

The Treasury

Budget 2011 Information Release

Release Document

June 2011

www.treasury.govt.nz/publications/informationreleases/budget/2011

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [3] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [4] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [5] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [6] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [7] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
- [8] 9(2)(h) - to maintain legal professional privilege
- [9] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
- [10] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [11] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, an [8] appearing where information has been withheld in a release document refers to section 9(2)(h).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Treasury Report: Briefing for Meeting with the Minister of Statistics on 25 November 2010

Date:	23 November 2010	Report No:	T2010/2379
--------------	------------------	-------------------	------------

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Read prior to your meeting with the Minister of Statistics on 25 November 2010, 8.30am	8:30am, 25 November 2010

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[1]	Graduate Analyst, State Sector Management	[1]	✓
Michele Lloyd	Manager, State Sector Management		

Minister of Finance's Office Actions (if required)

None.

Enclosure: No

Treasury Report: Briefing for Meeting with the Minister of Statistics on 25 November 2010

Executive Summary

Without additional savings Statistics New Zealand (SNZ) projects deficits for 2010/11 and outyears. These deficits are mainly caused by SNZ's ageing IT infrastructure and its statistical systems legacy which imply high production costs for the organisation.

SNZ has developed a business case seeking funding for a 10 year change programme called "Statistics 2020" which addresses the financial and legacy problems. The business case offers three options whose costs and benefits are summarised in the following table:

	Baseline Scenario	Partial Outcomes Scenario	Preferred Scenario
Costs	<ul style="list-style-type: none"> No additional funding for Vote Statistics <p>[2]</p>	<ul style="list-style-type: none"> Additional funding (operating) of \$13.8 million per year over a period of 10 years required Note that the funding requirements of this option are equal to those of the preferred option, but the distribution over 10 years is different 	<ul style="list-style-type: none"> Additional funding (operating) of \$13.8 million per year over a period of 10 years required
Benefits	<ul style="list-style-type: none"> Very limited efficiency gains 	<ul style="list-style-type: none"> \$48 million savings projected over 10 years No cuts to the scope of statistics produced Standardisation of systems at slow rate Common platforms, processes, tools and methodologies for most, but not all systems 	<ul style="list-style-type: none"> \$96 million savings projected over 10 years No cuts to the scope of statistics produced Standardisation of systems at fast rate Common platforms, processes, tools and methodologies for all systems Increased functionality of systems and responsiveness to changing user needs

[2]

We support additional investment in SNZ on the basis that this is used to transform SNZ into a financially sustainable organisation and that the funding goes to the production of statistics and statistical infrastructure.

We recommend that any additional funding agreed should be granted on a conditional basis (i.e. it should be made conditional on the achievement of agreed project milestones and the realisation of promised savings and efficiency gains).

We recommend inviting SNZ to explore further options to partly fund the “Statistics 2020” programme internally, in particular, through savings gained from changing the methodology and frequency of census delivery, and at the margin by examining the relative priority of priority 3 and 4 statistics.

Communications

A copy of this report has been forwarded to SNZ. We have coordinated our response to SNZ’s business case with the State Services Commission.

Recommended Action

We recommend that you:

SNZ’s current situation

- a. **note** that SNZ projects a deficit of \$1.5 million for 2010/11 and \$5.0 million for 2011/12. Deficits are projected to increase even further in outyears. SNZ can cover the projected deficits with its cash assets (\$31.0 million), but the deficits indicate that SNZ is not financially sustainable;
- b. **note** that underlying cost-drivers are SNZ’s ageing IT infrastructure and its statistical systems legacy. We believe these issues pose a risk to the financial sustainability of SNZ and to the future production of key statistics with implications for the accurate assessment and analysis of New Zealand’s overall performance;

Business case “Statistics 2020” and related issues

- c. **note** that SNZ has developed a business case to seek funding for a 10 year change programme called “Statistics 2020”. This programme intends to address the risk SNZ faces regarding the continued sustainable production of key economic and social statistics;
- d. **note** that SNZ is currently developing a second business case called “Tomorrow’s Official Population and Social Statistics” which covers the future funding of key social and population statistics and the census;
- e. **note** that SNZ is currently undertaking a review of the most important statistics to measure New Zealand’s performance and underpin key decisions of government (“Tier 1 Review”);

Baseline option

- f. **note** that the “Statistics 2020” business case offers a baseline option which requires no additional funding, [2]
- g. **note** that we do not support the baseline option. [2]

Reliable statistics underpin macroeconomic analysis and policy advice and our understanding of economic, industry and labour market performance. Statistical data form the basis for external assessment of New Zealand’s economic performance by rating agencies, international organisations and financial markets. [3]

Partial outcomes options

- h. **note** that the business case offers a partial outcomes option which requires additional funding of approximately \$13.8 million per year over a period of 10 years plus a contingency of \$25.0 million. This adds up to approximately \$163 million over ten years. The funding requirements of this option are equal to those of the preferred option, but the distribution of funding over 10 years is different (see paragraph 18 for details).
- i. **note** that we do not support the partial outcomes option. Its funding requirements are equal to the funding requirements of the preferred option, but it standardises less platforms and statistical systems and at a slower rate than the preferred option.

Preferred option

- j. **note** that the business case offers a preferred option which standardises and stabilises SNZ's statistical systems and IT infrastructure and, thereby, intends to assure the sustainable future production of statistical data. This option does not result in an increase in the quantity of SNZ's outputs but impacts positively on SNZ's productivity and the quality of SNZ's outputs by:
- enhancing access to, and re-use of, data;
 - increasing the use of administrative and government data;
 - transforming the collection function (e.g. greater use of the internet);
 - making SNZ more agile and responsive towards emerging and changing user needs;
 - reducing the dependency on surveys;
 - developing better tools and implementing new technology to facilitate access to data; and
 - allowing systematic updates to the production methodology of statistics to ensure increased accuracy of statistical data (e.g. changes to the CPI basket of goods).

This option requires additional operating funding of approximately \$13.8 million per year over a period of 10 years plus a contingency of \$25.0 million. This adds up to approximately \$163 million over ten years;

- k. **note** that we support additional investment in SNZ on the basis that this is used to transform SNZ into a financially sustainable organisation, that the funding goes to the production of statistics and statistical infrastructure, and that SNZ explores further options to partly fund the "Statistics 2020" programme internally;

Funding for the additional investment and points to discuss with the Minister of Statistics

- l. **note** that we recommend that any additional funding agreed should be granted on a conditional basis. It should be made conditional on the achievement of agreed project milestones, the realisation of promised savings and efficiency gains, and the identification of savings gained from changing the methodology and frequency of census delivery;

- m. **discuss** with the Minister of Statistics further options for SNZ to internally fund the “Statistics 2020” programme. In particular, SNZ should explore whether the programme can be partly funded by:
- savings gained from changing the methodology and frequency of census delivery (e.g. as identified in SNZ’s business case “Tomorrow’s Population and Social Statistics”);
 - scrutinising the production of priority 3 and 4 statistics (e.g. as a result of the Tier 1 review) as, in our view, not all of these statistics are of equal value and some of them could be cut to generate additional internal funding;
 - introducing user charges;
- n. **discuss** with the Minister of Statistics further options for SNZ to improve the quality of its outputs. Additional funding should partly be used to improve the quality of the current suite of statistics;

Way ahead

- o. **confirm** with the Minister of Statistics that SNZ will submit its business case as part of its four-year budget plan. This gives you the opportunity to judge SNZ’s funding bid in the context of other Votes’ funding bids; and
- p. **inform** the Minister of Statistics that following the outcome of this process, you can indicate to the Minister of Statistics whether or not a submission of SNZ’s business case to Cabinet is likely to be successful.

Michele Lloyd
**Manager, State Sector Management
for Secretary to the Treasury**

Hon Bill English
Minister of Finance

Treasury Report: Briefing for Meeting with the Minister of Statistics on 25 November 2010

Purpose of Report

1. This report gives you an update on SNZ's business case "Statistics 2020" and provides you with background information on current issues SNZ is facing.

SNZ's Current Situation

SNZ's Financial Situation

2. SNZ's 2010/11 baseline is \$105.1 million with additional \$88.6 million for the 2011 Census spread over five years.
3. Without additional savings SNZ projects a deficit of \$1.5 million for 2010/11 and \$5.0 million for 2011/12. Deficits are likely to increase even further in outyears. SNZ can currently cover the projected deficits with its cash assets (\$31.0 million) which SNZ has accrued through past depreciation funding, but the deficits indicate that SNZ is not financially sustainable in the medium and long term..
4. The main factors leading to the deficits are increasing operating costs (e.g. rising cost of skilled personnel, new leasing arrangements), depreciations costs, and cessation of time limited funding. Underlying cost-drivers are SNZ's ageing IT infrastructure and its statistical systems legacy.
5. In terms of depreciation, 40% of SNZ's assets are fully depreciated and 90% of the fully depreciated assets are IT infrastructure, developed systems or software.

SNZ's Legacy Systems and Ageing IT Infrastructure

6. SNZ has an ageing IT infrastructure and uses outdated statistical methodologies. For example, SNZ's system to produce the Household and Labour Force Statistics (HLFS) dates back to 1985.
7. Its systems, datasets and methods are split up in a large number of separate and unconnected silos. SNZ uses more than 250 separate production systems.
8. As a result of its legacy systems and ageing IT infrastructure it becomes more and more costly for SNZ to produce, access and use statistical data and respond to its clients' needs. [3]

Treasury's Assessment of the State of New Zealand's Statistics

9. The Treasury is a major user of statistics, particularly of economic and social statistics, most of which are provided by SNZ. This data underpins macroeconomic analysis and policy advice, our understanding of overall economic performance, industry and labour market performance and associated policy advice. This data also forms the basis for external assessments of New Zealand's economic performance by rating agencies, international organisations like the OECD and IMF, and financial markets.

10. [3]

[3],[7]

11. [3]

SNZ's business case "Statistics 2020"

Background

12. SNZ has developed a business case to seek funding for a 10 year change programme called "Statistics 2020". This programme intends to address the risk SNZ faces regarding the continued sustainable production of key economic and social statistics.
13. The business case has been through two Gateway reviews at the State Services Commission, and SNZ has received feedback from a group of external peer reviewers. We understand that SNZ intends to include the business case in its four-year budget plan and to subsequently submit it to Cabinet for decision.

Overview

14. SNZ's business case offers three options called "baseline scenario", "partial outcomes scenario", and "preferred scenario". The following table provides an overview over the benefits, costs and risks associated with the three options:

	Baseline Scenario	Partial Outcomes Scenario	Preferred Scenario
Costs	<ul style="list-style-type: none"> No additional funding for Vote Statistics [2] May shift cost onto other agencies as they seek to produce statistics no longer produced by SNZ 	<ul style="list-style-type: none"> \$163 million additional funding required (\$138.0 million operating expenditure over ten years + \$25.0 million contingency) \$35 million internally funded \$52.5 capital expenditure fully funded from existing cash reserves and depreciation 	<ul style="list-style-type: none"> \$163 million additional funding required (\$138.0 million operating expenditure over ten years + \$25.0 million contingency) \$35 million internally funded \$61.0 capital expenditure fully funded from existing cash reserves and depreciation
Benefits	<ul style="list-style-type: none"> The need to invest in technology to replace legacy systems and to ensure the stability of production systems is minimally addressed Very limited efficiency gains 	<ul style="list-style-type: none"> \$48 million savings projected over ten years No cuts to the scope of statistics produced Standardisation of systems at slow rate Common platforms, processes, tools and methodologies for most, but not all systems 	<ul style="list-style-type: none"> \$96 million savings projected over ten years No cuts to the scope of statistics produced Standardisation of systems at fast rate Common platforms, processes, tools and methodologies for all systems Increased functionality of systems Enhanced access to, and re-use of, data Increased use of administrative and government data Transformation of the collection function (e.g. greater use of the internet) Reduced dependency on surveys
Risks	<ul style="list-style-type: none"> Not a sustainable option Further funding or output decisions required by 2014/15 Deterioration of New Zealand's statistical data 	<ul style="list-style-type: none"> Risk of not being able to keep pace with technological change and, hence, fail to maximise the potential benefits available from new technologies 	<ul style="list-style-type: none"> Change fatigue; Failure to achieve forecasted savings and efficiency gains Potential lack of programme management capability

Baseline Option

15. The baseline option requires no additional funding, addresses the need to invest in technology to replace legacy systems and to ensure the stability of production systems to a minimal extent, [2]

[2]

16. From a user perspective Treasury would have significant concerns about the baseline option. [2]

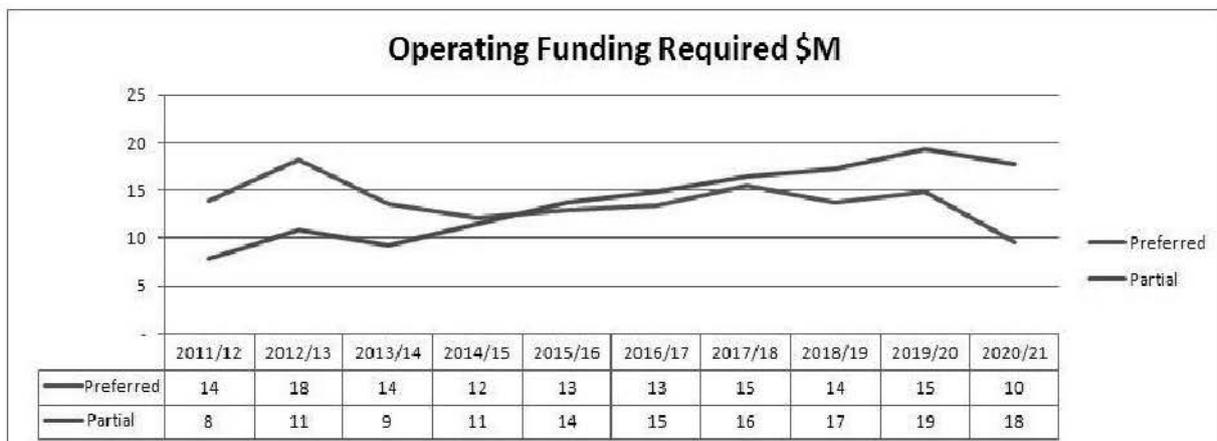
For example, the Household Economic Survey (HES) is critical input into Taxwell, which has been the government's main model for analysing the fiscal, EMTR and equity impacts of proposed changes to income support and taxes affecting households. With SNZ currently moving to cancel monthly retail sales data, cancelation of Electronic Card Transactions [2] would mean there would be no timely indicator of household consumption behaviour, over half of GDP, making macro-stabilisation more difficult. In addition, the baseline option is likely to imply further degradation of the current priority 1 and 2 statistical base and no progress toward closing current gaps.

17. [2]

We have used LEED data and research based on it over recent months when modelling the likely impact of social insurance for the Welfare Working Group Secretariat.

Preferred Option

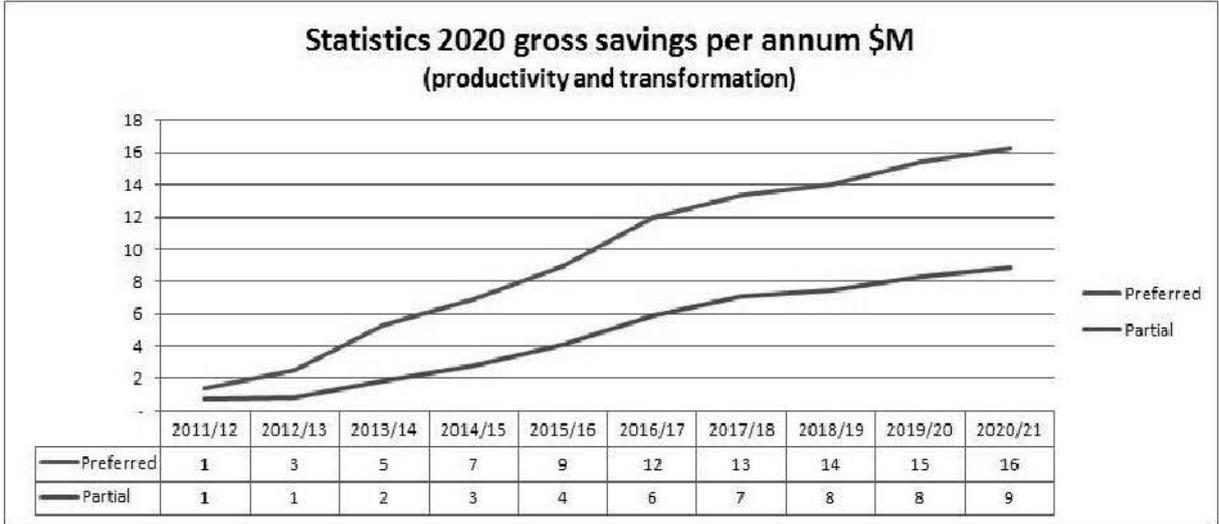
18. SNZ's preferred option implies total operating costs of \$269.0 million over ten years. SNZ offers to fund \$35.0 million of these costs from existing revenue and assets, and forecasts saving of \$96.0 million as a result of efficiency gains. The contingency for the preferred option is calculated as \$25.0 million. Hence, SNZ seeks \$163.0 million additional operating funding over ten years in the preferred option which includes a contingency of \$25.0 million.
19. Total capital expenditure for the preferred option is \$61.0 million. SNZ intends to fund all of the capital expenditure from existing cash reserves and depreciation.
20. The preferred option standardises and stabilises SNZ's statistical systems and IT infrastructure and, thereby, intends to assure the sustainable future production of statistical data. This option does not result in an increase in the quantity of SNZ's outputs but impacts positively on SNZ's productivity and the quality of SNZ's outputs by:
 - enhancing access to, and re-use of, data;
 - increasing the use of administrative and government data;
 - transforming the collection function (e.g. greater use of the internet);
 - making SNZ more agile and responsive towards emerging and changing user needs;
 - reducing the dependency on surveys; and
 - developing better tools and implementing new technology to facilitate access to data.
21. Compared to the partial outcome option, the preferred option results in higher efficiency gains and realises the standardisation of platforms and statistical systems at a faster rate. The additional funding sought for in the preferred option is equal to the additional funding sought for in the partial outcomes option, but its distribution over the ten years is different, as shown in the following graph:



Partial Outcomes Option

22. The partial outcomes option implies total operating costs of \$221.0 million over ten years. SNZ offers to fund \$35.0 million of these costs from existing revenue and assets, and forecasts saving of \$48.0 million as a result of efficiency gains. The contingency for the preferred option is calculated as \$25.0 million. Hence, SNZ seeks \$163.0 million additional operating funding over ten years in the preferred option which includes a contingency of \$25.0 million.

- 23. Total capital expenditure for the partial outcomes option is \$52.5 million. SNZ intends to fund all of the capital expenditure from existing cash reserves and depreciation.
- 24. Compared to the preferred option, the partial outcomes option realises the standardisation of only some platforms and statistical systems at a lower rate. The additional funding sought for in the preferred option is equal to the additional funding sought for in the partial outcomes option, but it results in lower efficiency gains than the preferred option as shown in the following graph:



Further issues in relation to SNZ’s business case “Statistics 2020”

- 25. In our view, the business case “Statistics 2020” should be seen in the context of five related issues SNZ is currently facing: the census, the issue of user charges, SNZ’s role as the leader of the Official Statistics System (OSS), the Tier 1 review, and SNZ’s business case “Tomorrow’s Official Population and Social Statistics”.

Census

- 26. Currently, SNZ carries out the census on a five-yearly basis at total costs of approximately \$90.0 million. The census 2011 project is well under way and progressing according to plan. SNZ is developing alternative options for conducting future census post 2016.
- 27. [3]
- 28.

User Charges

29. Another option for reducing the amount of funding required for the business case “Statistics 2020” would be to levy user charges for statistical data. Government agencies could be asked to pay for the provision of statistical data, in particular, if surveys are produced for special purposes and tailored to individual agencies’ needs.
30. Charging users would not change the overall cost of statistics across the Crown, but it would provide an incentive for agencies to reveal their real preferences regarding the statistical data they want.

Official Statistics System Leadership

31. As the leader of New Zealand’s Official Statistics System (OSS), SNZ has a mandated role to coordinate statistical activity across government. We understand that SNZ intends to strengthen its OSS leadership role.
32. We support an active OSS leadership by SNZ and note that this role should be used to make greater use of administrative data, eradicate duplication regarding the collection of statistical data, and further align the supply of, and demand for, statistical data across government.

Tier 1 Review

33. SNZ has launched a project to review and identify the most important statistics to measure New Zealand’s performance and underpin key decisions of Government. These statistics, which are produced by a number of different departments, are called “Tier 1 statistics”. The project aims at reaching agreement across government on a list of Tier 1 statistics. The list will be available in December 2010 and will be presented to Cabinet early next year.
34. We support SNZ’s Tier 1 review and note that the list could be used to reprioritise the production of statistical data. For example, one could require that any proposal for funding of new statistical activity is considered against the Tier 1 priorities. We also regard the Tier 1 list as a tool to enable SNZ to better undertake its OSS leadership role.

SNZ’s Business Case “Tomorrow’s Official Population and Social Statistics”

35. SNZ has developed another business case called “Tomorrow’s Official Population and Social Statistics” which addresses the future funding of the census and the suite of population and social statistics. The census is currently funded by a five-yearly multi-year appropriation. The funding for population and social statistics is time limited and starts to cease in 2013.
36. We recommend that in this business case, SNZ should discuss potential savings gained from changing the methodology and frequency of census delivery. These savings could then be used to partly fund the “Statistics 2020” business case.

Comment

37. In our view the legacy systems and ageing IT infrastructure pose a real risk to the financial sustainability of SNZ and threaten the continued supply of important statistics. We believe that SNZ needs to address these problems. SNZ needs to demonstrate that it has a comprehensive understanding of, and clear plan about how to solve, these problems. SNZ’s business case demonstrates this in our view.

38. We note that SNZ has accrued cash reserves of approximately \$31.0 million which it could use to cover the projected deficits in coming years. In the medium and long term this would, however, not be a sustainable option and it would not address the risk to the supply of statistics.
39. We share SNZ's view that if the Government wants SNZ continue to be the main producer of statistics, then an investment in SNZ's ageing IT infrastructure and legacy systems is necessary. [2]
40. We note that the financial, organisational, managerial and administrative magnitude of the proposed change programme "Statistics 2020" is significant. In our view, the key risks of the programme include:
- potential lack of commitment and leadership in the programme;
 - potential failure to keep sight of the whole programme;
 - potential change fatigue;
 - potential lack of clear decision-making;
 - potential failure to achieve forecasted savings and efficiency gains; and
 - potential lack of programme management capability and insufficient planning.

SNZ's business case demonstrates that SNZ is aware of these risks and that it has developed possible treatments and mitigation actions for them.

41. We recommend that SNZ should further explore options to fund the change programme internally. In particular, SNZ could explore whether the programme can be funded by savings gained from changing the methodology and frequency of census delivery or by introducing user charges.
42. We recommend that any additional funding agreed should be granted on a conditional basis. Initial funding should only be granted for the first two or three years. Future funding should then be granted if agreed project milestones are achieved and promised savings and efficiency gains are realised.
43. In terms of the decision-making process, we recommend that SNZ submit its business case as part of its four-year budget plan. This gives you the opportunity to judge SNZ's funding bid in the context of other Votes' bids.
44. Following the outcome of this process, you can then indicate to the Minister of Statistics whether or not a submission of SNZ's business case to Cabinet is likely to be successful.