



<b>Report Title:</b>	<b>Supporting AI uptake in the public service</b>		
<b>Report No:</b>	2024 - 0230		
<b>Date:</b>	<b>7 November 2024</b>		
<b>To:</b>	<b>Hon Nicola Willis, Minister for the Public Service</b>		
<b>Action Sought:</b>	Discuss this advice with officials	<b>Due Date</b>	None
<b>Contact Person:</b>	<b>Callum Butler, Manager, Strategy Policy and Integrity</b>		
<b>Contact No:</b>	9(2)(a)		
<b>Encl:</b>	None	<b>Priority:</b>	Low
<b>Security Level:</b>	<b>IN CONFIDENCE</b>		

### **Purpose**

1. You have expressed an interest in the public service doing more to develop and use artificial intelligence (AI), to help deliver better outcomes. This aligns with your focus on improving overall system capability and performance, activating the public service around priorities and driving efficiency and fiscal consolidation.
2. This paper outlines initial thinking on how the Public Service Commission can best support the uptake of AI in the public service.

### **Context**

3. In June this year, you were engaged at Cabinet by the Minister for Digitising Government and Science, Innovation and Technology on the approach to AI use and uptake in New Zealand. This included discussion on the development of a work programme led by the Government Chief Digital Officer (GCDO) to accelerate responsible AI innovation and deployment in the public service.
4. These discussions indicated that increased development and deployment of AI is a natural trajectory of modernising digital technologies and systems in both our private and public sectors, and it was agreed that government agencies should be encouraged to adopt AI for its benefits, while managing risks. Notably, the Cabinet material reflected that internationally, New Zealand is not ranked highly in regard to AI readiness, lagging behind many of our international comparators (e.g. Australia). It was agreed at the time that a strategic approach to AI in New Zealand will be taken in order to strengthen this position [ECO-24-MIN-0119 refers].
5. We note that the most recent update to Cabinet by the GCDO and the Ministry of Business Innovation and Employment has been deferred until next year, but will include information collected by the GCDO about the current use of AI and agencies' perceptions of the barriers to its uptake.
6. The GCDO has identified that many agencies are exploring the potential for AI use and development in the delivery of public services, though these are mostly pilot cases and have

been conducted at a small scale. So although there are some positive developments in this space, it appears that they are in relatively small pockets of the public service.

7. The GCDO's recent work also identified current barriers to AI use and uptake in the public service, with a view to making the perception and reality of increasing AI use easier for agencies. A number of different barriers were identified, and the GCDO is looking at various ways to address these. Of the identified barriers to AI uptake, there are three where the Commission considers there may be an opportunity for central agencies to provide support, including:
  - a. Capability – Critical to the effective use of AI is the capability of individuals to use AI tools, and organisations to understand the potential of AI those tools and how they could be effectively deployed to improve productivity. A current lack of AI capability and understanding of AI across the public service is a limiting factor.
  - b. Culture and perceptions – As with any new technology there are risks to the implementation of AI, some of which are particularly acute in the public service context (e.g. privacy). Limited support and assurance around safe AI development and deployment makes agencies hesitant to innovate.
  - c. Scale – There are some areas (e.g. coding, call centre operation) where the productivity gains from AI have been demonstrated in the private sector and internationally. However the small-scale pilots run by agencies have not provided sufficient confidence that scalability will achieve the investment dividends needed to produce savings, leading to a hesitance to invest further.
8. The Commission recently met with senior representatives from Microsoft for New Zealand and the Asia region to discuss barriers and opportunities for AI uptake based on their international perspective and their observations of the NZ context. The observations from this conversation aligned with those communicated by the GCDO. Australia has recently completed a trial of Microsoft Copilot 365 which made some similar findings to the GCDO's engagement with agencies in New Zealand.

## **Advice**

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9. While agencies will continue to explore the opportunities afforded by AI organically, we consider active steps could be taken from the centre to accelerate this change. The GCDO has the relevant expertise and relationships to continue leading this work, but there are opportunities for central agencies to better coordinate with and support the GCDO. Some of these opportunities are related to the barriers mentioned above and others are aligned with the Commission's performance management levers.

## *Capability*

10. Building capability across the public service requires the identification of appropriate resources, and mechanisms to make these widely available and ensure uptake. The GCDO has indicated that a range of resources exist internationally that could be adopted (following detailed assessment for relevance and appropriateness), and in the medium term there may be opportunities to partner with the private sector to develop bespoke resources for the New Zealand public service.
11. The opportunity for the Commission to add value is in our central learning platform and communication channels. The Commission has a central learning platform managed by its Leadership Development Centre that can host online learning modules and resources as these are identified or developed by the GCDO. We can use our communication channels with chief executives and agencies to support broad uptake of training.

12. General capability development of public servants will need to be complemented by organisational capability development to ensure agencies have the expertise in their digital functions to identify opportunities to use AI effectively.

#### *Culture and perceptions*

13. Agencies accelerating their uptake of AI requires a culture that supports innovation and is not overly risk-averse. Early guidance and communications from the GCDO had a greater emphasis on risk management and practices to avoid when deploying AI tools, which has likely had a chilling effect on agencies' uptake. We understand that work is proposed to refresh AI guidance, with a view to reducing risk aversion and focusing on positive steps that can be taken to safely deploy AI tools. This can be complemented by positive messaging and expectations from Ministers – and we understand Cabinet has agreed to promote the OECD AI Principles as a key direction of NZ's approach to AI.
14. This links to ongoing challenges with promoting a culture of innovation and addressing risk aversion within the public sector. This requires strong leadership and an increased risk appetite from public service leaders and Ministers. Central agency leadership can help to de-risk activity and support the necessary shift in culture and perceptions through communications to agencies, including setting general expectations for increased use of AI tools with chief executives and other senior public servants and using our channels to disseminate updated guidance on AI use.

#### *Scale*

15. As noted above, the GCDO has identified a wide range of use cases and associated pilots for the use of AI in different areas of the public service, which were anticipated to generate improvements in services and/or efficiencies for the agencies involved. In many cases agencies noted that the procurement and implementation of AI tools requires an initial investment (e.g. working with a vendor to develop a bespoke tool where off-the-shelf solutions are not appropriate) and an initial operating cost. Where pilots did not demonstrate a clear productivity dividend in the immediate term that would outweigh the initial investment, agencies have not had confidence to invest further.
16. This issue will likely be partially addressed by building capability of public servants in AI use, which will increase the size of the productivity gains and make AI investments more likely to be viable. However there may also be opportunities to reduce the risk of investment for individual agencies by taking a centralised approach where common use cases exist – for example cross-agency pilots coordinated by the GCDO or central investment in tools applicable across multiple areas.
17. This would require consideration of how a centralised approach could be funded within baselines. There may also be options to consider fiscal incentives for AI investment at the agency level (e.g. ability to retain and reinvest savings generated by AI initiatives). The Commission can engage with the Treasury and GCDO to further assess possible approaches to investment.

#### *Performance levers*

18. The approach to accelerating AI innovation and development in the public service could be strengthened by being more specific about what is expected with regards to AI use and uptake. Ongoing Cabinet processes can be used to set clear objectives and expectations for public service agencies in this area, and could potentially include an AI uptake target(s). With clear expectations in place, the Commission has existing performance management levers that could then be used to enhance and provide oversight of performance in these

areas (chief executive expectations and performance reviews). Additional incentives could be provided by public reporting.

19. If specific expectations or targets are set for AI uptake across the public service, it is likely that the GCDO would be the appropriate agency accountable for leading, monitoring and reporting on progress to Cabinet. Where there are strong use cases for deployment of AI in a particular area or agency, the Commission can ensure a focus on effective delivery by emphasising these programmes in individual chief executive expectations (noting that demonstration of productivity gains or performance improvements by one agency will likely encourage others to invest in the technology, and that this would likely fall into the 2025 expectations-setting process).

#### *Digital and data foundations*

20. Our engagement with Microsoft has indicated further areas where existing agency work programmes may contribute to foundations for effective AI use in the New Zealand public sector. For example, work led by the GCDO is focused on moving towards common and connected digital platforms across the public service (including a cloud-first approach to investment in digital technology) which may be aided by and ultimately support the effectiveness of AI tools. Maximising the benefit of AI requires well-structured and connected data, which is the focus of the Government Chief Data Steward (Stats NZ) and the Social Investment Agency. Ongoing support for these programmes of work will aid in the effective use of AI across the public service.

#### **Next Steps**

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21. We recommend discussing this advice and your expectations for the Commission in supporting the uptake of AI in the public service, at the next available agency meeting.
22. We will also continue to engage with the GCDO to discuss how we can support the public service AI work programme through the actions identified above.

#### **Recommended Action**

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We recommend that you:

- a **discuss** this advice with officials  
*agree/disagree.*
- b **agree** that the Public Service Commission release this briefing once it has been considered by you  
*agree/disagree.*

Hon Nicola Willis

**Minister for the Public Service**