

# The Treasury

## Budget 2011 Information Release

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## **Supplementary advice: Statistics 2020: Achieving the Statistical System of the Future**

### **Proposal**

1. This memorandum provides supplementary information to the Cabinet Expenditure Control Committee (ECC) paper *Statistics 2020: Achieving the Statistical System of the Future*. This information, on the organisational (including remuneration) strategy underpinning the business case Statistics 2020, was sought by Ministers from Statistics NZ, State Services Commission, the Treasury, and the Department of the Prime Minister and Cabinet, ECC Min (11) 3/1 refers.

### **Statistics NZ's organisational strategy**

2. Statistics NZ, without the investment sought for Stats 2020, must cut outputs to ensure the continued production and accuracy of the most important statistical outputs. These cuts, or additional funding, are required because the full cost of current outputs at acceptable quality levels is greater than existing funding. Statistics New Zealand cannot accommodate pressures and cost drivers including the need to invest in building the workforce and workplace practices that support the transformed business model, and address difficulties in attracting and retaining skilled staff to meet current business commitments.
3. Statistics New Zealand is a business that is changing from a historical processing operation with a moderate expert component to one with a smaller manual processing function, which is more information technology intensive, with a greater analytical and higher skilled workforce. Its increased scope of outputs has compounded this skill-shift in recent years, particularly with new analytical outputs like productivity measures and the longitudinal business database, and the statistical integration of tax and other administrative data. It must achieve an employment brand as an expert organisation and deliver top quality products and services that support key decision-making.
4. Stats 2020 aims to accelerate this transformational change – in the business model and processes, IT systems, and workforce capability and culture. It incorporates strong quality management, ongoing updating of statistical measures for maintaining relevance, accuracy and international comparability, and a greater focus on analysis and data integration and re-use. Stats 2020 is a whole-of-organisation programme where success is paramount and capability and leadership are crucial. The business case includes the cost of upgrading IT and the workforce, partially offset by productivity savings of 1.5% per year and other transformational savings that grow over time. Statistics New Zealand needs strong leadership, robust governance, an engaged workforce and expert professionals to make the Stats 2020 vision a reality.
5. Statistics NZ's future workforce will see:
  - A reduction in FTEs for production due to increased efficiency gains from delivery transformation to produce the same outputs to a higher quality through increased standardisation and more relevance. There is more automation and less manual processing.
  - A reduction in FTEs for collection as a result of increased use of admin data and electronic filing, and less face-to-face survey collection.

- An increase in resourcing for leadership of the Official Statistics System relating to ensuring consistent statistical standards, policies, and procedures across the system, quality assurance, and system monitoring resulting in increased value for money.
  - An increase in statistical analysts as a proportion of total staff by about 10% as the number of non-statistical skilled staff decreases.
  - A shift towards greater depth of analytical skills for example in data integration and longitudinal data, more use of complex admin data whose statistical properties are less well-defined, and new concepts and measures such as public sector productivity.
  - A need to factor in consequential remuneration rises to attract and retain the higher skill base as skills increase in the future.
6. As a result Statistics NZ will be a smaller more dynamic organisation with the required skills shift and capability, lower FTE numbers overall and ongoing efficiency and real productivity savings.

### **Workforce and Remuneration**

7. To reshape its workforce mix and mitigate and manage the resourcing risks inherent in meeting current business commitments while delivering change, the Stats 2020 programme builds on strategies and plans already developed or in place. These comprise: a People Strategy (in place since 2008); a Workforce Programme with associated Culture Change and Remuneration Strategy.

#### **Workforce**

8. The People Strategy is embedded in the organisation's values and is focused on recruiting and developing exceptional leaders, influential connectors, expert professionals and intelligent communicators. The Workforce Programme comprises five interconnected elements:
- **Workforce alignment** – to support the organisation's future end state. It will be necessary to restructure the workforce mix from low value clerical to higher value analytical capability (which will be achieved through attrition and reductions in numbers as the transformation initiatives are delivered). This strand will also align employee terms and conditions to support greater flexibility in role and workforce configuration, and support strong performance management.
  - **Attraction** – to strengthen Statistics New Zealand's employee value proposition and brand, with a focus on the approach to recruitment to attract the skills needed to transition over the next ten years. These skills are scarce and Statistics NZ will need to look wider than New Zealand. The department's excellent graduate development programme that was stopped in 2010 because of funding shortfalls will be refreshed and recommenced. Secondments will continue to be supported both local and overseas. Statistics New Zealand sponsors a number of statistical education initiatives in university and in the public sector to expand statistical skills.
  - **Retention** – to improve the retention rates of key employees through innovative ideas and actions, acting on engagement survey results and other key information sources. Growing capability is essential in a market where specialist expertise is scarce. (It is not possible for example, to readily buy in skilled economic statisticians with skills in measuring GDP or Price Index specialists). Rotations will be encouraged and career pathways must be targeted to our professional statistical and analytical job families.

- *Learning and Development* – to develop and implement learning solutions that build the capability required and measure their effectiveness. Much of the learning and development that the staff need will be an extension of what is currently being achieved. In order to gain the new skills and competence to implement the Stats 2020 vision, developing skills in areas such as relationship management and specialist analysis (for example for analysing administrative data sets) will be required.
  - *Leadership and Governance* – Stats 2020 is not possible without strong thought, project and people leadership to ensure that the transformation is delivered. Appropriate internal governance arrangements to oversee the programme will be in place complemented by strong external monitoring mechanisms. An updated whole-of-organisation governance model has just been introduced that adopts a portfolio management approach to Stats2020.
9. Some key pieces of work already started are: Leadership development programmes for First Level Leaders and Tier 3 managers; Identification of technical capability gaps and implementing learning solutions; Development of conceptual, analytical and cost benefit thinking; Using Plain English training; Statistical Analyst career progression (for example, a senior analyst grade, with limited numbers, for the most experienced and capable analysts is planned for later this year, and a project management skills development path is being implemented); talent management and succession management planning are being introduced. The department's annual Staff Engagement Survey informs and reports on the success of the people strategy.
10. Culture and change leadership is a closely interlinked programme of work to build a 'performance culture' and is aimed at a culture shift from:
- a focus on producing data toward greater information management
  - an internal Statistics New Zealand focus to a system/government-wide focus
  - an individual business area focus to an organisation wide focus with a greater shared systems and methodology focus that enables standardisation and efficiencies
  - an internal 'quality and expert focus to a more open and customer-driven focus
  - a focus on tried and true, to a focus on innovation and continuous improvement.

### **Remuneration**

11. Addressing remuneration is a key part of delivering the workforce strategy and to the success of Stats 2020. The proposed funding sought in Stats 2020 (Option 3: Preferred scenario) includes a realistic workforce investment that is needed to address current retention and attraction issues, future business transformation needs and the historical under-pricing of statistical outputs. The business case sets out labour cost assumptions which provide for increased training and development, skill mix change, career structures, performance related rewards, and remuneration movements. The costs do not necessarily imply wage rate movements but reflect the full costs of achieving the workforce required.
12. Minimising labour cost assumptions, including remuneration movements, would be out of kilter with the importance and value to be gained from the success of the Stats 2020 programme. Without the remuneration component the remaining investment (both capital and operating) will be under-utilised and not fully cost effective. Anything less than the investment sought will leave Statistics NZ unsustainable in the long-term and increases the risk that new funding will be sought in another five years.

13. The remuneration approach underpinning the Stats 2020 business case is designed to ensure continuity for core business while at the same time actively securing the staff required to transform the business. It recognises that maintaining the accuracy of key statistics such that they conform to up-to-date international standards (national accounts (GDP) frameworks for example which have already been adopted in Australia), reflect real world change (e.g. emissions trading scheme impacts) and have current statistical designs (Household Labour Force Survey) requires a stable, adaptable and professional workforce with sufficient in-depth subject matter and analytical expertise.
14. To ensure this, the remuneration strategy is aimed at lifting pay rates for those with the right skills and concentrates on rewarding top performers. This is to attract new recruits, both local and overseas, and targets those in the organisation with statistical and analytical skills who lag behind the labour market and where retention has become an issue. It recognises that the current turnover increase is largely due to organisational budget constraint and takes into account that the primary reason given in exit interviews is low levels of pay. The paybands have not been increased at all in the last 3 financial years and the range of percentage rewards in the Reward Matrix (the performance-based pay framework used by Statistics NZ) has not been sufficiently large to meet expectations. A minimum movement of 1% (as per the CEA) has been applied for satisfactory performance in the past two years, increasing to 1.5% in 2011 (when a targeted increase for high performers was also included). However, while salary levels for high performers in targeted roles have had some improvement they still remain behind comparator roles. This has led to increasing internal relativity issues and retention problems within critical mainstream roles. Further remuneration detail is attached in the appendix to this paper.
15. Currently turnover of core statistical analysts is heading toward 15% and is up to 20% in Wellington where key economic statistics are produced. While other public sector departments may be experiencing similar turnover rates, the degree of delivery risk created for Statistics NZ is exceptional when particular key areas are affected. In the last 6 months the National Accounts business unit (which produces statistics such as GDP) lost 10 out of 44 staff (all of whom have left the NZ public service). Six of these were senior statistical specialists. Replacement of these senior positions from within the same area is near impossible when the median tenure of junior statistical analysts (in this area) is only 1.6 years, the global pool for specialist skills limited and the market price is high.
16. Statistical (or quantitative and business analysis) skills are highly sought after in the information age and not just within the public sector (where Statistics NZ pay scales lag behind). Wages reflect demand pressures from banking, insurance, energy, telecommunications and other business intelligence-intensive industries.
17. The impact of high turnover from one unit is exacerbated by the current lack of skills transferability within the business. This is because the siloed systems and non standard processes used to produce Statistics NZ outputs means the organisation effectively has specialists in each of the 250 different output systems. During the transition phase of Stats 2020 (the first 5 to 6 years) the department will have people in statistical roles (SA1, SA2 and

SMPM)<sup>1</sup> that are key not only to the transformation but also to the ongoing production of outputs. The wage movements are weighted to this period to mitigate some of the risk this poses and to increase both retention and recruitment of necessary skills. Following transformation the skills of the department's staff should be more internally transferable (as there will be fewer than 10 platforms rather than 250 output systems) and there will be more standardised processes within each platform. This means in later years (post transformation) the organisation will be more resilient to the impact of staff turnover hence the wage increases are lower in this period.

18. The labour cost adjustments in the business case proposed for statistical analysts (both junior, senior and subject matter specialist) personnel can be controlled and effectively targeted using the current remuneration system.
19. The robustness of the workforce and remuneration strategies is strengthened by engagement surveys showing staff as strongly supportive of performance based assessment and is well illustrated by the department's recent successful collective employment agreement negotiation that has provided a small base movement for everyone and protected the provision for a supplementary and variable performance-based component.<sup>2</sup> This outcome bodes well for addressing long term fixed cost components in the department's employment agreements.
20. The independent review proposed below by central agencies will provide assurance on the effectiveness of the workforce strategy underpinning the Statistics 2020 programme and the monitoring by central agencies and agreed project milestones (as per recommendations 17 and 18 in the ECC paper) will ensure that any funding that is not required (including the proportion earmarked for remuneration) will be returned to the Crown.
21. The department's inability to absorb labour cost pressures may not be unique but the confluence and historical nature of increasing specialist staff turnover, the inability to inter-change staff due to the siloed nature of the business, specialist staff pay scales well below those of comparable public sector groups, and continued under-pricing of outputs makes Statistics NZ an exceptional case.

### **Central Agency Comment:**

#### *Acknowledging the problem*

22. Central agencies acknowledge that Statistics NZ's current financial situation is unsustainable and that Statistics NZ is facing serious issues arising from its ageing IT infrastructure, its statistical systems legacy, and the current composition and skill level of its staff.
23. We acknowledge that there is an urgent need for organisational change within Statistics NZ which addresses the infrastructure and legacy issues and brings about a skill shift within Statistics NZ's staff.

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<sup>1</sup> T SA1 -junior statistical analyst, SA2-senior statistical analyst/specialist, SMPM --specialist statistical managers

<sup>2</sup> The new collective employment agreement (covers about 40% of staff) has a built in minima of \$700 or 1.5% and has been negotiated within the current performance based remuneration system and is well within the public sector parameters, (as outlined in the SSC publication: Government's Expectations for Pay and Employment Conditions in the State Sector 1 June 2010) and has had SSC involvement and approval.

### *Concerns about the proposed remuneration strategy*

24. In spite of the additional explanatory information provided by Statistics NZ in this paper on their workforce strategy, we still need greater assurance whether the remuneration strategy proposed as part of the workforce strategy is sufficient to drive the change required with regard to the composition and skill level of Statistics NZ's staff.
25. While increasing pay may help recruit new staff with the right skill levels, further human resource strategies, such as training, rotations, secondments, and targeted recruitment may be needed to achieve the necessary productivity and performance shift. In our view, the business case has a strong emphasis on financial/pay aspects of Statistics NZ's workforce strategy, whereas non-financial aspects have not been made sufficiently visible to date, although there is now more discussion on this in this paper.
26. Regarding the risk of a potential flow-on of the remuneration funding requests to other agencies, we are satisfied that the existing process and approval mechanisms by the State Services Commission will ensure that any remuneration movements at Statistics NZ conform to the wider State sector remuneration intentions to avoid the risk of flow-on.

### *Approval of funding*

27. Notwithstanding the concerns raised, we support the additional investment in Statistics NZ and recommend that Ministers agree to the proposed funding requests as outlined in the preferred option of the business case, subject to funding availability.

### *Independent review*

28. To ensure that any additional funding will be used to address the infrastructure and legacy issues and to bring about a skill shift within Statistics NZ's staff, we recommend that an independent review on the effectiveness of the workforce strategy underpinning the Statistics 2020 programme be conducted.
29. The results of this review will be reported to central agencies and the Government Statistician in the first instance, and then to the Cabinet Expenditure Control Committee by the end of May 2011.
30. This review is to provide Ministers and central agencies with additional assurance that Statistics NZ's workforce strategy is fit for the purpose of delivering a sustainable agency and ensuring the reliable and accurate production of statistical information over the next ten years.
31. As part of the review, milestones for the Statistics 2020 programme will be established and agreed between Statistics NZ and central agencies. Central agencies will monitor progress against milestones and advise Ministers if they consider achievement is at risk, throughout programme development.

### *Recommendations*

1. We recommend that you support the original recommendations in the paper "Statistics 2020: Achieving the Statistical System of the Future".

2. To reflect our advice regarding the conduct of an independent review of the effectiveness of the workforce strategy underpinning the Statistics 2020 business case, we have added three additional central agency recommendation in the paper “Supplementary Advice: Statistics 2020: Achieving the Statistical System of the Future”.

## **Central Agency Recommendations**

*Central agencies recommend that the Cabinet Expenditure Control Committee:*

3. **direct** Statistics NZ in consultation with central agencies to arrange an independent review of the effectiveness of the workforce strategy underpinning the Statistics 2020 business case to be conducted with reports to the Government Statistician, central agencies and the Cabinet Expenditure Control Committee by the end of May 2011;
4. **direct** Statistics NZ and central agencies to establish milestones for the Statistics 2020 programme as part of the independent review; and
5. **direct** central agencies to monitor progress against these milestones and advise Ministers if they consider achievement of the workforce strategy is at risk, throughout programme development.



