

The Treasury

2014 Briefings to Incoming Ministers Information Release

Release Document

November 2014

www.treasury.govt.nz/publications/briefings

This document has been proactively released. Redactions made to the document have been made consistent with provisions of the Official Information Act 1982.

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

- 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

In preparing this Information Release, the Treasury and the Ministry of Business, Innovation and Employment have considered the public interest considerations in section 9(1) of the Official Information Act.

This document has been proactively released. Redactions made to the document have been made consistent with provisions of the Official Information Act 1982.

Delivering the Government's economic growth agenda

Briefing to the Ministers of Finance and Economic Development

Gabriel Makhlouf, Chief Executive, The Treasury
David Smol, Chief Executive, MBIE

13 October 2014

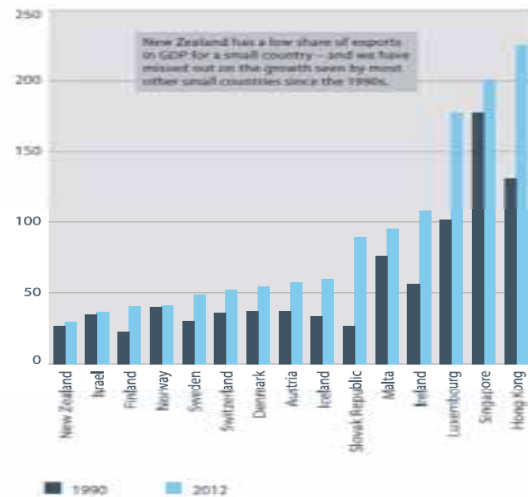
Economic CEs' shared description of a successful New Zealand economy

Our economy is agile, adaptable and innovative, and delivers real and ongoing improvements in the quality of life of all New Zealanders.

New Zealand will be successful if...

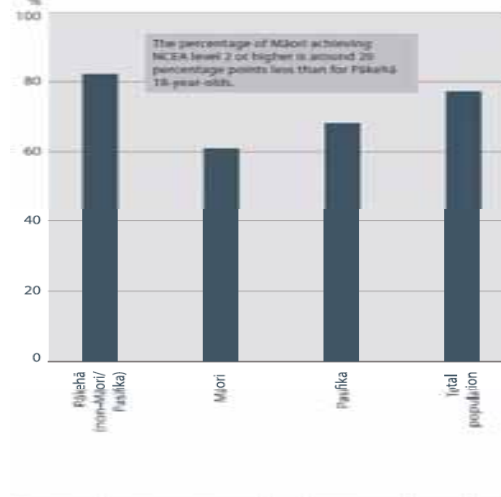
<p>Firms are internationally connected and able to seize the opportunities from flows of people, ideas, capital and trade.</p>	<p>All of our people are equipped with the skills to participate and succeed in our economy and society.</p>	<p>The quality of New Zealand's natural and built environment is high, supporting future innovation and growth.</p>
--	--	---

Exports of goods and services as a share of GDP for small economies



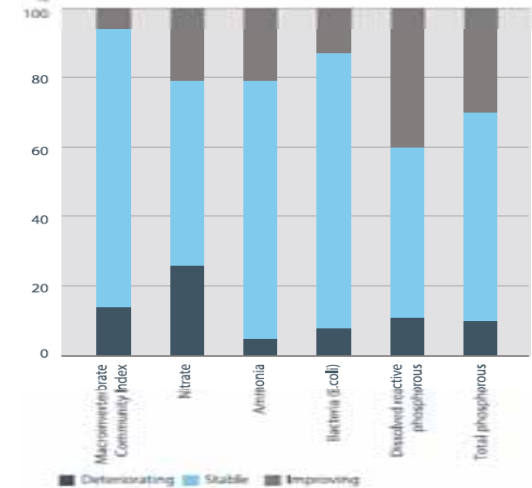
Source: World Bank (data for Slovak Republic and Malta in 2011)

Educational achievement by ethnicity: The percentage of Māori achieving NCEA 2 or higher is 20 percentage points lower than for Pākehā



Source: SSC (Better Public Services)

Managing pressure on our natural resources is increasingly important: River condition trends – summary of 10-year trend analysis



Source: Ministry for the Environment; published in Statistics New Zealand progress indicators Teiparanga Aotearoa

Economic CEs (see Annex for the agencies that are part of this group): Taking a collective approach to lifting New Zealand's economic performance

The changing global environment presents great opportunities for New Zealand. We can benefit from shifts in global economic power and growing demand for our natural resources and the associated technology and skills. The growth in global value chains and increased technological convergence are opportunities for New Zealand to become more integrated into the world economy.

It will be critical to work together strategically across central and local government and in partnership with the private sector, Māori and communities if we are to best harness these opportunities and address our current economic challenges. In response the Economic Chief Executives' Group has identified a set of focus areas where we consider a collective push could make a difference to improving our economic outcomes. If we are successful, our economy could be very different by 2025.

Economic CEs' shared description of a successful New Zealand economy

Our economy is agile, adaptable and innovative, and delivers real and ongoing improvements in the quality of life of all New Zealanders.

Success might look like:		
<p>A competitive business environment that's internationally connected</p> <ol style="list-style-type: none"> 1. New Zealand firms are increasingly internationally connected, allowing firms to achieve scale and raise productivity. 2. Trade intensity will increase substantially – both exports and imports. 3. A step change in business innovation due to firms adopting new technologies, processes and practices from abroad. 4. Outward Direct Investment is substantially increased, with levels comparable to FDI, supporting firms' overseas expansion. 5. Increase in the proportion of migrants with tertiary qualifications. 6. An increased proportion of New Zealand's exports will be from knowledge intensive manufacturing and services - driving export growth. 	<p>Skills that support participation and economic growth</p> <ol style="list-style-type: none"> 1. Reduction in proportion of New Zealanders with very low literacy. 2. Increased rates of Māori and Pasifika achievement in early education, secondary and tertiary. 3. Science, innovation, education and training systems are well-linked to each other and to the economy, providing a mix of high quality vocational and academic learning opportunities. 4. New Zealand firms are well-linked to the education system and able to access high quality and economically relevant skills, leading to higher productivity and fewer skills shortages. 5. Improved management capability in the areas of people and performance management. 	<p>High quality natural and built environment that supports future economic growth</p> <ol style="list-style-type: none"> 1. Our cities: <ul style="list-style-type: none"> • offer high quality experiences for the people who live and work in them • attract skilled international migrants • support the development of clusters of firms around a few key specialisations, with high rates of firm start-ups and increased value added activity • are connected to the world through digital infrastructure. 2. Natural resources are sustainably managed within limits and remain a key source of New Zealand's wealth and prosperity. Efficient allocation is supported by innovation and technological change. 3. Improved information and the use of different systems – such as market mechanisms. 4. Measures of quality of life and the quality of environment including water quality and biodiversity remain high.

Purpose

Following on from the Economic CEs' shared description of a successful New Zealand economy, the Treasury and MBIE have worked together to identify priority issues and policy options for Ministers to consider in the context of setting economic growth strategies and priorities.

This pack is meant to complement our separate briefings by providing some joined-up advice drawing from the joint work of Economic CEs.

Background:

- Over the last 9 months the Economic CEs have identified a small number of key challenges that we think matter for lifting New Zealand's economic performance.
- We have had a range of strategic discussions on these issues, with the aim of building awareness, capability and joint action among the group.
- There is an opportunity for you to use this group to build momentum behind core elements of your economic strategy.

This pack covers:

- The three key issues prioritised by Economic CEs – a competitive business environment that's internationally connected, skills that support participation and growth, and a high-quality natural and built environment.
- A short 'diagnosis' of each issue and priority areas to focus.
- A selection of policy options that would assist with addressing the issues and challenges. These are not exhaustive, but are drawn from our BIMs and subsequent briefings.
- Further information on the issues and policies can be found in our respective BIMS and subsequent briefings.

While this pack covers the priority areas to focus, it is necessary that we continue to carry out the activities which are integral to a well-functioning market economy, such as the provision of effective and efficient regulatory regimes and government services. It is also important that we constantly seek improvements in how this ongoing activity is performed. However, doing this alone will not be sufficient to achieve a step change in our economic performance.

Context

New Zealand economy has performed well since the GFC and is currently experiencing strong growth. Despite this, New Zealand has experienced several decades of relative economic decline and a substantial income gap has opened up with other comparable countries. Much of this gap appears to be because New Zealand is uniquely small and remote. While it is important (and necessary) to get the fundamentals right, e.g. fiscal, macro, monetary, regulatory policy, this will not be sufficient to close the gap.

Role of government:

- Economic growth is business-led
- Government only does things only it can do or can do best, and does them with discipline
- Government is a significant and active player in the economy
- There is a need to make informed trade-offs
- NZ's unique characteristics may require a different role for government in selected areas
- State sector delivers high quality and cost-effective public services

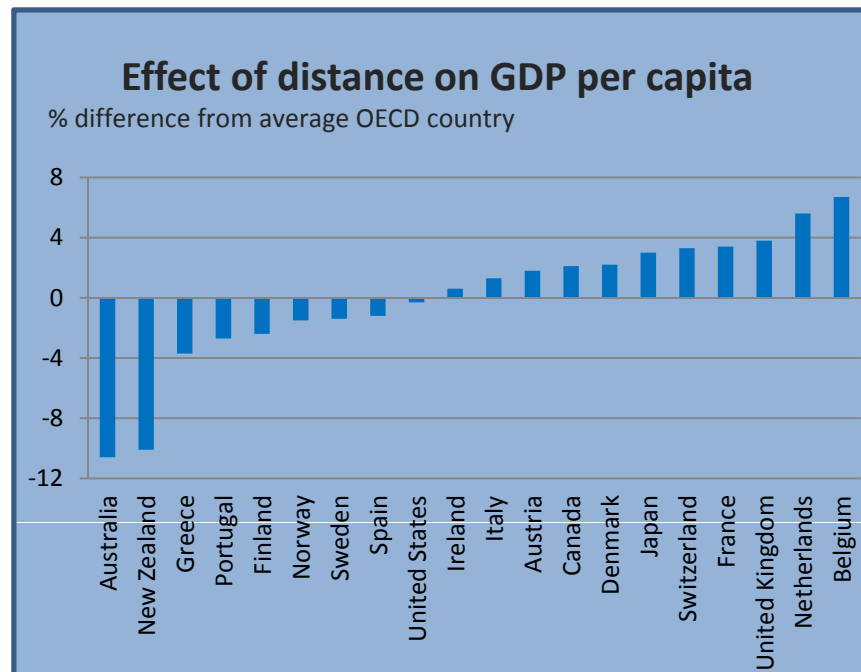
A number of challenges will need to be overcome to achieve a successful economy in 2025, such as:

- Deeper connections into international flows of people, capital, ideas and trade
- A more knowledge-intensive economy and export mix
- Greater business expenditure on R&D
- Stronger environmental performance by our businesses, e.g. primary sector
- Improved outcomes for those currently underachieving, particularly Māori and Pasifika

While the Budget 2015 process is underway, there is scope for utilising this strategic framework to support Ministers in prioritising initiatives similar to that used by BGA Ministers for Budget 2014. There is an opportunity to support inclusive economic performance through smarter social sector investment such as the investment approach.

Priority 1: A competitive business environment that's internationally connected

For New Zealand to be successful in 2025, firms will be more internationally connected and able to seize the opportunities from flows of people, capital, ideas and trade.



The issue

As a small and distant economy, narrowing our 'economic gap' will depend on boosting productivity and international connections – which are intertwined. While a productive economy attracts international flows, international connections boost productivity by bringing scale, competition, investment and ideas.

International flows of trade, people capital and ideas provide a means to overcome economic constraints and enhance productivity. The main contributions comes from encouraging and providing new ideas, increasing competition, and fostering innovation. Our international transport and logistics systems are important to supporting our international connections.

Continuing globalisation and emergence of the Asia-Pacific, and growth in the Maori economy creates opportunities for New Zealand. We need an ongoing focus on how we grasp these opportunities, with a continued emphasis also on developing a productive economy that attracts international flows.

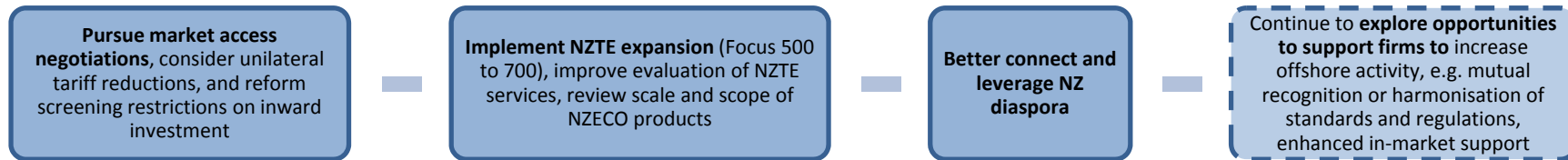
Priority focus areas include:

- Strengthen international linkages
- Reduce pressure on the real exchange rate
- Improve tax and regulation settings
- Lift the performance of the innovation system
- Improve adoption of ICT by business

Policy options: A competitive business environment that's internationally connected (1)

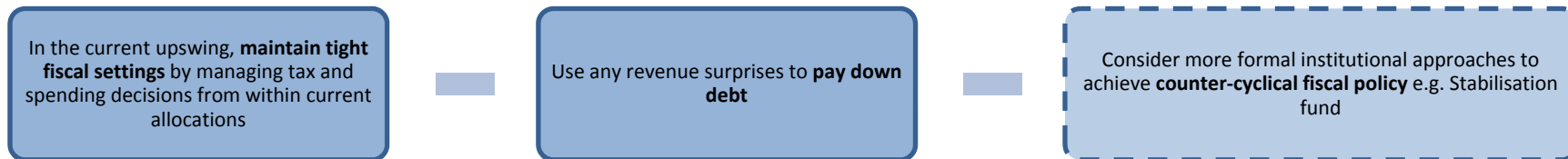
Strengthen international linkages

While New Zealand is well connected internationally in some regards, there is significant scope for improvement.



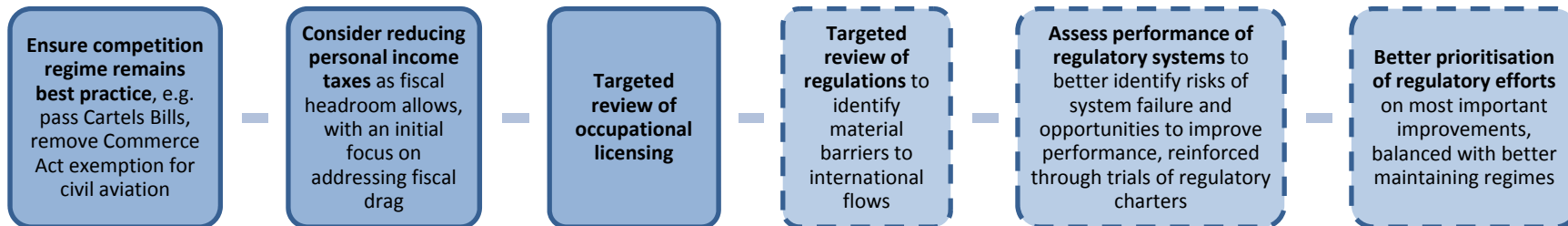
Reduce pressure on the real exchange rate

Fiscal policy can help to reduce cyclical pressure on interest rates and exchange rates from fluctuations in private sector demand.



Improve tax and regulation settings

There are opportunities to improve regulation and tax settings to reduce domestic barriers to competition, lift non-tradable productivity and improve the growth focus of the tax system.



Policy options: A competitive business environment that's internationally connected (2)

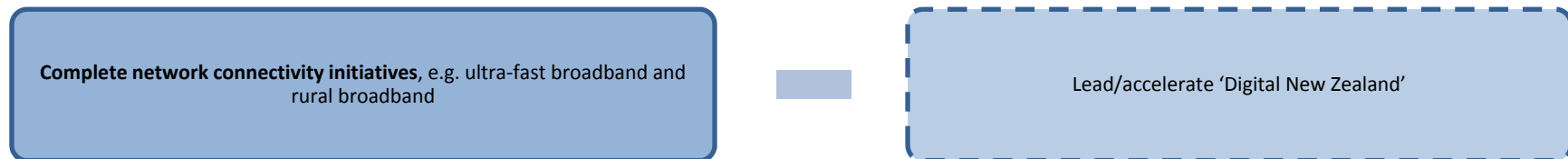
Lift the performance of the innovation system

Business R&D has been improving quickly but off a low base. More could be done to strengthen incentives on businesses to increase their investment in R&D and to strengthen domestic and international connections across the science and innovation system.



Improve adoption of ICT by businesses and consumers/citizens

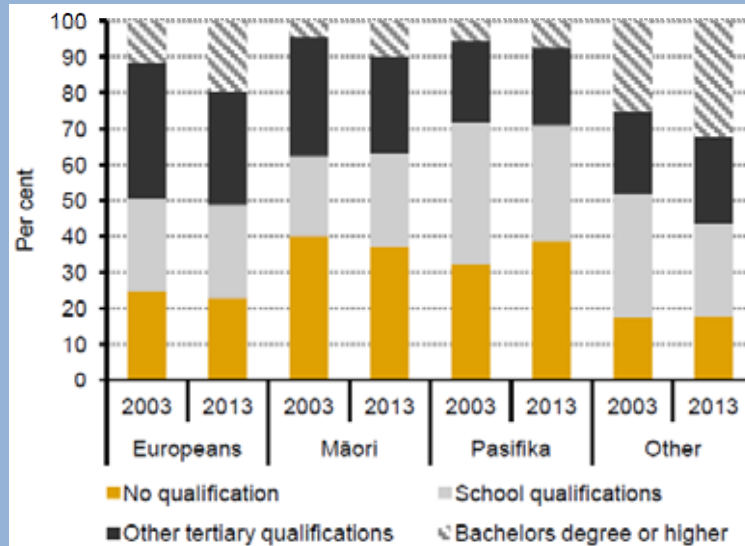
Continued growth in the ICT sector can help shift the New Zealand economy towards more knowledge-intensive activities and the smarter use of ICT by business and consumers/citizens can enable productivity gains across the whole economy.



Priority 2: Skills that support participation and economic growth

For New Zealand to be successful in 2025, all our people are equipped with the skills to participate and succeed in our economy and society.

Population 15 years and over by highest qualification and ethnic group



The issue

New Zealand's future success requires us to build human capital, including knowledge, skills and capabilities, across the population.

New Zealand's population is highly qualified compared to the OECD average. We also have relatively high rates of labour force participation, relatively low unemployment and our labour market is generally considered to be flexible and effective at matching people to jobs.

However, roughly 20 per cent of our workforce lack foundational skills such as numeracy and literacy, limiting their ability to meet their full potential. There also continue to be groups in New Zealand at higher risk of long periods of unemployment. Despite the significant investment we have made in education over the last twenty years we have not seen a commensurate lift in productivity, and we continue to have relatively low returns to qualifications by OECD standards.

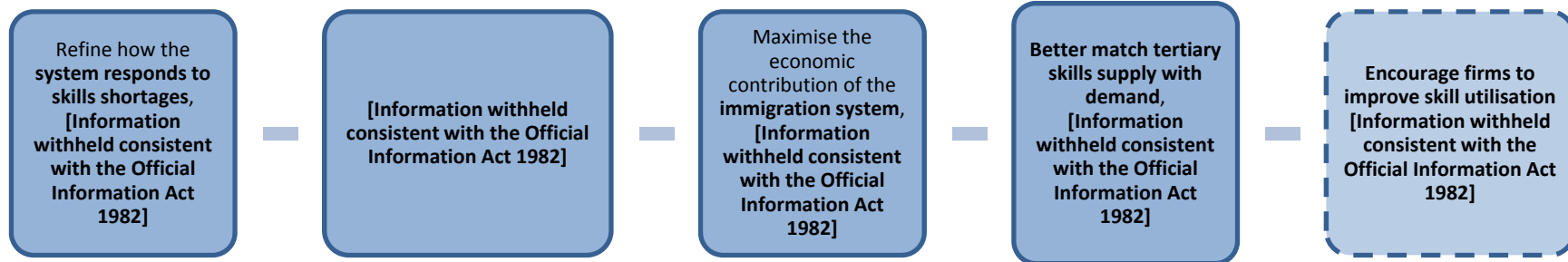
Priority focus areas include:

- Increase impact of the education, skills and immigration systems
- Improve outcomes for those currently underachieving, particularly Māori and Pasifika
- Labour market regulatory system better supports workplace productivity

Policy options: Skills that support participation and economic growth

Increase impact of education, skills and immigration systems

Businesses are central to the development and utilisation of high quality and economically relevant skills in the workforce, and are well-linked to the education system, leading to higher productivity and fewer skills shortages.



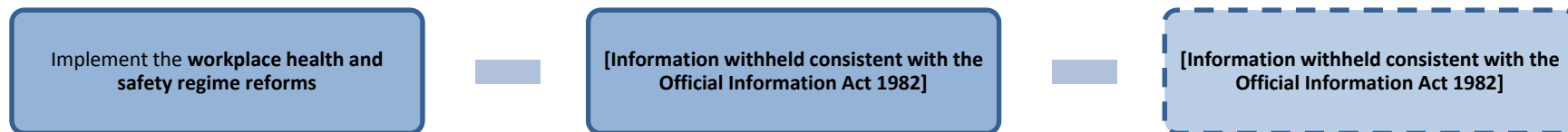
Improve outcomes for Māori and Pasifika

Growing a more productive, innovative and internationally connected Māori economic sector will deliver prosperity to Māori and is critical for New Zealand’s overall economic growth strategy.



Labour market regulatory system better supports productive workplaces

Labour market regulatory systems set the framework for safe, fair and productive workplaces.



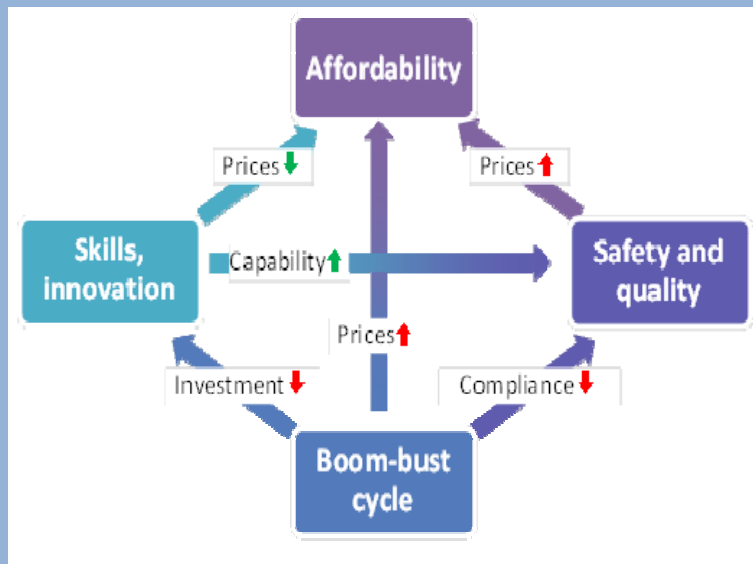
Solid line boxes are things we know we need to do in the short term (0-3 years). Dashed line boxes are things where it is less clear what we need to do now but may need to do something in the longer term.

Priority 3: High quality natural and built environment that supports future economic growth

For New Zealand to be successful in 2025, the quality of New Zealand's natural and built environment is high, supporting future innovation and growth.

Housing supply and affordability

Four inter-related challenges



The issues

Pressure points of a growing economy are seen at a local level, such as infrastructure bottlenecks, land and housing shortages, and natural resources overstretching their environmental limits.

There are undue constraints on affordable housing in Auckland and other fast-growing areas as supply shortages, land costs and low interest rates have driven up prices ahead of incomes. Zoning more land, investing in infrastructure and easing regulatory constraints are all part of the answer, but bigger impacts can be achieved by addressing the complementary challenges of the boom-bust cycle, construction sector skills and innovation, and refining safety and quality standards.

There is significant potential to sustainably increase the value from our natural resources, including the primary sector, petroleum, minerals, freshwater and collectively owned Maori assets. For petroleum and minerals this means maintaining current levels of exploration activity. For freshwater, this means better resource management to ensure efficient and sustainable allocation and use, particularly for dairy.

Our infrastructure is largely well placed but needs to respond to significant challenges, such as ageing assets, demographic and population changes.

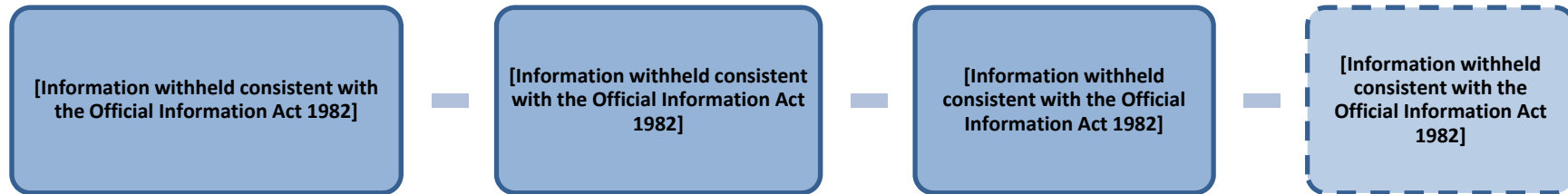
Priority focus areas include:

- A cross-portfolio approach to reducing affordability pressures in the housing market
- Increase value from the use of natural resources within sustainable limits
- Canterbury rebuild provides the platform for a dynamic and innovative regional economy
- High quality infrastructure supports a more productive and better connected economy
- Local government better supports growing local economies

Policy options: high quality natural and built environment that supports economic growth (1)

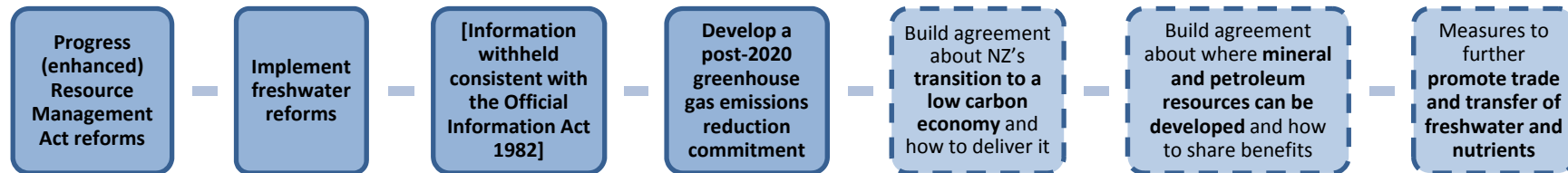
A cross-portfolio approach to reducing affordability pressures in the housing market

Affordable, quality housing is fundamental to well-being and a well-performing economy.

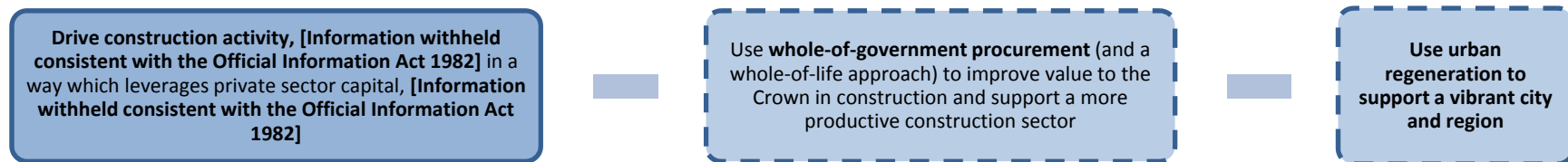


Increased value from our natural resources within sustainable limits

There are significant opportunities to increase value from our natural resources (land, freshwater, petroleum, minerals) within sustainable limits.



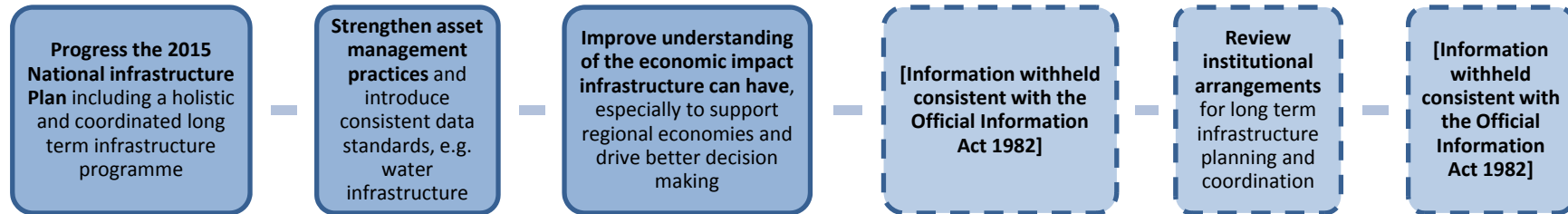
Canterbury rebuild provides the platform for a dynamic and innovative regional economy



Solid line boxes are things we know we need to do in the short term (0-3 years). Dashed line boxes are things where it is less clear what we need to do now but may need to do something in the longer term.

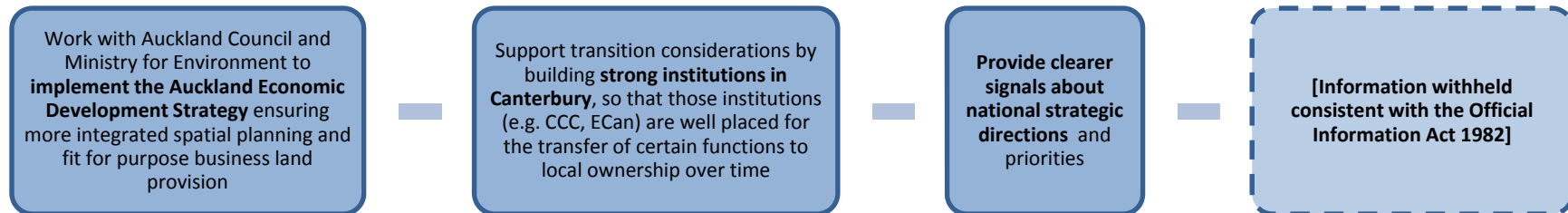
Policy options: high quality natural and built environment that supports economic growth (2)

High quality infrastructure supports a more dynamic and better connected economy



Local government better supports growing local economies

Local government plays an important role in resource management, regional economic development and urban planning.



Solid line boxes are things we know we need to do in the short term (0-3 years). Dashed line boxes are things where it is less clear what we need to do now but may need to do something in the longer term.

Delivery

Business Growth Agenda (BGA) has provided a strong and effective organising framework for delivering the Government's economic growth agenda

- Minister groupings and supporting officials groups have been effective at aligning activity and language across portfolios
- Minister groupings have provided an opportunity for Ministers to engage with issues, test ideas, etc outside of Cabinet processes
- Involvement of lead Ministers has been critical success factor in driving agenda forward
- The framework has provided basis for structured engagement with stakeholders
- Communication has been effective, e.g. through annual progress reports, regional and sector reports, with business saying they are now more informed of the Government's economic agenda

And there are opportunities to improve delivery

- Some cross-cutting issues don't fall naturally under a BGA heading, e.g. ICT, Māori economic development, regions and regulation
- Could provide a more high-level strategic story that better connects the six BGA headings and the importance of getting the fundamentals right
- Could engage a wider range of stakeholders earlier in the process to help ensure the range of reforms and direction of effort is more enduring
- Could strengthen links with local government and economic development agencies

Annex - Agencies part of the Economic CEs group

Callaghan Innovation
Department of Prime Minister and Cabinet
Inland Revenue Department
Ministry for the Environment
Ministry of Business Innovation and Employment
Ministry of Education
Ministry of Foreign Affairs and Trade
Ministry of Pacific Island Affairs
Ministry of Primary Industries
Ministry of Transport
New Zealand Trade and Enterprise
Statistics NZ
Te Puni Kōkiri
Tertiary Education Commission
The Treasury