

The Treasury

Budget 2020 Information Release

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- [29] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [42] 18(d) - information is already publicly available or will be publicly available soon.

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Treasury Report: Workforce Capability Pressures

Date:	2 October 2019	Report No:	T2019/2621
		File Number:	BM-2-4-2020-10 (Cost Pressure Initiatives)

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	<p>Indicate whether you want to discuss this report with officials</p> <p>Indicate whether you want the Treasury to undertake workforce analysis in Budget 2020</p> <p>Refer to the Minister of State Services</p>	Friday 11 October 2019

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Jenny Smith	Analyst, Strategic Performance Improvement	[39]	n/a (mob) ✓
Megan Taylor	Manager, Strategic Performance Improvement		n/a (mob)

Minister's Office actions (if required)

Return the signed report to Treasury.
Refer to the Minister of State Services.

Note any feedback on the quality of the report

Enclosure: [34]

Treasury Report: Workforce Capability Pressures

Executive Summary

We are aware that a number of agencies and functions within the core public service are facing workforce capability pressures that, if not carefully managed, may impact on the ability of agencies to deliver on the government work programme.

The primary drivers of these pressures include the increasing pace and scale of change throughout the public service and ongoing work to strengthen system collaboration and wellbeing outcomes. The capability pool may not be sufficient to meet these demand pressures, particularly when the economy is operating near full capacity (with low unemployment and a historically high labour force participation rate).

We saw a high level of demand for additional capability coming through Budget 2019 and we expect to see further demand through Budget 2020. We are hearing that agencies are struggling to fill vacancies (even when funding for capability has been funded) – particularly within constrained workforces (i.e. senior policy capability, data analytics capability, ICT capability, asset management and Māori capability).

In preparation for Budget 2020, we recommend that:

- a. the information in this report be used to provide context for bilateral conversations; including to encourage conversations on prioritisation and sequencing of work programmes;
- b. during the Budget process, when funding is sought for an FTE increase in a constrained workforce, these initiatives be carefully considered to ensure they do not inflate prices and/or move resources away from other priority areas;
- c. when considering new initiatives, questions are asked about whether the capability exists to support all stages from policy-generation to delivery and review, and whether timeframes are practicable (particularly if new-agency establishment or inquiry-response is required);
- d. a longer-term, co-ordinated view to workforce planning and capability building be encouraged that recognises the importance of the enabling functions¹ alongside policy and delivery workforces; and
- e. consideration be given to whether a system-wide analysis of capability pressures coming through Budget initiatives be provided to the groups developing Budget packages.

¹ “Enabling functions” include finance, procurement, investment management, project management, change management, human resource management and information technology support.

Recommended Action

We recommend that you:

- a. **indicate** whether you would like to hold a “deep dive” into workforce capability pressures, with Treasury officials, prior to bilaterals in November 2019

Yes/no.

- b. **indicate** whether you would like a system-wide analysis of workforce capability pressures to be provided to the groups developing Budget packages

Yes/no.

- c. **agree** that the Treasury can work with Functional Leads/Heads of Profession to provide advice on workforce market conditions throughout Budget process (without sharing details of initiatives)

Agree/disagree.

- d. **note** the need to carefully consider workforce capability pressures as part of Budget 2020, and

- e. **refer** to the Minister of State Services.

Refer/do not refer.

Megan Taylor
Manager, Strategic Performance Improvement

Hon Grant Robertson
Minister of Finance

Treasury Report: Treasury Report: Workforce Capability Pressures

Purpose of Report

1. This report highlights departmental capability pressures and gaps that we recommend are given consideration during the prioritisation of initiatives for Budget 2020.
2. “Capability” in this context refers specifically to human resource capability – having the right people with the right skills to deliver or support the delivery of the Government’s work programme. Although our analysis focuses on the capability of departments, we think that some of the issues identified are also relevant for the wider State sector.

Background

3. During Budget 2019 we provided system-wide workforce analysis of the initiatives submitted. Our advice at that time highlighted that agencies were seeking significant additional capacity through Budget 2019 – [33] – and we had concerns over the ability of agencies to source that capability should it be funded. This concern was primarily based on low unemployment and increased demand for certain workforces.
4. The graph below shows an approximate view of what was sought compared with what was funded².

[33]

² These FTE numbers represent high level estimates collected during the Budget 2019 process. This graph excludes devolved workforces (such as teachers, doctors and nurses) and includes Wellington based and non-Wellington based capability.

5. Despite increased funding in Budget 2019, capability pressures persist. There is widespread demand, in narrow talent markets, for skills central to delivery of government's work programme; such as senior-level policy advice, asset management, sophisticated data analysis, digital transformation and Māori capability. We expect further capability initiatives to be submitted through Budget 2020. We anticipate that a number of these initiatives will be seeking capability that is already in high demand across the system.
6. In forming our views we have consulted with SSC and DPMC. Should you indicate that you would like further advice on capability pressures, we will work with the Functional Leads and Heads of Profession to better understand workforce pressures and options to address these pressures (without sharing details of individual initiatives).

Analysis

What is driving these capability pressures?

7. There will always be baseline personnel cost pressures (primarily driven by wage increases and additional FTEs to respond to population changes) but, over and above this, we are also seeing pressures arising from:

Increased pace and scale of change

8. *Reviews, inquiries and reforms.* There are a number of significant reviews, inquiries and reform programmes either currently underway or recently completed. A number of these reviews have potential to require a substantive policy response from within impacted agencies and potentially a significant programme of change.
9. For example; the Ministry of Education has an ambitious and wide-ranging work programme which includes a number of key sector reviews, such as the Reform of Vocational Education, Early Learning Strategy, Tomorrow's Schools review and the Education Workforce Strategy. The breadth of the work programme is likely to place significant pressures on departmental and sector capacity if implementation is not sequenced sustainably (T2019/2629 refers). The Ministry of Health is currently supporting the Health and Disability Review but may find it challenging to respond to the outcomes of the review if they require a substantive response. At the same time, work is being done on criminal justice & family justice reform, welfare reform, public finance system modernisation and public service reform.
10. *Organisational change.* Setting up new agencies (e.g. Infrastructure Commission, Ministry of Housing and Urban Development, Te Arawhiti) has a two-fold impact on system capability: the longer-term demand of resourcing the ongoing operations of these agencies; and a more immediate diversion of capability from other priority areas during the planning and establishment phases.

Embedding a wellbeing approach

11. In order to embed a wellbeing approach within the public sector, you have expressed a desire for agencies to take a whole-of-government approach, look at intergenerational outcomes and to move beyond narrow measures of success and consider impacts, both positive and negative, across a broader set of areas.
12. Implementing these principles will require space to focus on strategic thinking and planning, and embedding system collaboration. These take time to do and require certain skillsets (such as those found within the enabling functions, see paragraph 18) both within agencies and across the system.

13. There is also increasing demand for making better use of data and being able to leverage the opportunities created by advancing digital technology. This evolution requires increasing investment in technology but also increases demand for those with data analytics and ICT capability.
14. For some agencies, taking a wellbeing approach will lead to different skillsets being required to deliver their core services. For example, [33]

Uplifting Māori capability

15. There is a widespread drive to increase Māori capability within agencies. This system wide upskilling requires a wide range of Māori capability (such as organisational development, senior policy and those with specialised Crown/ Māori relationship expertise). There is a significant shortage of capability available to enable this capability uplift.

Areas facing significant capability pressures or gaps

16. These pressures are being felt particularly strongly by certain agencies, functions and workforces where there is either an extensive work programme, low existing capability and capacity, and/or a limited pool of people with the capability being sought.

Agencies

[34]

Functions

18. We have also observed that a number of enabling functions are facing capability pressures across the system. “Enabling functions” include finance, procurement, investment management, project management, change management, human resource management and information technology support. Together, these functions form the backbone of organisations and play an important role in facilitating strategic planning, prioritisation, and enabling efficient and effective policy implementation and service delivery. As well as referring to functions within agencies, in some cases an agency itself plays an enabling role within the system; for example, Central Agencies.
19. Over recent years, these functions have faced changing capability expectations paired with either increased workload (as “front office” and/or capital investment activities scale up) and/or de-prioritised investment resulting from incentives favouring investment in frontline services. It is also these functions that play a significant role in planning for, managing and implementing organisational change.

20. The most recent ICAT³ results show a growing trend of capacity and constraint across finance departments and successive Investor Confidence Ratings rounds have identified capability gaps in long term investment planning and delivering major business change. We are also aware that a number of agencies are facing constraints as a result of ageing infrastructure or systems that are no longer fit for purpose.

Workforces

21. In Budget 2019 we noted a number of agencies are seeking similar workforce skillsets even where labour supply issues exist for those workforces. These workforces include: senior policy capability, data analytics capability, asset management and Māori capability. [33]
22. The limited workforce supply means that in the short-term decisions need to be made on how to sequence and prioritise the Government's work programme to ensure we are allocating any limited workforce capability to the areas where there is the greatest opportunity and likelihood of success. Over the medium to long-term, work is needed on how to develop the workforce capability the State sector needs in the future.

Next Steps

What does this mean for Budget 2020?

23. The challenges set out above are important considerations to factor into Budget decision-making. There is pride in the public service and agencies are keen to respond to immediate priorities whilst building longer-term resilience.
24. In preparation for Budget 2020, we recommend that:
- a. the information in this report be used to provide context for bilateral conversations; including to encourage conversations on prioritisation and sequencing of work programmes;
 - b. during the Budget process, when funding is sought for an FTE increase in a constrained workforce, these initiatives be carefully considered to ensure they do not inflate prices and/or move resources away from other priority areas;
 - c. when considering new initiatives, questions are asked about whether the capability exists to support all stages from policy-generation to delivery and review, and whether timeframes are practicable (particularly if new-agency establishment or inquiry-response is required);
 - d. a longer-term, co-ordinated view to workforce planning and capability building be encouraged that recognises the importance of the enabling functions alongside policy and delivery workforces; and
 - e. consideration be given to whether a system-wide analysis of capability pressures coming through Budget initiatives be provided to the groups developing Budget packages.

³ Internal Control Assessment Tool: Designed to evaluate agencies' internal control environments, on which the Secretary to the Treasury may form a view on the adequacy of internal controls within the Government reporting entity. The 2019 survey was conducted during May/June 2019.

25. Should you indicate that you would like to see system-wide analysis of capability pressures, the Treasury would work with Functional Leads and Heads of Profession to understand the challenges facing particular workforces and use this understanding to inform our advice during the Budget 2020 process.
26. Alongside any proposed Treasury analysis, the Government Chief Digital Officer (GCDO) and Government Chief Digital Steward will be providing advice on initiatives with data, digital and ICT components. One aspect of their advice will focus on confidence in delivery which will include their analysis of the impact of any workforce constraints.

What else is happening?

27. There are a number of related pieces of work underway related to either addressing identified capability pressures or to better understanding the nature of the issues:
 - a. You have written to Ministers asking for a progress report in respect of selected initiatives. These reports are due to be received and collated by the Treasury for your November bilaterals. It is possible that these progress updates may reveal further information about the capability issues faced by agencies.
 - b. Some functional leads are beginning to take note of and respond to workforce shortages. For example, the Policy Project is taking steps to understand the pressures facing the policy profession and is considering ways of working together to share scarce resource across policy areas.
 - c. The Treasury is initiating a project to identify critical services across government and will review a sample of services to establish an evidence base on the quality of critical infrastructure and its associated asset management, risk and resilience practice.
 - d. SSC is currently completing their analysis of the 2019 Human Resource Capability Survey. We hope to be able to integrate the findings of this analysis into any further work that we progress on this topic.
 - e. SSC are also starting a strategic conversation across the public service about its future workforce to support public service reform within the context of the future of work, and undertaking work looking at the extent of Machinery of Government changes (underway and proposed).
 - f. GCDO are collecting data on the ICT investment intentions of agencies in order to provide a system level perspective, in line with the proposed digital strategy.

[34]