

# The Treasury

## Budget 2020 Information Release

### July 2020

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## Treasury Report: Budget 2020 Scene Setting Discussion: Workforce Capability Pressures

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<b>Date:</b>	9 December 2019	<b>Report No:</b>	T2019/3590
		<b>File Number:</b>	BM-2-4-2020 (Budget Initiatives 2020)

### Action sought

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	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	<b>Discuss</b> the contents of this briefing with Treasury officials at the Budget 2020 Scene Setting session on 11 December 2019	11 December 2019

### Contact for telephone discussion (if required)

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Name	Position	Telephone	1st Contact
Jenny Smith	Analyst, Office of the Government Accountant	[39]	n/a (mob) ✓
Andrew Squires	Senior Analyst, Office of the Government Accountant	[23]	
Megan Taylor	Manager, Strategic Performance Improvement, Office of the Government Accountant		n/a (mob)

### Minister's Office actions (if required)

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**Return** the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** No

# Treasury Report: Budget 2020 Scene Setting Discussion: Workforce Capability Pressures

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## Executive Summary

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You are discussing this briefing with Treasury officials at 5.00 pm on 11 December 2019 as requested in your response to our last briefing on this topic (T2019/2621 refers). The Agenda for this discussion is in Appendix One.

Workforce Capability is critical to achieving the Government's work programme; however there are continued indications of workforce pressures that could put delivery at risk. Analysis carried out for Budget 2019 identified four specialist workforces in high demand across multiple initiatives and agencies, and that are experiencing supply issues. These specialist workforces were senior policy, data analytics, asset management and Māori capability. We have subsequently added regulatory capability to this list.

Our analysis of Cost Pressure initiatives in Budget 2020 shows continued demand in these specialist workforces; in particular for policy, regulatory and asset management.

We expect most of the additional FTE sought in Budget 2020 will come through the new initiatives process. Your letter to coordinating Ministers in November advised Ministers to take a workforce perspective in these processes. We will also be liaising with the Treasury staff on the secretariat groups to gather information as packages are being developed.

As information on workforce capability pressures applies across all the Budget processes and should be considered from a system-wide perspective, we propose developing a workforce capability system overview once all the draft packages are received in February 2020.

Responding to workforce pressures also requires more long-term capability work through functional leads and agencies. You can support this through continuing to provide key messages to Ministers and agencies, which are included in this briefing.

## Recommended Action

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We recommend that you **discuss** the contents of this briefing at the Budget Scene Setting session on 11 December 2019, based on the agenda set out in Appendix One.

Megan Taylor  
**Manager, Strategic Performance Improvement**

Hon Grant Robertson  
**Minister of Finance**

# Treasury Report: Budget 2020 Scene Setting Discussion: Workforce Capability Pressures

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## Purpose of Report

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1. This briefing supports your Budget 2020 Scene Setting discussion with Treasury officials on 11 December. The proposed agenda for this meeting is in **Appendix One**.
2. The briefing provides analysis of workforce capability pressures evident in Budget 2020 Cost Pressure initiatives, information on responses underway including the work of functional leads and workforce specialists, and ideas for how you might use this information through Budget 2020 processes.

## Background

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3. In Budget 2019, we provided you with system-wide workforce analysis across all initiatives that showed a high level of demand, particularly for some specialist workforces. This high demand raised concerns about achievability<sup>1</sup> at the system level.
4. To prepare for Budget 2020, in October 2019 we briefed you on pressures on workforce capability (with “capability” meaning having the right number of people with the right skills) in the public sector (refer to T2019/2621). In response to that briefing, you requested further information and analysis, and agreed to a discussion on this with the Treasury.

## Workforce supply and demand

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5. Workforce capability is critical to agencies successfully delivering the Government’s work programme. There is evidence of growing workforce capability pressures that could put delivery at risk. The factors behind these capability pressures include:
  - the labour market has remained tight – the seasonally adjusted unemployment rate of 4.2% is at or near full-employment
  - the high demand for certain workforce groups – there appear to be shortages of supply for certain specialist roles (as was identified in Budget 2019 work), and
  - the ‘pipeline’ impact of recruitment and capability development practices; for example, a lack of graduate recruitment is now being seen in the size of the senior policy cohort.

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<sup>1</sup> It is one of the ‘Triple A’ investment appraisal factors - Attractiveness, Achievability and Affordability. These factors are being considered with respect to Capital Intentions in Budget 2020.

6. Our earlier briefing on workforce capability pressures (refer to T2019/2621) identified the following specialist workforces as constrained with an increasing gap between demand and supply:
  - Senior policy capability
  - Data analytics capability
  - Asset management, and
  - Māori capability (for example, roles that support agencies better understand engage and respond to Māori).
7. High demand and constrained supply puts pressure on price (wages) and can incentivise agencies to focus on meeting their own immediate workforce needs, at the expense of others and at the expense of developing workforce capability over time. An example of such a scenario might be an agency 'poaching' experienced staff in short supply through above-market wages with wider impacts on sector pay rates, recruitment and retention. This behaviour also means that there might not be alignment between those who can attract staff with priority work programmes.

### Continued demand in Budget 2020 Cost Pressure initiatives

8. Budget 2020 has multiple processes, which are designed to be more collective and collaborative, with agencies and Ministers having greater ownership of the outcomes. The Treasury has a greater role with respect to analysing Cost Pressure and Other initiatives.
9. Given Cost Pressure initiatives were received on 1 November and that the Treasury has assessed these initiatives, we can provide an indication of what we are seeing through these<sup>2</sup>. We have found Cost Pressure initiatives mainly relate to existing staffing and we expect additional staffing will mostly come through new spending initiatives.
10. Graph One below shows FTE sought and FTE supported for Capability related Cost Pressure initiatives. The areas of demand indicate that the specialist workforces identified as constrained through Budget 2019 and in our advice from October 2019 are still experiencing those pressures, in particular for policy and asset management. The analysis has also identified other workforces where multiple agencies are looking to increase capability. One such area is the regulatory workforce.

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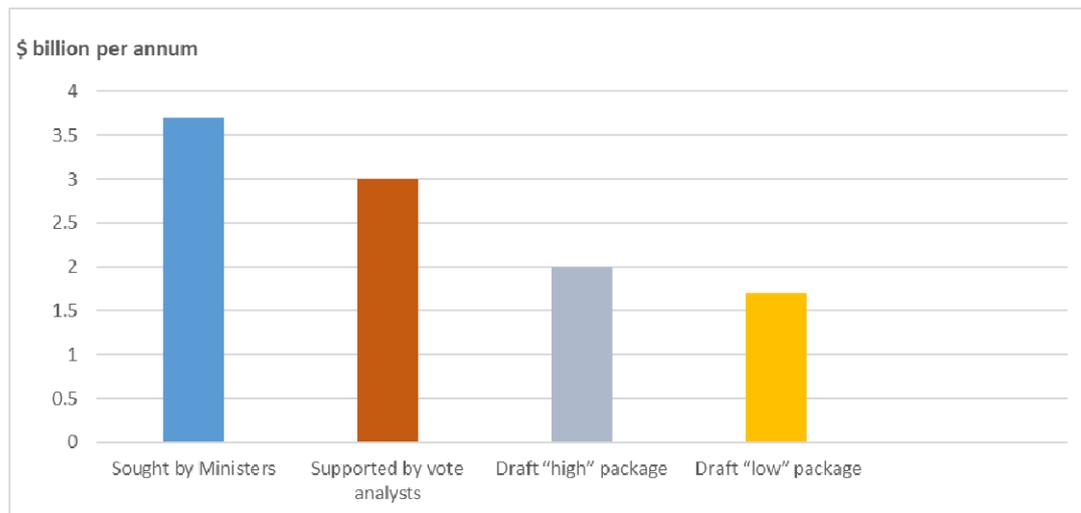
<sup>2</sup> Note these estimates are based on our initial analysis of Cost Pressure initiatives and may not capture all FTE, and excludes initiatives seeking funding to retain existing staff. It does not include additional capability sought through existing baselines, [33] and MBIE's Employer-Assisted Temporary Work Visa Business Case, which are seeking funding outside of the budget process.

## Graph One – Cost Pressure FTE sought and FTE supported (by Vote Analysts) by workforce group

[33]

11. A number of initiatives are seeking significant capability increases compared to their existing base; for example, 100%-250% increases in FTEs. Such scaling up is not considered feasible and Vote Analysts have not recommended full funding in these cases. The bids do however indicate a significant gap between the desired and current level of resource for some agencies. Where these FTE requests represent genuine pressures, and where these initiatives are not funded (or funding is scaled), conversations about prioritising existing resources and adjusting work programmes may be required.
12. Regulatory capability is emerging as an area of increased focus. A number of departments and Crown entities (including the [33] Te Puni Kōkiri and the Financial Markets Authority) submitted initiatives to enable an uplift of their regulatory capability. We are also aware that the [33]
13. We have not analysed the FTE implications of the “high” and “low” cost pressure packages sent to you on 30 November 2019 (T2019/3701 refers) due to timing and the complexity of estimating the scaling effects on FTEs. Graph Two below shows the operating funding sought with that supported by Vote Analysts and the value of the two draft packages prepared by the Treasury. Using Graph Two as a rough guide, it seems more likely that the draft packages have lower FTE implications than the Vote Analyst Supported figure (but it all depends on the composition of the draft packages).

## Graph Two – Comparison of Cost Pressure investment



- Further analysis and commentary for each specialised workforce is provided in **Appendix Two**, including analysis of the FTE sought in Budget 2019 and Budget 2020 (only Cost Pressure initiatives at this point), insights from functional leads on the nature of the constraints and an overview of work underway to address them.

### Providing a workforce perspective to Budget 2020 new initiatives

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- Our advice is that, where relevant, workforce capability pressures should be considered in developing and reviewing new initiative packages. To support this occurring, in early November, you sent a letter on Budget 2020 processes to Coordinating Ministers that included a section on workforce capability and the need to consider any workforce constraints in developing packages.
- We want to support decision-making that takes into account workforce capability constraints. However, the Treasury will not be assessing all the new initiatives that have been submitted and will not be able to pull together an overview of all the workforce capability that is being sought through new initiatives as we did for Budget 2019.
- Instead, we propose to use the Treasury representatives involved with the secretariat groups to note any capability issues arising or discussed in the development of packages. Once the draft packages have been received, we will use this information and work with Vote Analysts to provide you advice from a capability perspective on the draft packages. This advice is likely to be different to what we have been able to do with the initiatives the Treasury has assessed.
- We would like to discuss the approach to considering workforce capability in new initiatives packages at our meeting on 11 December.

### Recognising and responding to Workforce Capability Pressures

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- Budget 2020 is an opportunity to prioritise work programmes to ensure constrained workforce resources are applied to the highest priorities. Longer-term work by functional leads and others to develop workforce capability is also needed to provide the Government with greater choice in the future on where it can apply its limited fiscal resources (refer to **Appendix Two**).

## How you can support work addressing workforce pressures - key messages

20. Your discussions with your ministerial colleagues can help ensure that workforce capability pressures are better managed, taking both a system and long-term perspective. Some of the key messages you could provide include:

### **Consider agency and system impacts, both positive and negative:**

- Reinforce collaborative approaches:

*Are you working with functional leads to support collective efforts in relation to workforce capability constraints?*

*Are you working with agencies who are seeking similar workforces to prioritise where these limited resources are applied?*

- Create the right authorising environment for agencies to be open about what is realistic:

*Are you certain you can recruit the workforce for this new initiative, and if you can what are the impacts on other agencies?*

- Prioritise constrained resources:

*Have you prioritised work within your agency before seeking additional funding and resourcing where it is already difficult to find?*

### **Recognising workforce capability requires longer-term thinking and support:**

- Reinforce taking a longer-term perspective in looking at workforce capability decisions:

*Are you thinking about the long-term workforce capability needs for your agency within the context of the wider public sector?*

*Is your agency only seeking to recruit senior level resources? If it is, should it also be requested to look at recruiting junior level resources to support a workforce pipeline?*

- Support the importance of strategic planning:

*Are workforce issues and constraints appropriately considered in your strategic planning processes?*

- Support the importance of the right (back office) enabling environment for agencies:

*Do your enabling functions (HR and Finance) have sufficient capability to assist strategic workforce planning and to support any increase in front-line workforces?*

## **The State Services Commission is working to understand and respond to these issues**

21. The State Services Commission (SSC) is exploring public sector workforce capability pressures that reflect the context of growing labour shortages in the private sector and internationally. Indicators from the recently released (28 November) 2019 Human Resource Capability (HRC) survey on the public service workforce are consistent with this view. Overall there continues to be growth in public service staff numbers, and (with caveats around the difficulty of identifying quite specific and relatively small workforce groups in the data) growth in some of the specialist workforce areas that have been identified as constrained. We will be working with the SSC and functional leads, to analyse the latest HRC results at the specific workforce level.
22. The SSC has early work underway at the system level in response to workforce pressures, recognising that workforce capability development can require a long-term response, particularly in relation to specialist roles. At the system level, they are scoping the future of the public sector workforce, which includes consideration of how workforce constraints can be better understood and potentially managed at both system and agency levels.

### **Next Steps**

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23. We will discuss this briefing with you on 11 December 2019.
24. Further work will depend on this discussion. It may include liaising with functional leads and others in relation to understanding their insights and work on specialist workforce capability, and engaging them, to support a workforce perspective being taken to the consideration of the draft packages.

### **Data Sources and References**

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25. Analysis of Budget Cost Pressure initiatives is based on information sourced from CFISNet on 29 November 2019.

## Appendix One: Agenda for Scene Setting Discussion on Workforce Capability Pressures

<b>Agenda for Budget 2020 Scene Setting Discussion on Workforce Capability Pressures</b>	
<b>11 December 2019, 5.00 - 5.30 pm</b>	
<b>Treasury officials attending</b>	Paul Helm (Chief Government Accountant and Head of Profession) Megan Taylor (Manager Strategic Performance Improvement) Andrew Squires (Senior Analyst, Strategic Performance Improvement) Jenny Smith (Analyst, Strategic Performance Improvement)
<b>Agenda items (lead)</b>	<b>Proposed discussion points</b>
Introduction and Overview (Megan Taylor)	Similarities/differences to Budget 2019 work Budget 2020 Cost Pressure findings and analysis <i>(refer to paragraphs 8 to 14)</i>
Ministerial context and support (Minister of Finance)	What is the Minister of Finance seeing and hearing from his Ministerial colleagues on: <ul style="list-style-type: none"> <li>- workforce capability constraints?</li> <li>- how they are responding in Budget 2020?</li> <li>- how they are responding to in the longer-term?</li> </ul>
Supporting workforce considerations in Budget 2020 (Megan Taylor)	How can the Treasury help build a workforce capability perspective into Budget 2020, given the more devolved processes this year? <i>(refer to paragraphs 15 to 19)</i>
Supporting workforce considerations longer-term (Minister of Finance)	How can the Minister of Finance encourage agencies and Ministers to consider workforce capability pressures from a system and long-term perspective? <i>(refer to Key Messages – paragraph 20)</i> <i>(refer to Workforce initiatives underway – Appendix Two)</i>
Conclusion and wrap-up (Megan Taylor)	Next steps for Budget 2020 processes

**Appendix Two – Constraints for identified specialised workforce – workforce context, Budget demands and initiatives underway**

Note – FTE figures for Budget 2019 and Budget 2020 are **not comparable** as Budget 2020 is based on Cost Pressure Initiatives and most of these relate to funding of existing staff.

Specialist Workforce	Workforce context and insights	Budget 2019 FTE Sought (all)	Budget 2019 FTE funded (all)	Budget 2020 FTE sought (Cost Pressure initiatives only)	Budget 2020 Supported by Vote Analysts (Cost Pressure initiatives only)	Workforce oversight responsibility	Workforce initiatives underway
<b>Policy Analyst</b>	<ul style="list-style-type: none"> <li>There are reports of labour market pressures in the Wellington policy community, particularly for experienced senior policy analysts.</li> <li>Some agencies are concerned about competing with each other for the same talent and there is a view that policy practitioners (particularly at the analyst level) are shopping around for higher job titles and salaries in other agencies. There were similar concerns during the mid-2000s skills shortage.</li> <li>There is also some reliance on the contractor market to meet short-term demand peaks.</li> <li>Analysis of 2017 HRC data by the Policy Project showed that the unplanned turnover from individual agencies was higher for policy (16.6%) than the public service overall (11.2%) and was trending upwards. It also confirmed there is low representation of Māori, Pacific and Asian employees in the policy workforce.</li> </ul>	[33]	300-350 FTE	[33]		Head of the Policy Profession (Chief Executive, Department of the Prime Minister and Cabinet) supported by the Policy Project	<ul style="list-style-type: none"> <li>In 2015, the Policy Project raised policy workforce issues with senior policy leaders and there was no clear social licence from agencies for any collective action (other than developing a voluntary common skills framework).</li> <li>In August 2019, the Policy Project raised the policy workforce issues again and there was interest in collective action, with senior policy leaders holding a series of discussions to identify the following interventions for scoping: [33]</li> <li>This work is in the early stages and requires further scoping to test viability. It will require commitment from agencies in terms of resources to take forward.</li> </ul>
<b>Regulatory capability</b>	<ul style="list-style-type: none"> <li>This is a diverse workforce, often situated outside of departments, and can include frontline delivery staff as well as monitoring, evaluation and policy aspects.</li> <li>As there is not a clear and consistent definition of what this workforce covers, it can be difficult to identify.</li> <li>A 2014 Productivity Commission inquiry estimated that between 10,000 – 14,000 people worked in regulatory roles in New Zealand.</li> <li>We have excluded a significant additional workforce capability sought by [33]</li> </ul>	Not available	Not available	[33]		Government Regulation Practice Initiative (G-REG), and the Treasury's regulatory stewardship function	<ul style="list-style-type: none"> <li>The Treasury, MBIE and the SSC are doing work to give the State Services Commissioner advice on the risk inherent in the system associated with this workforce. This is likely to highlight that risks tend to be greater at the front line around enforcement of a number of systems, and in regulatory systems where aspects of compliance or certification are carried out by others (e.g. the building system and water where local government involvement is critical). Biosecurity also appears to be carrying significant risk.</li> <li>The Government Regulation Practice Initiative (G-REG), together with The Skills Organisation Incorporated (Skills), have developed a series of qualifications to formalise training and improve leadership, culture, and capability in regulatory practice throughout local and central government. This work will support improvements in regulator culture.</li> </ul>
<b>Asset management</b>	<ul style="list-style-type: none"> <li>Covers a wide range of skills as well as industry and asset specialisation, with levels of demand and supply likely to be influenced by the Government's infrastructure investment programme. In Health for example, asset management for buildings/property may be more available than skills for managing specialist medical equipment.</li> <li>The consulting market for generic asset management appears to be active with available capacity (though this is unquantified). However, increasing focus and demand for asset management may impact availability.</li> </ul>	Information not available	Information not available	[33]		Treasury and the Infrastructure Commission	<ul style="list-style-type: none"> <li>The Treasury will continue to work with the Infrastructure Commission to understand demand for the asset management workforce, and any supply constraints that may arise. Such issues are likely from the higher expectations for more effective asset management and the subsequent lift in capacity and capability required.</li> <li>With sufficient definition of the problem, longer-term strategies can be put in place to develop generic skills, and to satisfy potentially variable future demand for specialised skills.</li> </ul>

Specialist Workforce	Workforce context and insights	Budget 2019 FTE Sought (all)	Budget 2019 FTE funded (all)	Budget 2020 FTE sought (Cost Pressure initiatives only)	Budget 2020 Supported by Vote Analysts (Cost Pressure initiatives only)	Workforce oversight responsibility	Workforce initiatives underway
	<ul style="list-style-type: none"> <li>In the immediate-term, prioritisation of work programmes may be practical. Short-term demand may be satisfied by considering a wider range of candidate experience and skills sharing options (consultant skills transfer).</li> </ul>						
<b>Māori capability</b>	<ul style="list-style-type: none"> <li>There are increasing expectations for public sector agencies to lift their Māori capability, for reasons including better-supporting the Māori Crown relationship and providing better services and equitable outcomes for Māori.</li> <li>Officials from the SSC, Te Arawhiti and Te Puni Kōkiri describe widely-varying levels of capability in agencies, with a severe lack of capability in some agencies, and overall a significant capability gap between where agencies are now and where they need to be.</li> <li>Meeting these expectations and closing these capability gaps requires an uplift in Māori capability through bringing in more Māori staff and/or those with experience and expertise in Māori development issues and policy and increasing the Māori capability of the existing workforce.</li> <li>This capability to make these shifts is required across a range of roles, including organisational development, senior policy capability, senior leaders and specific Māori Crown relationship expertise.</li> </ul>	Not available	Not available	[33]		Te Arawhiti, State Services Commission, and Te Puni Kōkiri	<ul style="list-style-type: none"> <li>Te Arawhiti has a range of tools and support for agencies to build the Māori capability of existing staff, including the Māori Crown Relations Capability Framework for the Public Service, made up of a capability survey, and Individual and Organisational components.</li> <li>Further Te Arawhiti tools are available to support agency engagement with Māori and partnerships, including the Engagement Guidelines and Partnership Principles.</li> <li>Summer internships to attract Māori graduates or those interested in kaupapa Māori; for example those offered by Te Puni Kōkiri.</li> <li>The SSC is developing a Maori Leadership profile and partnering with Te Arawhiti for implementation.</li> <li>The SSC has a project underway to review the All-of-Government recruitment website NZ jobs.govt.nz including consideration of the attractors (and detractors) of a public service career for Māori.</li> <li>Reaching the aspirations of a new Māori Crown relationship has significant workforce implications, which Te Arawhiti and the SSC will continue to work together on to help achieve.</li> </ul>
<b>Data analytics capability</b>	<ul style="list-style-type: none"> <li>The data analytics workforce is seen as a significant public sector workforce.</li> <li>A recent survey of core Government agencies by the Government Chief Data Steward (GCDS) estimated that the main government agencies in New Zealand employ approximately 1,100 data analysts.</li> <li>The GCDS sees workforce constraints occurring right across the government system – organisations are hiring-in experience, rather than recruiting junior staff and training them up. This tends to drive salaries up, as organisations seek the best people.</li> <li>Over time, this will create significant issues as it will affect the talent pipeline, among other factors.</li> </ul>	[33]	Approximately 10 FTE	[33]		GCDS, Statistics New Zealand	<ul style="list-style-type: none"> <li>The GCDS is focussing its capability building work on responding to the Algorithm Assessment Report and the need to ensure fair and appropriate use of data and algorithms in the Public sector.</li> <li>It is looking to develop a long-term work programme to embed data ethics for those who undertake data analytics in government.</li> <li>Developing and embedding this long-term work programme will require buy-in from participating agencies.</li> </ul>