

*It is extremely important that State sector agencies are fully capable of doing the job that is asked of them. Otherwise, desired outcomes will not be achieved, and accountability for agency performance will be compromised. Recognition of the importance of capability – and of shortfalls in the capability-related information currently available – has led to a number of recent initiatives to remedy the situation.*

*The most important aspect of organisational capability is human resource capability. In the past, national audit institutions have typically given little attention to the issue. However, this is now changing, both overseas and in New Zealand.*

*We intend to undertake some important work on this topic during 2002-03, so that Parliament can have better assurances about the state of human resource capability in government agencies.*

## Introduction

- 2.1 The purpose of this article is to draw Parliament's attention to the need to improve the information and assurances that Parliament currently receives about human resource capability and human resource management in the State sector.
- 2.2 We also take the opportunity to inform Parliament of our plans to investigate and report more fully on this issue in the future.

## Background

- 2.3 The accountability information currently provided to Parliament is relatively rich in information about financial matters.
  - Before the start of each fiscal year, Parliament receives detailed financial forecasts.
  - After the end of each fiscal year, Parliament receives audited financial statements that report actual performance against those forecasts.

- 2.4 In addition, we report to Parliament and its select committees on the quality of the financial management and the service performance management of all departments, Crown entities, and State-owned enterprises that are subject to financial review.
- 2.5 In our 1999 report *The Accountability of Executive Government to Parliament*, we drew attention to some shortfalls that existed (and generally still exist) in the information provided to Parliament about the capability of government departments and organisations.<sup>1</sup> The most important dimension of organisational capability is human resource capability. In that report we expressed our belief that ... *key aspects of human resource capability are measurable and can usefully be reported in accountability documents.*
- 2.6 The task of ensuring that an organisation secures and maintains an appropriate human resource capability is referred to by various terms – strategic human resource planning, human capital management, personnel planning, workforce planning, and (reflecting its military origins) manpower planning.
- 2.7 The task is critical but complex. In general, it should not be undertaken in isolation from other strategic capability planning. Organisations need to be continuously forecasting and preparing to meet their human resource requirements in the context of their own changing roles and changes in their external environment (including the labour market).

## Technical Problems

- 2.8 Forecasting labour supply is generally difficult. At one extreme, many consider that a high degree of planning and investment is often necessary to provide reasonable assurance of supply. At the other extreme, it is often argued that conventional market forces and price adjustment mechanisms will correct instances of over- or under-supply.

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<sup>1</sup> Parliamentary paper B.29[99c], pages 71-82.

- 2.9 However, the labour market is much less likely to be efficient than many other markets, because the processes needed to change supply are much slower than those needed to change price (i.e. remuneration). In fact, a range of issues affect the efficient performance of the labour market. They include:
- a clear preference in almost all labour markets for skilled workers, especially where significant financial investments and long lead times are needed to acquire those skills;
  - the potential for relatively rapid changes in the demand for skills (including their complete obsolescence) due to the emergence of new technologies and other changes that are difficult to predict;
  - the obscurity of many labour market price signals (for example, information on individuals' remuneration is often protected, and market rate surveys can be slow to complete and imperfect in their validity and reliability);
  - the fact that the personal rewards from work extend beyond remuneration and embrace other significant considerations (such as interest in the work, personal status, and the desire to make a contribution to public welfare); and
  - the social, political and legal rigidities that arise from the importance of employment as a source of personal income and welfare.
- 2.10 Other trends over the last decade have added to the difficulties in forecasting human resource requirements. These include a trend towards less specific job descriptions and flatter, more collegial organisational structures. For a time, this led to a de-emphasis of human resource planning among some human resource professionals. However, in the face of ongoing skill shortages in high-demand areas, such planning is receiving renewed interest.

## Relevance for the State Sector

- 2.11 The issue of labour supply is important in the State sector. There are concerns that certain occupational categories – such as skilled policy advisers and statutory social workers – are chronically under-supplied. In addition, new areas of demand are emerging from such initiatives as e-government.
- 2.12 Historically, the State Services Commission has been the organisation responsible for gathering information on human resource capability across the State sector. The results of its most recent survey are reported in *Human Resource Capability: Survey of Public Service Departments as at 30 June 2001*.<sup>2</sup>
- 2.13 The 2001 survey sought information on recruitment difficulties, skill shortages and skill gaps. The Commission observed in its report that:

### **Recruitment Difficulties**

- Twenty-two departments reported difficulty attracting suitable applicants for positions during the year to 30 June 2001, due to remuneration levels, working conditions and/or reputation. Many of these departments reported difficulty in attracting applicants in their core professional and associate professional occupation groups. Nine departments reported difficulty recruiting policy analysts, especially at the senior and more experienced level.

### **Skill Shortages**

- Twenty-three departments reported that they had been unable to fill some positions due to a lack of suitably qualified candidates in the labour market. Experienced policy analysts (particularly with other specialist skills) were identified as the major shortage across departments, with 14 departments reporting a shortage of that skill in the labour market.

<sup>2</sup> Published by the State Services Commission in November 2001, ISBN 0-478-24414-2.

- The most common techniques for managing skill shortages were:
  - to fill the position from within;
  - to appoint a lower-skilled applicant, with subsequent training investment; or
  - to use temporary staff or contractors.

2.14 Because its central importance is now being widely recognised, human resource management generally – and human resource planning in particular – has recently been receiving much greater attention by national audit institutions such as Australia<sup>3</sup>, Canada<sup>4</sup> and the United States. The matter was well expressed by the US General Accounting Office in a recent report to a Subcommittee of the US Senate<sup>5</sup> –

*No management issue facing federal agencies could be more critical to their ability to serve the American people than their approach to strategic human capital management, including attracting, retaining, and motivating their employees. High-performing organizations in the private and public sectors have long understood the relationship between effective “people management” and organizational success. However, the federal government, which has often acted as if federal employees were costs to be cut rather than assets to be valued, has only recently received its wake-up call. As our January 2001 Performance and Accountability Series reports made clear, serious federal human capital shortfalls are now eroding the ability of many federal agencies – and threatening the ability of others – to economically, efficiently, and effectively perform their missions.*

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3 For example, *Planning for the Workforce of the Future – A Better Practice Guide for Managers*, Australian National Audit Office, March 2001.

4 For example, *Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities*, Report of the Auditor-General of Canada, Chapter 9, April 2000.

5 *Human Capital – Practices that Empowered and Involved Employees*, General Accounting Office, GAO-01-1070, September 2001.

## Planned Examination

- 2.15 For the same reasons that have commended this issue to other national audit institutions, we will also be seeking in future to provide Parliament with more information and independent assurances about the quality and effectiveness of human resource management in the New Zealand State sector. In doing so, we are conscious that we will need to acquire new expertise. We will also work in close consultation with the State Services Commission, which has statutory responsibilities relating to those matters.
- 2.16 As a first step, we propose to undertake a sector-wide examination of the strategic human resource planning function. This will probably involve both a general survey and a more detailed examination of certain departments.
- 2.17 The precise questions to be addressed are still being developed and refined. They will be the subject of consultation with central agencies and external advisers. However, in general terms, the questions are:
- How well are government departments assessing their future human resource requirements?
  - How well are they able to maintain their essential human resource capabilities?
  - What constraints – whether market-driven, systemic or internal – may be frustrating their ability to do so?
- 2.18 Our intention is to complete the examination and publish our findings during 2002-03.

