

The Treasury

Budget 2020 Information Release

July 2020

This document has been proactively released by the Treasury on the Treasury website at

<https://treasury.govt.nz/publications/information-release/budget-2020-information-release>

Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
- [2] 6(b)(i) - to avoid prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by the Government of any other country or any agency of such a Government
- [5] 6(d) - to prevent endangerment of the safety of any person
- [9] 6(e)(iv) - to prevent serious damage to the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the stability, control, and adjustment of prices of goods and services, rents, and other costs, and rates of wages, salaries, and other incomes
- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [26] 9(2)(ba)(i) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied
- [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.

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

Copyright and Licensing

Cabinet material and advice to Ministers from the Treasury and other public service departments are © **Crown copyright** but are licensed for re-use under **Creative Commons Attribution 4.0 International (CC BY 4.0)** [<https://creativecommons.org/licenses/by/4.0/>].

For material created by other parties, copyright is held by them and they must be consulted on the licensing terms that they apply to their material.

Accessibility

The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to information@treasury.govt.nz.

Treasury Report: Briefing for Budget 2020 Bilateral with Minister Jackson

Date:	4 November 2019	Report No:	T2019/3426
		File Number:	SH-2-0

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Discuss the contents of this report at your bilateral meeting with Minister Jackson on 5 November 2019.	Tuesday, 5 November 2019, 7.30pm

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Angela Parker	Analyst, Skills and Work	[39]	N/A (mob) ✓
Nick Carroll	Manager, Skills and Work	[23]	

Minister's Office actions (if required)

Return the signed report to the Treasury.

Note any feedback on the quality of the report

Enclosure: Yes (attached)

Treasury Report: Briefing for Budget 2020 Bilateral with Minister Jackson

Executive Summary

The Employment portfolio's annual operating expenditure is \$19.794 million.

The majority of this expenditure is \$13.275 million for the Youth Employment Pathways/He Poutama Rangatahi (HPR) initiative funded from the Provincial Growth Fund (PGF). HPR is currently being piloted in four regions. Minister Jackson aims to expand it to urban areas and seek ongoing funding of approximately \$103 million over four years. As PGF funding is tagged for regional initiatives, this urban expansion will require Budget funding.

Given the Cabinet decision in July to establish Regional Skills Leadership Groups (RSLGs), securing funding to establish 15 RSLGs in the regions is likely to be the highest priority for new funding within the Employment portfolio.

Other areas in Minister Jackson's portfolio are less likely to be considered a high priority for Budget 2020, however Ministers will need to make a decision about the future of the Sector Workforce Engagement Programme (SWEPE) and whether to fund the Construction Skills Hubs or break the existing contracts and close them.

Given capacity issues across Wellington's policy labour market at present, the Ministry of Business, Innovation and Employment is going to need to prioritise its policy resources across Vote Labour Market to deliver on existing commitments and new initiatives.

Recommended Action

We recommend that you:

- a **note** the contents of this report; and
- b **discuss** with Minister Jackson at your bilateral meeting on Tuesday, 5 November 2019 at 7.30pm.

Nick Carroll
Manager, Skills and Work

Hon Grant Robertson
Minister of Finance

Treasury Report: Briefing for Budget 2020 Bilateral with Minister Jackson

Purpose of Report

1. The purpose of this report is to provide background information and advice for your Budget 2020 bilateral discussion with Minister Jackson at 7.30pm on Tuesday, 5 November 2019, regarding the Employment portfolio.
2. This report provides:
 - context on existing funding, including funding received in recent Budgets; and
 - an overview of cost pressures submitted for Budget 2020.
3. Attached to this report are two annexes:
 - Annex A provides talking points for your bilateral discussion.
 - Annex B provides detail of the cost pressure initiative submitted for employment.

Context

4. The Employment portfolio's annual operating expenditure is \$19.794 million.
5. The majority of this expenditure is \$13.275 million for the Youth Employment Pathways/He Poutama Rangatahi initiative funded from the Provincial Growth Fund in December 2017 [CBC-17-MIN-0087 refers].
6. Operating funding received by Vote Labour Market (which includes funding for the Employment portfolio) over the last two Budgets is summarised in Table One below.

Table One: Average annual operating funding for Vote Labour Market 2017-2019

Budget Estimates	Average annual total appropriations (4 year avg) at Budget (\$m)	% increase in total appropriations (4 year annual avg) from previous Budget
Budget 2017	1,901.508	
Budget 2018	1,977.048	3.9% ¹
Budget 2019	2,041.297	3.2%

Analysis of priorities

Resourcing priorities across Vote Labour Market

7. The Ministry of Business, Innovation and Employment (MBIE) policy teams currently have low capacity to deliver on employment priorities, due to a significant work programme and labour market constraints. These constraints will mean that

¹ Note that the majority of the increases in 2018 and 2019 were from other portfolios within Vote Labour Market (i.e. not Employment).

prioritisation is needed to ascertain the best value for money across Vote Labour Market. We recommend that MBIE focus on other Labour Market priorities (e.g. more resources for immigration visa processing).

8. Minister Jackson is likely to submit the following Employment portfolio initiatives for Budget 2020:

Funding for the Regional Skills Leadership Groups (RSLGs)

9. RSLGs are a key component of the Reform of Vocational Education (RoVE) and the temporary migrant reforms. It is intended that the 15 RSLGs will identify workforce and skill needs in their region, both now and in the future, and advise on actions to cultivate these.
10. Cabinet agreed to establish RSLGs in July 2019, noting that the Minister of Employment would submit a Budget 2020 bid to seek funding for the groups (SWC-19-MIN-0087).

Sustainable funding for the existing Construction Skills Hubs

11. Minister Jackson is likely to seek funding through Budget 2020 to continue operating the Auckland based Construction Skills Hubs. If funding is not secured, the Hubs will likely need to be closed and MBIE would need to provide advice on how much it will cost to close the Hubs.
12. Hubs are just one aspect of Sector Workforce Engagement Programme (SWEP). SWEP engagements are targeted and intended to be time-bound (with government acting as a catalyst for industry-led initiatives).
13. Cabinet agreed in-principle to the establishment of two additional Hubs in Auckland as one of six key initiatives in the Construction Skills Action Plan [DEV-18-SUB-0192 refers]. Funding was sought through Budget 2019 but was unsuccessful as the bid had weak priority alignment and weak evidence that SWEP is effective as a long-term intervention.
14. The Hubs are now operating, but have been funded through one-off underspends from MBIE's baseline. \$12 million is the current estimation of operating the three Hubs over four years. That leaves MBIE in a fiscally tenuous position of needing to fund the Hubs from baselines or divert resources to fund the signed contracts if additional funding is not secured.
15. We recommend Ministers make a decision about the future of SWEP and the Hubs for this Budget. We see two options:
 - Breaking existing contracts, which will incur costs (MBIE are currently working out cost of this)
 - Providing time-limited Crown funding for the Hubs to complete the contracts. Indications from MBIE are that it would cost \$12 million over four years for the three Hubs.

Expanding Youth Employment Pathways/He Poutama Rangatahi (HPR) into urban communities

16. \$13.275m funding was agreed for He Poutama Rangatahi (HPR) in December 2017. HPR is a fund for training and employment programmes for young people in Te Tai Tokerau, Eastern Bay of Plenty, Tairāwhiti and Hawke's Bay, and is available to communities on application. Some of the \$13.75 was transferred to the 2018/19 year.
17. Following Treasury advice, Minister Jackson sought additional funding from the PGF rather than the Between Budget Contingency (BBC). Minister Jones agreed to provide an additional \$13.75 million for the 2018/19 year.

18. HPR is currently being piloted in four regions. Minister Jackson aims to expand it to urban areas and seek ongoing funding of approximately \$103 million over four years. As PGF funding is tagged for regional initiatives, this urban expansion will require Budget funding.
19. If ongoing funding is not secured, the programme and contracts would need to be expired. If funding is secured, there would need to be supporting evaluation of the programme's effectiveness, and evidence providers are ready to deliver the programme in the proposed new areas.
20. If ongoing funding is secured, we would recommend a trial is carried out in urban locations that are implementation ready, ahead of rollout to other urban areas.

[33]

Cost Pressures

23. As at 3pm 4 November, cost pressure bids are seeking a combined total of \$14.8 billion operating over the forecast period (\$3.7 billion average per annum), and \$6.1 billion total capital have been submitted.
24. Minister Jackson submitted one cost pressure bid totalling [33] of operating and [33] of capital funding for Budget 2020, within the Employment portfolio.
25. We do not consider there are serious risks with either funding or not funding this cost pressure bid as it does not represent a significant funding increase.
26. However, as outlined in paragraph 7, MBIE is currently carrying a lot of vacancies for policy roles and is therefore unlikely to be able to recruit the full amount being requested.

Annex A: Talking Points for your Bilateral with Minister Jackson

27. Regional Skills Leadership Groups (RSLGs) are a key component of the Reform of Vocational Education (RoVE) and the temporary migrant reforms.
- Do you agree that funding RSLGs is one of the priorities for the Employment portfolio this budget?
 - What could be de-prioritised in the Employment portfolio in order to fund and resource this work?
28. The Construction Skills Hubs are now operating, and are being funded in this current year through MBIE's baselines. \$12 million is the current estimation of operating three Hubs over four years, or Ministers could consider closing the Hubs and breaking the existing contracts at a cost that is currently unknown.
- What do you propose is the best course of action given other priorities across Vote Labour Market?
29. You intend to expand He Poutama Rangatahi (HPR) into urban areas and seek ongoing funding of approximately \$103 million over four years from Budget 2020. The PGF cannot be used for the expansion to urban areas, given the regional scope of the PGF funding criteria.
- Are you confident that providers in the proposed urban areas are ready to deliver HPR?
 - If HPR is discontinued, how would you ensure that the young people in the programme continue to receive ongoing pastoral care until they are properly transitioned out of the programme?

Annex B: Submitted Cost Pressure Initiatives

Employment

Title	Description	Funding sought for Budget 2020						Treasury Comments
		Opex (\$m)	Avg	Opex (\$m)	Total	Capex (\$m)	Total	
Employment Policy Advice	This initiative seeks funding to increase MBIE's capacity to deliver skills and employment policy advice.	[33]						<p>We do not consider there are serious risks with either funding or not funding this cost pressure bid as it does not represent a significant funding increase.</p> <p>However, we are aware that MBIE is currently carrying a lot of vacancies for policy roles and is unlikely to be able to recruit the full amount being requested.</p>
Total								