

**Vote: Statistics**

**Baseline Alignment Proposal**

Version [1]

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Submitted by:

**Minister of Statistics**

**Hon Maurice Williamson**

## Section 1: Alignment to Government Priorities

### *What the Minister intends to achieve in Vote: Statistics, the ability to achieve those intentions and how they fit with Government Priorities*

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#### **Contribution of official statistics to Government goals**

- 1 Government has an overriding objective to grow the New Zealand economy so that New Zealanders can enjoy greater prosperity, security and opportunity. This requires comprehensive and high quality information to inform decision-making and to monitor outcomes over time.
- 2 Relevant and trustworthy official statistics, produced by Government departments, play a key role in this by providing the information required. For example, key economic decisions of the government rely on a timely and accurate understanding of the economy and the forces driving it. Iwi and others use statistical information to progress their economic and social development, and track economic, social, environmental and cultural wellbeing.
- 3 In the current fiscal situation the production and use of reliable and relevant statistics is particularly crucial both nationally and internationally for decisions affecting economic growth and for monitoring social spend.
- 4 Many of the statistics the country needs are produced and made available by government departments. However, there are some shortcomings in the current statistical system, in terms of gaps, accessibility and coherence.
- 5 As the leader of the Official Statistics System (OSS), Statistics New Zealand is working to improve the system and transform delivery of official statistics. The current vulnerable state of the organisation has forced it to balance short term fiscal management (to protect key statistical outputs and deliver priorities), with the longer-term need to be a more sustainable National Statistics Office.
- 6 The Minister's priority for Vote: Statistics is to contribute to Government goals and improve outcomes for New Zealanders by:
  - a. ensuring that the right information is available to support decision-making and monitor progress
  - b. increasing the accessibility and use of official statistics
  - c. increasing the value for money by prioritising and rationalising statistical activities.

#### **Strategic approach to capitalising on these opportunities**

- 7 Statistics New Zealand's strategic approach to capitalise on these opportunities, as it works towards its vision of an informed society using official statistics, is to:
  - work with partners to ensure that official statistics efficiently meet the country's needs for relevant, trustworthy, accessible information
  - obtain more value from official statistics
  - transform the way in which the department delivers its statistics
  - create a responsive, influential, customer-focused, sustainable organisation.
- 8 As a result of the activities under these strategic priorities, New Zealand will increasingly get the statistical information it needs to grow and prosper.

## Specific priorities for 2010/11 and beyond

9 The Minister's specific priorities for 2010/11 set out tasks that work towards that goal.

### **a) Ensuring that the right information is available to support decision-making**

#### **Develop an agreed list of New Zealand's most important statistics**

An agreed list of the most important (Tier 1) statistics is necessary to prioritise expenditure and identify lower value spend across government. Statistics New Zealand is engaging across government to develop this list to measure New Zealand's economic, social, environmental and cultural status to present to Ministers in 2010.

#### **Develop a long term plan to ensure business sustainability for Statistics New Zealand**

A long-term plan to ensure business sustainability for the department is necessary to secure the continued production of key statistics critical to New Zealand's progress, and will be submitted for Budget 2011. The current suite of statistical outputs is unaffordable, with Statistics New Zealand projecting financial deficits in 2010/11 and beyond. The substantial efficiency gains and savings in recent years have been insufficient to alleviate a situation which developed through being funded for the delivery of new economic and social statistics but not the cost increases associated with the supply of existing core statistical information.

#### **Continue to improve and extend productivity measures and progress the development of institutional sector national accounts**

To lift New Zealand's growth and progress it is important to fill gaps in the country's official statistics. The range of productivity measures produced by Statistics New Zealand will continue to be improved and extended, and enhanced income and savings estimates will result from institutional sector accounts later this year.

### **b) Increasing the accessibility and use of official statistics**

#### **Address current legislative constraints to improve access to microdata**

Statistics New Zealand is working to enhance the ability of researchers to access microdata (data about individuals, households and businesses) held within Statistics New Zealand, with appropriate protections, by addressing current legislative constraints in the Statistics Act 1975.

#### **Improve public access to Government held information and data**

The department is actively involved in the Open Government Data and Information Re-use Work Programme, which is aimed at improving access to, and use of, government-held information. This work complements the department's existing focus on increasing access and use of statistics through initiatives such as the web-based Business Toolbox application.

### **c) Increasing the value for money by prioritising and rationalising statistical activities**

#### **Complete the Duplication and Rationalisation Review**

This work, which was sought in Budget 2009 by the Minister of Finance, will be reported on in 2010. As well as increasing value-for-money within government, rationalisation and removal of duplication can reduce compliance costs for individuals or businesses, by reducing the amount of time spent supplying information to government departments.

### **Advance administrative data use and standard business reporting**

Statistics New Zealand is working across government sectors to progress this priority. A pilot of electronic standard business reporting, which has the potential to significantly reduce costs to businesses through better use of administrative data, is due to conclude in June 2010. A business case for future investment is being progressed by the Ministry of Economic Development in conjunction with Statistics New Zealand and Inland Revenue.

### **Progress cost effective collection opportunities**

Collection activities account for over 17% of the department's spend therefore finding efficiencies in this area is of prime importance to Statistics New Zealand. The ability to use electronic collection is being progressed in the Statutes Amendment Bill 2009 and will provide some opportunities over time for savings. The department is also working on a range of other initiatives aimed at increasing the efficiency of its collection activities.

### **Ability to achieve priorities**

- 10 Statistics New Zealand has a strong reputation for producing a wide range of reliable, trustworthy official statistics to meet user needs. Its leadership of the OSS is growing in impact and influence. In recent years new funding has been provided so that a range of new economic, social and sustainable development statistics could be produced.
- 11 The department has made significant reductions in the load it places on survey respondents, a key element of which has involved increasing the use of data collected by other government departments instead of using surveys. This approach has also enabled the department to provide innovative new datasets that link data from across government allowing more complex problems to be analysed. The department's focus on increasing the use of official statistics has been progressed through a range of developments including a revamped website and new web-based tools.
- 12 Despite this good progress, the department faces a number of challenges which impact on its ability to achieve its priorities. The funding provided for statistical output production is inadequate to satisfactorily maintain the ongoing fit-for-purpose quality and real world relevance of the existing suite of products and services. This includes the introduction of updated international frameworks such as those for compiling the National Accounts, or regularly reviewing the baskets of goods and services surveyed for the suite of price indexes.
- 13 In short, the department is unable to keep doing all it does now in the way it does it now, without change. All resources are applied to meeting user demands for statistics and coordinating the Official Statistics System for greater public sector efficiency. Reprioritisation effectively means reprioritising between competing user demands.

## **Section 2: Reprioritisation**

***How the Minister proposes to make changes within the Vote in order to deliver his intentions: What will begin, change or stop?***

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### **Achieving these priorities will require change**

- 14 In order to achieve these priorities change will be needed both in the short-term and long-term.
- 15 Before additional savings measures are taken, Statistics New Zealand is currently projecting a \$3.0m deficit in 2010/11 rising to \$8.5m in 2011/12. Furthermore, development of the

household savings survey has been deferred to avoid exacerbating this deficit situation. These deficits are driven by increasing operating costs, depreciation costs, and time-limited funding coming to an end.

- 16 Factors leading to an increase in operating costs (of over \$2 million per annum) include the rising cost of skilled personnel in the knowledge sector, costs in new leasing arrangements, and potential increases from the Collective Employment Agreement renegotiation (due in October 2010).
- 17 In terms of depreciation, 40% of Statistics New Zealand's assets are fully depreciated. The average age of the fully depreciated assets is 7 years. 90% of the fully depreciated assets are IT infrastructure, developed systems or software. These old and fragile systems need substantial reinvestment and the department is unable to afford the future depreciation stream resulting from the required capital investment.
- 18 These issues are further exacerbated by time-limited funding for significant parts of the statistical programme coming to an end. For example, funding for the Programme of Official Social Statistics (POSS) which currently accounts for 14% of total funding, reduces to below \$10m in 2010/11 and will require funding renewal in 2014/15.

### **Action already taken**

- 19 Over the last three years, savings of just under 15% of total baseline funding have been made (6.5% in 2007/08, 6% in 2008/09 and 2% in 2009/10). This includes a reduction of outputs, realising savings of \$0.7m. There has also been a rationalisation of current project expenditure with much improvement in project and investment management disciplines to ensure the department is focusing on the most important or critical pieces of work, and those of high strategic value aimed at transforming the delivery of statistics, such as standardising processes and systems.
- 20 There are more opportunities to standardise the way the department produces its statistics, reduce costs and increase the department's flexibility and speed of response to changing priorities. Significant thinking has gone into how best to produce and disseminate official statistics in the future. The organisation knows how to transform the way it delivers its statistics and is taking steps to do this, but the department is slowed in progressing this knowledge by the need to concentrate on meeting deficits and delivering the current suite of increasingly unaffordable statistical outputs.
- 21 The easier savings and output reductions have been made in recent years, with none of the remaining options likely to be as simple. In 2009 the department prioritised its entire suite of statistical outputs, services and activities using the prioritisation framework attached as appendix one. Through this process Statistics New Zealand identified output reductions of \$3.9m which were not supported by the Government at that time.

### **Short-term approach**

- 22 To find further savings as opportunities decline and to ensure informed options going forward, Statistics New Zealand has designed a two stage approach to meet the 2010/11 deficit of \$3.0m.
- 23 This approach will likely involve some cuts to outputs but it is expected that more than 90% of the deficit will be met from the savings outlined in Table 1 below. The potential outputs that could be affected are in Table 2, with areas of further consideration, should this be necessary,

listed in Table 3. Final decisions and appropriate consultation on potential output cuts will occur following revised financial projections in April.

- 24 The two stage approach is designed to “buy time” by balancing the books in the short term (2010/11). This will enable the department to engage with stakeholders on medium (2011/12) to longer-term options for business sustainability.
- 25 Stage one will find savings by:
- continuing cost savings and efficiency initiatives
  - reducing discretionary expenditure.
- 26 Stage two will find savings by:
- reducing the frequency/standard or cancelling outputs
  - reducing expenditure in strategic and risk reduction initiatives.
- 27 Reductions to expenditure on strategic and risk reduction initiatives need to be assessed very carefully due to the potential impact such cuts would have on the long-term future of the organisation.

### **Risks of the two stage approach**

- 28 This approach to meeting the deficit projected for 2010/11 is not without business risk.

### **Risks to quality, relevance and timeliness**

- To keep statistics relevant to the real world events they are expected to measure requires investment to maintain currency. Delaying programmes of review can put quality and relevance at risk. For example, significant amounts of government expenditure and important policy settings are tied to movements in the CPI. The CPI requires an ongoing programme of review to overcome the upward bias that all CPIs have overtime. Any delay in this programme decreases the relevancy of the CPI basket of goods and services.
- Deferral and delays of existing key projects such as standardising statistical platforms and updating aging information technology and statistical systems also increases risks to quality, relevance and timeliness. It also delays the inevitable in that the quantum of the problem will increase the longer investment is deferred.
- Substantial efficiency gains and savings have already been made with the easier opportunities having been realised. Collections which represent over 17% of the department’s costs will be reduced by a further 5% in 2010/11, this will realise a significant saving of \$700k but reductions in the collection of data risks the quality collected and the statistics produced.

### **Reductions in outputs require difficult decisions and impact stakeholders**

- Past decisions to reduce or cut outputs have not been received well by stakeholders who convey concerns publically and to Ministers.
- To determine the level of impact of output reductions requires early engagement and consultation with government departments.
- Historically, statistical outputs that have been cut when the department was in financial difficulty have been reinstated later. The discontinuity raised the production costs and reduced the value of the output.
- New statistical developments normally take two to three years, implying that a multi-year approach and stability in medium-term funding is required for Vote: Statistics. Previously committed survey developments are problematic given projected deficits. Specifically, costs of the planned Maori Social Survey can be met in 2010/11 but not in

2011/12. It may therefore need to be cancelled unless some funding increase can be relied upon in 2011/12.

#### **Impact of further reductions in discretionary expenditure**

- Reductions in research and development means maintaining quality and responding to real world changes will be difficult. This poses a reputational risk to the department if it is not creating innovation, or meeting the needs of users by filling gaps in official statistics but more critically risks quality degradation to core outputs and systems.
- Erosion of current and future capability. Less staff training and engagement will impact on the organisation's ability to attract and maintain staff especially in a knowledge business which has struggled to maintain capability. A significant number of inexperienced staff poses risks to the ongoing production of timely, accurate statistics.
- Reductions in promotional activity is at odds with Statistics New Zealand's strategic priority to obtain more value from statistics by promoting the use of statistics.

#### **Medium to long-term approach**

29 Statistics New Zealand is currently projecting a \$8.5m deficit in 2011/12. Without major change to existing business processes and/or further investment it is inevitable that core output cut decisions will be required given the significance of this deficit.

30 As noted earlier, developing a long-term plan for business sustainability is a Ministerial priority this year. The plan is necessary to ensure business sustainability for the department and in turn secure the continued production of key statistics critical to New Zealand's progress. The plan and associated options will focus on the transformation of the delivery of official statistics (people and systems) and will include the current initiatives such as those listed in Table 3, being progressed as far as is feasible. This business case will provide the necessary information and associated options to enable the government to make decisions on the level of investment it wishes to make in official statistics. Tough choices are likely to be needed by government.

31 This plan and associated business case will be lodged for consideration for Budget 2011.

#### **Tables**

32 The following tables show how the 2010/11 deficit of \$3.0m could be met through short-term decisions. Table 1 savings are expected to meet more than 90% of the deficit, with any shortfall made up by Table 2 reductions, and if necessary, Table 3 activities will be considered.

**Table 1: Cost savings/efficiency initiatives and discretionary expenditure reductions - stage one**

Nature of change	Estimated Scale of Savings	Impact of change
Reduce Collection Costs, an ongoing initiative to reduce collection costs through finding efficiencies and improved contact centre utilisation	\$0.700m	Quality of statistics could be affected as collection of data is integral to producing quality statistics and collection is increasingly difficult and costly. The risk to quality and response rates will be monitored closely.
Rationalise the monthly Retail Trade Survey (RTS) with the Electronic Cards Transactions (ECT) series	\$0.257m	The ECT series has been gaining increased acceptance and use by stakeholders therefore rationalisation of the monthly RTS with this series should not affect stakeholders unduly. However, any initial negative reaction from stakeholders will be overcome with appropriate consultation and ratification of the quality of the ECT. Stakeholders include the Reserve Bank, Treasury, MED, economic commentators, specialist industry groups, media and others interested in emerging economic performance.
Graduate Programme. No intake of graduates for 2010/11	\$0.150m	This public sector leading programme has been useful to develop future capability. The recent fall in staff turnover allows suspension of the programme without causing significant impact in the short term. Current graduates will continue to be supported.
No commissioning of research programmes for 2010/11.	\$0.500m	These research programmes (external and internal) fund statistical improvement and innovations. The current funding situation means no new research proposals will be progressed in 2010/11. The stakeholders most affected are researchers in the academic community and early advice to this group will be required to inform them of the change.
Reduce promotional activities	\$0.200m	Discontinuance impacts on the strategic priority to obtain better value from official statistics by promoting use.
Continue reductions on discretionary expenditure e.g. travel, training and amenities	\$0.620m	This is likely to reduce training expenditure with impacts on a knowledge business which has struggled to maintain capability.
Other internally generated savings	\$0.373m	These savings have no external impact.
<b>Total savings</b>	<b>\$2.800m</b>	



**Table 2: Output reductions - Category 4 on the Prioritisation Matrix/Framework - stage two**  
*(Final decisions and appropriate consultation will occur following revised financial projections in April.)*

Nature of change	Estimated Scale of Savings	Impact of change
The Screen Industry survey. Stop or reduce frequency of this survey	\$0.156m	This survey describes the monetary value to NZ of the screen and TV industry. Users are likely to resent the loss of data where screen statistics are used to measure the return on these investments. A recent proposal to reduce the frequency of this annual survey to every two years was dropped after stakeholder feedback. Stakeholders are Ministry of Economic Development, NZ Trade and Enterprise, Ministry of Culture & Heritage, Film Commission.
Work stoppages. Stop processing statistics	\$0.024m	Work stoppages statistics are currently produced from administrative data sourced from the Department of Labour (DoL). Statistics NZ is negotiating for the Department of Labour to take over the release of these statistics. Some savings will be realised by Statistics NZ by stopping processing early but these will not be substantial. DoL, labour organisations, economic agencies and interest groups all have some interest in these results particularly at any time industrial activity increases but as DoL is due to take over the release of these statistics will not be unduly concerned.
Cancel processing cargo data	\$0.020m	Cargo data is essentially merchandise trade data plus goods for repair and leased goods. The data comes through Customs and is processed at the same time as merchandise data. It is used largely by port and shipping companies as it gives them a good idea of what volume of goods is entering and leaving the country.
<b>Total savings</b>	<b>\$0.200m</b>	

**Table 3: Reductions in Strategic and Risk Reduction Initiatives - stage two**

Nature of change	Nature of impact and mitigation required
ANZSIC classifications roll out across all collections. Implementation delays	This roll out is needed to ensure comparability with data collection in Australia and internationally. A deferral means Statistics NZ would need to maintain sets of statistics on two databases which is costly and not user friendly. A short-term delay in the roll out is possible but more than short-term risks deterioration in quality. This is a capital project with limited operational savings to meet the deficit.
People Strategy. Implementation delays	Delays in implementation will impact severely on a knowledge based organisation which needs to attract and retain specialist skills in an area of limited supply.
Better Economic Statistics (BEST) transformation. Implementation delays	Delays in implementing transformation of this economic statistical platform means having to continue to rely on the old out-of-date, less efficient legacy software or platforms for longer. The risk of system failure over the current timeframe is increasing therefore any decision to slow or defer investment would increase this risk and require increased operating expenditure on IT support capability and maintenance to mitigate this risk to key outputs. It would also delay our ability to realise potential efficiency gains through the increased use of administrative data. Capital project with limited operational savings i.e. deferral of investment has limited impact on operating deficit.
Internet Collections. Implementation delays	Delays in increasing the use of the internet in data collection will continue inefficient processes.
IT Legacy Programme. Implementation delays	Delays in retiring old, costly and out of date systems and replacing with newer systems means continuing inefficient programmes. Capital project with limited operational savings.
IT Capital Replacement Programme. Implementation delays	Delays in capital replacement of old IT threatens production of key outputs. Capital project with limited operational savings.
Development of National Accounts. Implementation delays	The current system is complex and unreliable resulting in risks to producing reliable and timely outputs in particular to key outputs such as GDP. Internally there is a risk of losing skilled expertise if this work is delayed.
Household Labour Force Survey (HLFS) Redevelopment. Implementation delays	The HLFS survey is a key output that accounts for 20% of collection costs. Delays to redevelopment will affect the quality improvements needed and disappoint users. It also increases risk of system failure leading to output delays plus delays in being able to realise targeted operational savings in relation to reduced collection costs. As this is a capital funded project it has limited operational savings.

### **Section 3: Summary of Financial Movements**

#### ***Changes to appropriations which are required to deliver the reprioritisation in Section 2***

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- 33 Statistics New Zealand's baseline will reduce by \$35,000 in 2010/11, rising to \$70,000 in 2011/12, and \$75,200 in 2012/13 and outyears. This is in accordance with the Minister of Finance's letter of 4 March 2010 giving effect to CAB Min (10) 7/12 Proposal for a New Zealand Productivity Commission.

To assist the Government to make decisions about the level of investment it wishes to make in official statistics, Statistics New Zealand has developed a prioritisation framework that categorises its outputs into one of four categories. The department also uses this framework to guide its internal decision-making. The framework prioritises statistical releases, statistical services, and support services separately.

**Statistical releases**

Priority	Criteria
1. Most important statistics that require the highest levels of credibility and integrity	<ul style="list-style-type: none"> <li>• they are market sensitive</li> <li>• there is a legal requirement for Statistics New Zealand to collect and produce them</li> <li>• they fulfill other statutory or electoral obligations</li> <li>• they are crucial to the essential management functions of government.</li> </ul>
2. Statistics directly used in the production of priority 1 statistics	<ul style="list-style-type: none"> <li>• directly used in the production of the "most important" (priority 1) statistics.</li> </ul>
3. Statistics produced because Statistics New Zealand has a strong comparative advantage, and/or where there is a widespread and enduring user demand	<ul style="list-style-type: none"> <li>• offer value for money through economies of scale or scope, the ability to deal with complex topics or processes, a concentration of specialised and scarce skills or the ability to leverage existing infrastructure including established systems, methods and unit record data (that other organisations are unlikely to maintain or develop)</li> <li>• have advantages derived from statistics legislation (Statistics Act 1975) , such as access to unit record data, or mandatory participation</li> <li>• being able to provide independent evidence to assess New Zealand's position internationally</li> <li>• where the independence of the Government Statistician is of advantage.</li> </ul> <p>As well as the above considerations, it is also necessary to factor in the nature of the user need for the statistics. If need is low, this diminishes the additional value gained from having Statistics New Zealand produce the statistics.</p>
4. Discretionary statistics	<ul style="list-style-type: none"> <li>• not in priorities 1-3. No compelling case for Statistics New Zealand to produce, however, there may be user demand for them.</li> </ul>

### Statistical services and support services

Priority	Statistical Services	Support Services
1	Mandatory <ul style="list-style-type: none"> <li>• absolutely must do, essential to the 'most important' statistics</li> <li>• legal requirement.</li> </ul>	Mandatory <ul style="list-style-type: none"> <li>• legal requirement</li> <li>• Cabinet public service requirement.</li> </ul>
2	Core <ul style="list-style-type: none"> <li>• necessary work to maintain fit-for-purpose quality, ensure reasonable use of statistics</li> <li>• essential functions for OSS leadership.</li> </ul>	Core <ul style="list-style-type: none"> <li>• important to running the business</li> </ul>
3	Strategic <ul style="list-style-type: none"> <li>• prioritised by the Board</li> <li>• fits with strategic objectives, supports our positioning as an NSO, ensures better future delivery, but is not essential activity.</li> </ul>	Strategic <ul style="list-style-type: none"> <li>• prioritised by the Board</li> <li>• fits with strategic objectives, supports our positioning as an NSO, ensures better future delivery, but is not essential activity.</li> </ul>
4	Discretionary <ul style="list-style-type: none"> <li>• elective activities.</li> </ul>	Discretionary <ul style="list-style-type: none"> <li>• elective activities.</li> </ul>

## Baseline Alignment Proposal - Financial Summary Report

Vote:	Statistics			
	2009/10	2010/11	2011/12	2012/13
	(\$000)	(\$000)	(\$000)	(\$000)
<b>Baseline (2009/10 FBU)</b>	<b>106,554</b>	<b>143,669</b>	<b>102,153</b>	<b>95,453</b>
Share Allocation	0	0	0	0
Centralised Saving	0	0	0	0
Reprioritisation				
Total Reprioritisation	0	0	0	0
Transfers Outside Vote				
Baseline Alignment Proposal	0	-35	-70	-75
Total Transfers Outside Vote	0	-35	-70	-75
Total Changes	0	-35	-70	-75
Total Proposed Baseline	106,554	143,634	102,083	95,378
				93,271