



09/82483

4 February 2009

Hon Paula Bennett, Minister for Social Development and Employment

BUDGET 2009: EXPENDITURE REVIEW VOTE EMPLOYMENT

Purpose

- 1 This report is in response to Cabinet's direction that Chief Executives of all Departments that administer Votes carry out a review of expenditure in those Votes [CAB Min (09 1/1, CBC Min (08) 32/6 refers].

Background

- 2 Instructions in the Technical Guide for the Initiatives Phase of Budget 2009 require departmental Chief Executives to report on these reviews to their Minister(s) by 5 February 2009. Individual Ministers are to forward the review reports to the Minister of Finance.
- 3 The reviews have three parts – one of which feeds into the process for Budget 2009, the other two identify areas for future focus:
 - a identify expenditure that does not align with government priorities to help free up savings for Budget 2009;
 - b identify areas where there are opportunities for improved efficiency and effectiveness (to inform future reviews); and
 - c build government confidence that Chief Executives and the state sector management system are well placed to meet the shift the government is expecting the state sector to make (to inform future reviews).
- 4 Departments that administer more than one Vote are required to report to the Responsible Minister for the Department on matters relating to departmental overheads and corporate services.
- 5 A panel of senior executives will consider the completed reviews to ensure that they are robust and meet Cabinet's expectations. The panel may comprise senior state sector officials drawn from the three Central Agencies (or other Departments); retired experienced state sector officials; or individuals drawn from the private sector.

Expenditure review process

- 6 Through the reviews Chief Executives are expected to identify savings in the following categories:
 - i savings that can be freed up for Budget 2009;

- ii programmes that are inconsistent with the Government's priorities and should be discontinued;
- iii programmes that are inconsistent with the Government's priorities and should be looked into;
- iv programmes and expenditure that are not efficient or effective; and
- v areas where performance information is insufficient to make a judgement about efficiency and effectiveness, and actions agencies should take to make improvements in the next review period.

7 The Department adopted the following approach to its expenditure reviews:

- i Setting the current 2009/10 Vote baselines as the foundation for each Vote review;
- ii Identifying savings in the designated savings categories within each Vote on an output basis;
- iii Identifying opportunities for further savings and operational improvements through more considered reviews and initiatives to be undertaken as a priority. These longer term Internal Value for Money (VfM) reviews are to be completed as soon as possible and no later than the end of the second quarter of 2009/10;
- iv Discussing the expenditure review outcomes with Vote Ministers in the context of preparing submissions for the Initiatives Phase of Budget 2009.

8 The expenditure reviews have been carried out under the auspices of the Deputy Secretary with primary responsibility for each of the Vote areas in the Department. The savings have been aggregated to the Output Class level in each Vote.

Gross saving identified

Whole of Department

9 Departmental Baseline – total gross savings of \$16.899m (5.87%) on a baseline of \$288.103m.

| Departmental | Vote Labour | Vote Immi-gration | Vote Employ-ment | Vote ACC | Total | % Savings |
|-------------------------|-------------|-------------------|------------------|----------|----------|-----------|
| | \$m # | \$m * | \$m | \$m | \$m | |
| Baseline 2009/10 | 79.237 | 190.543 | 15.770 | 2.553 | 288.103 | |
| - Gross | (5.329) | (9.160) | (2.334) | (0.076) | (16.899) | 5.87% |

Labour Baseline Funding

| | |
|----------------------------|--------|
| Crown - Backed by HSE Levy | 40.598 |
| Crown | 38.639 |

*** Immigration Baseline Funding**

| | |
|--------------|---------|
| Crown Funded | 72.543 |
| Fee Funded | 118.000 |

10 Non Departmental Baseline – total gross savings of \$1.375m.

| Non-Departmental | Vote Labour | Vote Immigration | Vote Employment | Vote ACC | Total |
|-------------------------|-------------|------------------|-----------------|-----------|-----------|
| | \$m | \$m | \$m | \$m @ | \$m |
| Baseline 2009/10 | 9.239 | 2.577 | 0.000 | 1,262.910 | 1,274.726 |
| Gross Savings | (0.890) | (0.485) | 0.000 | 0.000 | (1.375) |

@ ACC - NDOC Baseline Funding

| | |
|---|-----------|
| Appropriation as at October Baseline Update | 966.051 |
| Post OBU Cab Min (08) 45/7 Inc. Non-Earners' Acct | 296.859 |
| Appropriation as at March Baseline Update | 1,262.910 |

Vote Employment

11 Vote Baseline - total gross savings of **\$2.334m (14.8 %)** on a baseline of **\$15.770m** comprised as follows:

| Output Class | Baseline 2009/10 | Savings | % |
|--|------------------|--------------|------------|
| | \$m | \$m | |
| Output Class 1 Labour Market Analysis And Knowledge | 5.965 | 0.183 | 2% |
| Output Class 2 Policy, Research And Evaluation | 10.024 | 2.151 | 21% |
| TOTAL | 15.989 | 2.334 | 12% |

12 The features of the identified savings including their implications and impact are set out in Schedule 1. The savings are further disaggregated in Schedule 2.

Other savings

- 13 The Department has an ongoing Economy Project instituted in 2006 which has set savings targets in operational expenditure. The Economy Project is covered in the Report on Departmental Overheads and Corporate Services to the Responsible Minister.
- 14 The management of the Department's capital programme and its review are also covered in the report to the Responsible Minister.

Internal Value for Money reviews

- 15 [information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

- 16 These internal VfM reviews include activities under three of the identified savings categories:
 - i programmes that are inconsistent with the Government's priorities and should be looked into;
 - ii programmes and expenditure that are not efficient or effective; and,
 - iii areas where performance information is insufficient to make a judgement about efficiency and effectiveness and actions agencies should take to make improvements by the next review period.

Contribution of Vote Employment

- 17 The Department of Labour is the primary source of advice to the Government about the labour market and work. Activities funded through Vote Employment are directed at producing authoritative and useful advice about the dynamics of the labour market. This includes the development of policies and programmes that

ensure the effective operation of the labour market contributes to continuing economic growth.

- 18 The Minister for Social Development and Employment has agreed that the first short term priority for Vote Employment is *Keeping people in work during the downturn*. The goal of this work is to ensure that New Zealanders are protected from the potential employment impacts of the economic downturn as much as possible. Activities will include:

- supplying up-to-date and detailed labour market information to inform decisions on labour market policies and programmes aimed at stimulating employment,
- developing comprehensive skills plans for industries and sectors that provide opportunities for growth in employment, for example, in infrastructure, aged care and dairy, and
- establishing a new programme aimed at supporting skills development in small to medium sized firms in towns and regions that are at risk because of the proportion of people who are employed in industries that are particularly vulnerable to the economic downturn.

- 19 The second short term priority is *All New Zealanders have the skills they need to work*. The goal of this work is to ensure that the most vulnerable workers are supported to remain in employment during the economic downturn. Activities will include:

- developing labour market policies that provide timely and effective responses to changes in the labour market, particularly in regard to maximising employment opportunities for young people, older people and Māori, and
- continuing with the intent and focus of the Skills Strategy on skills development and use in workplaces, to help ensure that workers have the skills they need to be employable in a time of economic change as well as being able to be part of a higher performing economy in the future.

- 20 In the medium to longer term, focus will also be given to the following priorities:

- *Skills for productivity*, with activities to include:
 - developing a work programme aimed at ensuring New Zealand has the skilled workers needed to drive productivity improvements; and
 - undertaking comprehensive analysis of the approach to skills development and retention needed if New Zealand is to achieve annual productivity growth of 3% per annum to meet the Government's commitment to closing the wage gap with Australia.
- Attracting expatriates home, with activities to include:
 - establishing a new policy work programme focused on the things that can be done to attract Kiwis back to NZ and retain a greater proportion of our skilled workforce.

Budget 2009

- 21 The Department adopted a number of principles to guide its work in developing its Budget 2009 responses. These included a principle to fund existing contractual commitments and unavoidable costs within existing baselines from the gross savings identified. The following table sets out the distribution of these costs of \$10.326m by Vote across the Department. These costs comprise remuneration costs of \$7.8m, rental costs of \$2.151m and a share of the cross departmental Identity Verification Services project funding of \$0.375m.

| Departmental | Vote Labour | Vote Immigration | Vote Employment | Vote ACC | Total | % Savings |
|--------------------------|----------------|------------------|-----------------|----------------|----------------|--------------|
| | \$m | \$m | \$m | \$m | \$m | |
| Baseline 2009/10 | 79.237 | 190.543 | 15.770 | 2.553 | 288.103 | |
| Savings | | | | | | |
| - Gross | (5.329) | (9.160) | (2.334) | (0.076) | (16.899) | 5.87% |
| - less unavoidable costs | 3.099 | 6.428 | 0.753 | 0.046 | 10.326 | |
| Net Savings | (2.230) | (2.732) | (1.581) | (0.030) | (6.573) | 2.28% |

- 22 The total net savings of \$6.573m after funding unavoidable costs represent realisable savings for Budget 2009. Individual Vote Ministers have considered the application of these savings in their decision making for the Initiatives Phase of the budget.
- 23 In the case of Vote Employment, the Department has been able to identify gross savings of \$2.334m or 14.8% of the 2009/10 baseline. Of this, \$0.753m is needed to fund the unavoidable costs associated with lease expenses and salary increases that will apply through the Department's collective agreement with its staff.
- 24 The Minister for Social Development and Employment has decided that the remaining \$1.581m in savings should be applied to a contribution to critical systems capability projects for the Department of Labour (\$0.081m) [information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].

Recommendation

I recommend that you:

1 **note** the contents of this report, and

noted

2 **note** that this briefing has been copied to the Minister of Finance (as discussed with your office) to enable it to be received by his office by Thursday 5 February 2009.

noted

Christopher Blake
for Secretary of Labour

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Hon Paula Bennett
Minister for Social Development and Employment

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Schedule 1: Savings –impacts & implications

| Vote Employment | Description (including what, when, why it can be scaled back or ceased, impact) | Gross Savings in \$m | Category (refer to * below) |
|--|---|---------------------------------------|---------------------------------------|
| <i>Output Class 1: Labour market analysis and knowledge</i> | | [deleted – confidentiality of advice] | [deleted – confidentiality of advice] |
| <i>Output 1.1: Collection and analysis of labour market information</i> | | | |
| This output provides the collection, analysis and dissemination of labour market information. | <i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i> | [deleted – confidentiality of advice] | [deleted – confidentiality of advice] |
| <i>Output 1.2: Labour market development</i> | | | |
| The activity will increase stakeholders' understanding of the labour market and how this relates to achieving wider goals for economic and social development, and effective ways to address labour market constraints and maximise opportunities. | The Labour Market Knowledge Manager (LMKM) roles were established in 2005 based on a view that there was a need for local input from the Department to support regional planning processes. <i>[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]</i> | [deleted – confidentiality of advice] | [deleted – confidentiality of advice] |
| | <i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i> | [deleted – confidentiality of advice] | [deleted – confidentiality of advice] |
| <i>Output class 2: Labour market policy, research and evaluation</i> | | [deleted – confidentiality of advice] | [deleted – confidentiality of advice] |

| Vote Employment | Description (including what, when, why it can be scaled back or ceased, impact) | Gross Savings in \$m | Category (refer to * below) |
|--|--|--|---|
| <p>This output includes:</p> <ul style="list-style-type: none"> the provision of policy advice that is supported by research and evaluation to achieve the Government's employment and labour strategies and help drive the achievement of a transformed labour market working in collaboration with other government agencies, in particular Ministry of Economic Development, Ministry of Social Development, Ministry of Education and the Tertiary Education Commission to develop effective labour market policies aimed at improving employment, social and economic outcomes for New Zealand overseeing and co-ordinating the input into government employment strategies and work-programmes. | <p><i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i></p> | <p>[deleted – confidentiality of advice]</p> | <p>[deleted – confidentiality of advice]</p> <p>[deleted – confidentiality of advice]</p> |
| | <p><i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i></p> | <p>[deleted – confidentiality of advice]</p> | <p>[deleted – confidentiality of advice]</p> |
| TOTAL GROSS SAVINGS | | <p>[deleted – confidentiality of advice]</p> | <p>[deleted – confidentiality of advice]</p> |

*** Savings categories:**

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Schedule Two: Gross savings details

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Schedule Three: Internal Value for Money (VfM) reviews

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

