rapidly changing environment.** However, measuring the effectiveness of communications is a challenging and complex process. The BASS measures play a significant part in growing our understanding of the government based communications profession and its potential for collective impact.

**The experience and skills needed to deliver effective communications and engagement is changing at pace.** The profession is already responding to audience shifts from traditional mainstream media towards self-selected online networks. Having a clear view of where and what capabilities are needed, and being able to develop those skills across the sector will strengthen communications for the whole government system.

**Communications staff across government are increasingly working together to deliver better public services in a more efficient, effective and connected way.** Collaborating and sharing communications expertise across the system will deliver greater efficiency and, ideally, savings by reducing outsourcing and contracting.

With ongoing work being led by the profession in developing a whole of system approach, the BASS results will continue to be important.

# Commentary – Legal Function

*Phillip Griffiths, Director, Government Legal Network, Crown Law*

**The Government Legal Network (GLN) is a collaborative initiative of the legal functions across government agencies to enhance the effectiveness of legal services to the Crown.** The GLN has been in a development phase over the four years up to June 2015. The primary focus of the GLN is to ensure ongoing improvement in the quality of legal advice to departments and the Crown including the early identification of legal risk. While being aware of the need for efficiencies and savings, the focus on quality enhances decision-making and reduces the risk of legal challenge and legal risk, which in turn helps control the cost of legal services. Cabinet endorsement for the permanent establishment of the GLN was granted in June 2015.

**The financial reporting of legal costs in BASS is targeted at legal advice and services, which support the corporate functions of Government agencies – such as finance, HR, ICT, procurement.** As a result, the cost of litigation (including prosecutions, judicial reviews, civil claims), which can fluctuate significantly from year-to-year, is not included unless relevant to those functions. A wider view of legal costs is collated and analysed by the GLN, which does include litigation and other legal advice and services with a more operational or policy focus.

Due to the variances in reporting of financial data it is not possible to draw conclusions as to the trend for the costs of BASS relevant legal services over the last three years to June 2015.

**As to qualitative measures, since 2012/13, when the Capability Maturity Measures were introduced, departments have reported a steady improvement across all the capability indicators for the legal function.** In addition, there continues to be high aspirations to make further improvements.

The strongest positive movements have been in the following categories:

- Alignment of the legal function with agency objectives
- Influence of the legal function at CE and leadership team level
- Monitoring and reporting on performance and legal risk

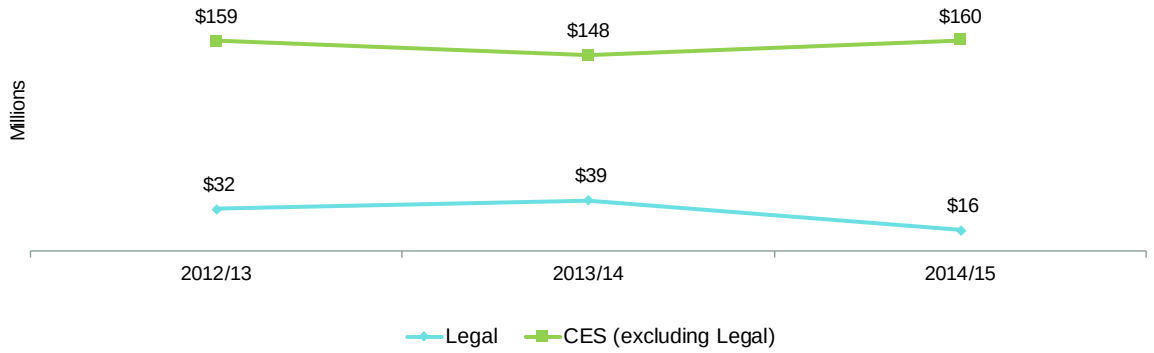
**The actions which drive these improvements are initiated by individual agencies and also on a collective basis across the Network.** Increasingly Chief Legal Advisers are taking account of the broader risk landscape, which their departments are operating in. This more strategic perspective is informed by the participation of departments in: the confidential reporting of legal risks, the establishment of practice groups across critical areas of law and practice, and the introduction of Network wide introduction and professional development courses for government lawyers.

# Overall CES Cost

CES accounted for 10.2% ($176m) of overall A&S cost in 2014/15. Costs (excluding Legal) increased by 8% ($12m) in 2014/15. Due to a definition change for the total cost of the legal function, relevant to support services, the legal costs have been separated from overall CES costs to give a better sense of the underlying trend for CES.

CES services accounted for **10%** of A&S cost in 2014/15

**Figure 21: Total CES cost**

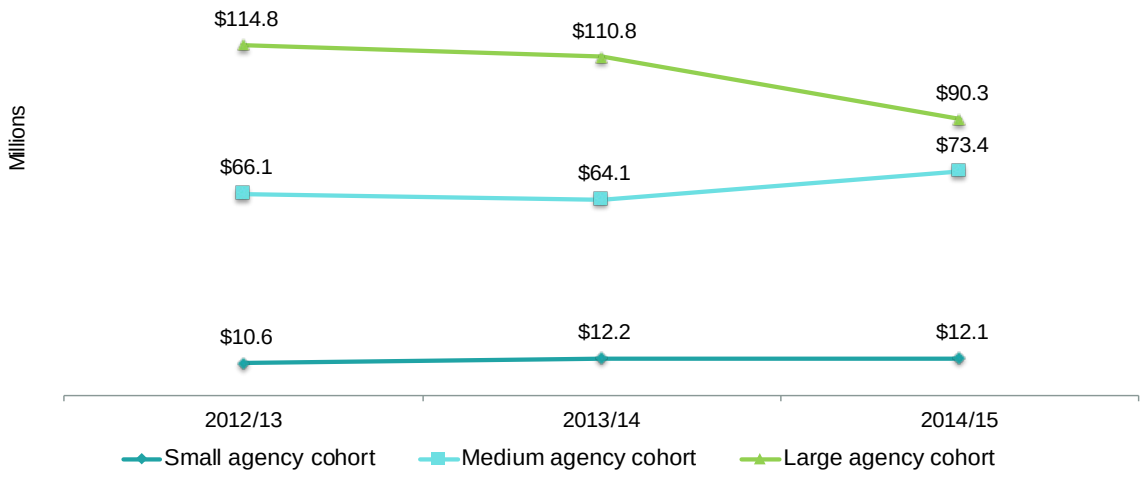



Costs for the large cohort reduced by 3.5% in 2013/14 and a further 18.5% in 2014/15.

The medium cohort saw a 14.5% increase in cost in 2014/15.

**Medium cohort** costs **↑14.5%** in 2014/15

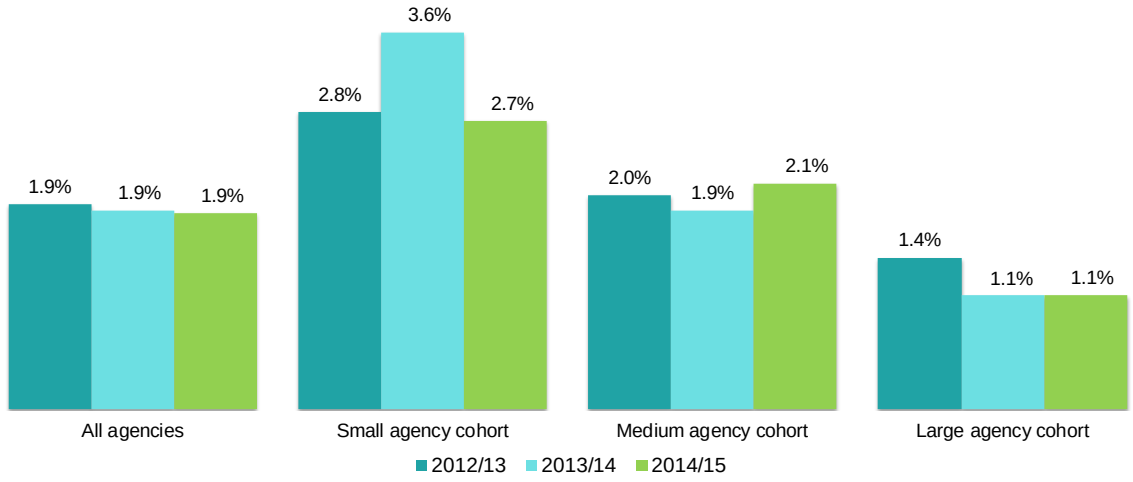
**Figure 22: CES costs by cohort**



In 2014/15 there has been a 25% reduction in the cost of CES as a percentage of Organisation Running Cost (ORC)[10] for the small cohort. This reverses the increase in 2013/14. The median small cohort cost as a percentage of ORC is 59% higher than the large cohort.

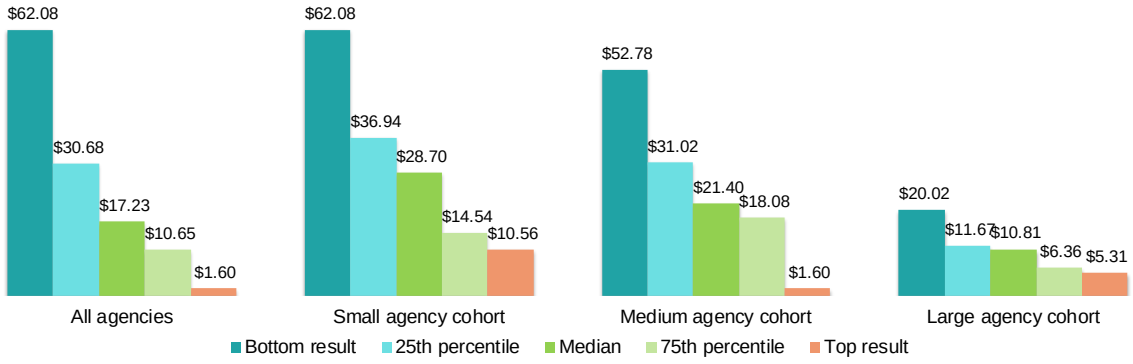
**Small cohort CES cost as a percentage of ORC**
**↓25% in 2014/15**

**Figure 23: CES cost as a percentage of ORC**




There is high variability in the reported efficiency of the CES function for all cohorts. Variability was particularly pronounced for the medium and small cohort.

**Figure 24: Variability in the cost of CES per $1,000 ORC (2014/15)**




[10] Organisational Running Cost (ORC): The revenue of the organisation minus revenue that is passed on to another organisation or individual who then makes the decision on how it is spent. Organisational running costs exclude:

- transfer payments, including benefit payments and other unrequited expenses
- grants made to other organisations, such as community groups
- subsidies paid to third parties
- funding passed on to other Crown organisations to undertake their own operations
- capital expenditure. Depreciation funding should be included and the Capital Charge should be excluded.

Where a third party is contracted by the organisation to provide a service, that cost is included in the organisational running cost for the organisation.

# Cost by Service

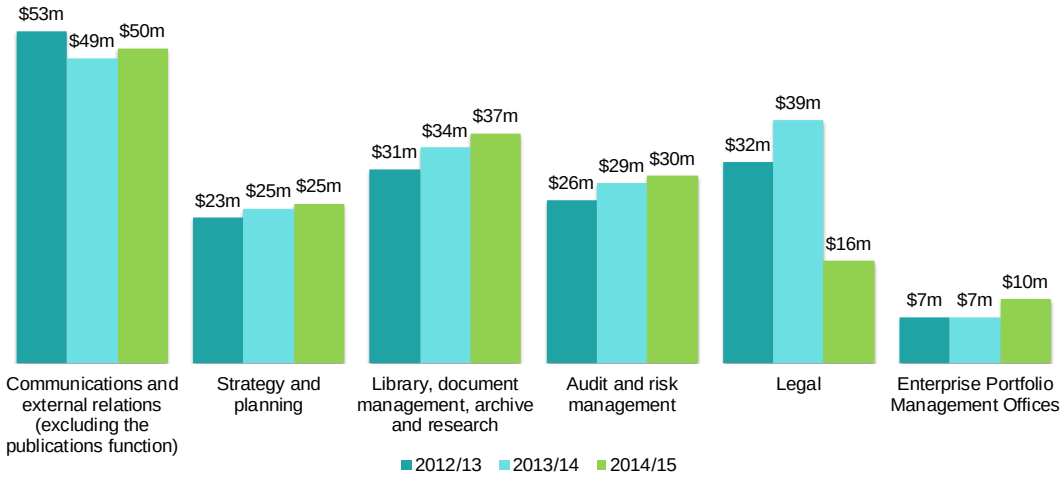
There are seven services measured across the CES function: communications, library and associated services, audit and risk management, legal, strategy and planning, enterprise portfolio management, and other corporate costs.

The definition for the 'Total cost of the "Legal" process' was revised for 2014/15 to ensure better consistency in how it was being applied, and stronger comparability across agencies. Where practicable, prior year costs were restated, but this was not feasible in all cases resulting in overstatement of how much actual costs reduced since 2013/14 in Legal services.

Enterprise Portfolio Management Office costs have increased by 43% in 2014/15. This is due to a number of agencies establishing or expanding their EPMO.

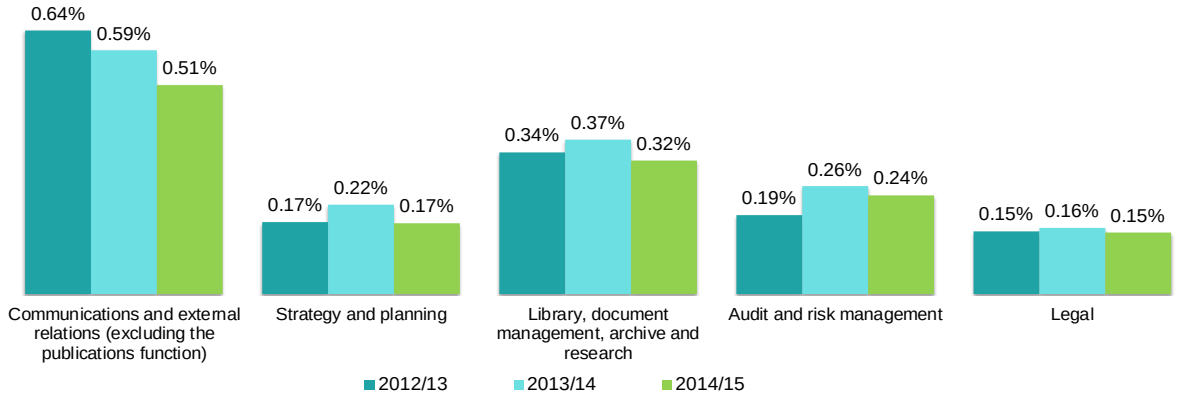
Library and associated services have seen a 19.4% increase in cost since 2012/13.

**Figure 25: Cost by Service**




Although there was an increase in the cost of all processes, other than Legal, there was an overall reduction in the cost of CES processes as a percentage of ORC. This is due to an increase in the overall reported ORC; in other words, CES is supporting a greater level of activity.

**Figure 26: CES cost as a percentage of ORC**



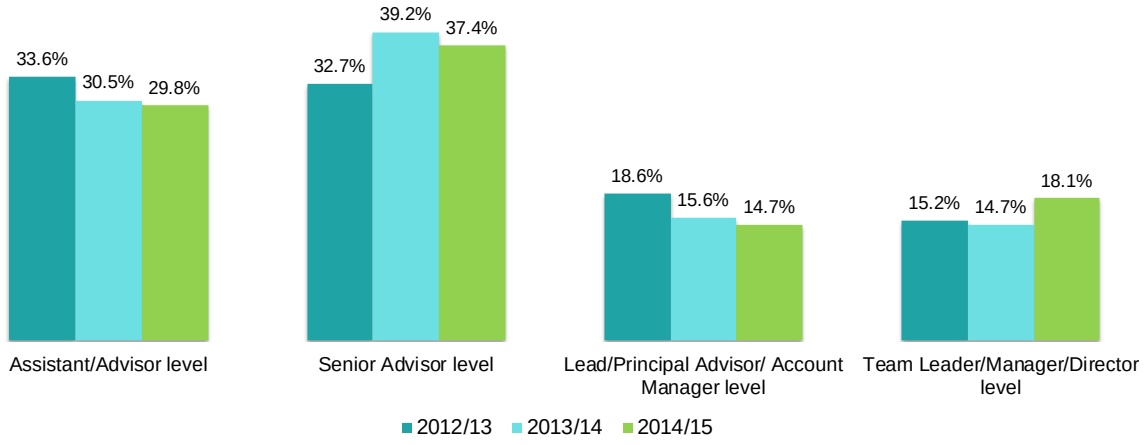
# Communication Service Personnel

Within lead roles ('Team Leader/Manager/Director level' and 'Lead/Principal Advisor/Accounts Manager') there has been a shift towards 'Team Leader/Manager/Director level' roles.

There have been minor shifts in at other job levels.

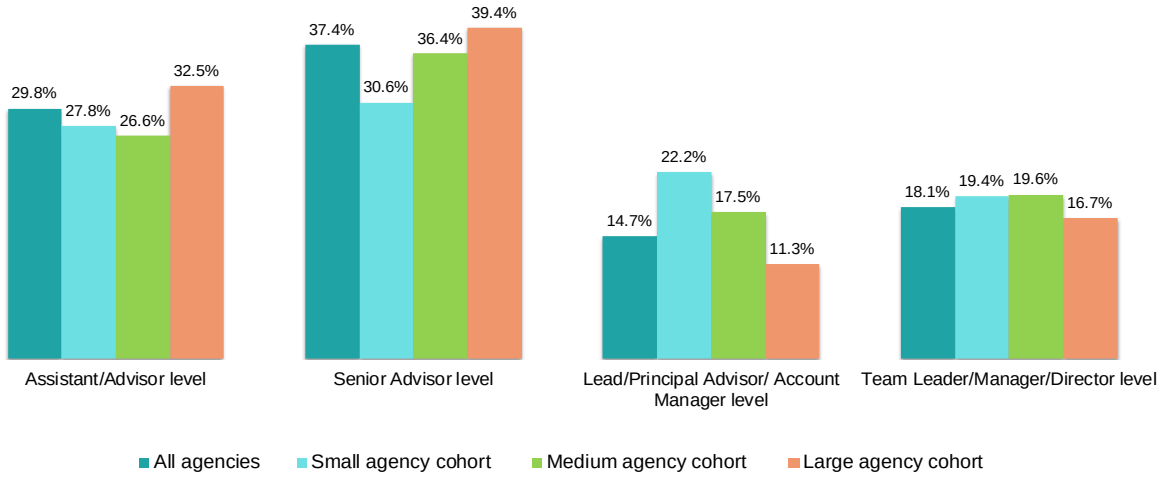
**The number of 'Team Leader/Manager/ Director' level staff ↑23% in 2014/15**

**Figure 27: Distribution of Communication employees by job level**




The large cohort has a greater number of 'Assistant/Advisor' and 'Senior Advisor' level Communication staff than the other cohorts.

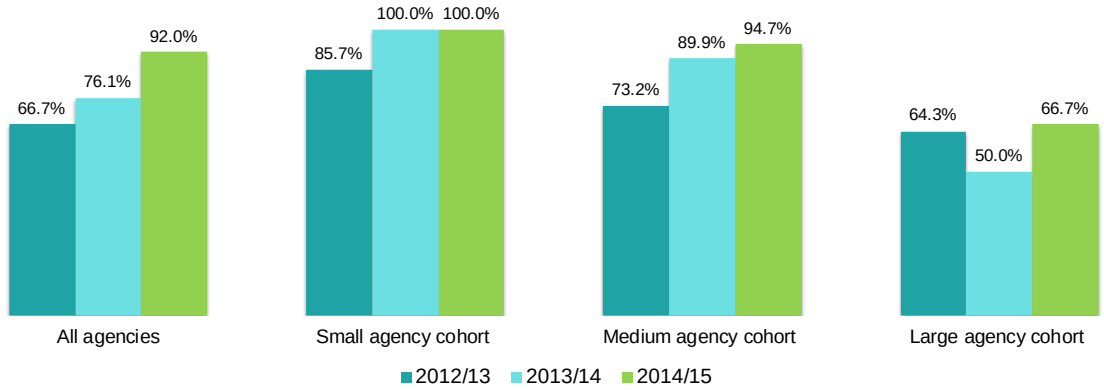
**Figure 28: Distribution of Communication employees at each job level - by cohort (2014/15)**



There has been an increase in the percentage of staff with relevant tertiary and/or industry qualifications across all cohorts.

**92% of Communication staff have a tertiary and/or industry qualification**

**Figure 29: Professionally qualified Communications employees as a % of total Communications employees**



# Communication Service Capability

Communication function capability is measured using the Communication Capability Maturity Model (CMM). This is a self assessment model[11] that allows agencies to assess their maturity across ten indicators of maturity.

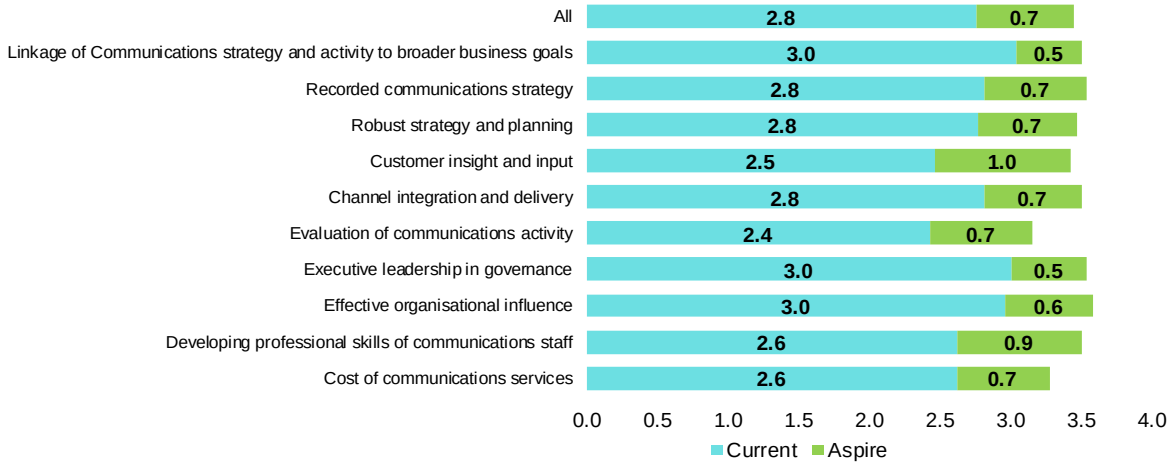
Despite consistently reporting a desire to increase the functions capability, results have shown only a slight increase in current capability since 2012/13.

**Figure 30: Overall Capability Maturity Model Scores – Communications Service**


[11] CMM scores are self reported by agencies, and the responses have not been moderated across agencies for consistency.

Overall agencies reported ‘Linkage of strategy and activity to broader business goals’ and ‘Executive leadership and governance’ as the strongest Communications capability, followed by ‘Developing professional skills of communications staff’.

**Figure 31: 2014/15 Communications Capability Scores**




The capabilities with the highest priority for improvement across all agencies are:

- ‘Linkage of communications strategy and activity to broader business goals’
- ‘Channel integration and delivery’
- ‘Effective organisational influence’

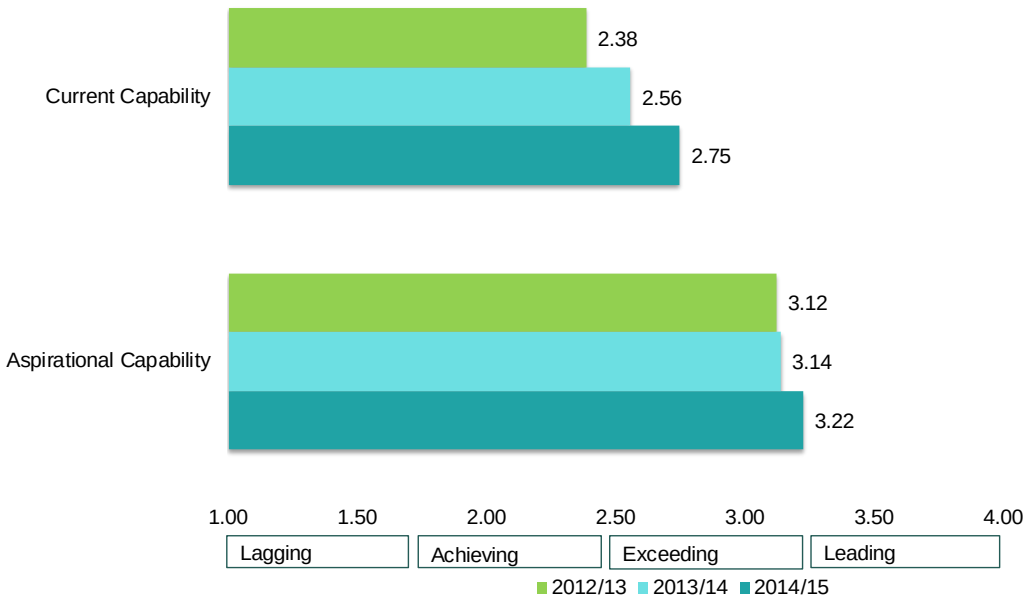
**Figure 32: Number of agencies that rated each capability as a ‘High’ priority for improvement**

# Legal Service Capability

Performance of agencies' legal functions relevant to corporate support services is assessed using the Legal Capability Maturity Model (CMM). This is a self-assessment model[12] that allows agencies to rate their capability across ten indicators of maturity.

Since 2012/13 the Legal functions' reported capability has steadily improved and is progressing towards its desired capability level.

**Figure 33: Overall Capability Maturity Model Scores - Legal**

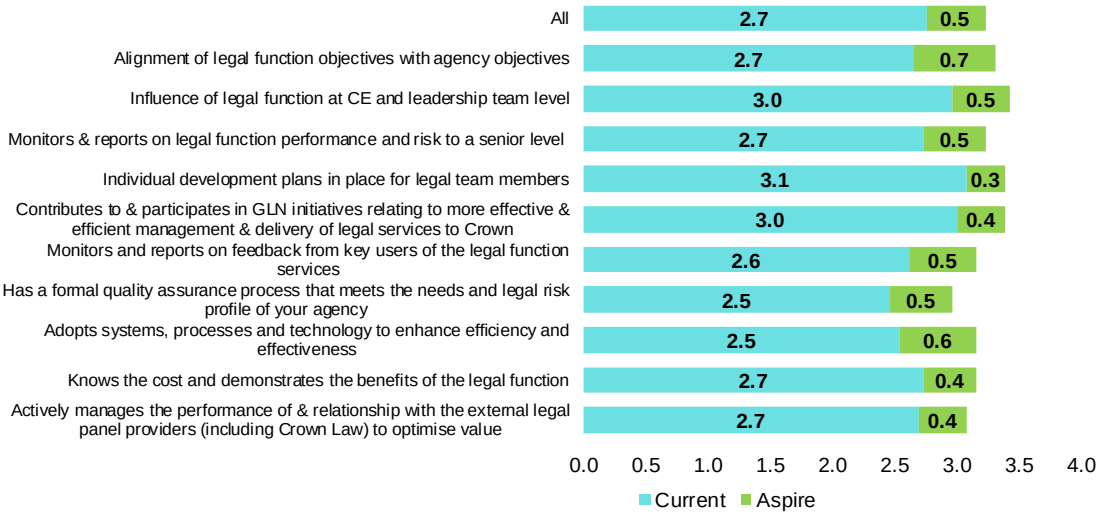



Collectively the three strongest reported areas of capability in 2014/15 relate to:

- Having a formal quality assurance process and a legal risk profile
- Monitoring and reporting on feedback from key users
- Knowing the cost and demonstrating the benefit of the legal function

[12] CMM scores are self reported by agencies, and the responses have not been moderated across agencies for consistency.

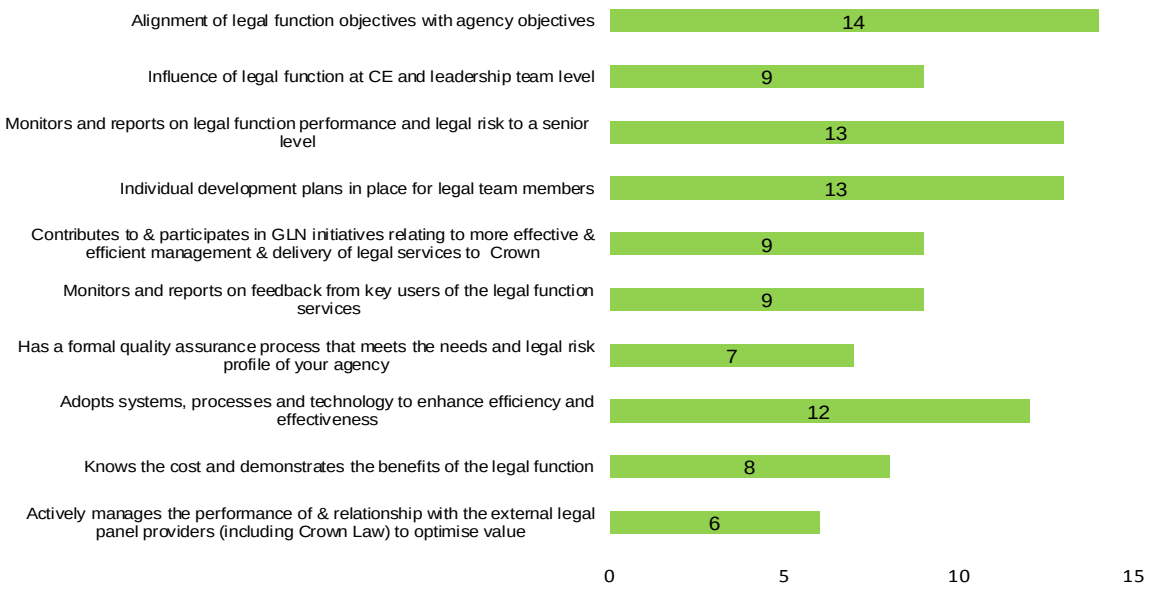
## Figure 34: 2014/15 Legal Capability Scores




The capabilities with the highest priority for ongoing improvement across all agencies are:

- 'Alignment of legal function objectives with agency objectives'
- 'Monitors and reports on legal function performance and legal risk to a senior level'
- 'Individual development plans in place for legal team members', and
- 'Adopts systems, processes and technology to enhance efficiency and effectiveness'

## Figure 35: Number of agencies that rated each capability as a 'High' priority for improvement



# Human Resources

For further information on the HR Function please refer to:

- http://www.ssc.govt.nz/hrc-survey-2015


Cost of HR per employee

**$3,033**

**69.5%**

of new hires in same role after 12 months

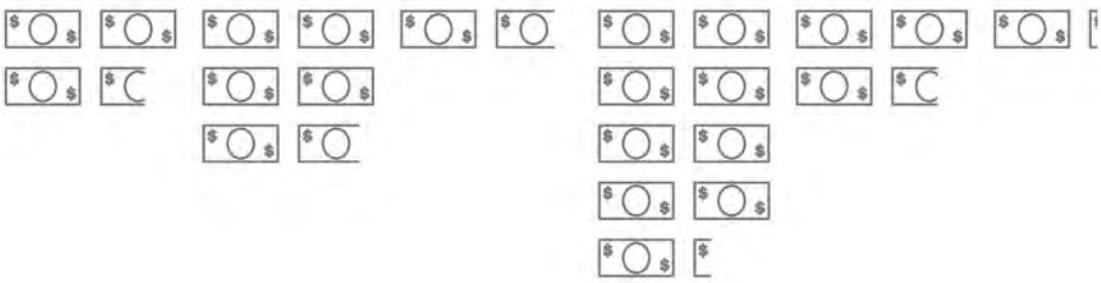
Organisation Employees

HR FTE

**66 : 1**

## Process Cost Per Employee

| Planning, Policies and Strategies | Recruit, Source and Select Employees | Reward and Retain Employees | Develop and Counsel Employees | Manage Employee Information | Redeploy and Retire Employees |
|---|---|---|---|---|---|
| **$359** | **$581** | **$178** | **$923** | **$361** | **$111** |



# Head of Profession Commentary

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

**Internationally New Zealand has a reputation as a high performing (enviable) State Service.** Our public management system is renowned for its integrity and excellent vertical accountability lines and our senior leaders have traditionally run a tight ship within their agencies. What is also known (and the Better Public Services expert advisory panel in its 2011 report backs this up) is that the system has yet to achieve this level of proficiency in supporting *horizontal* working. This means working across agency boundaries – resolving issues and thinking of new solutions and services collectively, no matter where problems appear to lie.

**Central to achieving different ways of working is the State Service ability to attract, develop, retain and reflect a workforce that looks like the diverse population of New Zealand.** Services must be designed and delivered by people who, regardless of their personal background, can engage with and respond to our many different communities. Ensuring attraction and retention of the people needed to deliver high quality public services has to be carefully balanced against making sure there is good value for the taxpayer. Costs only represent part of the value for money equation though, performance and results are just as important. Workforce development plans are key components of the Four Year Plans that take a future (people) focus. Leadership and talent is a priority for all chief executives and senior leaders.

**Human Resources plays a critical role in shaping the State Services. But this is also a function which requires repositioning.** The role of Human Resources as a strategic partner, who can draw from a broad range of information sources to inform and challenge current and future workforce drivers and demands, requires a repositioning of the profession. Transactional HR activities continue to consume far too much time and takes away from strategic value-adding work. The ability to attract and retain a profession with the capability, capacity and credibility to serve and support the business remains a challenge. Barriers aside, a key focus of the Government Chief Talent Officer is to lead this work and embed capability as strategic enabler.

**BASS results continue to show that our HR services are not particularly efficient or effective by international standards.** While our costs remain consistent with previous years, any transformation efforts of HR delivery models in the last 12 months have failed to deliver bottom line changes or service value. HR processes remain cumbersome and are characterised by low levels of automation. Recent investments in Common Capability are expected to streamline and automate HR practice, but the timeframe for all-of-government adoption is unknown. Opportunities exist for leveraging best practice in the areas of workforce development, leadership, talent and engagement and this is lifting maturity in these key disciplines.

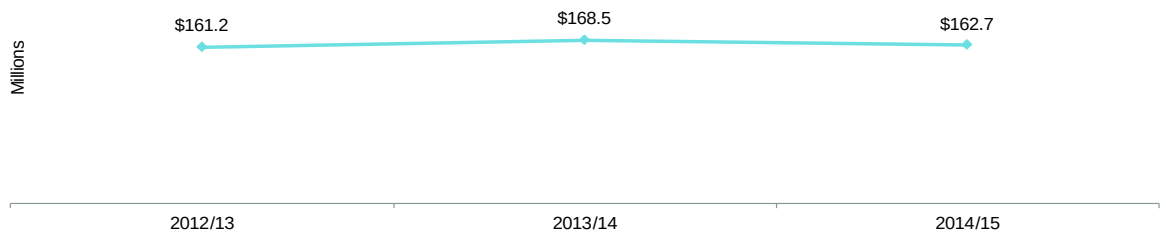
**Addressing the PEOPLE challenge requires a partnership.** HR can provide the internal architecture, information and insights as a partnership with chief executives, senior leaders and all people managers. Investment aside, taking the necessary time to build relationships and understand the particular needs of different areas of the business, sector and State Services system enables different conversations and solutions to be envisioned.

# Overall HR Cost

HR services accounted for 9.5% ($163m) of overall A&S cost in 2014/15, and have remained relatively consistent, with the 4.5% increase seen in 2013/14 largely reversed in 2014/15.

**HR accounts for 9.5% of A&S cost**

**Figure 36: Total HR costs**

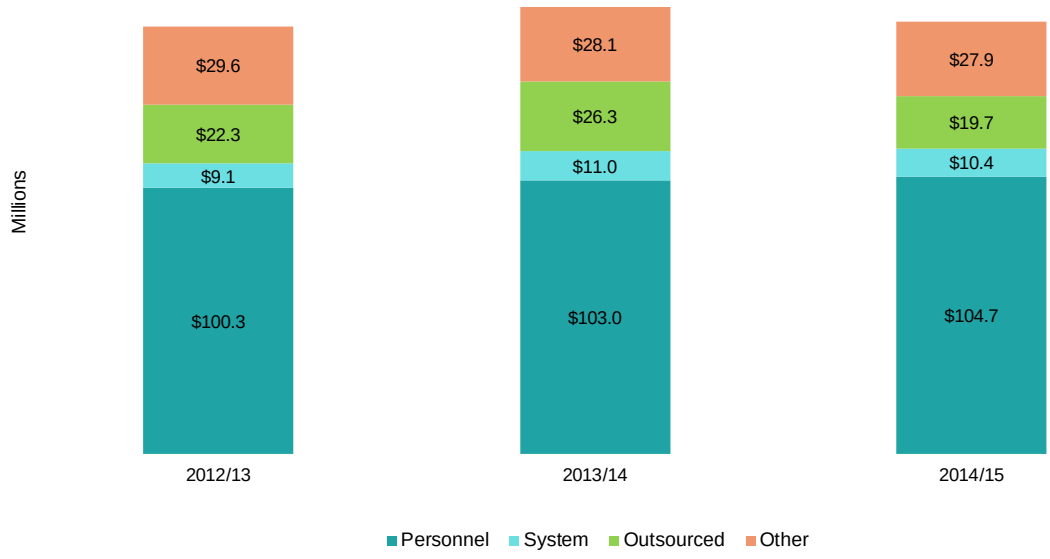



Changes in 'Outsourced' costs were the main driver of the fluctuation in total HR costs. The 2013/14 increase of 18% ($4m) in 'Outsourced' costs was followed in 2014/15 by a 25% ($6.6m) reduction.

'Personnel' costs account for 64% of HR cost in 2014/15.

**'Personnel' costs account for 64% of HR cost in 2014/15**

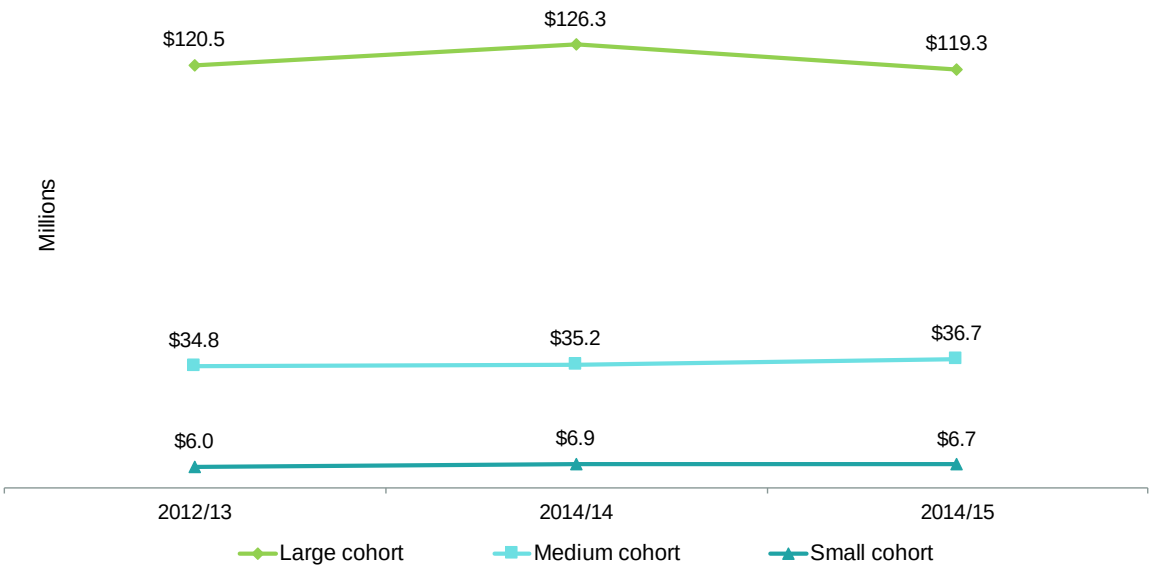
**Figure 37: HR cost elements**



When looking at cost by cohort, the fluctuation overtime was in the large cohort, while costs remained relatively static within the small and medium cohorts.

**Large and medium cohorts account for 95% of HR cost**

**Figure 38: HR costs by cohort**

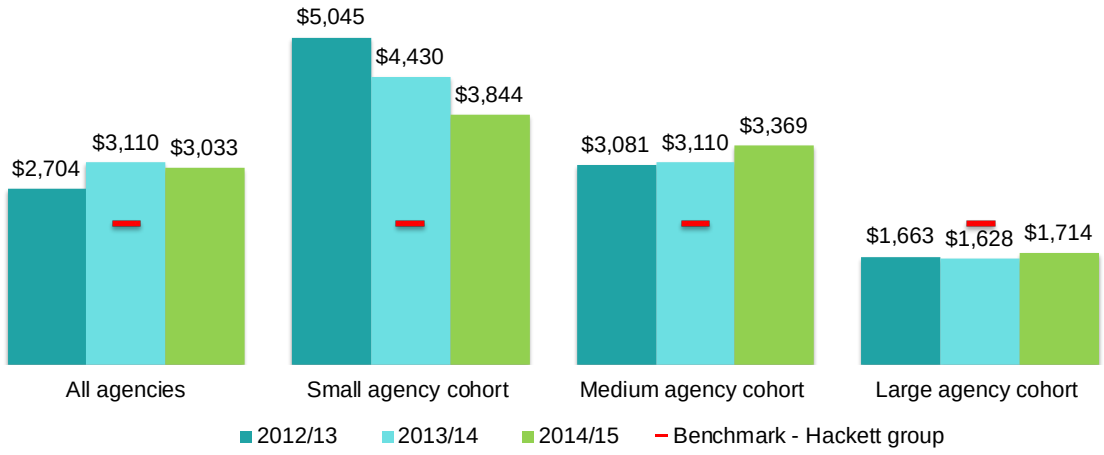


# Cost Per Employee

The small cohort has seen a continued reduction, 23% since 2012/13, in the cost of delivering HR services per employee. This is still above the benchmark, which is not unexpected as smaller agencies cannot easily leverage the economies of scale available to larger agencies.

**Cost of HR per employee ↓23% for the Small cohort**

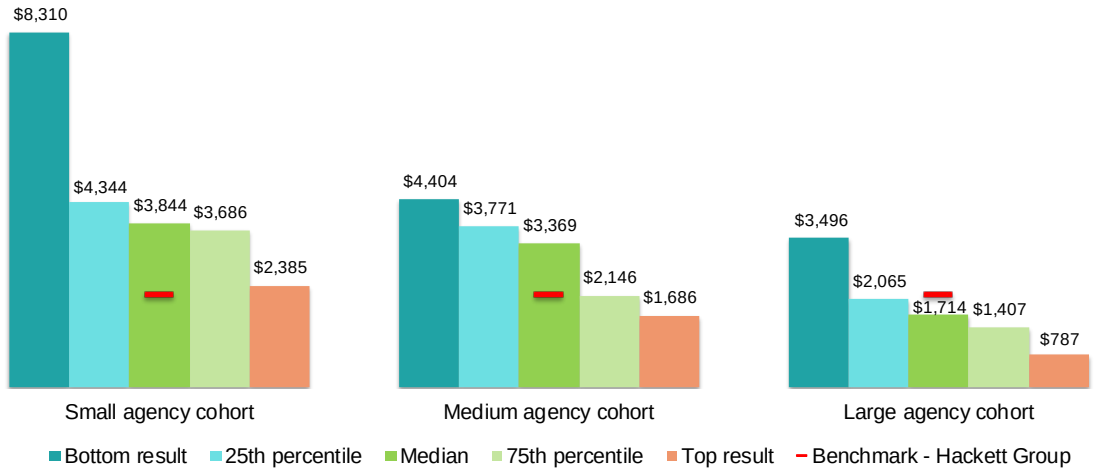
**Figure 39: Cost of HR per employee**




Within cohorts there is a high degree of variation in the cost of delivering HR services per employee. This would indicate that there are opportunities for agencies within each cohort to increase efficiency.

**The lowest cost on HR per employee was $787 and the highest was $8,310**

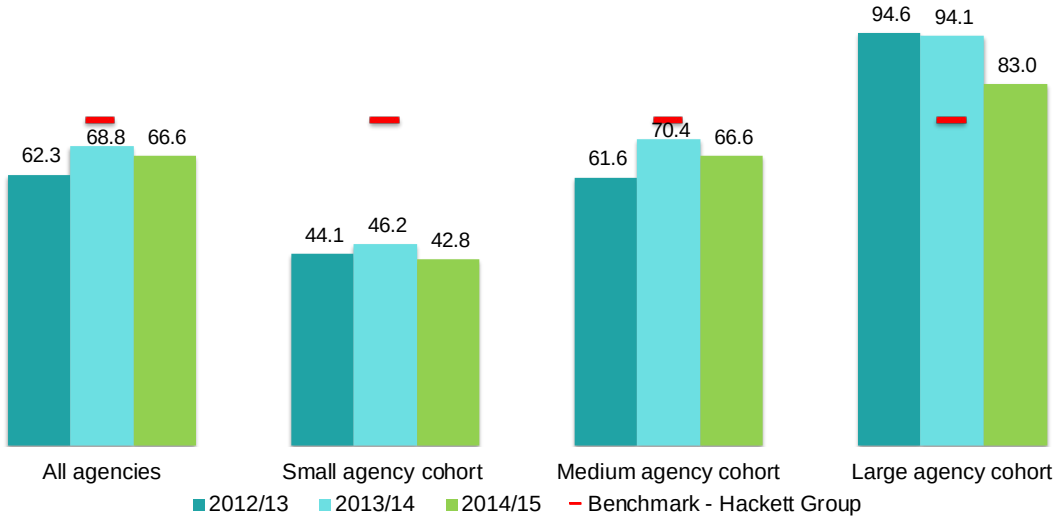
**Figure 40: Variability in agencies cost of HR per employee**



A higher ratio of organisational employees to HR FTE is viewed as an indicator of efficiency. There has been a reduction (11.8%) in efficiency across all cohorts in the past year, notably in the large cohort.

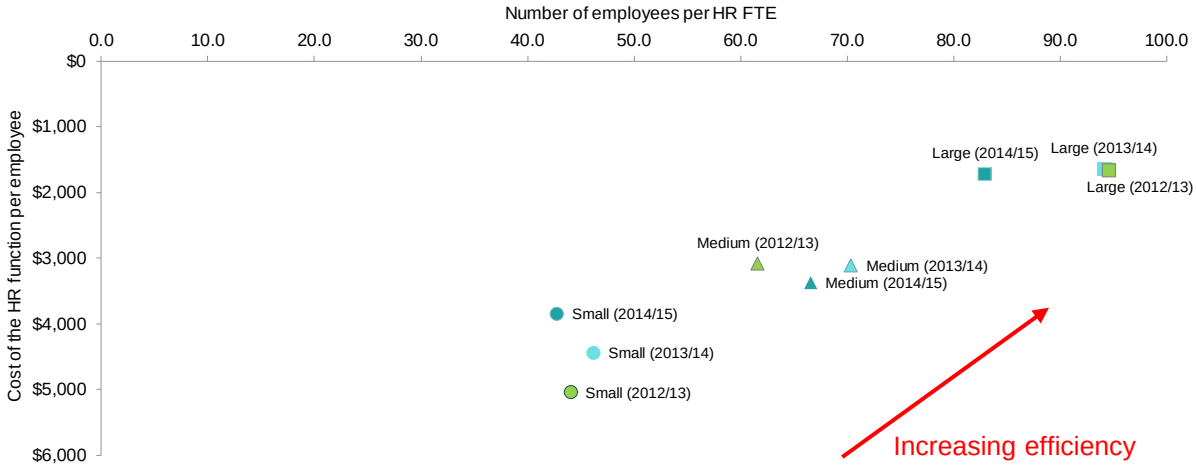
**67** organisation employees per HR FTE

**Figure 41: Number of employees per HR FTE**




Across all cohorts there is no clear indication that there has been an increase in efficiency for the HR function.

**Figure 42: HR function efficiency**



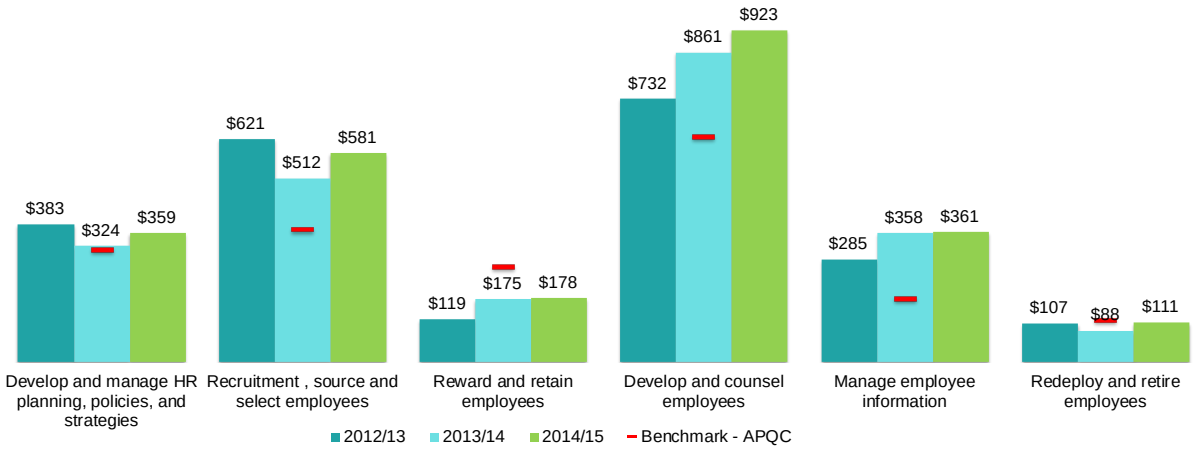
# HR Processes

Analysing efficiency by process shows that the efficiency deteriorated across all processes in the past year, albeit only marginally for 'Reward and retain employees' and 'Manage employee information'.

**↑26% in cost to the 'Develop and counsel employees' since 2012/13**

There has been a 26% increase in the cost per employee in the 'Develop and counsel employees' process since 2013/14. The median cost per employee is below the international benchmark in just two process areas, 'Reward and retain employees' and 'Redeploy and retire employees'.

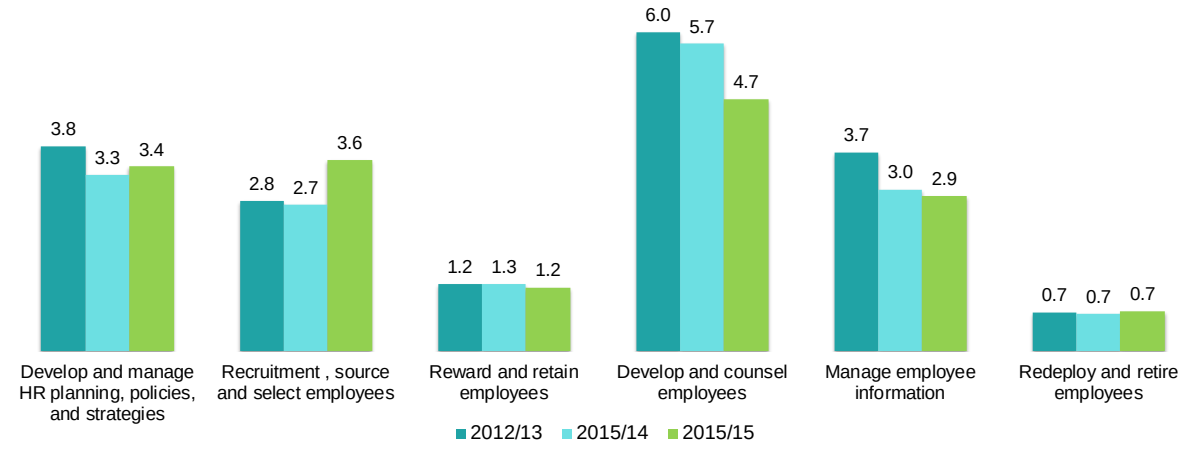
**Figure 43: Cost of HR processes per employee**




Although more is being spent on the 'Develop and counsel employees' process, there has been a reduction in the median number of staff working within this process within agencies.

**↓21.7% in the number of staff assigned to 'Develop and counsel employees'**

**Figure 44: HR FTE per Process**

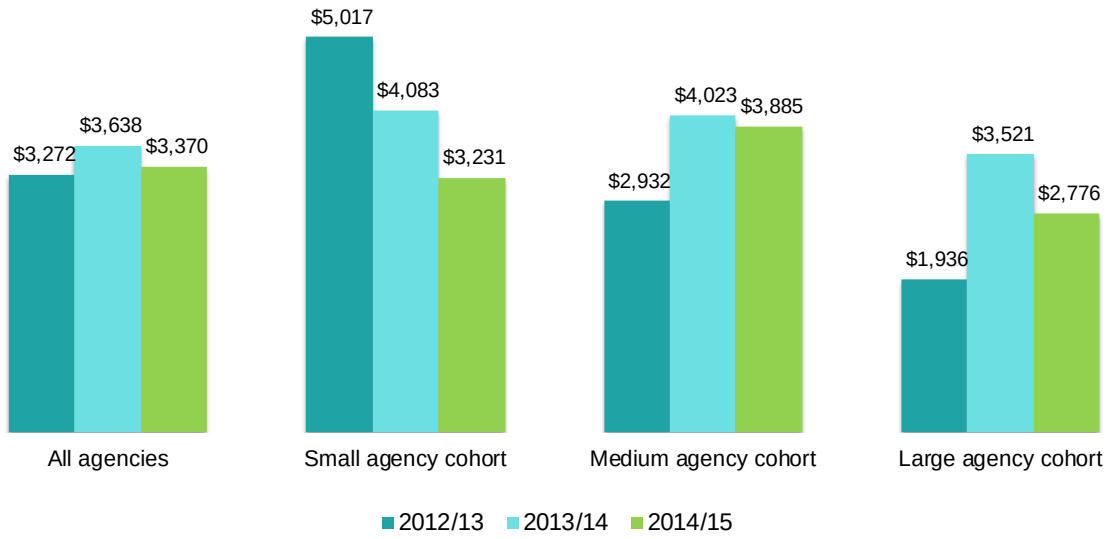


# Recruitment

Recruitment costs within the small agency cohort reduced by 35.6% since 2012/13. Costs in the large cohort reduced (21%) since 2013/14, but are yet to return to 2012/13 levels.

**↓35.6% in recruitment cost for the Small agency cohort**

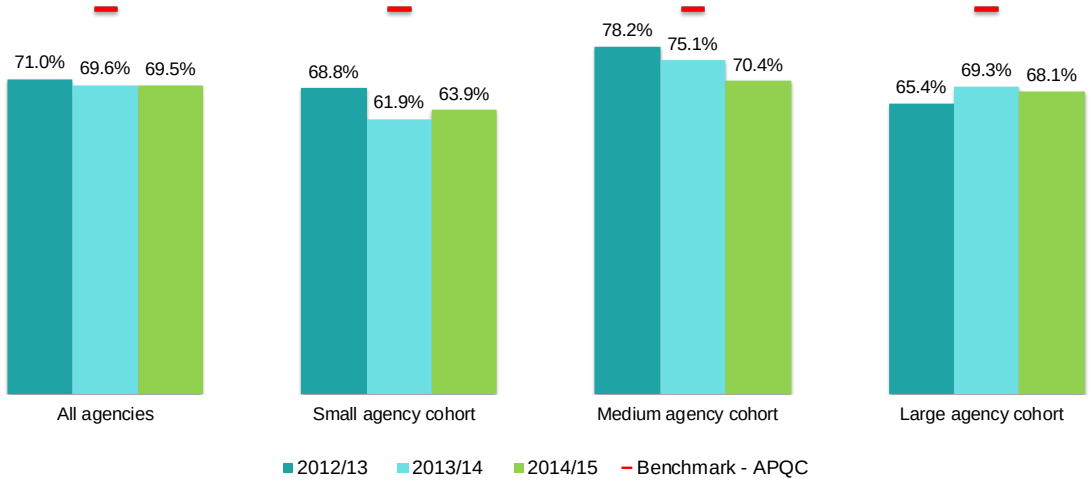
**Figure 45: Cost of recruitment per recruit**




All cohorts remain consistently below the international benchmark for the percentage of new hires still in the role after 12 months, with the medium cohort performance continuing to deteriorate.

**69.5% of new hires in the same role after 12 months**

**Figure 46: Percentage of new hires still in the role after 12 months**

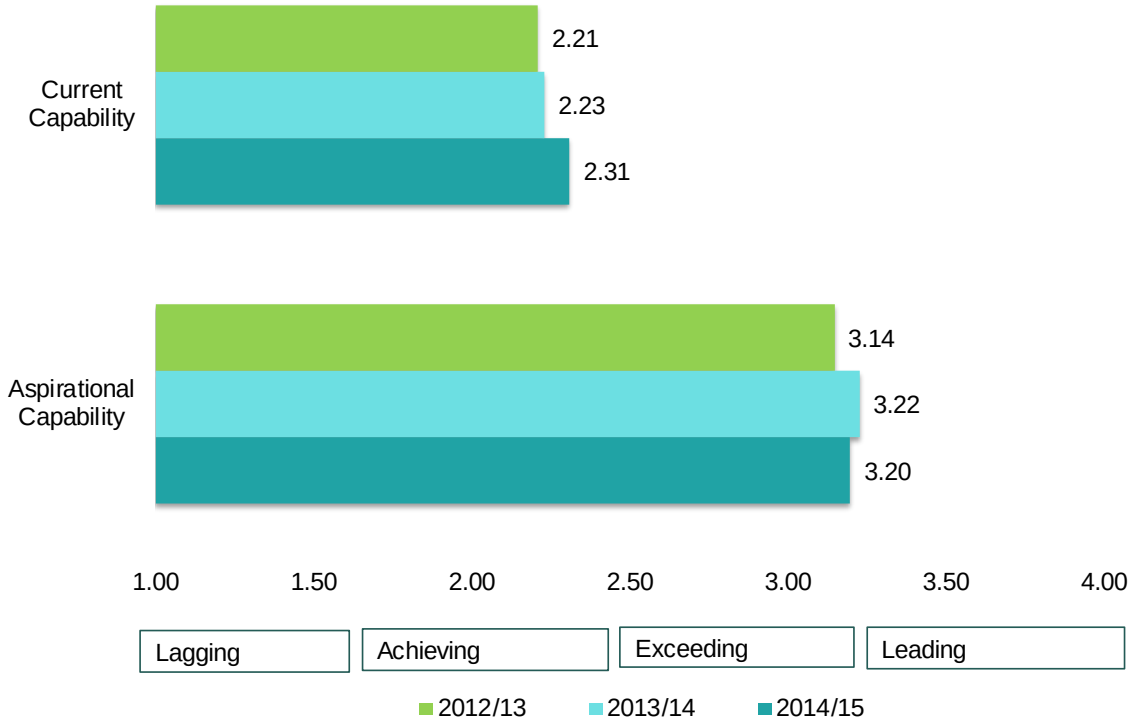


# HR Capability

HR Capability is measured using the HR Capability Maturity Model (CMM). This is a self assessment model[13] that allows agencies to assess their maturity across ten indicators of maturity.

There has been a slight increase in overall reported maturity across the HR Function since 2012/13.

**Figure 47: Capability Maturity Model Scores**




[13] CMM scores are self reported by agencies, and the responses have not been moderated across agencies for consistency.

‘Strategic workforce planning (SWP) data and capability’ is currently the lowest scored HR capability and has the greatest gap between current and future capability.

**Figure 48: 2014/15 Capability Maturity Model Scores**


The capabilities with the highest priority for improvement across all agencies are:

- ‘Developing people skills of managers’
- ‘Staff engagement’

**Figure 49: Number of agencies with priority of 'High' per question**

# Finance


Strategic Financial Management

**10.3%**

of costs

Personnel costs account for

**67%**

of Finance cost

## Per $1000 of Organisational Running Cost, Finance Processes cost:

| Planning and Management Accounting | Revenue Accounting | General Accounting and Reporting | Fixed Asset Project Accounting | Process Payroll | Accounts Payable and Expense Re-imbursements |
|---|---|---|---|---|---|
| **$3.09** | **$0.20** | **$2.32** | **$0.41** | **$1.22** | **$1.08** |

# Head of Profession Commentary

*Paul Helm, Chief Government Accountant, The Treasury*

**Strategic Financial Management represents a way of operating that integrates core finance practices with strategy, planning and performance to ensure value is maximised across the public sector.** This requires finance functions within agencies to partner with business and sector leaders and work collaboratively across the public sector to ensure that decisions maximise value for money and outcomes for New Zealanders. Decision makers should be informed, empowered and motivated to innovate, to improve performance and to reduce costs. Effective strategic financial management is critical to this.

**The Office of the Government Accountant (OGA) was established in late 2014 to lift the strategic capability of the finance function.** To date the focus has been on laying the foundations for the transformation. A shared vision for the future finance function is being developed alongside government Chief Financial Officers (CFO's) and Chief Executives, designed to promote strategic financial management and drive the way finance functions will operate and perform now and into the future. A work programme is underway which will support agencies to lift their talent capability, improve their performance, create opportunities to invest smarter, leverage technology and streamline processes. While good progress is being made, there is still significant work ahead to achieve these goals.

**The BASS results, alongside other key performance indicators such as the Performance Improvement Framework (PIF) and four Year Plans provide agencies with powerful tools to assess their performance and identify opportunities for improvement.** The OGA is working closely with other Functional Leads and Heads of Profession to ensure that agencies understand their organisational performance and have actions plans in place to drive improvements. We plan to provide platforms to generate opportunities that enable agencies to share, leverage good practice, and work collaboratively.

**The benchmarking results for the finance function provide a mechanism for agency CFOs to work with the OGA to dig deeper and investigate areas they can improve.** This year's BASS results show that while the cost of some finance processes are aligned with benchmarks, there are still significant lags and room for improvement. The areas which have been highlighted as a priority for further investigation and focus are mainly transactional processes such as planning and management accounting, general accounting and reporting, and processing payroll. A further indicator that too much effort is focused on transactional activities is the cost of strategic finance metric. The 14/15 result shows that only 10% of effort is currently focused on strategic finance.

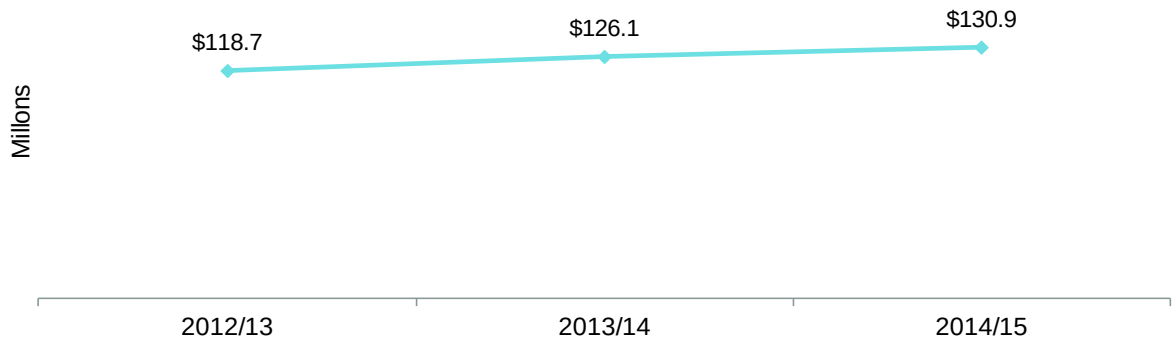
**However, the CMM scores indicate the Finance function has a strong desire to improve capability with strategic finance activities having the highest level of aspiration.** This is a positive sign, agencies have a strong aspiration to increase their capability in proactive forward looking reporting and analysis' and ensuring budget processes are linked to strategic or business planning. The OGA will work with agencies to identify how they reduce the effort spent on transactional processes and improve their capability to ensure the finance function is adding value to their organisation. For example using technology and looking for ways to simplify processes which will enable finance professionals within the organisation to focus on analysis, strategic planning and partnering with the business to provide senior decision makers with sound holistic advice.

# Overall Finance Cost

Finance services account for 7.6% ($131m) of overall A&S cost and have increased by 10% ($12.2m) since 2012/13.

**Finance account for 7.6% of A&S cost and have increased by 10% since 2012/13**

**Figure 50: Total Finance cost**



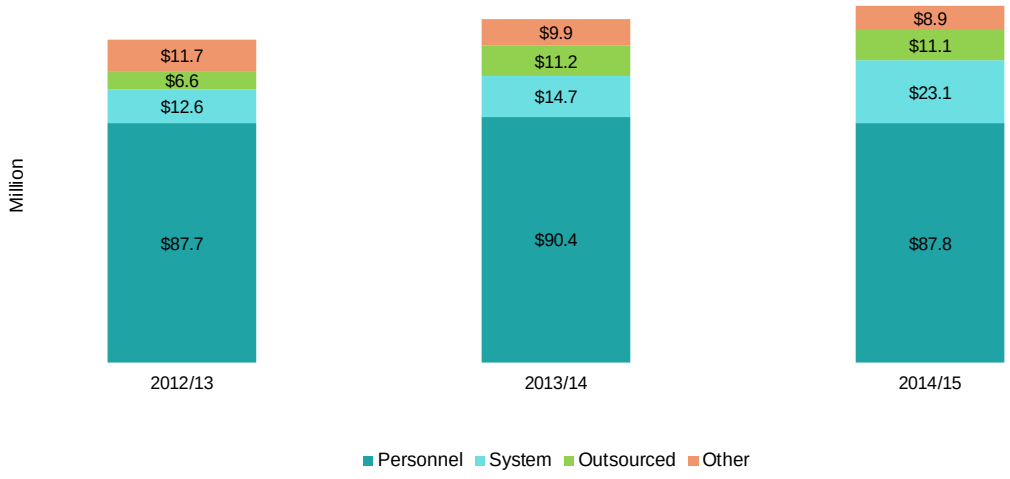

‘Outsourced’ costs increased by 70% in 2013/14, but saw no further increase in 2014/15.

The 57% increase in ‘System’ costs in 2014/15 was due in part to a number of agencies upgrading their financial management systems.

‘Personnel’ cost account for 67% of Finance cost in 2014/15.

**‘Personnel’ costs accounted for 67% of Finance cost in 2014/15**

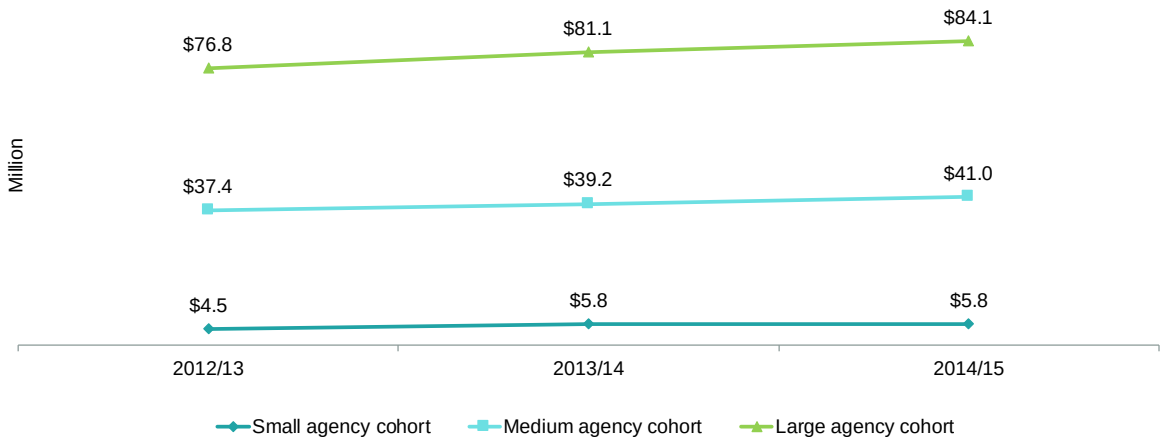
**Figure 51: Finance cost elements**



89% of the increase in Finance cost since 2012/13 is attributed to cost increases in the medium and large cohorts.

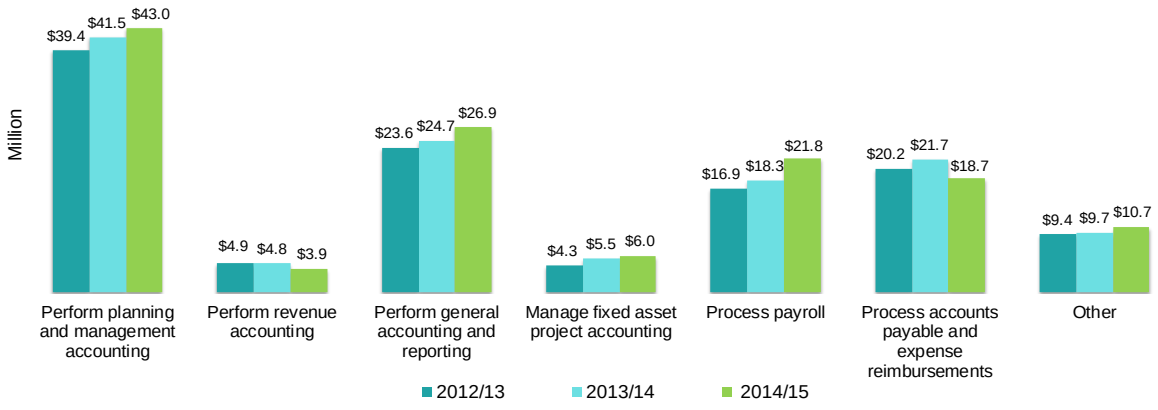
**Large and medium account for 96% of Finance cost**

**Figure 52: Finance costs by Cohort**




Across all agencies 33% of Finance cost is attributed to 'Perform planning and management accounting'. Only 'Perform revenue accounting' and 'Process accounts payable and expense reimbursements' processes costs have reduced since 2012/13.

**Figure 53: Overall cost by Finance process**



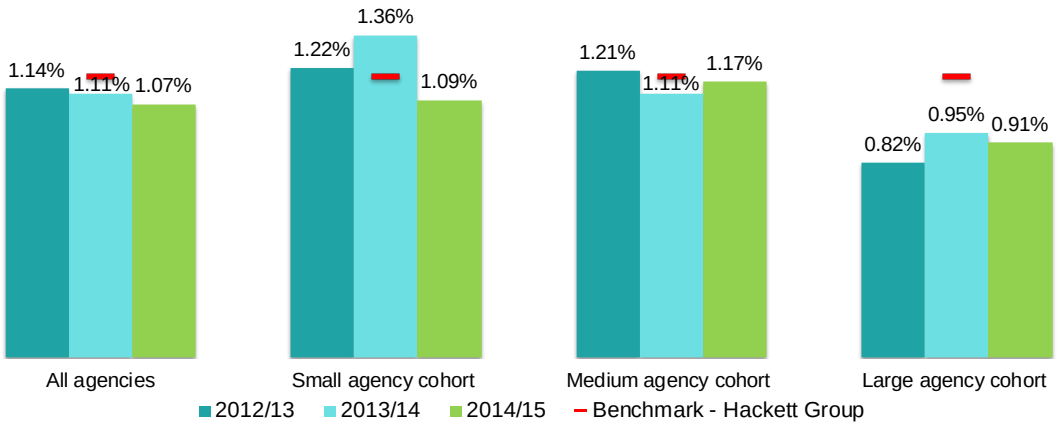
# Cost of Finance

The median cost of finance as a percentage of ORC[14] for all cohorts was below the international benchmark in 2014/15.

The small agency cohort dropped below the benchmark for the first time following a 20% drop in its cost of finance as a percentage of ORC. This efficiency gain was due to an increase in the overall ORC within the small cohort and is not the affect of a reduction in overall cost.

**20%↓ in cost of finance as a percentage of ORC for the small cohort in 2014/15**

**Figure 54: Cost of finance as a percentage of ORC**



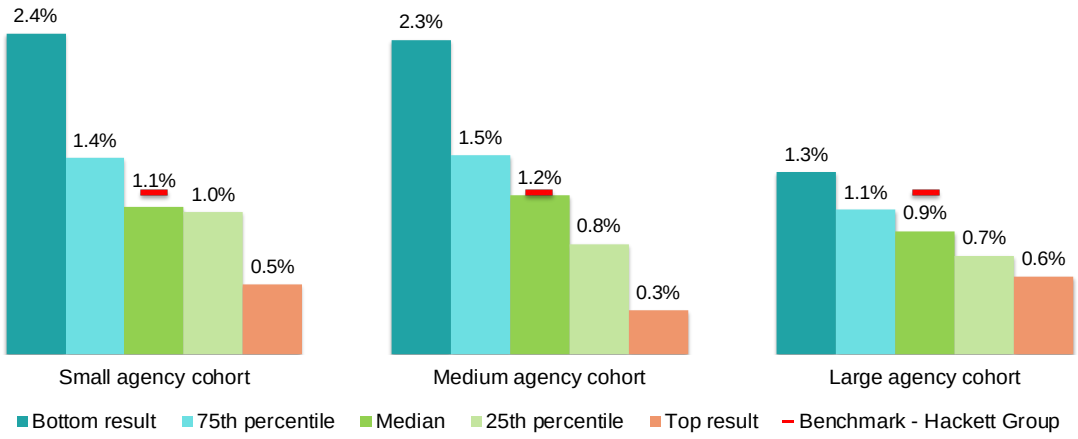

[14] Organisational Running Cost (ORC): The revenue of the organisation minus revenue that is passed on to another organisation or individual who then makes the decision on how it is spent. Organisational running costs exclude:
- transfer payments, including benefit payments and other unrequited expenses
- grants made to other organisations, such as community groups
- subsidies paid to third parties
- funding passed on to other Crown organisations to undertake their own operations
- capital expenditure. Depreciation funding should be included and the Capital Charge should be excluded.

Where a third party is contracted by the organisation to provide a service, that cost is included in the organisational running cost for the organisation.

Within cohorts there is a high degree of variation in the cost of delivering finance services per employee. This would indicate that there are opportunities for agencies within each cohort to increase efficiency.

**The cost of finance as a percentage of ORC ranges from 0.3% to 2.4%**

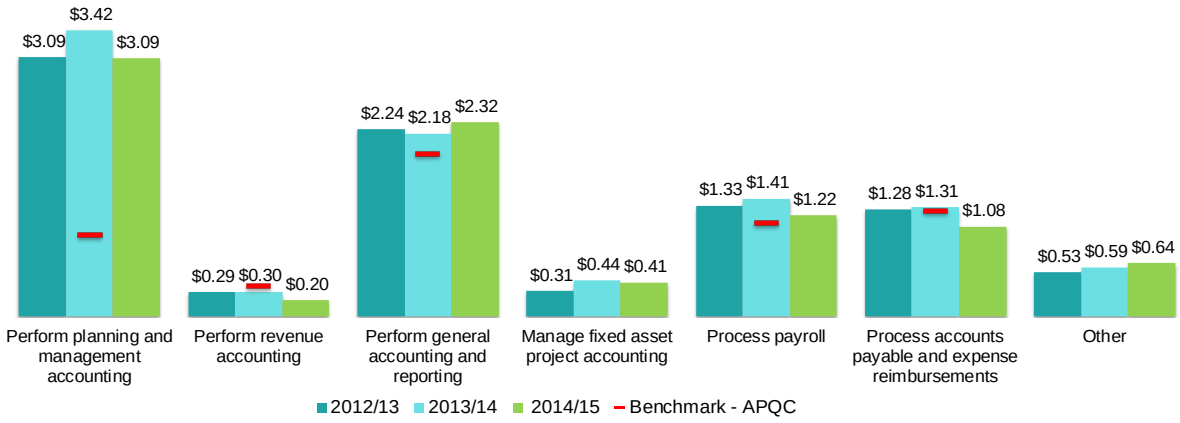
**Figure 55: Variability in agencies cost of finance as a % of ORC**



# Finance Processes[15]

The median cost per Finance processes were close to, or slightly below, the international benchmarks, with the exception of 'Perform planning and management accounting' where efficiency lags significantly behind the benchmark. The size of lag warrants further investigation.

**Figure 56: Cost of Finance processes per $1,000 ORC**




The large agency cohort showed a greater level of efficiency in delivering the 'Perform planning and management accounting' and 'Perform general accounting and reporting' processes than the small cohort.

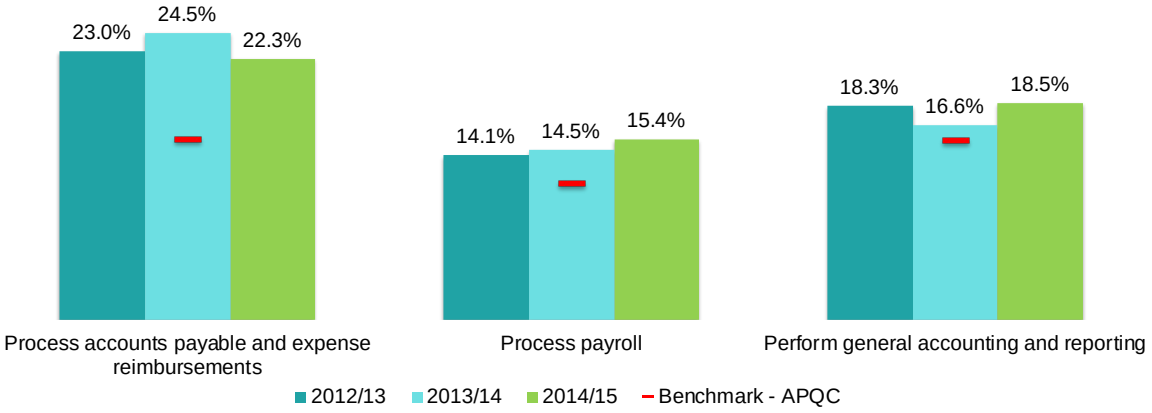
**Large cohort** spent **29%** less performing the 'general accounting and reporting' process than the **small cohort**

**Figure 57: Cost of Finance processes per $1,000 ORC (2014/15)**


[15] 'Other' Process includes: managing treasury operations, managing internal controls, managing taxes, managing international funds, and cost of cash reconciliations.

On average agencies commit more staff to 'Process accounts payable and expense reimbursements' than the international benchmark.

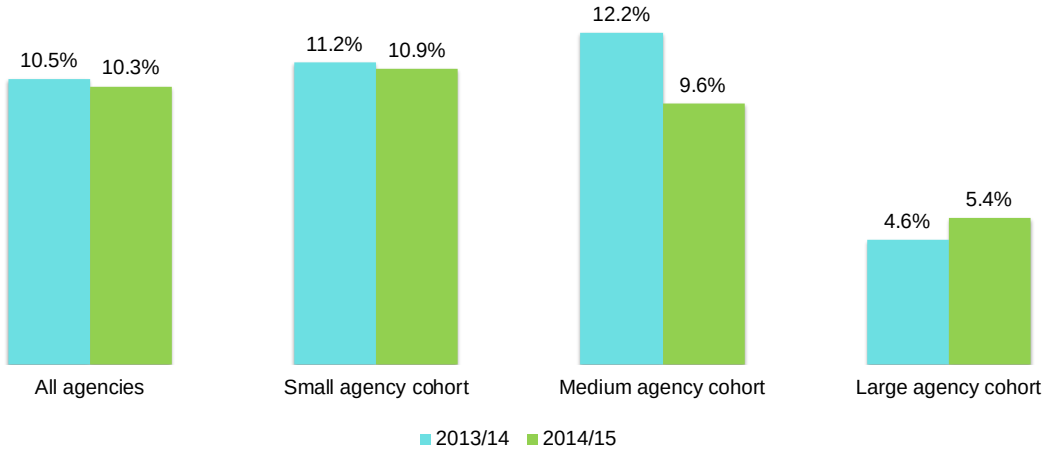
**Figure 58: Percentage of Finance Staff per Finance process**




The median cost of Strategic Financial Management activities is in the region of 10% across all agencies, with the large cohort's median significantly lower at 5.4%. While it is difficult to capture spend data on Strategic Financial Management, the relatively low expenditure indicates there is still a heavy allocation of resources to transactional activities.

Agencies on average spend **10%** of finance spend on **Strategic Financial Management**

**Figure 59: Cost of Strategic Financial Management activities as a percentage of total Finance cost**

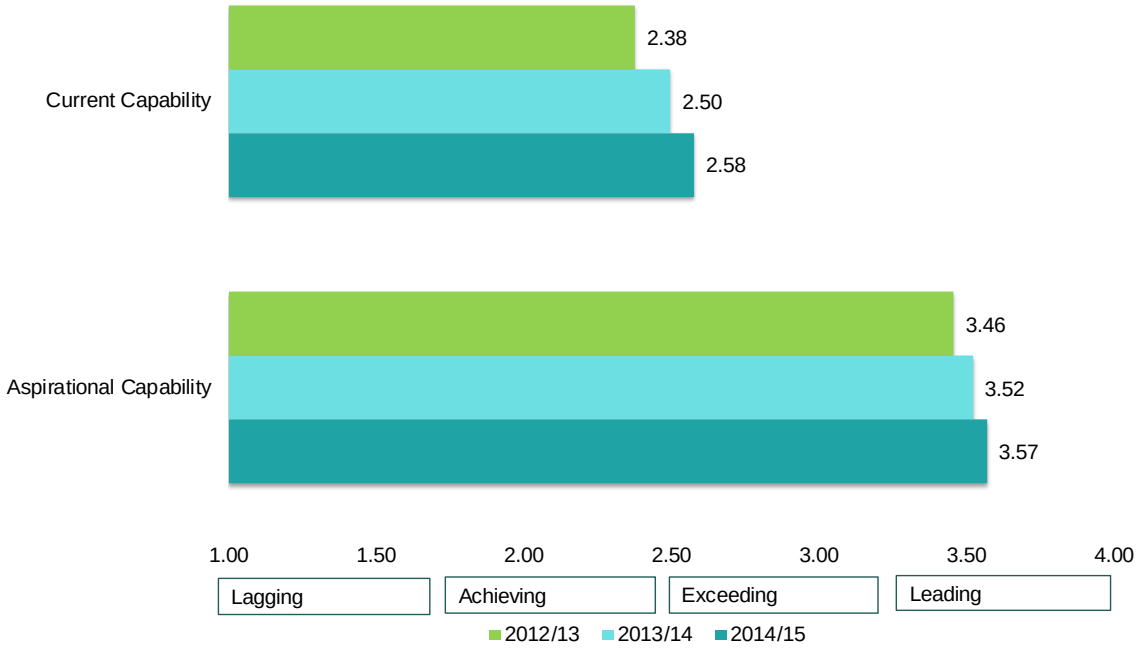


# Finance Capability

Finance capability is measured using the Finance Capability Maturity Model (CMM). This is a self assessment model[16] that allows agencies to assess their maturity across ten indicators of maturity.

Overall CMM scores have steadily increased since 2012/13 and agencies continue to aspire to significantly improve the maturity of their financial management practices.

**Figure 60: Capability Maturity Model Scores**



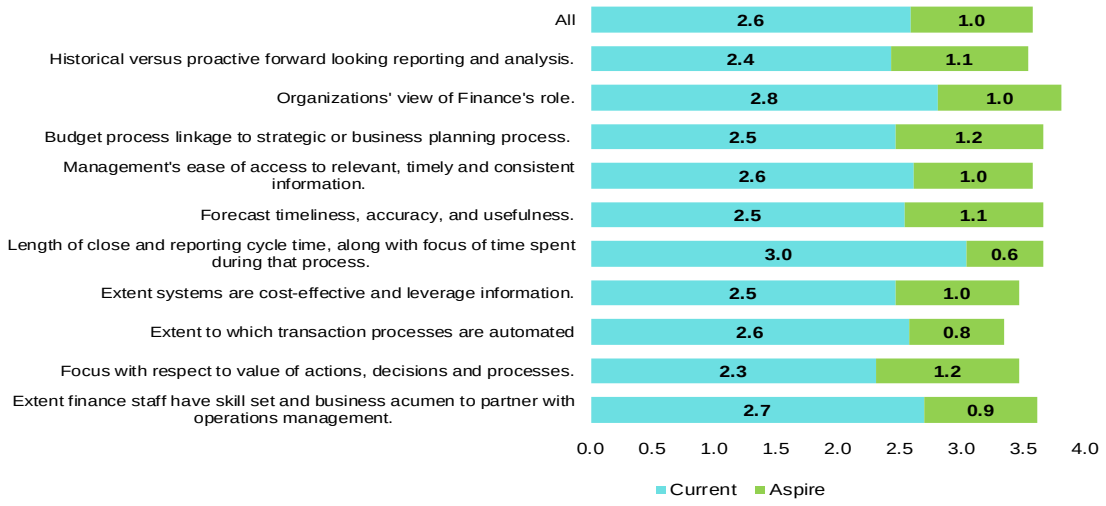

[16] CMM scores are self reported by agencies, and the responses have not been moderated across agencies for consistency.

Agencies rated their most mature capabilities as:

- Organisation's view of finance's role
- Management's ease of access to relevant, timely and consistent information
- Length of close and reporting cycle time

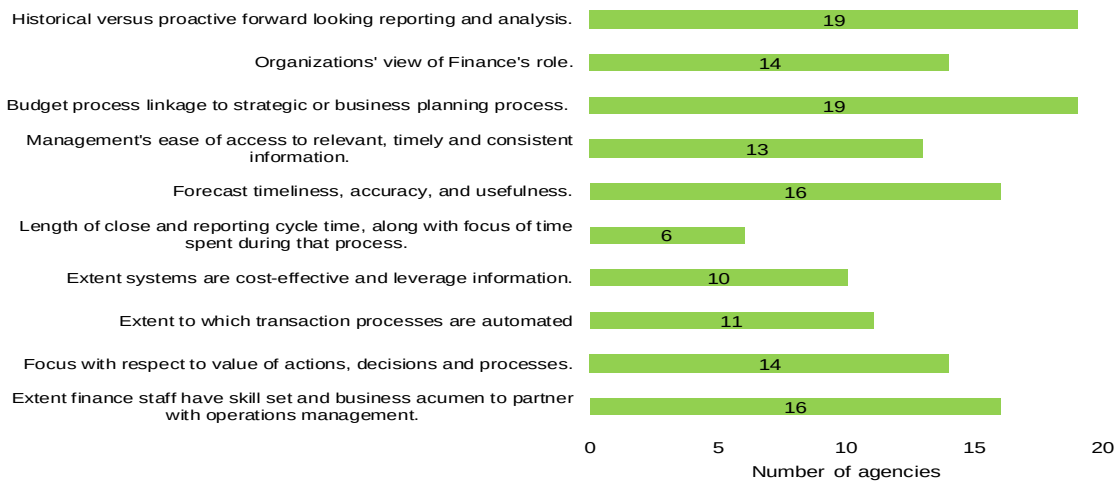
Across agencies, 'Organisation's view of Finance's role' and 'Business partnering' continue to have the highest level of aspiration.

**Figure 61: 2014/15 Capability Maturity Model Scores**

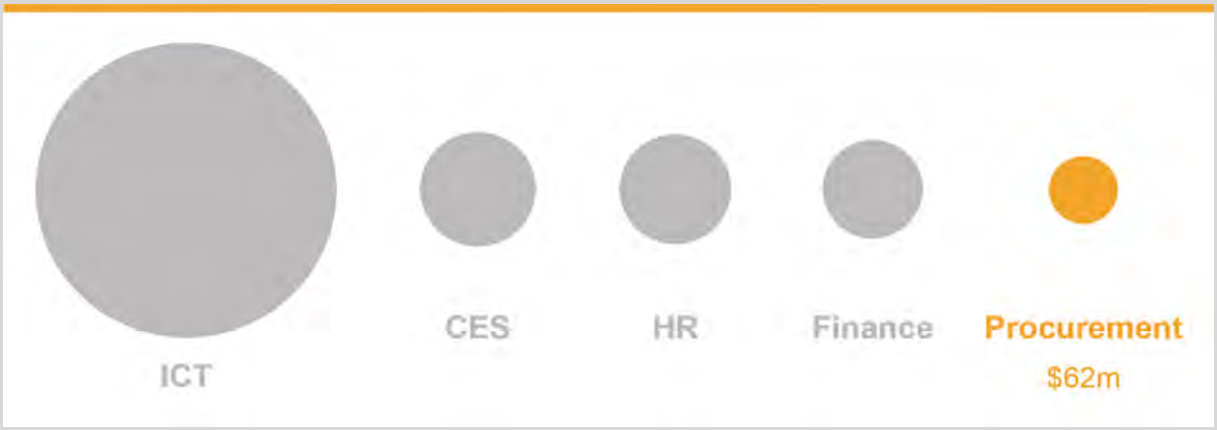



Agencies have aspirations to make significant improvements to increase the strategic value the Finance function offers the agency. The two highest priority areas for improvement are 'Historical versus proactive forward looking reporting and analysis' and 'Budget process linkage to strategic or business planning process'.

**Figure 62: Number of agencies that rated each capability as a 'High' priority**



# Procurement




Top 10 Suppliers with formal framework agreement

**100%**

Cost of Procurement Function

**$62m**

Value Purchased

$11b

**Contracts over $100k**


# Functional Lead Commentary

*John Ivil, General Manager, New Zealand Government Procurement, Ministry of Business, Innovation & Employment*

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

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

The 2014/15 BASS exercise has seen the introduction of a new Capability Maturity Model that has been designed for use with a new Procurement Capability Index (PCI). The PCI assesses and benchmarks the effectiveness of the procurement function in agencies. It has replaced the agency capability reviews which were previously undertaken by external consultants.

The PCI has three key components; the Capability Maturity Model, similar to that which currently exists in BASS, a review and moderation process, and a supplier feedback process. The PCI aligns with and supports other corporate centre initiatives; i.e. Investor Confidence Rating, Four Year planning and the Leadership Success Profile.

As a trial 26 agencies completed the PCI concurrent with the 2014/15 BASS exercise. The results have particularly highlighted the need for agencies to focus on supplier relationship management. Agencies should be looking to strengthen their practice and capability to work with suppliers over the next twelve months. These results were reinforced by the most recent business survey undertaken with government suppliers. For 2015/16 BASS it is intended that the PCI data collection will be conducted independently, but over a similar timeframe. This will negate the need for agencies to complete the procurement CMM in BASS.

**There are more opportunities for improved value and performance in third party spend than there is in making the procurement function itself more efficient.** Even a 1% improvement in value gained from third party spend would represent $200 million annually. In comparison, a 10% reduction in the expenditure on the procurement function reported by agencies participating in this year's report would provide a gross annual saving of about $6 million. Given the high levels of third party expenditure and sometimes low levels of procurement practice maturity in agencies, a greater investment in the procurement function capability would be a positive trend for many agencies.

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

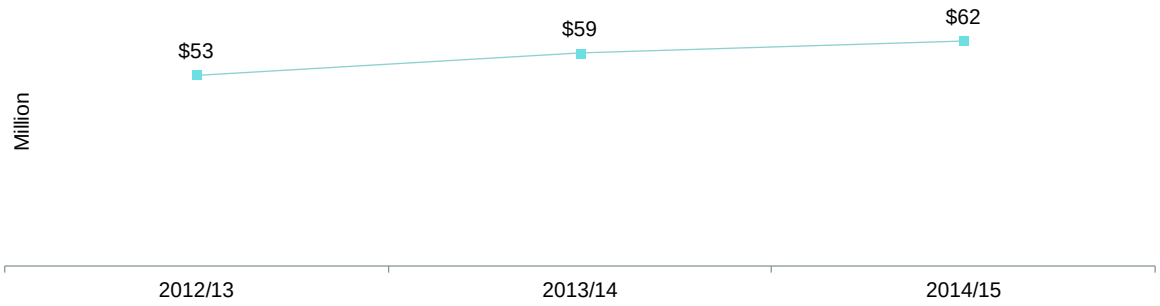
**A primary focus of the programme is the building of procurement capability in agencies**. To date, more than 700 agencies, including schools have participated in all-of-government (AoG) contracts; more than 103 Procurement staff across government are gaining subsidised procurement qualifications; and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

# Overall Procurement Cost

Procurement services accounts for 3.6% ($62m) of overall A&S cost and have increased by 18% ($9.5m) since 2012/13.

**Procurement** accounts for **3.6%** of A&S cost and have increased by **18%** since 2012/13

**Figure 63: Total Procurement cost**

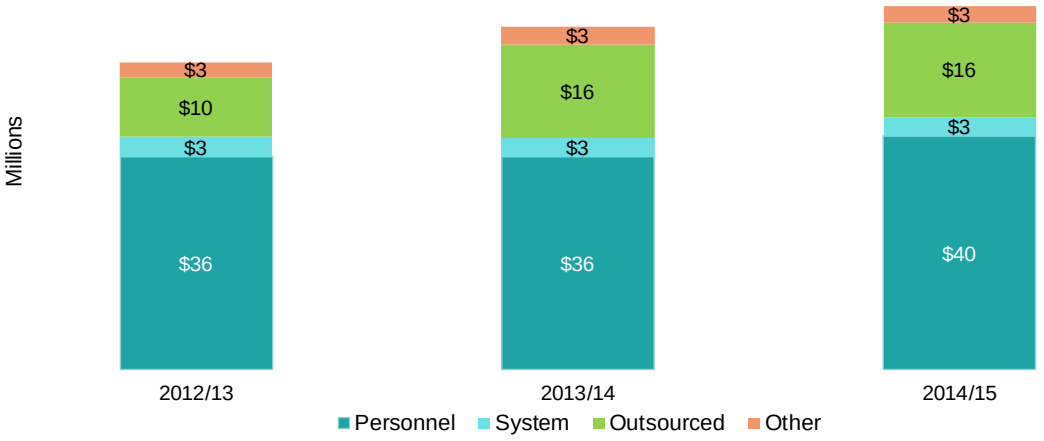



'Personnel' costs account for 64.5% ($40m) of Procurement cost. It is likely that due to the devolved nature of the function 'Personnel' cost is understated in each year. These costs increased by 11% ($4m) in 2014/15.

'Outsourced' costs increased by 60% ($6m) in 2013/14, but saw no further increase in 2014/15.

**'Outsourced'** costs ↑**60%** in 2013/14, **'Personnel'** costs ↑**11%** in 2014/15

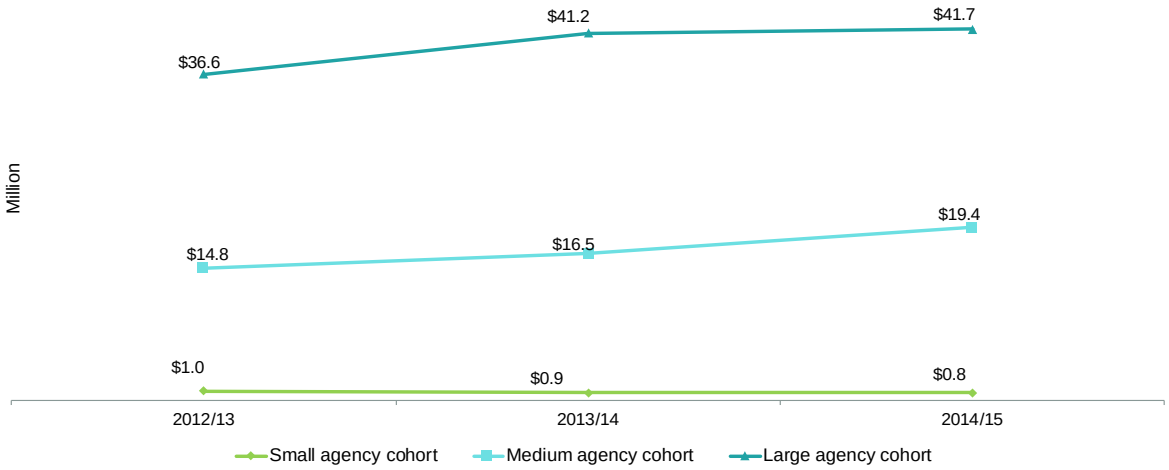
**Figure 64: Procurement cost elements**



Total osts for the Medium cohort increased by 11.5% in 2013/14 and a further 17.6% in 2014/15. Costs have remained static for the two other cohorts for 2014/15, after a 12.6% increase in the large cohort in 2013/14.

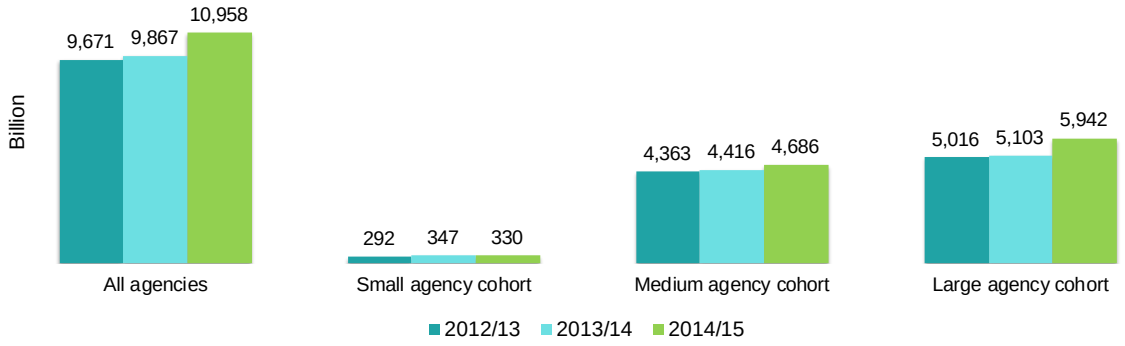
**Medium cohort** costs
↑**31%** since 2012/13

**Figure 65: Procurement cost by cohort**



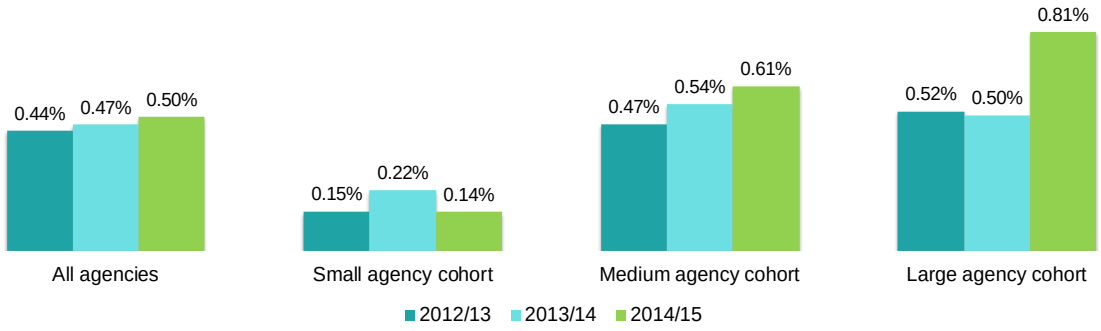

Overall agencies purchased $1.1b more worth of goods, services, works, and utilities in 2014/15. The top five agencies by overall purchase value account for 68% ($7.48b) of the overall amount purchased.

**Figure 66: Overall value of goods, services, works, and utilities procured**



Compared to international benchamrks agencies have historiclly underinvested in the Procurement Function. The increase in cost in the medium and large cohorts is not unexpected as agencies aim to increase their effectiveness in leveraging greater value from the $10.96b of procurement cost.

**Figure 67: Cost of Procurement as a percentage of the total purchase value**

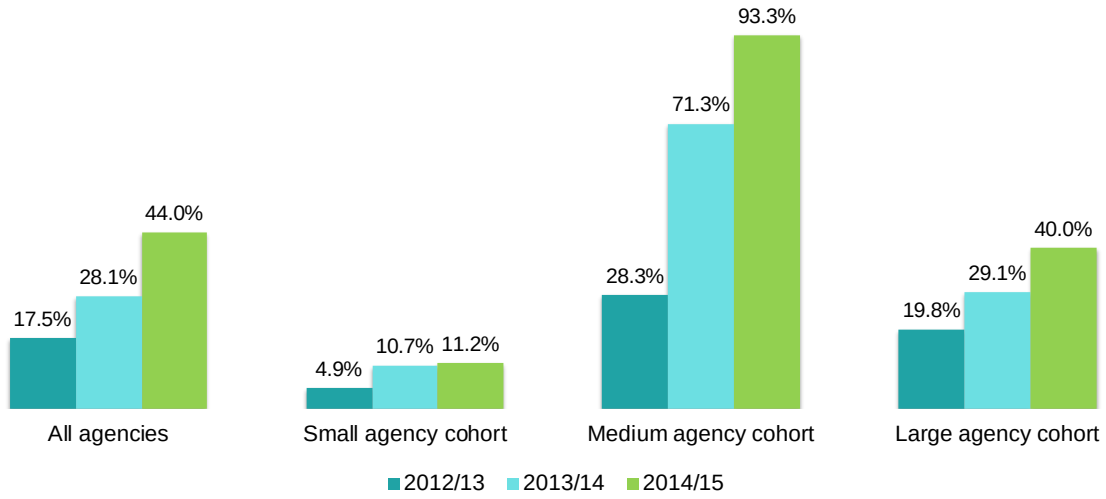


# Collaborative Procurement Arrangements

All cohorts have seen an increase in the percentage of ‘commodity’ procurement spend channelled through collaborative procurement arrangements, which suggests improved procurement spending.

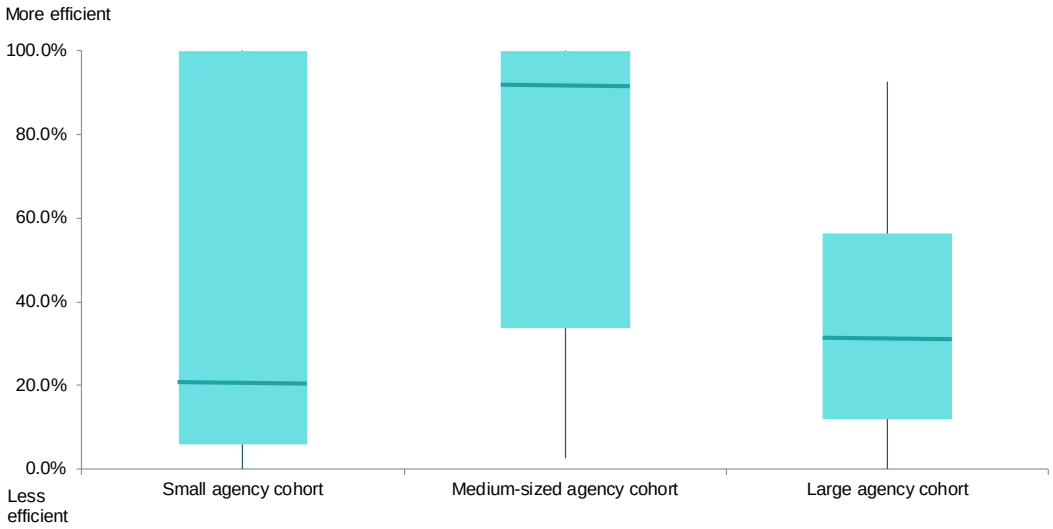
The medium cohort has experienced the largest increase (230%) since 2012/13.

**Figure 68: 'Commodity' Procurement spend channelled through collaborative Procurement arrangements**




However, there remains a high degree of variability in the percentage of 'commodity' Procurement spend channelled through collaborative procurement arrangements, indicating there are opportunities for further procurement improvements.

**Figure 69: Variability in 'commodity' Procurement spend channelled through collaborative Procurement arrangements – 2014/15**

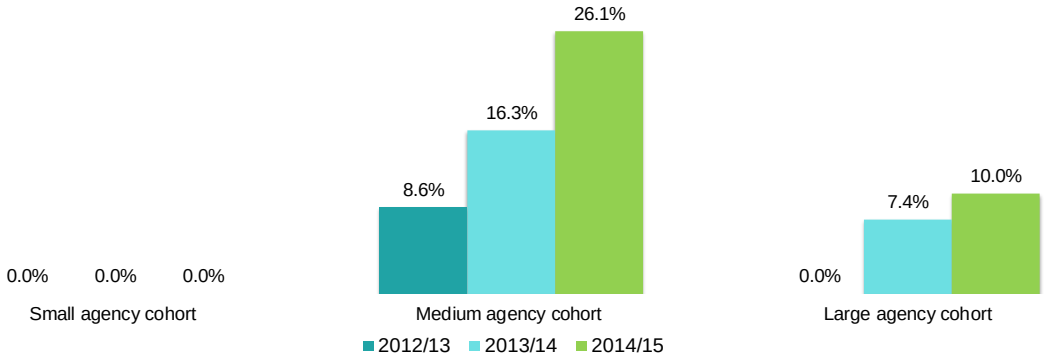


# Professionally Qualified Procurement Employees

The medium cohorts saw an 89% increase in the number of qualified employees in 2013/14 and a further 60% increase in 2014/15.

Only one agency within the small cohort reported having procurement employees that were professionally qualified. This prevalence rate was not high enough to lift the small cohort median above a 0% value.

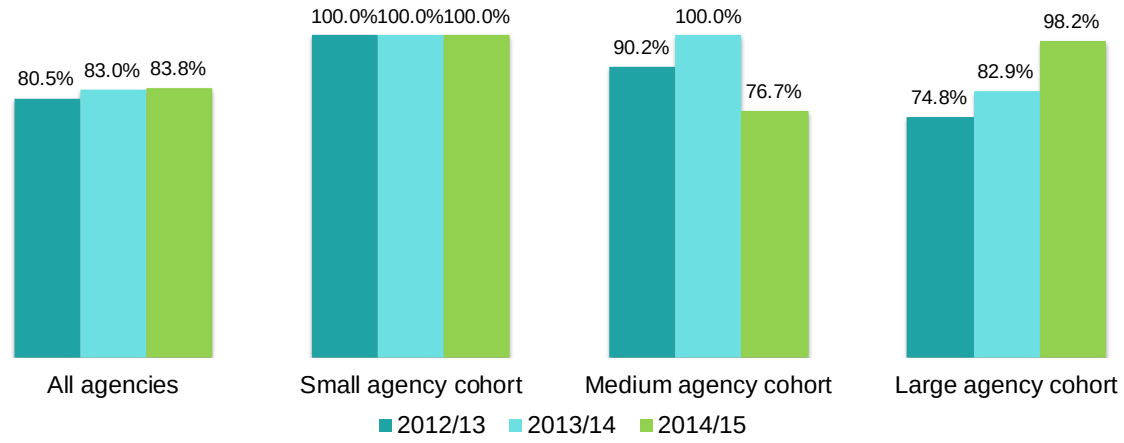
**Figure 70: Professionally qualified procurement employees as a percentage of total procurement employees**



# Procurement Contracts > $100K – Plan or Business Case

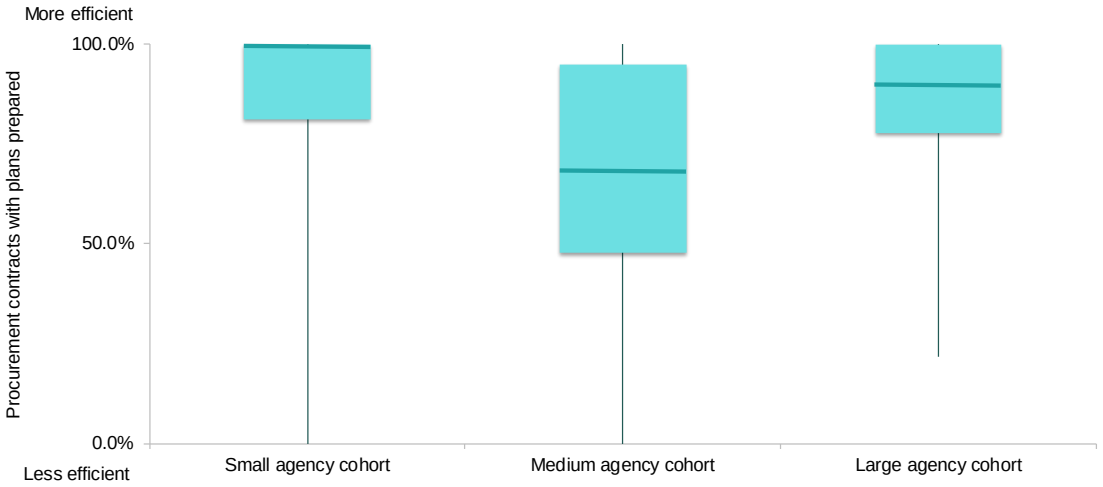
The percentage of contracts with a plan or business case has not changed overall, but when analysed by cohort it can be seen that there has been a 31% increase in the number of procurement contracts above $100k with a plan or business case for the large cohort and a 23% drop for the medium cohort.

**Figure 71: Contracts > $100K with a plan or business case prepared**




Variability across agencies in the number of procurement contracts above $100k with a plan or business case is most pronounced in the medium cohort. All cohorts contain significant outliers.

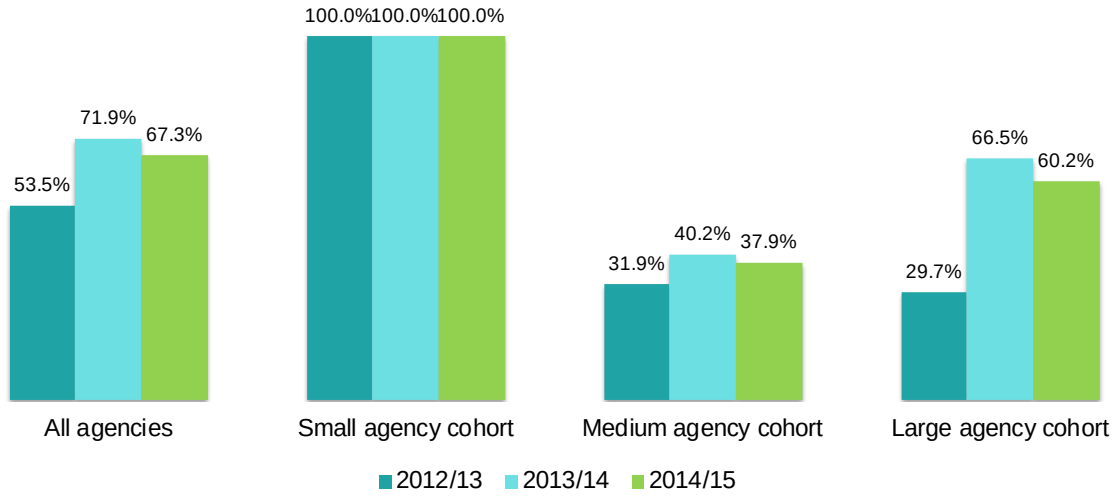
**Figure 72: Variability in contracts > $100K with a plan or business case prepared**



# Procurement Contracts > $100K – Review of Contracts

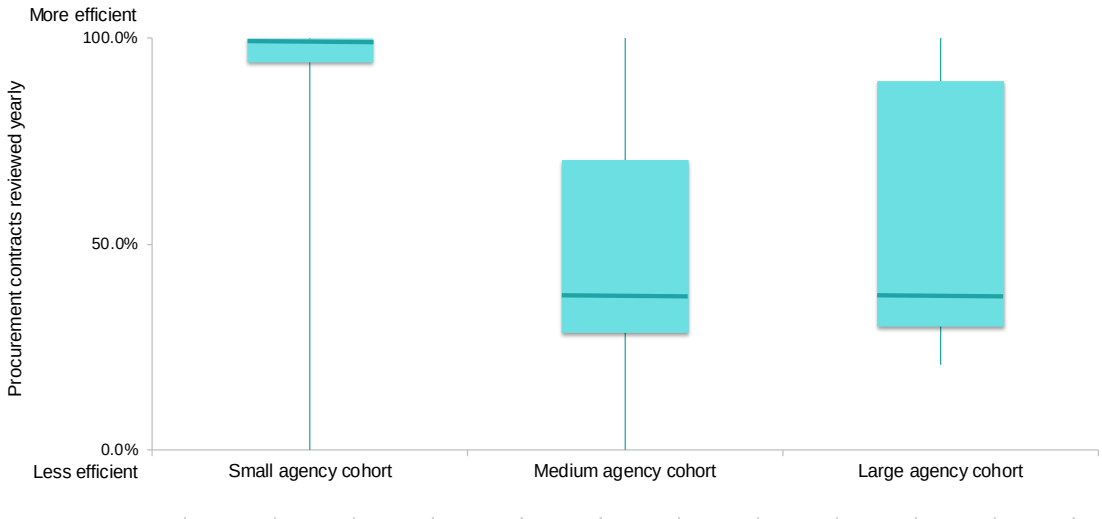
There was an overall decrease in the percentage of procurement contracts above $100k that are reviewed at least once a year. This was due to reductions within the medium and large cohorts.

**Figure 73: Contracts > $100K reviewed at least once a year**




Within the medium and large cohorts there is a high level of variability in the percentage of contracts above $100k that are reviewed at least once a year. Variability within the small cohort is not as notable, but the cohort does contain one outlier.

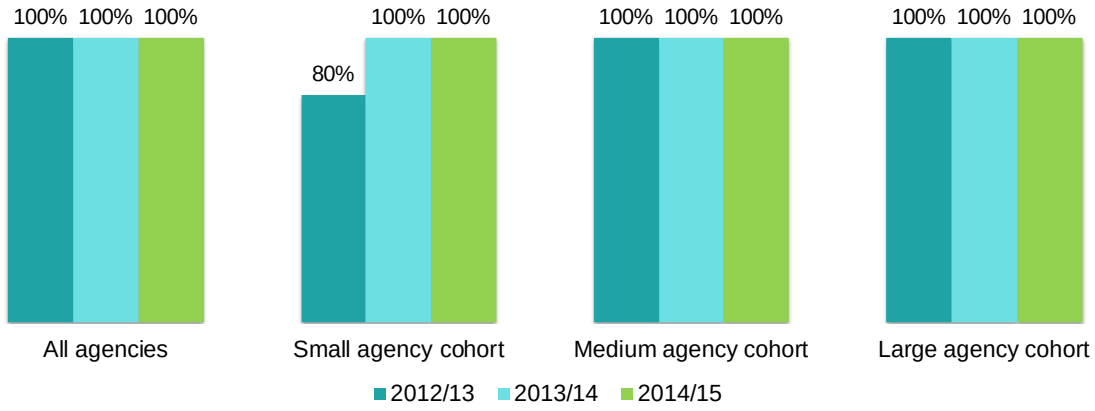
**Figure 74: Variability in contracts > $100K reviewed at least once a year**



# Management of Top 10 Suppliers

Across all cohorts formal framework agreements are being consistently used in the management of organisation's top 10 suppliers.

**Figure 75: Organisation's top 10 suppliers who have formal framework agreement**

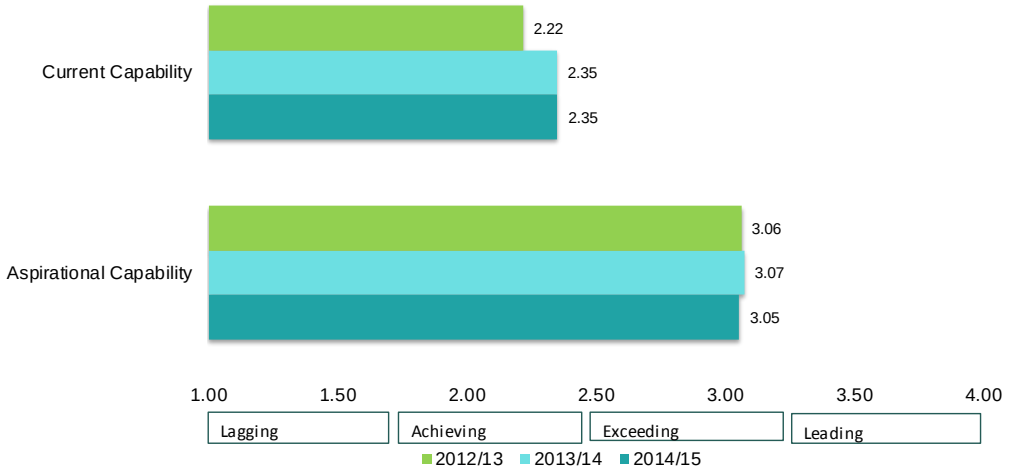


# Procurement Capability

Procurement capability is measured using the Procurement Capability Maturity Model (CMM). This is a self assessment model[17] that allows agencies to assess their maturity across ten indicators of maturity.

In 2014/15 the Procurement Functional Leadership Programme at the Ministry of Business, Innovation and Employment (MBIE) provided agencies with a Procurement Evaluation Tool to assist them determine capability maturity. The tool required a greater level of detail from agencies than was previously required. A number of agencies that used the tool obtained a lower maturity score then they previously reported, due to the increase in the level of detail required to satisfy each maturity level. As a result CMM results for Procurement have reduced in 2014/15. It is believed the 2014/15 results are a more accurate reflection of true Procurement capability and not a reflection of a reduction in actual capability.

**Figure 76: Overall Capability Maturity Model Scores**

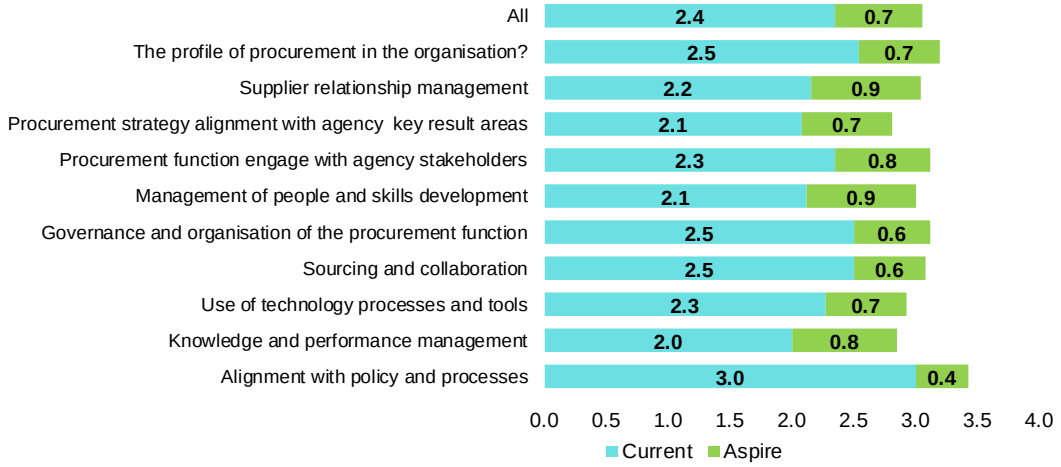



[17] CMM scores are self reported by agencies, and the responses have not been moderated across agencies for consistency.

Overall agencies reported ‘Alignment with policy and processes’ as the strongest Procurement capability, followed by ‘Sourcing and collaboration’ and ‘The profile of procurement in the organisation’.

‘Supplier relationship management’ and ‘Management of people and skills development’ hold the largest gap between current and aspiration maturity.

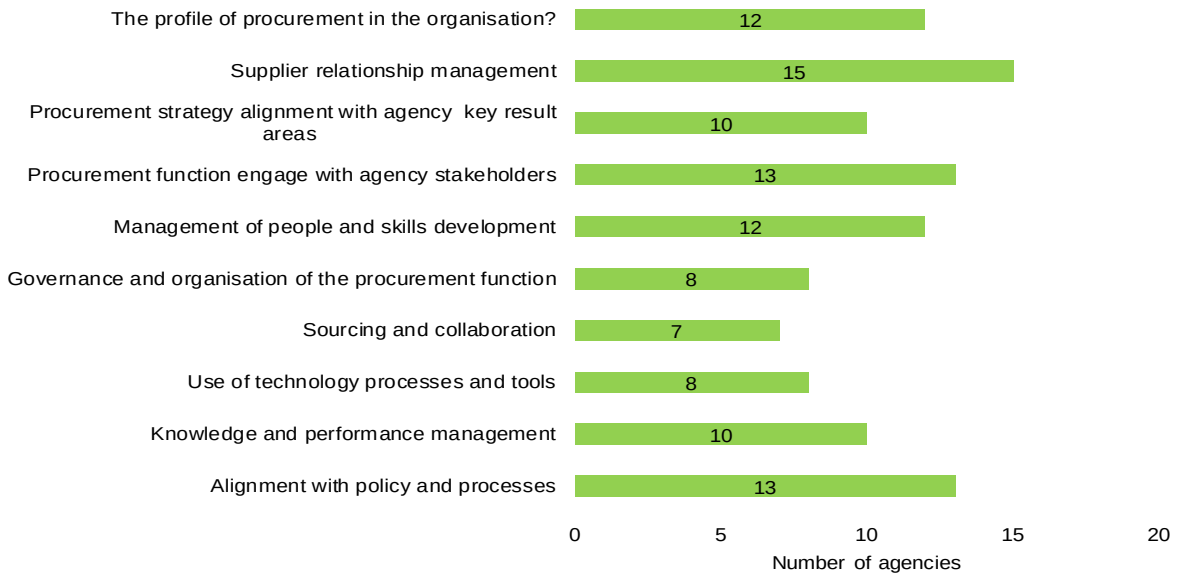
**Figure 77: 2014/15 Procurement Capability Scores**




The capabilities with the highest priority for improvement across all agencies are:

- ‘Supplier relationship management’
- ‘Procurement function engage with agency stakeholders’
- ‘Alignment with policy and processes’

**Figure 78: Number of agencies that rated each capability as a ‘High’ priority for improvement**



# Appendices

# Appendix 1: List of Participating Agencies

## Small cohort

- Department of the Prime Minister and Cabinet
- Ministry for Culture & Heritage
- Ministry for the Environment
- New Zealand Tourism Board
- State Services Commission
- Te Puni Kokiri
- The Treasury

## Medium cohort

- Department of Internal Affairs
- Department of Conservation
- Land Information New Zealand
- Ministry for Primary Industries
- Ministry of Foreign Affairs and Trade
- Ministry of Health
- New Zealand Customs Service
- New Zealand Transport Agency
- New Zealand Trade and Enterprise
- Statistics New Zealand

## Large cohort

- Department of Corrections
- Inland Revenue Department
- Ministry of Business Innovation and Employment
- Ministry of Education
- Ministry of Justice
- Ministry of Social Development
- New Zealand Fire Service
- New Zealand Police
- New Zealand Defence Force

# Appendix 2: Glossary of Terms

| Terms | Definition |
|---|---|
| A&S services | See administrative and support services. |
| Administrative and support services | Services that support the work of government agencies without directly being part of the service offered to the public end user. These include the following functions: Human Resources, Finance, Procurement, Information and Communications Technology, Property and Corporate and Executive Services. |
| Benchmark | A standard or set of standards, or another point of reference, used as a basis for evaluating performance or level of quality. The activity of benchmarking is comparing things to such a standard or point of reference. |
| 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. |
| Cost Elements | A resource-based expenditure classification scheme with following elements:<br>• Hardware<br>• Software<br>• Internal personnel<br>• External personnel<br>• Outsourced<br>• Carriage<br>• Other |
| CMM | See Capability Maturity Model |
| Economies of scale | Refers to lower unit costs for delivering the same single product or service. |
| Efficiency | The ratio of output to input; the use of resources in a manner that minimises cost, effort and time. |
| Effectiveness | The extent to which activities achieve intended or targeted results. |
| FTE | See full time equivalent |
| Full time equivalent | Full time equivalent staff (FTEs) are employees weighted by the proportion of a full time position that they fill. A staff member that works four days a week in a prorated full time role would be considered to be one employee but 0.8 (4/5) of an FTE. |
| Fully loaded labour cost | Compensation for full time and part time employees based on a regular working week, and includes:<br>• salaries and wages<br>• overtime<br>• on costs (superannuation, leave loading, workers compensation and payroll taxes) |

| Terms | Definition |
|---|---|
| Management Practice Indicator | Management Practice Indicators (MPIs) are adopted from the UK Audit Agencies A&S service performance measurement methodology. Within that methodology, the MPI score assesses "the extent to which...[a] function achieves a set of key management practices which will provide an indication of whether it is a well-run, modernised and mature function."[18] |
| MPI | See Management Practice Indicator |
| ORC | See organisational running costs |
| Organisational employees | Organisation employees includes:<br>• Permanent and fixed term employees serviced by the administrative and support functions<br>• Those on secondment<br>• Overseas staff.<br>Organisation employees excludes:<br>• Staff on formal leave without pay arrangements<br>• Staff on parental leave (more than one year)<br>• Contractors<br>• Casuals<br>• Other staff not on the organisation's payroll<br>• Unfilled positions<br>• Provisional employees (eg, NZ Police recruits)<br>Note: Contractors (eg, agency temps) or casuals who are on payroll and only complete pay sheets when they work, should be excluded. Their costs should be included, and should show in Outsourced Costs in each function. |
| Organisational running costs | The revenue of the organisation minus revenue that is passed on to another organisation or individual who then makes the decision on how it is spent. Organisational running costs exclude:<br>• transfer payments, including benefit payments and other unrequited expenses<br>• grants made to other organisations, such as community groups<br>• subsidies paid to third parties<br>• funding passed on to other Crown organisations to undertake their own operations<br>• capital expenditure. Depreciation funding should be included and the Capital Charge should be excluded.<br>Where a third party is contracted by the organisation to provide a service, that cost is included in the organisational running cost for the organisation. |
| Service Tower | Categorisation and classification of the services provided by an ICT department. These are often aligned to similar sets of skills and service provider offerings observed in the market. |

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

| Terms | Definition |
|---|---|
| State sector | The State sector is broader than the State Services. It includes:<br>• all the State Services<br>• some departments that are not part of the State Services<br>• tertiary education institutions<br>• Offices of Parliament<br>• State-Owned Enterprises. |
| Strategic processes | Processes that deal with issues that are complex, high level and that tend to be unique to agencies, such as budgeting and strategic planning. They are distinguished from transactional process. |
| Transformation | In this context, transformation is change in order to align people, process and technology aspects of an organisation more closely with its business strategy and vision. Transformation aims to support new business strategies, meet long term objectives, and lift organisational performance. |

# Appendix 3: Metric Definitions

## Information Communication Technology

| Metric name | Metric description |
|---|---|
| Total ICT cost as a proportion of the organisational running costs | The total cost of ICT services divided by the organisational running costs. |
| Cost of the Service Towers as a percentage of Total ICT Cost:<br>• ICT2.1: Mainframe & Midrange<br>• ICT2.2: Storage<br>• ICT2.3: WAN<br>• ICT2.4: LAN & RAS<br>• ICT2.5: Facilities<br>• ICT2.6: Voice<br>• ICT2.7: End User Infrastructure<br>• ICT2.8: Helpdesk<br>• ICT2.9: Applications<br>• ICT2.10: ICT Management | The cost of each Service Tower divided by the Total ICT Cost. |
| Cost elements for each Service Tower as a percentage of each Service Tower cost<br>• Hardware capital<br>• Hardware operating<br>• Software capital<br>• Software operating<br>• Personnel internal<br>• Personnel external<br>• Outsourced<br>• Carriage<br>• Other | Each Service Tower cost element divided by the Total Service Tower cost. |
| Total cost of each Applications sub Tower as a percentage of Total Applications cost, and also<br>• Percentage of Applications expenditure on support<br>• Percentage of Applications expenditure on development | Each Application sub Tower cost divided by the Total Applications cost.<br>Total Applications Support sub Tower cost divided by the Total Applications Service Tower Cost.<br>Total Applications Development sub Tower cost divided by the Total Applications Service Tower Cost. |
| Cost elements for each Applications sub tower as a percentage of each Applications sub Tower Total Cost | Cost elements of each Applications sub tower divided by the total cost for that Application's sub towers. |
| Percentage of ICT FTEs by ICT Service Tower and Application sub towers | The distribution of ICT FTEs across the ICT function (by Service Tower and Application sub towers). |

| Metric name | Metric description |
|---|---|
| Percentage of ICT establishment (non-project) positions occupied by contractors | The number of contractors in the ICT establishment (non-project) divided by the total number of ICT establishment (non-project) positions. |
| ICT Reliability | For five key ICT applications, the total time that an application was able to perform its required function. |
| ICT Supportability | The average time in hours to resolve a service commitment disruption, including the time from when the problem is detected until the service again satisfies the service level agreement. (Service commitment disruption refers to the situation where an SLA is not met.) |
| Total ICT cost per internal end user | The total ICT cost divided by the total number of internal end users (internal end users are those directly employed by the agency). |
| Total ICT cost per end user | The total ICT cost divided by the total number of end users. End users comprise internal end users, described above, plus those who provide services on behalf of the agency (ie, it does not include general members of the public or casual users). |
| Total ICT Service Tower cost per Internal end user | The total ICT service tower cost divided by the total number of internal end users. |
| Total ICT Service Tower cost per end user | The total ICT service tower cost divided by the total number of end users. |
| Number of internal end users per ICT FTE | The total number of internal end users divided by the total ICT FTEs. |
| Number of end users per ICT FTE | The total number of end users divided by the total ICT FTEs. |
| ICT Management Practice Indicator | The number of selected leading ICT management practices undertaken by the function. |
| ICT Operational Cost as a percentage of Total ICT Cost | The Total Operating Cost (Personnel, Operating System, Outsourced, Carriage and Other) divided by the Total ICT System Cost. |
| ICT Capital Cost as a percentage of Total ICT Cost | The Total Capital Cost divided by the Total ICT System Cost. |

| Metric name | Metric description |
| --- | --- |
| Each of the Cost Elements as a percentage of Total ICT Cost | Hardware Cost Element as a percentage of Total ICT Cost<br>Software Cost Element as a percentage of Total ICT Cost<br>Carriage Cost Element as a percentage of Total ICT Cost<br>Outsourced Cost Element as a percentage of Total ICT Cost<br>Internal Cost Element as a percentage of Total ICT Cost<br>External Cost Element as a percentage of Total ICT Cost<br>Other Cost Element as a percentage of Total ICT Cost |

# Corporate and Executive Services (CES)

| Metric name | Metric description |
|---|---|
| Total cost of the CES function as a percentage of organisational running costs | The total cost of combined CES functions divided by organisational running costs. |
| Total cost of CES process as a percentage of organisational running costs | The cost of separate CES functions divided by organisational running costs. |
| Total cost of CES function per organisational FTE | The total cost of combined CES functions divided by the average total number of full-time equivalents in the organisation. |
| The percentage of total Communications employees by level of experience | The number of Communications employees with the following levels of experience as a percentage of total Communications employees:<br>• Assistant/Advisor<br>• Senior Advisor<br>• Lead/Principal Advisor/Account Manager<br>• Team Leader/Manager/Director |
| Professionally qualified Communications employees as a percentage of total Communications employees. | The percentage of Communications employees who have a relevant tertiary and/or industry qualification. |
| Communications Capability Maturity Model (current state) | Capability maturity score for ten selected leading Communications practices undertaken by the function. This is the average score (1-4) across the ten questions. |
| Communications Capability Maturity Model (future aspiration) | Capability maturity model score for ten selected leading Communications practices undertaken by the function. This is the average score (1-4) across the ten questions. |
| Legal Capability Maturity Model (current state) | Capability maturity score for ten selected leading Legal practices undertaken by the function. This is the average score (1-4) across the ten questions. |
| Legal Capability Maturity Model (future aspiration) | Capability maturity model score for ten selected leading Legal practices undertaken by the function. This is the average score (1-4) across the ten questions. |

# Human Resources

| Metric name | Metric description |
|---|---|
| Total cost of HR function per employee | The total cost of providing HR services divided by the total number of organisational employees serviced by the HR function. |
| Number of employees per HR FTE | The average number of organisational employees serviced by each full time equivalent in the HR function. |
| Cost of HR processes per employee:<br>• HR3.1: Develop and manage HR planning, policies and strategies<br>• HR3.2: Recruitment, source and select employees<br>• HR3.3: Reward and retain employees<br>• HR3.4: Develop and counsel employees<br>• HR3.5: Manage employee information<br>• HR3.6: Redeploy and retire employees | The cost of HR processes per organisational employee. |
| Cost of recruitment per new recruit | The direct cost to the HR function of hiring a new recruit divided by the number of hires during the period. |
| Number of employees per HR process FTE:<br>• HR5.1: Develop and manage HR planning, policies and strategies<br>• HR5.2: Recruitment, source and select employees<br>• HR5.3: Reward and retain employees<br>• HR5.4: Develop and counsel employees<br>• HR5.5: Manage employee information<br>• HR5.6: Redeploy and retire employees | The total number of organisational employees per HR process FTE. |
| Percentage of new hires in the role after 12 months | The number of new hires that remain in their same role after 12 months. |
| HR Capability Maturity Model (current state) | Capability maturity score for ten selected leading Human Resources practices undertaken by the function. This is the average score (1-4) across the ten questions. |
| HR Capability Maturity Model (future aspiration) | Capability maturity score for ten selected leading Human Resources practices undertaken by the function. This is the average score (1-4) across the ten questions. |

## Finance

| Metric name | Metric description |
|---|---|
| Total cost of the Finance function as a proportion of organisational running costs | The total cost of the Finance function divided by the organisational running costs. |
| Cost of Finance processes per $1000 revenue (ORC):<br>• FIN2.1: Perform planning and management accounting<br>• FIN2.2: Perform revenue accounting<br>• FIN2.3: Perform general accounting and reporting<br>• FIN2.4: Manage fixed asset project accounting<br>• FIN2.5: Process payroll<br>• FIN2.6: Process accounts payable and expense reimbursements<br>• FIN2.7: Other | Each Finance process cost per $1000 of revenue (organisational running costs). |
| Total cost of the Finance function per organisational FTE | The total cost of the Finance function divided by the total number of full time equivalent staff in the organisation. |
| Percentage of Finance FTEs by Finance process:<br>• FIN4.1: Perform planning and management accounting<br>• FIN4.2: Perform revenue accounting<br>• FIN4.3: Perform general accounting and reporting<br>• FIN4.4: Manage fixed asset project accounting<br>• FIN4.5: Process payroll<br>• FIN4.6: Process accounts payable and expense reimbursements<br>• FIN4.7: Other | The number of Finance process FTEs in each process divided by the total Finance FTEs. |
| Cost of payroll process per employee | The total cost of the payroll process per organisational employee. |
| Number of employees per payroll FTE | The average number of organisational employees serviced by each full time equivalent in payroll. |
| Finance Capability Maturity Model (current state) | Capability maturity score for ten selected leading Finance practices undertaken by the function. This is the average score (1-4) across the ten questions. |
| Finance Capability Maturity Model (future aspiration) | Capability maturity model score for ten selected leading Finance management practices undertaken by the function. This is the average score (1-4) across the ten questions. |
| Total cost of Strategic Financial Management activities as a percentage of Total Finance cost | The cost required to undertake Strategic Financial Management activities divided by the Total Finance cost. |

# Procurement

| Metric name | Metric description |
|---|---|
| Total cost of the Procurement function as a percentage of the total purchase value. | The total cost of procuring goods and services divided by the total value of goods and services procured. |
| Actual spend against pre-established contract arrangements as a percentage of total purchase value | The percentage of total goods and services purchased where there is an existing arrangement in place for that type of good or service before the need to source the good or service arises. |
| Percentage of eligible contract ('commodity') spend that is channelled through collaborative procurement arrangements. | The percentage of total goods and services purchased through collaborative contracts. For example; AOG, Common Capability and Syndicated Contracts. |
| Percentage of spend under management by procurement professionals. | The percentage of Procurement spend managed by procurement professionals either working in a central procurement function or working in business units. |
| Professionally qualified Procurement employees as a percentage of total Procurement employees. | The percentage of Procurement personnel (both within the procurement function and embedded in business units) who have procurement qualifications (for example: MCIPS, commerce, law, or business degrees. |
| Percentage of Procurement contracts with a value over $100,000 that have a valid procurement plan or business case prepared before approaching the market. | The percentage of Procurement contracts where procurement plans or business cases have been approved at the appropriate level prior to commencing tendering processes. |
| Percentage of contracts with a value over $100,000 reviewed at least once a year to monitor delivery of outcomes. | The percentage of Procurement contracts that are formally reviewed at least once during the year to establish whether expected outcomes have been delivered. |
| Number of the organisation's top 10 suppliers (by spend value) who have a formal partnership/framework agreement with the organisation | The percentage of the organisation's top 10 suppliers (measured by value, risk and importance) who have formal supplier management relationships in place (indicating the ability of the organisation to manage relationships with suppliers and control expenditure), being a number between 0 and 10 converted to a percentage. |
| Procurement Capability Maturity Model (current state) | Capability maturity score for ten selected leading Procurement practices undertaken by the function. This is the average score (1-4) across the ten questions. |
| Procurement Capability Maturity Model (future aspiration) | Capability maturity model score for ten selected leading Procurement practices undertaken by the function. This is the average score (1-4) across the ten questions. |

# Appendix 4: Graph Interpretation

Box graph