

Treasury Report: Budget 2009: Votes Labour (including ACC) & Food Safety

Date:	6 March 2009	Report No:	T2009/506
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Read the attached briefing prior to your bilateral with Hon Kate Wilkinson and Hon Dr Nick Smith on 11 March 2009.	11 March 2009 (5:00pm)
Associate Minister of Finance (Hon Simon Power)	Read the attached briefing prior to your bilateral with Hon Kate Wilkinson and Hon Dr Nick Smith on 11 March 2009.	11 March 2009 (5:00pm)

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
[deleted – privacy]	[deleted – privacy]	[deleted – privacy]	[deleted – privacy]	
Simon MacPherson	Manager, Workforce Attachment and Skills	[deleted – privacy]	[deleted – privacy]	✓

Minister of Finance's Office Actions (if required)

None.

Enclosure: No

Treasury Report: Budget 2009: Votes Labour (including ACC) & Food Safety

Attached is a briefing for the bilateral between the Minister of Finance, Hon Kate Wilkinson (Labour) and Hon Dr Nick Smith (ACC) at 5:00 p.m. on 11 March 2009 to discuss the Budget initiatives for Votes Labour and ACC. The other votes within the Department of Labour are Vote Employment and Vote Immigration.

The bilateral briefing is structured as follows:

Vote Labour

Overview of the Vote (Labour)	p. 4
Savings component & recommendations	p. 5
Emergency pressures & recommendations	p. 6
Value for Money & Strategic Direction	p. 9
Policy priority initiatives & recommendations	p. 9

We expect the key issues for discussion will be [deleted – confidentiality of advice], as well as the level of savings that Labour identified in its line by line review.

Vote ACC

Overview of the Vote (ACC)	p. 11
Savings component & recommendations	p. 12
Emergency pressures & recommendations	p. 13
Value for Money & Strategic Direction	p. 13
Policy priority initiatives & recommendations	p. 14

We expect the key issue will be managing back the increasing costs of ACC. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*. The proposed stocktake is a substantive exercise for which the Minister of ACC is seeking additional funding. We recommend that the stocktake is not funded from new money, but from reprioritising policy advice across the Department of Labour.

Vote Food Safety

Attached is a briefing for the bilateral between the Minister of Finance and the Minister for Food Safety at 5p.m. on Wednesday 11 March 2009 to discuss the Budget initiatives for Vote Food Safety.

The bilateral briefing is structured as follows:

Overview of the Vote	p. 15
Savings component & recommendations	p. 15
Emergency pressures & recommendations	p. 16
Value for Money & Strategic Direction	p. 17
Policy priority initiatives & recommendations	p. 18

Food Safety

We expect the key issues for discussion will be:

- (a) the pressure resulting from a reduction in Crown funding in 09/10 and out years originally voted only for two years related to the Domestic Food review; and
- (b) the emergency pressure initiative asking for increased funding for trade negotiations. Treasury does not support this initiative being funded.

Recommended Action

We recommend that you **read** the attached briefing and use it as the basis for taking decisions in your bilateral with Hon Kate Wilkinson and Hon Dr Nick Smith at 5:00 p.m. on 11 March 2009.

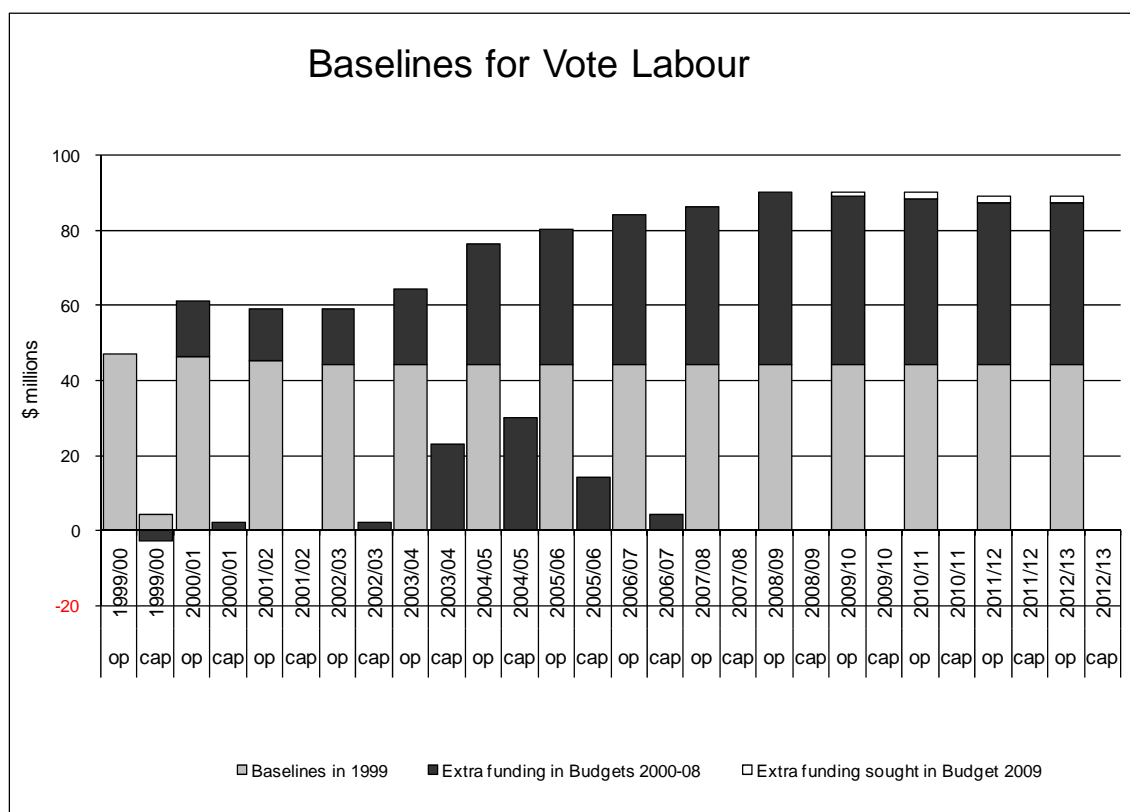
Simon MacPherson
for Secretary to the Treasury

Hon Bill English
Minister of Finance

Overview of Vote Labour

VOTE LABOUR

- Vote Labour baselines are shown in the graph below. Since 1999/00, Vote Labour has grown by 91% in nominal terms and 50% in real terms. We believe that many of the activities that have driven the increase in the Vote may not align with the priorities of the new Government. Some of the initiatives that have contributed to this increase include implementing the Employment Relations Act and the Workplace Productivity Agenda, as well as increases in Non-Departmental funding for the Pay and Employment Equity fund and the Employment Relations Education fund.



2. As part of the Minister of Finance's request to Vote Ministers to carry out a line by line review, submission of emergency pressures and policy priorities, the Minister of Labour submitted the following:

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Savings	-	-	-	-	-
Emergency pressures (net)	-	1.098	2.198	2.198	2.198
Policy priorities (net)	-	-	-	-	-
Total funding requested	-	1.098	2.198	2.198	2.198
<i>Capital (GST excl)</i>					
Savings	-	-	-	-	-
Emergency pressures	-	-	-	-	-
Policy priorities	-	-	-	-	-
Total funding requested	-	-	-	-	-

This table shows no savings because the savings that the Department identified in the line by line review have not been offered back to the centre. Instead, they have been retained to cover wage and rental pressures, internally reprioritised or used to offset the policy and emergency pressures bids that the Department submitted.

Savings

3. The following savings were identified in the line by line review for 09/10:

Gross Savings	\$6.219m
Less Wage and Rental Pressures	(\$3.099m)
Net Savings	\$3.120m

4. The line by line review then reprioritised these 'net savings' for 09/10 as follows:

[deleted – confidentiality of advice]	[deleted – confidentiality of advice]
[deleted – confidentiality of advice]	[deleted – confidentiality of advice]
Safe management of Hazardous Substances ¹ (HSNO)	\$1.100m
Foundation IT systems	\$0.193m
[deleted – confidentiality of advice]	[deleted – confidentiality of advice]
TOTAL	\$3.120m

5. Although the Minister has combined the savings and the bids (i.e. offset budget bids), we have treated the savings and policy priorities/emergency pressures separately. Therefore, we recommend that all the **net savings for 09/10 of \$3.120m are returned to the Crown**, with separate decisions to be made on the emergency pressure and policy priority bids on their individual merits.
6. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].* These programmes were reduced as part of the line by line review. We believe that these programmes are unlikely to align with Government priorities, and that the remainder of the funding for these initiatives should cease.

		Total Funding
[deleted – confidentiality of advice]	[deleted – confidentiality of advice]	[deleted – confidentiality of advice]
Remainder of Pay and Employment Equity Fund (Non-Departmental)	Funds applications received from employer and union organisations involved in pay and employment equity reviews	\$0.889m per annum *(\$0.445m saving identified in line by line)
[deleted – confidentiality of advice]	[deleted – confidentiality of advice]	[deleted – confidentiality of advice]

* The exact amount available for immediate return to the centre will depend on contractual obligations. We therefore support abolishing these initiatives as soon as practicable.

¹ Emergency Pressure: As well as reprioritising the \$1.100m in savings for HSNO in 09/10, the Minister has submitted an emergency pressure bid for an additional \$1.098 (total of \$2.198m). Time limited funding of that amount ceases at the end of 08/09.

Recommendations

Treasury recommends that you:

- (i) Support the following net savings identified in the line by line review.

	2009/10	2010/11 and outyears
Departmental	\$2.230m	\$1.130m
Non-Departmental	\$0.890m	\$0.890m
Total	\$3.12m	\$2.02m

Agree/Disagree

- (ii) In **addition** to the above Departmental savings:
[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Agree/Disagree

- (iii) In **addition** to the above Non-Departmental savings:
[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Agree/Disagree

Direct the Department of Labour to confirm with Treasury the exact amounts available to return to the centre (i.e. funding that is not contractually obligated) and for those savings to be included in Budget 2009.

Agree/Disagree

- (iv) Discuss with the Minister of Labour the savings that the Department has retained to cover wage and rental pressures, and the consequences of returning these savings to the centre.

Agree/Disagree

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

Agree/Disagree

Emergency Pressures

7. The Minister has submitted 2 emergency pressure bids for:

- (vi) *Services to support the safe management of hazardous substances in workplaces (HSNO)*

This emergency pressure proposes ongoing funding to promote and support the management of hazardous substances in workplaces. The bid proposes:

	2009/10	2010/11 and outyears
Gross	\$2.198m	\$2.198m
Saving (as discussed above)	\$1.100m	-
Net	\$1.098m	\$2.198m

Time limited funding for HSNO will cease at the end of 08/09 and will impact on the level of service delivery that the Department can provide.

Treasury supports the return of the \$1.1m net saving in 09/10 being returned to the Crown (as per the saving recommendations above). We also support \$1.098m in new money for 09/10 to partially cover the reduction in funding at the end of 08/09. We do not support outyear funding at this time, as that can be considered by Ministers following the passing of the HSNO Amendment Bill. The legislative amendment will allow the Department to fund HSNO activities from the Health and Safety in Employment (HSE) levy.

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

Recommendations

Treasury recommends that you:

- (viii) Support \$1.098m for 09/10 only for the emergency pressure bid for the management of hazardous substances in workplaces (with the saving offset returning to the Crown as per the saving recommendations above).

Agree/Disagree

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

Vote Labour – Analysis of Policy Priorities

8. Vote Labour has submitted the following policy priority initiative: *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
9. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
10. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Recommendations

Treasury recommends that you:

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

Value for Money/Strategic Direction

11. *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions].* The Government may want to look more generally at overlaps in policy advice across departments in this area, and whether there are efficiencies that can be made. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].*

12. Given the changing economic conditions, Labour will also need to demonstrate that they are in a position to advise the Government on the labour market and employment challenges that it currently faces. *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions].*

Recommendations

We recommend that you discuss the strategic direction of the Department of Labour with the Minister of Labour.

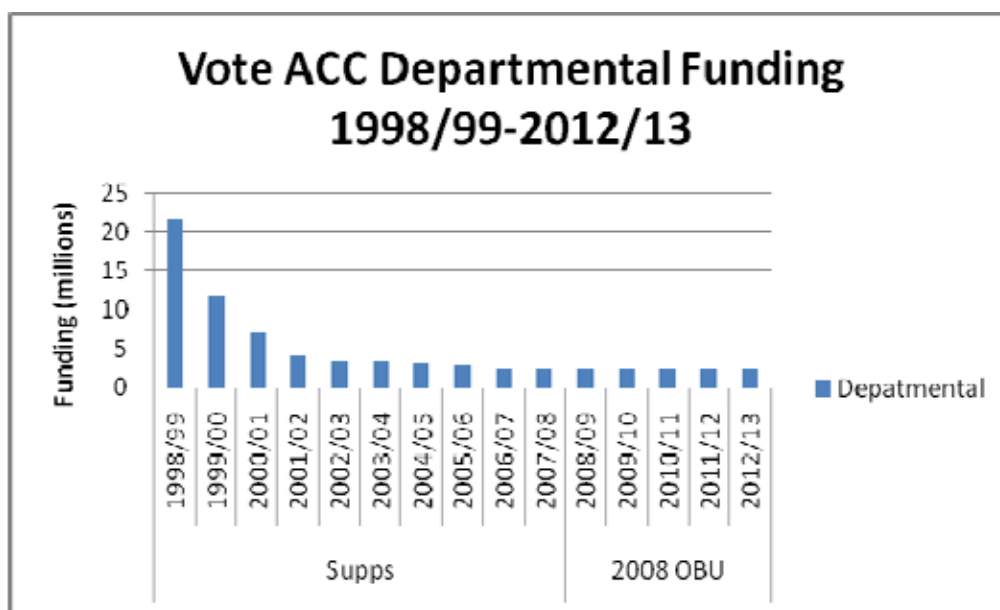
Agree/Disagree

VOTE ACC

13. Vote ACC covers the Department of Labour's monitoring and policy advice function and the Non-Earners' Account appropriations. Other ACC accounts are levy funded.

Analysis of Vote: Departmental Output Expenses Policy and Monitoring

14. Vote ACC Departmental baselines are shown in the graph below. The Departmental output class component of Vote ACC is small relative to the Vote as a whole. The issue for this component of the Vote is whether the quality of policy advice and monitoring meets Ministers' expectations. The baseline is \$2.531m in 2009/10.



Analysis of Vote: Non-Departmental Output Expenses (Non-Earners' Account)

15. ACC has received significant increases in Non Departmental Output Class (NDOC) funding for the Non-Earners Account in the past three years due to increases in operating costs, changes in Scheme entitlement and funding policies, impact of the funding horizon for Residual Claims Account and substantial increases in Scheme liabilities due to a decline in investment returns.
16. Appropriations for the Non-Earners' Account were updated in December 2008 for the 2008/09 year. Further adjustments to appropriations in outyears will be necessary to reflect the recent valuation update and Treasury will report separately on this in the March Baseline Update. This will include the timing of Scheme valuations and the timing and frequency of ACC baseline updates with a view to reducing information lags and smoothing fiscal pressures when Ministers are making other Budget decisions.

Budget Submission

17. As part of the Minister of Finance's request to Vote Ministers to carry out a line-by-line review, submission of emergency pressures and policy priorities, the Minister for Vote ACC submitted the following:

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Savings	-	-	-	-	-
Emergency pressures	-	-	-	-	-
Policy priorities	-	1.310	-	-	-
Total funding requested	-	1.310	-	-	-
<i>Capital (GST excl)</i>					
Savings	-	-	-	-	-
Emergency pressures	-	-	-	-	-
Policy priorities	-	-	-	-	-
Total funding requested	-	-	-	-	-

Note: This table shows no savings because the savings that the Department identified in the line by line review have not been offered back to the centre. Instead, these savings were reprioritised within Vote ACC.

The following savings were identified in the line by line review for 09/10, but retained by the Vote:

Gross Savings	\$0.076m
Less Wage and Rental Pressures	(\$0.046m)
Net Savings	\$0.030m

Treasury supports the return of this saving to the centre, as doing so is unlikely to put pressure on the policy and monitoring functions of the Vote.

Recommendations

Treasury recommends that you:

- (xi) Support the net saving of \$0.030m for Vote ACC for 2009/10 and outyears.

Agree/Disagree

Emergency Pressure

18. No emergency bid was submitted for Vote ACC.

Value for Money/Strategic Direction

19. Recent increases in Scheme costs are significant and policy changes are necessary to manage future increases. Substantial savings are possible and the Minister for ACC has already discussed the challenges facing ACC and strategies to address them with his Cabinet colleagues. These strategies could include:
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
 - *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
 - examining governance arrangements for the Corporation, and
 - *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
20. The main issues that will affect Vote ACC in Budgets 2010/11 and 2011/12 relate to containing and, where possible, reducing Scheme costs. At the whole of Scheme level economic conditions determine investment returns and overall levy income. Within the Scheme itself cost containment is predicated on restraint provided by both the legislated parameters of the Scheme and the operational decisions made by the ACC.

Recommendations

Treasury recommends that you:

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

Agree/Disagree

Vote ACC – Analysis of Policy Priorities

21. Vote ACC has submitted the following policy priority initiative:

a. Stocktake of ACC Accounts & Investigate Opening the Work Account to Competition.

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	1.310	-	-	-
Treasury	-	-	-	-	-
<i>Capital (GST excl)</i>					
Department	-	-	-	-	-
Treasury	-	-	-	-	-

22. The Department seeks funding for a stocktake of each of the ACC accounts *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*. The Department expects the review to cost \$1.8m in total, and has proposed absorbing \$0.175m in 08/09 and \$0.315m in 09/10 for this review. It therefore seeks \$1.310m in new money for 09/10.

23. Treasury supports the stocktake of ACC and considers it to be a high priority for Government. However, Treasury believes that that the Department of Labour should be asked to reprioritise its existing policy advice (over \$30m per annum across all four votes) to fund this.

Recommendations

Treasury recommends that you:

- (xiii) Do not support new money for this initiative, and direct the Department of Labour to fund the entire review from its existing baselines.

Agree/Disagree

Overview of the Vote

VOTE FOOD SAFETY

24. As part of the Minister of Finance's request to Vote Ministers to carry out a line-by-line review, submission of emergency pressures and policy priorities, the Minister for Vote Food Safety submitted the following:

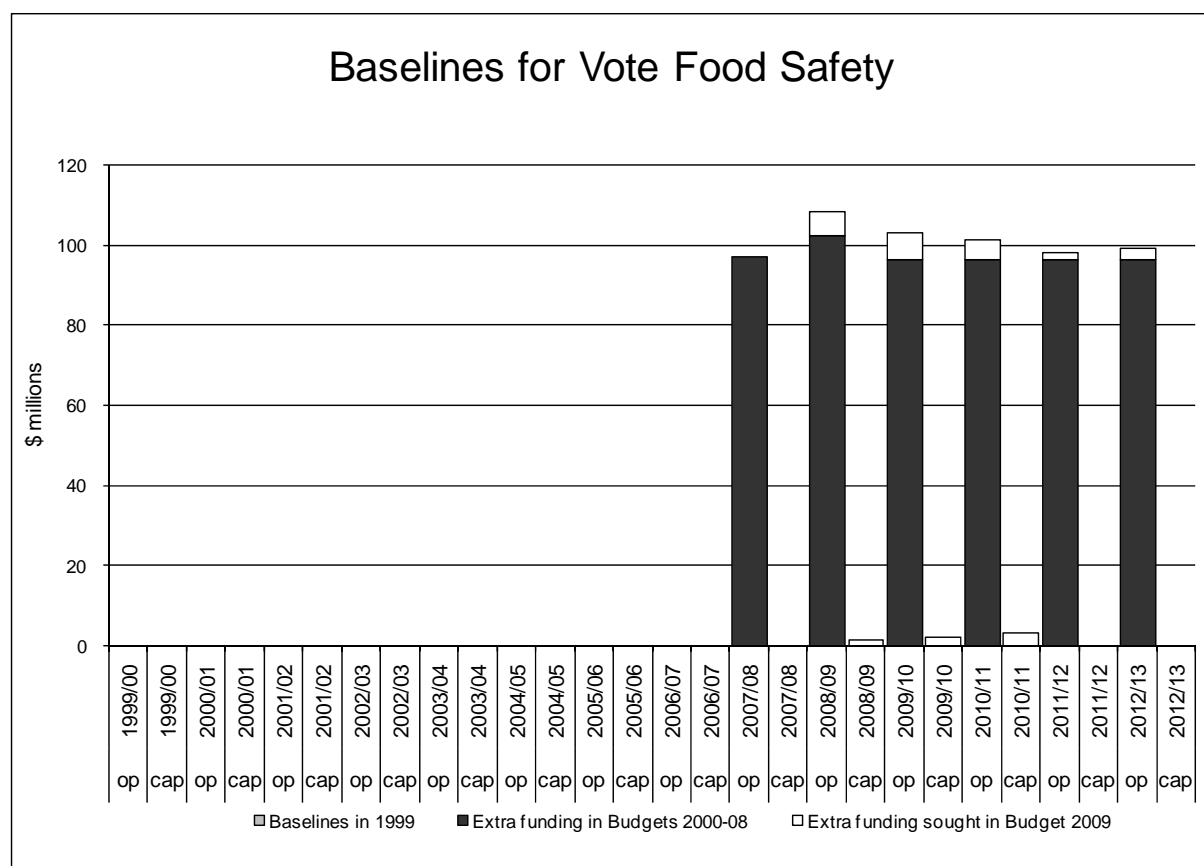
	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Savings	-	(2.730)	(2.280)	(2.280)	(2.105)
Emergency pressures	-	1.115	1.037	1.096	1.140
Policy priorities	-	0	0	0	0
Total funding requested		(1.615)	(1.243)	(1.184)	(0.965)
<i>Capital (GST excl)</i>					
Savings	-	(1.050)	(0)	(0)	(0)
Emergency pressures	-	0	0	0	0
Policy priorities	-	0	0	0	0
Total funding requested		(1.050)	0	0	0

25. The savings submitted by the New Zealand Food Safety Authority (NZFSA), represent 7.5 per cent of total crown funding of \$36 million. The majority of the savings come from charging the wine industry for the testing of exports (previously Crown funded), which would put the industry in line with every other food producer. The savings are not derived from greater efficiencies within the organisation. The NZFSA is, however, efficiently run in light of cost pressures that it faces. We judge that any further efficiency savings would be limited given the small size of the Vote.

The Minister argues that the gross saving of \$2.7m should be retained within the vote to recognise the reduction of a \$2.5m Crown funding stream which was voted for two years only ending in 08/09. This time-limited funding is related to the implementation and ongoing infrastructure requirements for the Domestic Food review and progression of the new Food Bill.

Analysis of Vote

26. Vote Food Safety baselines are shown in the graph below, for the period from 2007 when the NZFSA separated from the Ministry of Agricultural and Forestry. In this short period the department's baselines have remained relatively stable, with variations explained by increases in cost-recovered work.



Recommendation

Treasury recommends that you:

- (xiv) Support the savings submitted for Vote Food Safety.

Agree/Disagree

Emergency Pressure

27. The Minister has submitted an emergency pressure bid for Food Safety as outlined in the table above. This bid seeks resources for work on implementing Free Trade agreements. Corresponding emergency pressure bids for this have been made in respect of other Votes, including Biosecurity, Agriculture & Forestry and Customs.
28. We **do not support** the bid. The Ministry has policy resources that can be reprioritised to undertake this work. Treasury also does not support corresponding bids for Trade Agreement work made by other agencies.

Recommendation

Treasury recommends that you:

- (xv) Do not support the emergency pressure submitted for Vote Food Safety.

Agree/Disagree

Value for Money/Strategic Direction

29. The next steps in Value for Money for Vote Food Safety are completion of the value for money review of the NZFSA Verification Agency committed to in the 2008-2011 Statement of Intent (SOI). This work is set to be conducted by 30 June 2009. It will be reported to the Minister and to industry on completion.
30. The next area within NZFSA to be subject to value for money review is likely to be the Enforcement/Operational Response area. Completion will be proposed for June 2010.

Future Budget Issues

31. NZFSA is a new agency whose budget was closely scrutinised on establishment. If budget savings are not returned to the Agency, there will be increased risks in various areas, namely maintenance and enhancement of the food regulatory regime, with implications for foodborne illness rates, potential loss of competitiveness and market access, safety of imported food and reduced science capability. Accordingly, NZFSA is pressing for retention of the savings.
32. Treasury acknowledges the risks from reduced baselines but does not believe that NZFSA has presented evidence that the risks are sufficiently great that they meet the high hurdle of short-term service failure being used in the budget round as a criterion for additional funding. Accordingly, we recommend that the savings not be retained.

Vote Food Safety – Analysis of Policy Priorities

33. Vote Food Safety has submitted no policy priority initiatives.