TE TAI ŌHANGA
THE TREASURY

Reference: 20210343

13 October 2021

[redacted]

Dear [redacted]

Thank you for your Official Information Act (OIA) request, received on 21 July 2021. You requested the following:

1. *1 April 2021 -Aide Memoire T2021/823: Meeting with the Israeli Ambassador*
2. *1 April 2021 -Joint Report by the Treasury and Ministry for the Environment T2021/822: Resource Management reform - use of Ministerial sub-groups*
3. *1 April 2021 -Joint Report by the Treasury and Inland Revenue T2021/847: Interest limitation proposal - consultation, timing, and scope of consultation document*
4. *7 April 2021 -Aide Memoire T2021/856: Three Waters Reform Programme – Ministers' meeting 8 April 2021*
5. *13 April 2021 -Reserve Bank of New Zealand Report 5798: Proactive release of Cabinet Paper and related document: Reserve Bank of New Zealand (Designated Settlement System—NZCDC) Amendment Order 2021*
6. *8 April 2021 -Treasury Report T2021/761: Investor Confidence Rating – finalise and release the round 2 tranche 4 results*
7. *8 April 2021 -Treasury Report T2021/424: New Zealand Infrastructure Commission/Te Waihanga: Updated Fees Report*
8. *8 April 2021 -Treasury Report T2021/443: Backing first home buyers and encouraging property investment into new housing supply*
9. *8 April 2021 -Joint Report by the Treasury and Ministry of Business, Innovation and Employment T2021/781: WorkSafe New Zealand's request to access remaining contingency funding*
10. *12 April 2021 -Treasury Report T2021/681: New Dunedin Hospital - Final Detailed Business Case and wider capital system implications*
11. *12 April 2021 -Joint Report by the Treasury, Inland Revenue and Ministry of Social Development T2021/775: Responding to feedback from the business community on the COVID-19 Resurgence schemes*
12. *12 April 2021- Treasury Report T2021/870: Wind Up of the Electricity Corporation of New Zealand*
13. *13 April 2021 -Treasury Report T2021/117: Communicating and advancing your economic work programme*

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Wellington 6140
New Zealand
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https://treasury.govt.nz

14. *15 April 2021 -Aide Memoire T2021/751: Background to the weather forecasting market in New Zealand*
15. *16 April 2021 -Treasury Report T2021/947: Indemnity Extension Request: ACC Cover for Representatives at International Financial Institutions*
16. *16 April 2021 -Inland Revenue Report IR2021/039: Budget 2021 forecasts for the Research and Development Tax Incentive Scheme appropriation*
17. *19 April 2021 -Treasury Report T2021/921: Indemnity Request from the Ministry of Business, Innovation and Employment for Stage Three of the Tui Oil Field Decommissioning Project*
18. *19 April 2021 -Treasury Report T2021/817: Education Payroll Ltd: Update after Due Diligence for 2021 Appointment Round*
19. *1 April 2021 -Joint Report by the Treasury, Inland Revenue and Ministry of Social Development T2021/849: Response to Auditor-General's Performance Audit of the COVID-19 Wage Subsidy*
20. *20 April 2021 -Treasury Report T2021/1015: Clarifying the fiscal management of public sector pay equity settlements*
21. *20 April 2021 -Treasury Report T2021/967: Impacts of the Housing Package on the Budget 2021 economic and tax outlook*
22. *19 April 2021 -Treasury Report T2021/576: Fourth 90 day review of the overseas investment emergency notification regime*
23. *20 April 2021 -Joint Report by the Treasury and Inland Revenue T2021/314: Draft Revenue Strategy and high-level Tax Policy Work programme for comment*
24. *20 April 2021- Treasury Report T2021/948: NZ Post: Briefing to the Acting Minister for State Owned Enterprises*
25. *21 April 2021 -Aide Memoire T2021/1044: Unappropriated expenditure - process for identifying and remedying*
26. *22 April 2021 -Treasury Report T2021/971: Local Government Ratepayer Financing Scheme*
27. *22 April 2021 -Treasury Report T2021/1049: Social Insurance Benchmark Cost Estimates*
28. *22 April 2021 -Reserve Bank of New Zealand Memo 5799: Regional Banking Hubs Trail Handover*
29. *23 April 2021 -Cabinet Committee Briefing T2021/458: Briefing for Cabinet Business Committee - 01 March 2021*
30. *23 April 2021 -Aide Memoire T2021/930: Aide-memoire for Minister Robertson – Mill Road judicial review*
31. *23 April 2021 -Treasury Report T2021/1026: Potential Economic Impacts of High Wholesale Electricity Prices*
32. *27 April 2021 -Inland Revenue Report IR2021/165: Inland Revenue workforce profile update*
33. *27 April 2021 -Inland Revenue Report IR2021/181: Interest limitation proposal – further scope and design issues*
34. *29 April 2021 -Treasury Report T2021/1005: Finance Priorities Meeting - Hypothecation of ETS Proceeds*

The below documents were transferred to IRD on 30 July 2021:

- *16 April 2021 -Inland Revenue Report IR2021/039: Budget 2021 forecasts for the Research and Development Tax Incentive Scheme appropriation*
- *27 April 2021 -Inland Revenue Report IR2021/165: Inland Revenue workforce profile update*

- *27 April 2021 -Inland Revenue Report IR2021/181: Interest limitation proposal – further scope and design issues*

The time to respond was extended by 40 working days.

Information being released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	26 February 2021	*Cabinet Committee Briefing T2021/458: Briefing for Cabinet Business Committee - 01 March 2021*	Release in part
2.	31 March 2021	*Aide Memoire T2021/823: Meeting with the Israeli Ambassador*	Release in part
3.	1 April 2021	*Joint Report by the Treasury and Ministry for the Environment T2021/822: Resource Management reform - use of Ministerial sub-groups*	Release in part
4.	1 April 2021	*Joint Report by the Treasury, Inland Revenue and Ministry of Social Development T2021/849: Response to Auditor-General's Performance Audit of the COVID-19 Wage Subsidy*	Release in part
5.	7 April 2021	*Aide Memoire T2021/856: Three Waters Reform Programme – Ministers' meeting 8 April 2021*	Release in part
6.	8 April 2021	*Joint Report by the Treasury and Ministry of Business, Innovation and Employment T2021/781: WorkSafe New Zealand's request to access remaining contingency funding*	Release in part
7.	8 April 2021	*Treasury Report T2021/761: Investor Confidence Rating – finalise and release the round 2 tranche 4 results*	Release in part
8.	8 April 2021	*Treasury Report T2021/424: New Zealand Infrastructure Commission/Te Waihanga: Updated Fees Report*	Release in part
9.	9 April 2021	*Treasury Report T2021/681: New Dunedin Hospital - Final Detailed Business Case and wider capital system implications-*	Release in part
10.	12 April 2021	*Joint Report by the Treasury, Inland Revenue and Ministry of Social Development T2021/775: Responding to feedback from the business community on the COVID-19 Resurgence schemes*	Release in part
11.	13 April 2021	*Treasury Report T2021/117: Communicating and advancing your economic work programme*	Release in part
12.	15 April 2021	*Aide Memoire T2021/751: Background to the weather forecasting market in New Zealand*	Release in part
13.	16 April 2021	*Treasury Report T2021/947: Indemnity Extension Request: ACC Cover for Representatives at International Financial Institutions*	Release in part
14.	19 April 2021	*Treasury Report T2021/921: Indemnity Request from the Ministry of Business, Innovation and Employment for Stage Three of the Tui Oil Field Decommissioning Project*	Release in part
15.	19 April 2021	*Treasury Report T2021/817: Education Payroll Ltd: Update after Due Diligence for 2021 Appointment Round*	Release in part

16.	20 April 2021	*Treasury Report T2021/1015: Clarifying the fiscal management of public sector pay equity settlements*	Release in part
17.	20 April 2021	*Treasury Report T2021/948: NZ Post: Briefing to the Acting Minister for State Owned Enterprises*	Release in part
18.	21 April 2021	*Aide Memoire T2021/1044: Unappropriated expenditure - process for identifying and remedying*	Release in part
19.	23 April 2021	*Treasury Report T2021/1026: Potential Economic Impacts of High Wholesale Electricity Prices*	Release in part
20.	29 April 2021	*Treasury Report T2021/1005: Finance Priorities Meeting - Hypothecation of ETS Proceeds*	Release in part

I have decided to release the documents listed above, subject to information being withheld under one or more of the following sections of the OIA, as applicable:

- section 6(a) – to protect the security or defence of New Zealand or the international relations of the Government of New Zealand,
- section 9(2)(a) – to protect the privacy of natural persons, including that of deceased natural persons,
- section 9(2)(b)(ii) – to protect the commercial position of the person who supplied the information, or who is the subject of the information,
- section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials,
- section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions,
- section 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,
- section 9(2)(h) – to maintain legal professional privilege,
- section 9(2)(j) – to enable the Crown to negotiate without prejudice or disadvantage, and
- section 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage.

Direct dial phone numbers of officials have been redacted under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing and other scams. This is because information released under the OIA may end up in the public domain, for example, on websites including Treasury's website.

Information publicly available

The following information is also covered by your request and is publicly available on the websites listed below:

Item	Date	Document Description	Website Address
1.	1 April 2021	*Joint Report by the Treasury and Inland Revenue T2021/847: Interest limitation proposal - consultation, timing, and scope of consultation document*	https://www.treasury.govt.nz/publications (to be released soon)
2.	8 April 2021	*Treasury Report T2021/443: Backing first home buyers and encouraging property investment into new housing supply*	https://www.treasury.govt.nz/sites/default/files/2021-04/tax-housing-4422165.pdf

3.	13 April 2021	*Reserve Bank of New Zealand Report 5798: Proactive release of Cabinet Paper and related document: Reserve Bank of New Zealand (Designated Settlement System—NZCDC) Amendment Order 2021*	https://www.rbnz.govt.nz/-/media/ReserveBank/Files/Publications/Information-releases/2021/Proactive-release-of-RBNZ-Designated-Settlement-System-NZCDC-Amendment-Order-2021-Cabinet-documents.pdf
4.	19 April 2021	*Treasury Report T2021/576: Fourth 90 day review of the overseas investment emergency notification regime*	https://www.treasury.govt.nz/system/files/2021-09/oi-act-4427797.pdf
5.	20 April 2021	*Treasury Report T2021/967: Impacts of the Housing Package on the Budget 2021 economic and tax outlook*	https://budget.govt.nz/information-release/2021/pdf/b21-t2021-967-4497178.pdf
6.	20 April 2021	*Joint Report by the Treasury and Inland Revenue T2021/314: Draft Revenue Strategy and high-level Tax Policy Work programme for comment*	https://budget.govt.nz/information-release/2021/revenue.htm
7.	22 April 2021	*Reserve Bank of New Zealand Memo 5799: Regional Banking Hubs Trail Handover*	https://www.rbnz.govt.nz/research-and-publications/information-releases (to be released soon)

Accordingly, I have refused your request for the documents listed in the above table under section 18(d) of the OIA: *the information requested is or will soon be publicly available.*

Some relevant information has been removed from documents listed in the above table and should continue to be withheld under the OIA, on the grounds described in the documents.

Information to be withheld

There are additional documents covered by your request that I have decided to withhold in full under one or more of the following sections of the OIA, as applicable:

- section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials, and
- section 9(2)(h) – to maintain legal professional privilege.

Item	Date	Document Description	Decision
1.	12 April 2021	*Treasury Report T2021/870: Wind Up of the Electricity Corporation of New Zealand*	Withheld in full under s9(2)(f)(iv)
2.	22 April 2021	*Treasury Report T2021/1049: Social Insurance Benchmark Cost Estimates*	Withheld in full under s9(2)(f)(iv)
3.	22 April 2021	*Treasury Report T2021/971: Local Government Ratepayer Financing Scheme*	Withheld in full under s9(2)(f)(iv)
4.	23 April 2021	*23 April 2021 -Aide Memoire T2021/930: Aide-memoire for Minister Robertson – Mill Road judicial review*	Withheld in full under s9(2)(h)

In making my decision, I have considered the public interest considerations in section 9(1) of the OIA.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Reubhan Swann
Manager, Ministerial Advisory Service

Table of Contents

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Cabinet Business Committee Monday 1 March 2021

Date:	26 February 2021	**Report No:**	T2021/458
		File Number:	MS-5-4-CBC

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Read** prior to the Pre-Cabinet meeting with Treasury officials	10:15am, 1 March 2021
Hon Dr Megan Woods **Associate Minister of Finance**	**Read** prior to the Pre-Cabinet meeting with Treasury officials	10:15am, 1 March 2021
Hon David Parker **Associate Minister of Finance**	**Read** prior to the Pre-Cabinet meeting with Treasury officials	10:15am, 1 March 2021

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Ivan Esler	Analyst, Governance and Accountability	s9(2)(k) (wk)	N/A (mob)	✓
Jordan Ward	Acting Manager, Governance and Accountability	N/A (wk)	s9(2)(g)(ii) (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Briefing for Cabinet Business Committee 1 March 2021

Executive Summary

The Treasury is aware of 3 items on the Cabinet Business Committee agenda for Monday 1 March 2021. The table below provides Treasury comment and recommendations on key items and identifies any relevant fiscal impacts.

The Treasury has no comments on the following papers on the agenda as these are papers prepared by the Treasury, and we understand Ministers are across the content:

- Backing First Home Buyers and Encouraging Investment in new Housing Supply
- Increasing Housing Supply and Improving Affordability for First Home Buyers and Renters

Oral Item: Implementation of the Small Business Digital Training Manifesto Commitment – an Updated Approach Hon Stuart Nash, Minister for Economic and Regional Development, Minister for Small Business Treasury contact: Clara Rowe (04 890 4700)/ Tayla Forward (04 890 7427) Sign out contact: Jean Le Roux (021 580 208)	**Do not support.** The Treasury understands the Minister is seeking Cabinet's agreement to expand the small business digital training initiative. This is currently being considered through the Budget 2021 process. While there is merit in expanding the scope of the manifesto commitment, there are choices as to which aspects of the policy to prioritise. Agreeing to an expanded scope restricts the Minister's ability to consider these options through the Budget process. The Treasury's view is that decisions to expand the scope should be taken alongside fiscal decisions through Budget. The Treasury notes that the Minister is also seeking agreement to public announcements in March/April, which pre-empts budget decisions.

Recommended Action

We recommend that you **read** this report prior to the Pre-Cabinet meeting with Treasury officials at 10.15am on 1 March 2021.

Jordan Ward
Acting Manager, Governance and Accountability

Hon Grant Robertson
Minister of Finance

TE TAI ŌHANGA
THE TREASURY

Reference: T2021/823 CM-1-3-96-4-3

Date: 31 March 2021

To: Minister of Finance (Hon Grant Robertson)

Deadline: 1 April 2021

Aide Memoire: Meeting with the Israeli Ambassador

Purpose of Meeting:

On 1 April 2021 you are meeting with the Israeli Ambassador to New Zealand, His Excellency Mr Ran Yaakoby.

The purpose of the meeting is to reiterate the Government's position regarding Israel's concerns that the Guardians of New Zealand Superannuation (the Guardians) has divested the NZ Super Fund's interests in five Israeli banks[1]. This decision was based on its responsible investing framework, given "credible evidence" that the banks provide project finance for the construction of illegal Israeli settlements in the occupied Palestinian territories.

s6(a) [redacted]. It has already had several meetings with New Zealand representatives on this issue, including a phone call between the Minister for Foreign Affairs, Hon Nanaia Mahuta and her Israeli counterpart. s6(a) [redacted]

We have enclosed an MFAT note comprising talking points and background which informed the briefing for Minister Mahuta ahead of her phone call with the Israeli Foreign Minister, Gabi Ashkenazi (though the note has been updated to reflect developments since) and the file note from the 10 March 2021 phone call between the two Foreign Ministers. s9(2)(g)(i) [redacted]

s9(2)(g)(i) [redacted]

1 The Guardians divested approximately NZ$6.53 million of First International Bank of Israel; Israel Discount Bank; Bank Hapoalim; Bank Leumi; Bank Mizrahi-Tefahot.

Talking Points:

- The Guardians of New Zealand Superannuation (the Guardians) has been established as an autonomous Crown entity. It operates at a double arm's-length from the Government.

- The legislative settings of the Guardians prohibit the Government (or the Minister of Finance) from issuing directions on individual investment decisions. This means the Guardians has operational independence to invest the NZ Super Fund (the Fund).

- Double arm's-length means that the first arm of independence is that the Government, or responsible Minister, does not decide the pool of candidates for the Board of the Guardians – candidates are identified by an independent Nominating Committee. The second arm of independence is that investment decisions are made by the Guardians' Board and Management.

- The investment independence means the Guardians are not required to consult with the Government on investment decisions. I was not made aware of the Guardians decision until after it had been taken.

  If asked – *When were you informed?* The Guardians made this Israeli Bank decision on 14 January 2021; however, my office was first informed of this decision on 22 February 2021.

- This investment independence is considered a global best practice governance setting for sovereign wealth funds to allow investment decisions to be made without political interference. This is a choice that New Zealand has made, it ensures the NZ Super Fund can be invested on a commercial, best-practice basis to deliver on its policy objective to prefund NZ superannuation. I am not looking to undermine these settings.

  If asked – *Who has determined this is best practice?* This was based off extensive sovereign wealth fund research conducted by the Treasury at the establishment of the Fund and the governance settings were recently affirmed as global best practise in the 2019 Willis Towers Watson independent review of the Guardians.[2]

- s6(a) [redacted]

  - I can only give directions to the Guardians regarding the Government's expectations as to the Fund's performance, including the Government's expectations as to risk and return.

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2 https://www.nzsuperfund.nz/assets/documents-sys/Willis-Towers-Watson-Review-of-the-Guardians-of-New-Zealand-2019-FINAL-REPORT.pdf

  - o I am prohibited from directing the Guardians on individual investment decisions.

- s6(a) [redacted]
- [redacted]

Background:

Guardians' Decision:

You have requested information on the basis for the Guardians decision, including the status of the Office of the United Nations High Commissioner for Human Rights (OHCHR) report.

The OHCHR published a database in February 2020 of 112 companies for which it considers there are reasonable grounds to believe the companies are involved in certain specified activities related to the Israeli settlements in the Occupied Palestinian Territories (OPT) (including supply of equipment, materials, utilities, and other services during and after construction). This list includes a number of Israeli Banks.

The database does not make a determination on the legal status of any of the listed activities or companies. It does not provide guidance on how the list should be used or on the materially of the different types of involvement.

The Guardians have proactively released the investment committee paper[3] on this decision. This highlights that its responsible investment framework has ten factors that are taken into account when determining exclusions:

A number of these factors apply to its Israeli Bank decision, not solely the OHCHR report, although the report was cited as a recent development.

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3 https://www.nzsuperfund.nz/assets/documents/responsible-investment/R-GNZS-IC-Paper-Exclusion-of-Israeli-Banks-January-2021.pdf

The Guardians' summary of this decision was:

Summary of key considerations supporting exclusion recommendation:

"The materiality of the issue for the Israeli Banks centres on the illegal status of the settlements, and credible evidence that the Israeli Banks play a material and critical role in enabling such settlement activities. We can expect growing censure of business involvement in the settlements due to the escalating numbers of approvals and tensions from annexation plans announced by the Israeli Government. Whilst these formal annexation plans are now on hold, these moves have escalated international censure of the settlement activity. The key elements are:

1. UN and International censure, NZ position
2. Recent escalation of tension increasing reputation risk
3. Central and direct involvement of the banks
4. Lack of responsiveness to engagement by peers
5. Other priorities on which to expend engagement resources
6. Limited investment impact from exclusions

Conclusion: We consider that there is an unacceptable risk that the banks are materially contributing to a breach of human rights standards and that engagement is unlikely to be effective, is resource intensive given the size of holding and exclusion would be financially immaterial for the Fund.

s6(a) [redacted]

Biography: HE Ran Yaakoby, Ambassador of Israel

s6(a) [redacted]

Michael Eyre, Senior Analyst, Financial Institutions, s9(2)(k) [redacted]
Joseph Sant, Manager, Financial Institutions, s9(2)(k) [redacted]

Brief: Guardians decision to divest the NZ Super Fund's interests in Israeli Banks

Haurongo / Biography:

s6(a)

Key messages

Opening remarks

- Israel and New Zealand have long been friends – and we remain committed to a positive and constructive relationship. New Zealand is fundamentally committed to the right of Israel and the Israeli people to live in peace and security. More than 2,000 New Zealand peacekeepers have served on Israel's borders for over 65 years to protect this right.
- New Zealand and Israel have a warm relationship, underpinned by our historical links, trade ties and valuable cooperation across a range of global issues. New Zealand looks forward to working with Israel to strengthen the economic, cultural and people-to-people links that exist between our two countries.
- Congratulations on Israel's world-leading vaccine response. New Zealand has been following this closely and the data coming out of Israel has been very useful in our own vaccine planning. Officials from the New Zealand Ministry of Health greatly appreciated the opportunity to discuss Israel's vaccine rollout directly with their Israeli counterparts earlier this month. We have recently made a decision to prioritise the Pfizer vaccine for all New Zealanders. How has the vaccine impacted life in Israel?

NZ Super Fund issue

- s6(a) The Guardians has been established as an autonomous Crown entity[1]. It operates at a double arm's-length from the Government.
- *<u>If asked</u> – what exactly does double arm's-length mean in this context*: The first arm of independence is that the Government does not decide the pool of candidates for the Board of Guardians – candidates are identified by an independent Nominating Committee. The second arm of independence is that investment decisions are made by the Board and Management of the Guardians,
- The legislative settings of the Guardians prohibit the Government from issuing directions on individual investment decisions. The Guardians has operational independence to invest the Super

[1] A Crown entity is an organisation that forms part of New Zealand's state sector. Crown entities are legal entities in their own right. A decision to assign a Government activity or function to a Crown entity indicates that the function should be carried out at 'arm's-length' from the Government. The Crown entity's board directs the entity's day-to-day operations.

Fund. It is not required to consult with the Government on investment decisions. The Government does not have to the power to approve and/or overrule the Super Fund's decisions or actions.

- The Guardians' decision was made independently of Government. The Government was made aware of the decision after it had been taken by the Guardians.
- Officials from the New Zealand Ministry of Foreign Affairs & Trade undertook to inform your Ambassador [HE Mr Ran Yaakoby] of the Guardians' decision on a "no surprises" basis, in line with our commitment to do so on issues that concern us.
- s6(a) [redacted]

Bilateral relations

- Overall, the New Zealand-Israel relationship is in good health. We value our cooperation with Israel in such as areas as the Innovation, Research and Development Cooperation Agreement, the Small Advanced Economies Initiative, and the Digital 9 grouping.
- While COVID-19 makes travel difficult at present, we look forward to a return to normality and hope that we may see some visits to New Zealand by Israel at Ministerial-level.
- New Zealand and Israel have a trading relationship and New Zealand is committed to further developing our trade and economic links with Israel. Indeed this has been a matter of much positive discussion with your Ambassador to New Zealand since he took up his post earlier this year.
- s6(a) [redacted]

s6(a)

[redacted]

Middle East Peace Process

- s6(a) [redacted]

Regional developments

- New Zealand continues to work with our friends and partners to achieve peace and stability in the Middle East. We participate actively in the international campaign against terrorism, initiatives to prevent the spread of weapons of mass destruction and peace support operations, including as a long-term contributor to regional peacekeeping initiatives in the Middle East, including on Israel's borders as I have mentioned.

- New Zealand welcomed decisions by the UAE, Bahrain, Sudan and Morocco to take steps to normalise relations with Israel, and Israel's suspension of its annexation plans. I would welcome your insights on these positive developments and what prospects there might be for further normalisation agreements.

- s6(a) [redacted]

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[2] s6(a) [redacted]

Background:

1. Overall, the Israel-New Zealand relationship is in good health. As is often the case with good friends, we sometimes differ in our approaches and perspectives, but we seek not to let this constrain open and honest communication about important issues. The NZSF's divestment in Israeli banks represents the first major bilateral challenge that New Zealand and Israel have faced since Israel recalled its Ambassador to New Zealand for six months following New Zealand's co-sponsorship of UN Security Council Resolution 2334. Resolution 2334 condemned obstacles set in place by both sides to a two-state solution to the Israeli-Palestinian conflict, including Israeli settlements. s6(a) [redacted]. New Zealand and Israel agreed to open and honest communications about issues that matter, which is why we provided advance notice of the NZSF divestment decision.

2. On 23 March, Israel held its fourth elections in two years s6(a) [redacted]

3. Israel was badly hit by the COVID-19 pandemic, but has become a world leader in its speedy distribution of the COVID-19 vaccine to its population – s6(a) [redacted]

4. Progress in the Middle East Peace Process (MEPP) seems unlikely in the near term. s6(a) [redacted]

5. New Zealand has long pursued a principled and balanced approach to the Middle East Peace Process. New Zealand continues to support a two-state solution to the Israeli-Palestinian conflict. New Zealand shares the overwhelming view of the international community that Israeli settlements are a violation of international law.

s6(a) [redacted]

8. An Agreement between New Zealand and Israel on Cooperation in Technological Innovation, Research and Development was signed in March 2020. It is hoped that this Agreement will encourage further private sector partnerships in the science and research and development area, building on promising commercial links that have already been established in areas such as biotech. The Agreement is yet to enter into force.

9. MFAT was approached by Treasury to provide advice about divestment from Israeli banks on three occasions, in February, March and September 2020. s9(2)(h) [redacted] advice on bilateral implications was provided by MFAT to Treasury. s9(2)(h) [redacted]

Middle East & Africa Division
Ministry of Foreign Affairs & Trade | Manatū Aorere
March 2021

Joint Report: Resource Management reform – use of Ministerial sub-groups

Date:	1 April 2021	**Report No:**	T2021/822 MfE: 2021-B-07842
		File Number:	Treasury: SH-10-6-7

Action sought

	Action sought	**Deadline**
Minister of Finance (Hon Grant Robertson)	**Advise** officials on your preferred set of resource management reform Ministerial Oversight Group (MOG) sub-groups **Agree** the purpose of the MOG sub-groups **Provide** feedback on the membership of each MOG sub-group	7 April 2021
Minister for the Environment (Hon David Parker)	**Provide** feedback on the indicative items for discussion at MOG sub-groups and associated timing, noting that final agendas and timings will be discussed with your offices	7 April 2021

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**		**1st Contact**
Rereata Hardman-Miller	Principal Advisor, Ministry for the Environment	N/A (wk)	s9(2)(g)(ii) (mob)	✓
Simon King	Director, Ministry for the Environment	N/A (wk)	s9(2)(g)(ii) (mob)	
Cam Vannisselroy	Senior Analyst, Natural Resources, The Treasury	s9(2)(k) (wk)	s9(2)(g)(ii) (mob)	✓
Gwen Rashbrooke	Manager, Natural Resources, The Treasury	s9(2)(g)(ii) (wk)	N/A (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury and the Ministry for the Environment. Forward a copy of this report or the proposed list of MOG sub-groups to the offices of all MOG Ministers.

Enclosure: No

Joint Report: Resource Management reform – use of Ministerial sub-groups

Recommended Action

We recommend that you:

a **Advise** officials on your preferred set of resource management (RM) reform Ministerial Oversight Group (MOG) sub-groups

Advised

b **Agree** that the purpose of the MOG sub-groups be to streamline the operation of MOG meetings by providing a forum for Ministers with an interest in particular RM reform areas to discuss these issues and provide recommendations or a narrowed set of options, to be reported back to the next full MOG meeting for confirmation

Agree/disagree

c **Provide feedback** on the membership of each MOG sub-group

Provided

d **Provide feedback** on the indicative items for discussion at MOG sub-groups and associated timing, noting that final agendas and timings will be discussed with your offices

Provided

e **Forward** this report or the proposed updated list of MOG sub-groups to all MOG ministers.

Forwarded

Gwen Rashbrooke
Manager, The Treasury

Simon King
Director, Ministry for the Environment

Hon Grant Robertson
Minister of Finance

Hon David Parker
Minister for the Environment

Joint Report: Resource Management reform – use of Ministerial sub-groups

Purpose of Report

1. This report provides advice on the use of Ministerial Oversight Group (MOG) sub-groups to support the resource management (RM) reform process.

Introduction

2. s9(2)(g)(i) [redacted]

3. Given these constraints, Ministry for the Environment (MfE) and Treasury officials have separately discussed options for improving the focus of MOG meetings with the Minister for the Environment and the Minister of Finance respectively. This includes circulation of some papers to MOG Ministers outside of the MOG meeting process, and the use of sub-groups of MOG Ministers to resolve critical issues ahead of, or following, MOG meetings.

4. This paper seeks your agreement to the process for the use of MOG subgroups. In the meantime, a MOG sub-group has been set up to discuss key Te Mana o te Taiao and Treaty clauses and is meeting on 6 April 2021.

Purpose of MOG sub-groups

5. We consider that the purpose of MOG sub-groups should be to streamline the operation of MOG meetings by providing a forum for Ministers with an interest in particular RM reform areas (including matters that are contentious) to discuss them and decide a way forward (or a narrowed set of options). We propose that MOG sub-groups then report back to the next full MOG meeting for confirmation.

6. Given time and resourcing constraints, we recommend that MOG sub-groups primarily consider matters already sequenced for discussion at upcoming MOG meetings, rather than new topics being commissioned for these meetings. However, there may be a role for sub-groups to consider cross-cutting issues or matters that fall through the gaps of forward MOG agenda items.

7. There are a number of cross-cutting reform topics (such as plan governance and decision-making and some natural environment matters) that are central to the reforms. We consider that these matters should be discussed at full MOG meetings.

8. Over time, the role of MOG sub-groups may develop as different needs arise. For example, they could play a role in engaging with consultation feedback once the Select Committee reports back on the Natural and Built Environments Act (NBA) exposure draft.

Sub-groups

9. A Māori interests sub-group has already been established. Beyond this, there are options for how sub-groups could be constituted.

10. The Minister of Finance has indicated that, in addition to a Māori interests sub-group, he sees merit in a sub-group focused on urban development (including infrastructure) and a sub-group focused on rural development. The Minister for the Environment has also indicated comfort with this topic-based approach.

11. Another option would be to build sub-groups around the five reform objectives[1] agreed by Cabinet and associated outcomes agreed by the MOG. However, we consider the objectives and associated outcomes should be considered in all RM reform decision-making. Should you wish to proceed with an objectives-based sub-grouping, we can provide further advice.

12. Based on the current needs and resourcing of the RM reform programme, we recommend that three sub-groups are established as detailed below (suggested chair bolded). We note that there will be instances where rural and urban development issues overlap, however we consider that these situations can be managed on a case-by-case basis.

Sub-group	**Proposed membership**
Māori interests[2]	Environment (Hon David Parker) Māori Crown Relations: Te Arawhiti (Hon Kelvin Davis) Housing (Hon Megan Woods) Local Government (Hon Nanaia Mahuta) Māori Development (Hon Willie Jackson) **Conservation/Associate Environment (Hon Kiritapu Allan)** Associate Environment (Hon Phil Twyford)
Urban development	Infrastructure/Finance (Hon Grant Robertson) **Housing (Hon Megan Woods)** Environment (Hon David Parker) Local Government (Hon Nanaia Mahuta) Building and Construction (Hon Poto Williams) Transport (Hon Michael Wood) Associate Environment (Hon Phil Twyford) Climate Change (Hon James Shaw)
Rural development	**Environment (Hon David Parker)** Local Government (Hon Nanaia Mahuta) Agriculture (Hon Damien O’Connor) Conservation/Associate Environment (Hon Kiritapu Allen) Climate Change (Hon James Shaw)

13. For the proposed Urban development sub-group, with the exception of Hon James Shaw, the proposed membership aligns entirely with the existing group of Urban Development Ministers. As such, we will explore whether this existing group can used for this purpose.

14. After deciding on a set of sub-groups, it is possible that at a later date, other subgroups may be necessary or desirable. We can discuss the prospect of additional subgroups with your offices as the need arises.

[1] Objectives approved by Cabinet relate to the natural environment, built environment, Māori interests, climate change and natural hazards, and system efficiency and effectiveness.
[2] This list reflects the Ministers that have been invited to attend the first meeting of this sub-group. The Minister of Finance was also invited to this sub-group meeting but has indicated he will not be attending that meeting.

15. Regardless of the set of MOG sub-groups, we propose that these groups would only meet when the need to discuss a particular topic (see below) was identified, rather than being 'standing' sub-groups.

Items for discussion at sub-groups

16. If you would like to proceed with the three sub-groups outlined above, we propose an indicative set of issues that could be discussed by the respective sub-groups. Where these items are already scheduled for discussion by the full MOG, we propose scheduling the sub-group prior to that MOG meeting where possible. Where items are not currently explicitly on the MOG agenda, the proposed scheduling nevertheless reflects an attempt to align the timing with a thematically similar MOG meeting.

17. At this point, we have not identified particular items for discussion by the rural development sub-group. Instead, we propose that meetings of this sub-group are arranged on an 'as-needed' basis, such as to resolve relevant issues raised at future MOG meetings.

Sub-group	**Possible items for discussion**	**Possible timing**
Māori interests	s9(2)(f)(iv)	
Urban development		
Rural issues		

18. s9(2)(f)(iv)

19. If you agree to the general approach to topics for discussion at sub-groups, we will agree the exact focus and timing of each sub-group meeting with your offices.

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

TE TAI ŌHANGA
THE TREASURY

Inland Revenue
Te Tari Taake

Joint Report: Response to Auditor-General's Performance Audit of the COVID-19 Wage Subsidy

Date:	1 April 2021	**Report No:**	T2021/849 REP/21/3/327
		File Number:	SH-3-5

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Note** the contents	Tuesday 6 April 2021
Minister for Social Development and Employment (Hon Carmel Sepuloni)	**Note** the contents	Tuesday 6 April 2021
Minister of Revenue (Hon David Parker)	**Note** the contents	Tuesday 6 April 2021

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Sam Holmes	Principal Adviser, Welfare & Oranga Tamariki, The Treasury	s9(2)(k)	N/A (mob)	√
Keiran Kennedy	Manager, Welfare & Oranga Tamariki, The Treasury	N/A	s 9(2)(g)(ii)	
Richard Owen	Customer Segment Lead, Inland Revenue	N/A		√
George Van Ooyen	Group General Manager, Client Service Support, Ministry of Social Development			√

Minister's Office actions

All: Return the signed report to your agency.

Hon Sepuloni: **Refer** to the Minister for Workplace Relations and Safety and the Minister for Small Business.

Enclosures:

Annex 1 Agency actions in response to OAG Wage Subsidy Performance Report

Annex 2 Wage Subsidy integrity processes and their development over time

Annex 3 WSSMAR21 integrity controls

Annex 4 Controller and Auditor General Draft Report on Management of the Wage Subsidy (31 March draft)

Joint Report: Response to Auditor-General's Performance Audit of the COVID-19 Wage Subsidy

Executive Summary

The Office of the Auditor-General has shared its draft Wage Subsidy performance audit report with agencies. The Report is due to be published in mid-late April and will be tabled in the House.

The draft report finds that the Wage Subsidy Scheme was set up and managed effectively in difficult circumstances to provide rapid payments at a critical time. Ministers were made aware of the trade-offs between speed and risk when choosing a high-trust model. Many of the integrity steps taken were effective and consistent with best practice in emergency situations.

However, the draft report also notes that the Ministry of Development (MSD) post-payment reviews do not provide the level of assurance expected of an audit. The Auditor-General recommends that MSD tests a sample of paid applications against documentary evidence and that future schemes should have stronger post-payment checks.

The Auditor-General further recommends MSD completes prosecution work, conducts a cross-agency evaluation, and that future schemes should use criteria that are sufficiently clear to allow verification.

Agencies accept the findings of the draft Report and have developed a cross-agency action plan to implement the recommendations and a communications plan to accompany publication of the Report.

Recommended Action

We recommend that you:

a **note** the contents of this briefing;

Noted	*Noted*	*Noted*
Minister of Finance	*Minister for Social Development and Employment*	*Minister of Revenue*

b **note** that the Auditor-General's Report is draft, confidential, subject to change based on feedback received from affected parties, and has been prepared for tabling in Parliament, so should be safeguarded and not disclosed further without the consent of the Office of the Auditor-General;

Noted	*Noted*	*Noted*
Minister of Finance	*Minister for Social Development and Employment*	*Minister of Revenue*

c **note** the Auditor-General intends to table the report in Parliament in mid-late April 2021;

Noted	*Noted*	*Noted*
Minister of Finance	*Minister for Social Development and Employment*	*Minister of Revenue*

d **note** the Auditor-General will contact your Offices to offer a briefing to Ministers on the day of tabling.

Noted *Minister of Finance*	*Noted* *Minister for Social Development and Employment*	*Noted* *Minister of Revenue*

Keiran Kennedy
Manager, Welfare & Oranga Tamariki
The Treasury

George Van Ooyen
Group General Manager,
Client Service Support,
Ministry of Social Development

Richard Owen
Customer Segment Lead
Inland Revenue

Hon Grant Robertson
Minister of Finance

Hon Carmel Sepuloni
Minister for Social Development and Employment

Hon David Parker
Minister of Revenue

Joint Report: Response to Auditor-General's Performance Audit of the COVID-19 Wage Subsidy

Purpose of Report

1. To brief you on the Auditor-General's draft report on the Wage Subsidy, describe the agency response and outline how scheme integrity processes have changed over time.

Background

2. The Auditor-General has completed his performance audit of the COVID-19 Wage Subsidy Scheme. The purpose of a performance audit is to assure Parliament, public entities, and the public that public entities are delivering what they have been asked to.
3. The audit question is: 'How effectively has the Wage Subsidy been managed by the public sector using a "high trust" model?'. The audit covers the Ministry of Social Development (MSD), Inland Revenue (IR), the Ministry of Business, Innovation and Employment (MBIE) and the Treasury. It is limited to the first three iterations of the Wage Subsidy Scheme[1].
4. The Office of the Auditor General (OAG) had extensive discussions with officials and stakeholders when preparing the performance audit. The OAG has shared its draft report with agencies. This briefing covers those draft findings and the agency response plan.
5. The OAG report is due to be published in mid-later April and will be tabled in the House. We understand the OAG will offer to brief Ministers ahead of tabling the report.
6. Agencies have provided feedback to the OAG on several drafts of the report and have prepared an action plan to respond.

Report Findings

7. The draft report received 31 March 2021 is provided in Annex 4.
8. Key findings from the draft report are summarised below. Additional conclusions are drawn in the body of the report, but we do not know how prominently these will feature in the final version.

   a. Scheme establishment

   i. The scheme was set up effectively, in line with Cabinet decisions, and used a high-trust approach;

   ii. Officials' advice was informed by use of previous schemes after the Canterbury and Kaikoura earthquakes;

   iii. Advice covered the trade-offs between payment speed and accessibility, and the ability to control fraud, abuse and error risks;

   iv. Public servants worked extremely hard to implement the scheme quickly in difficult circumstances;

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1 Wage Subsidy Scheme – March 2020; Wage Subsidy Extension – June 2020; and Resurgence Wage Subsidy – August 2020.

v. Running the schemes took agency resource away from some of their usual work; and

vi. It is not clear whether applicants fully understood their obligations due to challenges with communications, including employment law obligations and eligibility criteria.

b. Making subsidy payments

i. Subsidy payments were managed well to provide support quickly at a critical time, within an average of 3.5 days of receiving an application; and

ii. The requirement to '*have taken active steps to mitigate the impact of COVID-19 on the business'* was ambiguous and means some payments may have been made to ineligible applicants.

c. Scheme integrity

i. Cabinet did not require each applicant's eligibility to be verified, but noted applicants may be audited after receiving the subsidy;

ii. Many steps taken on scheme integrity were consistent with good practice guidance for emergency situations;

iii. Pre-payment verification steps were effective;

iv. Post-payment processes included publishing recipient names, following up complaints, post-payment reviews (publicly described by MSD as audits) and investigations;

v. The post payment review work does not provide the level of assurance expected of an audit, because it does not routinely involve substantiating the facts using independent or documented information;

vi. It is possible the post-payment work performed for the Scheme is less than what Cabinet expected; and

vii. Agencies are anticipating taking prosecutions but none have yet entered the court system.

d. Other

i. There was some confusion about the interaction of employment law and the operation of the wage subsidy; and

ii. A timely evaluation of the Scheme is important to inform future schemes.

Report Recommendations

9. The Auditor-General's draft recommendations are outlined below.

   a. *We recommend that when public organisations are developing and implementing crisis support initiatives that approve payments based on "high-trust" they:*

      Recommendation 1*: Ensure criteria are sufficiently clear and complete to allow applicant information to be adequately verified; and*

      Recommendation 2: *Put in place robust post-payment verification measures, including risk-based audits against source documentation, to counter the risks of using the high-trust approach.*

   b. *In relation to the Wage Subsidy Scheme, we recommend that the Ministry of Social Development:*

      Recommendation 3*: Test the reliability of a sample of the post-payment assurance work they carried out against documentary evidence; and*

      Recommendation 4*: Prioritise remaining enforcement work, including:*

      a. *seeking written confirmation from applicants (which could be targeted towards larger or risk-indicated applicants) of compliance with the eligibility criteria and the obligations of receiving the subsidy; and*

      b. *taking prosecutions where possible and necessary to recover funds and/or to hold businesses to account for potentially illegal behaviour.*

   c. ***Recommendation 5:*** *We recommend that the Ministry of Social Development, Inland Revenue, the Ministry of Business, Innovation and Employment, and the Treasury carry out timely evaluation of the development, operation, and impact of the subsidy and use the findings to inform policy advice on, preparation for, and practice during future crisis support schemes.*

Agency Response

Agencies have provided feedback on the draft Report

10. Agencies have provided feedback on several drafts of the Report which has been mostly incorporated.

11. Key feedback included:

    a. Managing the scope of proposed audit testing work to reduce resourcing pressures and reflect the risk-based approach adopted by MSD to-date;

    b. Aligning relevant recommendations, for efficiency, with Audit NZ's separate work on the Wage Subsidy;

    c. Managing any privacy risks;

    d. Providing more context in relation to the complexity and pace of the operating environment;

    e. Highlighting the work done to continually review and improve systems and processes, such as updating the declaration and communications; and

    f. Providing further information on governance arrangements, legal powers and progress with prosecutions.

Agencies accept the report findings and are responding to each report recommendation

12. Agencies accept the draft report findings and are responding. MSD, IR, MBIE and the Treasury have prepared a series of actions to implement the Report recommendations. These are summarised below and Annex 1 gives more detail.

13. MSD has discussed its proposed response to Recommendations 3 and 4a with the OAG to confirm the work is likely to address the OAG's concerns.

Table 1

Recommendation (summarised)	**Response**
Recommendation 1 Future high-trust, crisis-support initiatives should use criteria that are sufficiently clear and complete for verification.	• This will be reflected in advice to Ministers on an enduring Wage Subsidy Scheme.
Recommendation 2 Future high-trust, crisis-support initiatives should have robust post-payment verification measures, including risk-based audits against source documentation.	• The most recent scheme (WSSMAR21) explicitly requires businesses to prepare and retain evidence to support their declaration. • Integrity checks for WSSMAR21 will include requesting evidence that applicants met the revenue decline test.
Recommendation 3 MSD should test the reliability of a sample of post-payment assurance work against documentary evidence. **Recommendation 4a** MSD should seek written confirmation from applicants of compliance with criteria and obligations.	• MSD plans to begin requesting confirmation and/or evidence from a sample of Wage Subsidy recipients in May. • The planned work will only cover the first Wage Subsidy Scheme, since enhanced integrity controls were in place for subsequent schemes. • IR will provide analytical and resource support and the work is expected to take around three months.
Recommendation 4b MSD should pursue prosecutions.	• As at 19 March 2021 there were 384 investigations underway. • MSD has developed an approach to civil enforcement, criminal prosecution and payment recovery with Crown Solicitors Meredith Connell. • MSD has established a Wage Subsidy Recovery and Response Panel to apply the Public Interest Test on cases for criminal prosecution and to consider civil responses. The Panel first met on 22 February 2021.
Recommendation 5. Agencies should evaluate the development, operation, and impact of the subsidy.	• Agencies are scoping an evaluation and Cabinet has authorised joint Ministers to draw down up to $1 million from the COVID-19 Response and Recovery Fund (CRRF) for this purpose.

Risks

The report raises some risks for agencies and the Government

15. The OAG acknowledges the 'high-trust' model agreed by Ministers for the scheme involved only light pre-payment checks in order to support rapid payments. However, the OAG notes that the high-trust approach should be backed up with robust post-payment checks[2], including checking against documentary evidence. The OAG also notes that in its view, the post-payment work performed may be less than what Cabinet expected when it noted that MSD may perform audits.

2 Audit NZ has made similar recommendations to MSD on strengthening its approach to auditing Wage Subsidy applications.

16. The post-payment review practice, has been highlighted by OAG as potentially reducing assurance that Wage Subsidy expenditure is effective and also raises risks for the deterrent effect of integrity processes.
17. Most post-payment reviews undertaken have involved desktop review followed by telephone conversations with recipients. As previously requested by the Minister of Finance, annexes 2 and 3 provide a description of the Wage Subsidy integrity processes, including post-payment reviews and investigations.

The integrity approach was a pragmatic way to provide assurance with limited resources

18. Officials consider the approach taken by MSD, as described in annexes 2 and 3, to be a pragmatic and reasonable way to provide assurance for scheme expenditure. MSD took a graduated risk-based approach, which balances the depth versus breadth of post-payment checks within finite resources.
19. Cases assessed as higher risk through post-payment reviews could be escalated for investigation, which includes seeking documentary evidence. Seeking documentary evidence increases the time required for each post-payment review and doing so in every case review would significantly reduce the number of applications that could be reviewed.
20. MSD has detected ineligible applications at a much higher rate through its risk-targeted post-payment reviews than through random post-payment reviews audits, demonstrating the effectiveness of this approach.[3,4]

Risks can be mitigated by implementing the OAG recommendations and communications

21. MSD will perform the additional audit work suggested by the OAG and has made changes to post-payment review practice for current and future schemes, as noted in Table 1. This will help to mitigate the risks around confidence in post-payment review practice and will provide MSD additional information about the effectiveness of existing processes.
22. Communications in response to the Report will describe the additional integrity steps the Government is taking. This will make the integrity processes more visible to the public and may prompt voluntary repayments.

Next Steps

IR and MSD are sharing resource and information

23. IR has agreed in principle to support MSD with 10 to 15 staff to MSD for a period of 3 months to support ongoing Wage Subsidy integrity work, including work to implement the OAG recommendations.
24. MSD and IR can share certain information for the purpose of conducting integrity checks or other enforcement functions in relation to COVID-19-related assistance. The agencies are reviewing what information can be shared to support Recommendation 3 under existing Memoranda of Understanding (MOUs) and will update MOUs as appropriate.

MSD will provide a communications plan

25. MSD has prepared a communications plan with the other agencies to accompany the publication of the report. This will include responsibilities for responding to queries, key messages and proactive and reactive Q&A.

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3 Only 5.2% of post-payment reviews led to refund requests early in the scheme (as at 18 May 2020) by which point only 16% of post-payment reviews were targeted based on risk. However, as MSD shifted to risk-targeted audits, the rate of refunds requested increased (to 20.5% as at 5 March 2021, by which point 47% of reviews were risk-targeted).

4 The value of refunds to the schemes is $749m to-date (as at 26 March 2021). Of this amount, $23m has followed integrity involvement (including pre and post-payment checks and investigations). The refunds figure of $23m is from a total of $55m in refunds requested as a result of integrity involvement.

26. Agencies will provide the communications plan to Ministers' offices next week and can provide further support with communications as required.
27. MBIE has been consulted and is comfortable with the contents of this report. MBIE has requested that the report be referred to the Minister for Workplace Relations and Safety and the Minister for Small Business for their information.

Agencies are planning an evaluation

28. The Auditor General recommends MSD, IR, MBIE, and the Treasury carry out timely evaluation of the development, operation, and impact of the Scheme.
29. Cabinet recently authorised the Minister of Finance and the Minister for Social Development and Employment to draw down up to $1 million from the COVID-19 Response and Recovery Fund (CRRF) to undertake an evaluation of the Wage Subsidy March 2021 and previous Wage Subsidy schemes (CAB-21-MIN-0043 refers).
30. MSD, IR, MBIE, and the Treasury are working together to develop an evaluation plan.
31. We anticipate the work will include a process evaluation of how well the Scheme was implemented. It will also include an outcomes evaluation to assess the extent to which the Scheme achieved the goals it was designed to deliver, as well as any unintended consequences.
32. We are establishing a cross-agency steering group to provide high-level oversight and decision-making on the evaluation scope, objectives, approach, and timeframes. The group will include representatives from MSD, Treasury, IR and MBIE.
33. Officials will report back to Ministers on progress by the end of May with key evaluation questions and a timeline for drawing down funding.

Annex 1 Agency actions in response to OAG Wage Subsidy Performance Report

Recommendations one and two We recommend that when public organisations are developing and implementing crisis support initiatives that approve payments based on "high-trust" they: *1. ensure criteria are sufficiently clear and complete to allow applicant information to be adequately verified; and* *2. put in place robust post-payment verification measures, including risk-based audits against source documentation, to counter the risks of using the high-trust approach.*	• Planned advice on an enduring Wage Subsidy Scheme will cover the use of criteria that are sufficiently clear and complete to allow verification. • For WSSMAR21 a change was made to the declaration compared to previous schemes; businesses are required to prepare and retain evidence to support their declaration, including how the revenue decline was attributable to the move to Alert Level 3 on 28 February 2021. • For WSSMAR21, MSD is refreshing our consolidated risk analysis with IR to inform targeted integrity checks, and our integrity check process and systems have been updated to include requesting the revenue drop evidence applicants are required to retain as per the declaration.
Recommendations three and four In relation to the Wage Subsidy Scheme, we recommend that the Ministry of Social Development: *3. test the reliability of a sample of the post-payment assurance work they carried out against documentary evidence; and* *4. prioritise remaining enforcement work, including:* *A. seeking written confirmation from applicants (which could be targeted towards larger or risk-indicated applicants) of compliance with the eligibility criteria and the obligations of receiving the subsidy; and* *B. taking prosecutions where possible and necessary to recover funds and/or to hold businesses to account for potentially illegal behaviour.*	**Recommendation 3 – Test a sample of the post-payment assurance work** **and** **Recommendation 4A – Seek written confirmation from applicants of compliance with eligibility criteria** 1. We have chosen to focus sampling on the original Wage Subsidy (WS1), as enhanced integrity controls were in place by 10 June 2020 for the Wage Subsidy Extension (WSX) and Wage Subsidy Resurgence (WSR) payments. 2. To determine our approach for seeking further confirmation of eligibility from WSS recipients, we will engage the MSD Strategy and Insights team to determine statistically significant sample sizes for: a) 49,530 recipients with six or more employees who received $7.5b in WS1 payments, where the sample will be weighted towards the largest businesses due to the significant value of the subsidies received (recommendation 4a) – this sample will be engaged to confirm their eligibility; and b) around 3,700 WS1 recipients subject to random post-payment auditing early in the WSS integrity programme's implementation (recommendation 3) – this sample will be asked to provide verification they met the eligibility criteria. 3. MSD and IR are permitted to share certain information for the purpose of conducting integrity checks or other enforcement functions in relation to COVID-19-related assistance provided to any person or entity recipients. MSD and IR are reviewing what information can be shared to support recommendation 3 under the authority of existing information sharing MOUs, and will review and update the MOUs as appropriate. 4. We expect to begin this work in May (i.e. at the end of the financial year as businesses will be in a better position to confirm) and expect this will take approximately three months. **Recommendation 4B – Prosecutions** MSD has worked with Crown Solicitors Meredith Connell to build the approach to civil enforcement, criminal prosecution, and the recovery of wage subsidy scheme payments. This included: • upskilling Fraud Intervention Services staff to progress investigations within a different legislative framework i.e. the Crimes Act 1961, the Criminal Proceeds (Recovery) Act 2009 • working with Police on the preparation of Production Orders under the Search and Surveillance Act 2012 • developing an enforcement and recovery decision-making framework to outline where criminal or civil enforcement and recovery actions are appropriate, and ensure these decisions are made robustly and consistently

	• developing guidance and processes for staff to support their work within the framework • establishing a WSS Recovery and Response Panel to apply the Public Interest Test (as per the Solicitor-General Guidelines) on cases recommended for criminal prosecution, and to make recommendations on civil enforcement and recovery responses where appropriate. • The WSS Recovery and Response Panel first convened on 22 February 2021 to consider the first cases recommended for enforcement and/or civil recovery, and will meet regularly as cases are ready to be considered. • As at Friday 19 March 2021, there are 384 investigations under way.
Recommendation five We recommend that the Ministry of Social Development, Inland Revenue, the Ministry of Business, Innovation and Employment, and the Treasury: *5. carry out timely evaluation of the development, operation, and impact of the subsidy and use the findings to inform policy advice on, preparation for, and practice during future crisis support schemes.*	• Cabinet has authorised joint Ministers to draw down up to $1M from the COVID-19 Response and Recovery Fund (CRRF) for this purpose. • Officials are establishing a cross-agency steering group to scope the evaluation and will report back on progress by the end of May with key evaluation questions and a timeline for drawing-down funding.

Annex 2 Wage Subsidy integrity processes and their development over time

1. This Annex describes the Wage Subsidy integrity processes and their development over time. Annex 3 provides a visual summary of the integrity processes in place for WSSMAR21.

2. The Wage Subsidy integrity programme was implemented to provide assurance around application integrity within the context of a high-trust model.

3. The inclusion of pre-payment integrity controls for the original (consolidated) Wage Subsidy (WS1)[5] helped to ensure that applicants who met the criteria received support from the subsidy. Post-payment integrity controls supported identifying and recovering payments from those who had received the payment in error or were not or no longer eligible.

4. The approach was strengthened by joint risk analysis with IR and an independent integrity risk assessment commissioned by MSD. This meant that integrity checks (previously referred to as 'audits') could be targeted to areas of risk, and wastage, fraud and error could be minimised. Key risks across the schemes were identified as:

    a. applicants being paid the subsidy without meeting the eligibility criteria;

    b. applicants being overpaid the subsidy;

    c. false applications for employers that have not claimed the subsidy;

    d. manipulation of application data;

    e. the incorrect approval of ineligible applications; and

    f. inappropriate access to application data.

5. Integrity improvements were made for WSX (and subsequent schemes) from 10 June 2020, to address the recommendations made by the independent assessment against these risks.

6. Other integrity enhancements from this date included using targeted risk analysis to 'exception out' some applications for pre-payment integrity checks. This was to mitigate the risk of approving applications for businesses for whom we have already identified integrity risks in relation to WS1.[6]

7. The integrity checks undertaken by MSD fraud investigators can be pre or post payment checks and can be random checks or targeted checks. As time has gone on, we have increasingly focused on targeted checks based on risk analysis. Integrity checks can involve the following:

    a. desk-based reviews of open source public information - to determine the business is real, is operating in New Zealand and were operating prior to the event;

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5 The Consolidated Wage Subsidy was established shortly after the first Wage Subsidy scheme came into effect and included changes which removed the payment cap of $150k and saw the establishment of the initial pre-payment controls (e.g. checks for large employer applications).

6 For the Wage Subsidy Extension (WSX) and Wage Subsidy Resurgence (WSR) payments, over 50% of these exceptioned applications were declined, supporting the effectiveness of this approach.

b. contacting the applicant - to discuss any identified discrepancies or complaints, reconfirming they meet the eligibility criteria, checking that they are a real business and is/was operating, understanding the nature of their business and their revenue drop, reconciling employee numbers, confirming the subsidy has been passed on to the employees applied for, and confirming that they are meeting their obligations;

c. requesting verbal confirmation from the applicant that the eligibility criteria were met;

d. contacting employees - to confirm the subsidy was passed on; and

e. contacting other agencies - to validate information provided, as required.

8. Prior to WSSMAR21, the pre- and post-payment integrity checks, as outlined in paragraph 6, did not routinely involve seeking documentary verification, although sometimes this would be voluntarily provided by the applicant to support the discussions.

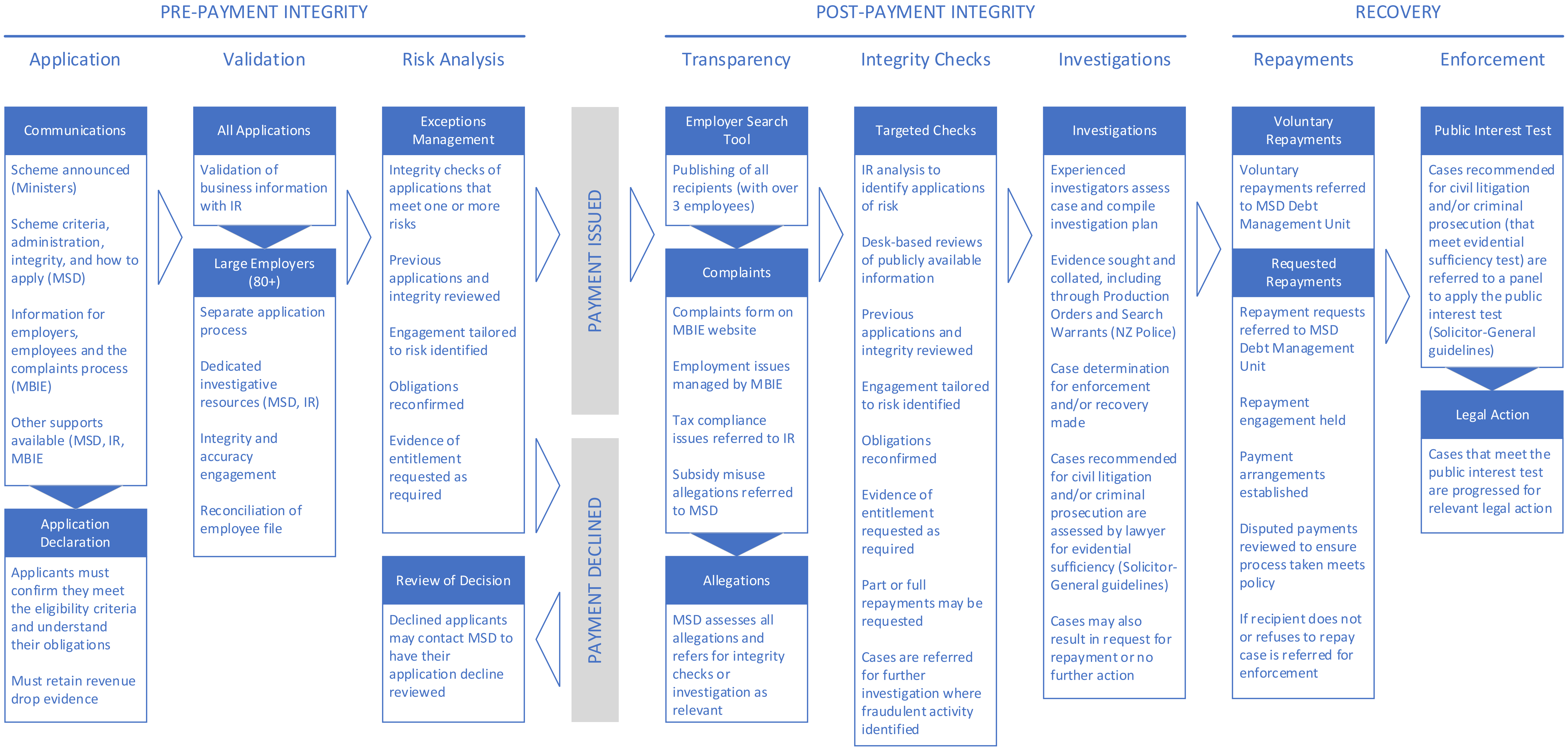
9. Where an investigator is not comfortable that entitlement can be decided through the integrity check, the case can be referred for investigation, which involves more thorough review of the application, including seeking documentary verification from the applicant and/or through production order processes.

10. The table below presents a high-level view of the cumulative integrity measures over subsequent schemes:

Scheme	Cumulative integrity measures
WS1	• Declaration • Pre-payment validation of business details using IR data • Pre-payment checks of large businesses (80+ employees) • Publishing of recipient details (with more than three employees) • Dedicated email address for Privacy Act requests (to confirm for people whether their information was used in any applications) • Assessment of complaints and allegations for further integrity checks or investigation • Post-payment integrity checks (both random and based on IR / MSD risk analysis) • Industry focused integrity checks where particular issues were identified e.g. applications from local authorities • More detailed investigations commenced where integrity checks indicated a higher likelihood of misuse of the scheme • Repayments process • Review of decision process.
WSX WSR	All of the above integrity measures, with the addition of: • Pre-payment exceptions for integrity checks of applications that meet one or more risk criteria, moving the focus to preventing misuse up front

Scheme	Cumulative integrity measures
	• Post-payment targeted integrity checks (based on IR risk analysis and industries or organisations of interest) • Increased communications with applicants before and after payment • Improved application processes to ensure accurate data collection and support automation (e.g. addition of mandatory application fields) • Stricter settings around payment approvals by users • Utilising IR Compliance Specialists to support integrity work • Enforcement and recovery framework development.
WSSMAR21	All of the above integrity measures, with the addition of: • Declaration includes requirement for applicants to retain evidence of revenue drop being attributed to AL3 change • Reminder email two weeks after application period to retain this evidence and provide when requested • Increased transparency and visibility of the integrity programme (improved guidance for applicants and high-level public reporting) • **Enhanced post-payment targeted integrity checks based on refreshed joint analysis with IR – to be commenced, and including seeking verification, in line with the Office of the Auditor-General (OAG) recommendation** • **Sampling of previous scheme integrity checks (assurance to address Audit NZ and OAG recommendations) – to be commenced.**

Annex 3 WSSMAR21 integrity controls



Annex 4 withheld in full s9(2)(ba)(ii)

You will chair the **Finance Ministers' Meeting** on 22 October. At this meeting APEC Finance Ministers will consider and approve materials produced during New Zealand's host year of FMP. Ministers will also consider and approve the Joint Ministerial Statement. We discussed our high level objectives for FMP 2021 with you in December 2020. We are continuing to develop these with input from member economies.

Five Finance Ministers' meetings

Treasurer Frydenberg spoke with Secretary Yellen about the Five Finance Ministers' metings and we understand that she is interested in participating this year. The next meeting on **28 April 2021 (NZ time)**, chaired by Australia, will focus on:

- current COVID-19 measures, how economies are responding to the measures, and the economic outlook
- how countries are beginning to think about the transition from short-term support measures to the longer-term recovery, and
- fiscal strategy.

Officials met on 26 March 2021 to discuss the topic and timing of the next and future meeting. s6(a) [redacted]

COVID-19 economic response

New Zealand

The key economic support measures in New Zealand have been: the Wage Subsidy Scheme, the Small Business Cashflow Scheme, the Business Finance Guarantee Scheme, the Leave Support Scheme, the COVID-19 Income Relief Payment, residential rent freezes, tax changes, insolvency-related measures, and sector-specific packages.

As at the Half-Year Economic and Fiscal Update, the Government has allocated NZ$ 51.8 billion from the COVID-19 Response and Recovery Fund and the 17 March 2020 support package towards the economic response to COVID-19. Most of this is earmarked for spending in the 2019/20 and 2020/21 years. NZ$ 10.3 billion remains to be allocated, which the Government has set aside to respond to future resurgences.

Around NZ$ 14 billion has been paid out through the three iterations of the Wage Subsidy Scheme, supporting 1.8 million unique jobs. As at 18 December 2020, more than 100,000 small and medium-sized enterprises have taken out loans under the Small Business Cashflow Scheme, with loans totalling NZ$ 1.6 billion. As at 19 January 2021, NZ$ 1.3 billion worth of loans have been issued through the Business Finance Guarantee Scheme, to 1,914 customers.

According to the Oxford Stringency Index, New Zealand currently has one of the lowest average levels of COVID-19-related restrictions in the OECD since COVID-19 began.

United States

Secretary Yellen played a key role in the development and passage of the US$ 1.9 trillion **American Rescue Plan Act** to change the course of the pandemic and deliver COVID relief. The Act contains a range of large-scale measures, including funding for COVID-19 vaccine distribution, direct payments of US$ 1,400 to Americans earning less than US$ 75,000, and expanded unemployment benefits. The Rescue

Plan has been touted as one of the most consequential anti-poverty bills of the modern era.

President Biden has now proposed an **American Jobs Plan** to reimagine and rebuild a new US economy. The Plan proposes investing around 1% of US GDP per year over eight years to upgrade the nation’s infrastructure, revitalize manufacturing, invest in basic research and science, shore up supply chains, and solidify US elder care infrastructure. President Biden has indicated that he would pay for this plan with increases to corporate taxes

See **Annex Two** for more information.

Distributional impacts of COVID-19 in New Zealand

Youth employment (15-24-year-olds) has been particularly impacted by COVID. Underutilisation has also grown more than unemployment. The underutilised population is skewed towards women (56%), young people aged 15-24 (41%) and Māori (23%).

The Government response to these issues has included a range of labour market, education and training support measures totalling NZ$ 7.1 billion.

John-David Chaker, Analyst, International, s9(2)(k)
Conor McBride, Team Leader, International,

s6(a)

[redacted]

Annex Two: United States economic outlook

Key points:

- **US real GDP** contracted 9% in the June 2020 quarter and subsequently expanded by 7.5% in the September quarter and 1.0% in the December quarter, to be 2.5% lower than the same quarter a year ago. For the year as a whole, GDP was 3.5% lower than in 2019.
- **Expectations of GDP growth** over the year ahead have strengthened following vaccine approvals and deployment, and the announcement of further fiscal support. The International Monetary Fund's April 2021 forecast is for growth of 6.4% in 2021 and 3.5% in 2022.
- The **unemployment rate** declined to 6% in March 2021 after peaking at close to 15% in April. Further declines are expected over 2021 as the vaccine rollout allows for a more broad-based re-opening of the economy and fiscal support boosts demand.
- Although there are hopes that **relations between the US and China** will improve somewhat under a Biden presidency, significant geo-political risks remain.
- There are longer-term **fiscal pressures** due to reduced fiscal space and an **ageing population**, which could limit the government's ability to respond to future crises.

Background

GDP growth to recover strongly in 2021…

The US economy is expected to grow strongly in 2021, supported by increased fiscal support, good progress on the vaccination rollout, pent-up savings, wealth effects from asset price growth, and low interest rates supporting residential investment. In its April 2021 World Economic Outlook, the International Monetary Fund (IMF) upgraded their outlook for 2021 real GDP growth in the US by a further 1.3 percentage points to 6.4%. The forecast for 2022 growth was increased by 1 percentage point to 3.5%. The IMF expect US GDP to regain its end-2019 level in the first half of 2021.

Fiscal policy is expected to remain supportive in 2021. The US$ 1.9 trillion American Rescue Plan was signed into law on 11 March 2021, on top of $2.2 trillion of support provided in 2020. The **American Rescue Plan** includes funding to boost vaccination development and distribution, relief to households via direct payments (US$ 1,400 per individual) and increased unemployment benefits, and aid for state and local governments. President Biden proposed another spending package amounting to US$ 2.25 trillion to be spent on infrastructure projects over an eight-year period. This will be funded by a proposed increase in the US corporate tax rate from 21% to 28% and a proposed 15% minimum tax to be imposed on both foreign and domestic earnings. At the time of writing, the infrastructure proposal (and the associated tax changes) have not yet been approved by Congress.

Since peaking at 14.8% in April 2020, the **unemployment rate** has declined steadily, reaching 6% in March 2021. Overall, there are still around 8 million fewer people employed than before the pandemic. The number of people discouraged from the labour force and those who have been unemployed for a long period has remained relatively high. The unemployment rate in the leisure and hospitality sector has declined from a peak of 39.3% in April 2020 to 13% in March 2021. The labour market recovery should quicken as the vaccine rollout allows for a more broad-based re-opening of contact-intensive activities.

…and monetary policy to remain supportive…

The Federal Reserve (Fed) lowered its **policy rate** by 100 basis points in March 2020 to 0.5% - 0.75% and by a further 50 bps to 0% - 0.25% in April 2020. The Fed also increased the quantity of its **asset purchases** in order to push down long-term interest rates, and introduced new lending facilities aimed at households and non-financial businesses.

The Fed also strengthened its **forward guidance** and tweaked its **inflation targeting regime** by revising its Statement on Longer-Run Goals and Monetary Policy Strategy, the first revision since 2012. The main changes were a focus on average inflation over time, and looking at broader labour market indicators beyond the unemployment rate. In its most recent statement released on 17 March 2021, the Fed noted that "the Committee will aim to achieve **inflation** moderately above 2% for some time so that inflation averages 2% over time and longer-term inflation expectations remain well anchored at 2%".

As a result of quantitative easing from the central bank, yields on **long-term government bonds** declined over the course of 2020, reaching a historic low of 0.6% in July. Rates have since trended upwards to be around 1.7% recently, reflecting expectations of higher inflation and economic growth in the future. The Fed's policy rate is expected to remain at its current low level for some time, with consensus expectations for the first increase to occur in 2023. The tapering of asset purchases is expected to occur only gradually, and may well be delayed until next year.

Weaker demand and a reduction in oil prices kept annual **consumer price inflation** low in 2020. More recently, annual inflation increased from 1.4% in January to 1.7% in February and is expected to rise further in coming months due to higher commodity prices, global supply chain issues, and the large amount of fiscal stimulus.

On a trade-weighted basis, the **US dollar** (USD) weakened from its peak in April 2020, then gained 3% in the March 2021 quarter. With global risk appetite improving as vaccines are rolled out and economies reopen, the USD is expected to weaken once more. Mirroring the moves in the USD, the **NZ dollar** rose against the USD in 2020, and fell back in the first quarter of 2021.

Long-term fiscal pressures and lingering trade tensions

There are hopes that **US-China relations** may improve under a Biden presidency, with close to 80% of institutions surveyed by FocusEconomics showing they anticipate that the US will at least partially roll back tariffs and restrictions on Chinese tech firms. Nevertheless, US-China relations will remain a key risk for the global economy, while tensions between the US and Iran also remain elevated.

Given the large fiscal response to the COVID-19 pandemic, the US **public debt to GDP ratio** has increased further from an already high level, reducing fiscal space in the longer term, while at the same time there will be increased pressure on spending owing to an **ageing population**, amongst other factors. US general government debt to GDP increased from 107% in 2006 to 127% in 2020, and the IMF forecasts it will increase further to 133% this year. Furthermore, the reinstatement of the debt ceiling in the second half of this year after being suspended for two years may constrain Treasury borrowing until Congress raises the limit.

April 2021, Forecasting Team, the Treasury

Annex Three: New Zealand economic outlook

Key points

- Economic activity continues to be more resilient than earlier forecasts assumed, including our latest published forecasts in the 2020 Half Year Economic and Fiscal Update (HYEFU). This trend is evident across a range of indicators including **employment**, **GDP** and **asset prices**. These outcomes reflect the effectiveness of the health and economic policy responses to the initial shock.
- COVID-19 continues to have a profound effect on the New Zealand and global economies. However, the recent run of positive New Zealand data suggests the effects might not be as severe as previously assumed, which places upside risk to the pace of recovery in the HYEFU forecasts.
- **Real GDP** declined 1% in the December 2020 quarter, culminating in a 2.9% contraction in New Zealand's GDP across the 2020 calendar year. This outperformed the HYEFU forecast for the 2020 calendar year of a 4.6% fall and was largely underpinned by the strong 13.9% rebound in GDP in the September 2020 quarter, likely to have been supported by pent-up demand and a catch-up in activity stemming from the restrictions in the June 2020 quarter.
- News around **vaccine developments** has generally been positive for the New Zealand and global economies, but significant challenges and uncertainties remain. Much depends on our ongoing success in controlling the virus domestically and on international efforts to bring the virus under control. As of 6 April 2021, 90,286 doses of the COVID-19 vaccine had been administered in New Zealand.

HYEFU forecasts for key economic variables

June years	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Real production GDP (annual average % change)	-2.1	1.5	2.6	3.7	3.8	3.2
Unemployment rate (June quarter)	4.0	6.6	6.8	5.7	4.7	4.0
CPI inflation (annual % change)	1.5	1.4	1.2	1.4	1.8	2.1
Current account (annual, % of GDP)	-1.9	-2.8	-3.8	-3.4	-3.2	-3.2

Background

The COVID-19 pandemic is having a severe social and economic impact on New Zealanders despite an unprecedented policy response. New Zealand's public health response saw the economy undergo a period of severe restrictions on activity, which have now been eased, though movements across the border continue to be tightly controlled. However, the impacts of the pandemic and the response have been uneven, with youth, women, Māori and Pacific peoples, and people in Auckland disproportionately affected.

These restrictions resulted in New Zealand's **real GDP** falling 11% in the June 2020 quarter, the largest quarterly fall in recorded history, although the fall in activity was not as severe as the Treasury or other commentators had feared. The successful containment of COVID-19 allowed restrictions to be eased earlier than initially anticipated and contributed to a 13.9% rebound in GDP in the September quarter from the 11% fall in the June quarter. Real GDP has since softened having declined 1% in the December quarter; however, the 2.9% contraction in New Zealand's GDP across the 2020 calendar year was lower than the HYEFU forecast of 4.6%.

A monetary policy response and unprecedented fiscal stimulus helped cushion the impact of the pandemic. Private consumption has remained resilient despite the Wage Subsidy Scheme ending in the second half of 2020. The number of people receiving Jobseeker Support benefits broadly stabilised at around 205,000 over the December quarter. Government support is continuing in other forms and direct spending, including on infrastructure, will increase.

Significant **monetary policy** support is continuing through low interest rates, the Large Scale Asset Purchase programme and a Funding for Lending Programme that is providing low-cost funding to banks.

In the **labour market**, employment recovered to be above year-ago levels in the December 2020 quarter with growth in construction jobs offsetting the losses in media and tourism-related industries. The December quarter unemployment rate fell to 4.9% from the 5.3% recorded in the September quarter despite an increase in Jobseeker Support recipients. Job losses have been fewer than earlier anticipated and, combined with the stronger near-term activity, suggests a stronger labour market outlook compared with the HYEFU. Unemployment was forecast to continue rising from the 5.3% recorded in the September quarter and peaking at around 6.9% by the end of 2021, but the peak is now expected to be much lower.

Increasing asset prices are also supporting **household spending**. Household wealth has traditionally been a driver of household spending. House prices have increased over 10% annually for each month since September 2020 and house sales have risen to their highest level in four years, while total consents issued annually for new houses are near record highs. Equity prices have eased slightly from the record highs reached at the start of 2021, but remain elevated.

The strong pace of **house price growth** has prompted the government to review housing market settings to improve access for first-time home buyers and to ensure that housing investment does not hinder long-term growth prospects by diverting investment away from other more productive assets. This has included investing $3.8 billion in the Housing Acceleration Fund, extending the bright-line test to 10 years, removing the tax deductibility of mortgage interest payments on residential investment properties, and lifting the income caps for financial assistance.

International prices for New Zealand’s **goods exports** have been resilient, in part a reflection of China’s rapid recovery, although the relatively strong New Zealand dollar exchange rate is providing a partial offset.

Demand for New Zealand’s **tourism and education services** has been significantly suppressed by the border restrictions. The quarantine-free Australia-New Zealand safe travel zone commencing 19 April 2021 will ease this somewhat, but these pressures will continue for at least as long as border restrictions remain in place, and the extent of the recovery will depend on global confidence and willingness to travel. Business confidence is recovering but persistent uncertainty around the outlook, especially in the international tourism and education services industries, will affect employment and investment in the wider economy.

New Zealand’s seasonally adjusted quarterly **current account deficit** widened by $1.6 billion in the December 2020 quarter, to reach $2.1 billion. The increase in the deficit was driven by deteriorations in both the goods and services balances, as goods imports recovered further and services exports fell. The annual current account deficit is expected to widen further over 2021, with the recovery in imports continuing to outstrip exports growth and the loss of visitor spending acting as an ongoing drag on the services balance, although much depends on progress in easing border restrictions.

April 2021, Forecasting Team, the Treasury

TE TAI ŌHANGA
THE TREASURY

Reference: T2021/856 SH-11-5-3

Date: 7 April 2021

To: Minister of Finance (Hon Grant Robertson)

Deadline: 11.30am 8 April 2021
(if any)

Three Waters Reform Programme – Ministers' meeting 8 April 2021

You are attending a Three Waters Reform Programme Ministers meeting on 8 April 2021.

This aide memoire provides you with advice on the topics for discussion at the meeting, and incorporates the views of the New Zealand Infrastructure Commission, Te Waihanga, in the relevant sections.

The Treasury and Te Waihanga remain supportive of the direction of the reform programme, and the majority of the proposals to be discussed at this meeting align with the Government's objectives for reform. However, we are concerned that the speed at which the Reform Programme is moving means there will be a high level of uncertainty around the implementation of the reforms when Cabinet is scheduled to make substantive policy decisions in May.

Governance of water entities

The proposed governance structure is complex, but should support the Government's objectives…

The key features of the governance structure proposed for the new water entities are a governors' representative group and independent selection panel as intermediate structures between local authorities as the owners of the entities, and the entity boards.

The complexity of the proposed governance structure reflects the Government's objectives of retaining local authority ownership of water assets alongside financial independence of the water entities[1]. To ensure that the debt of water entities is "off balance sheet", it is necessary to remove substantive control of the water entities from local authorities.

[1] Financial independence in this instance refers to ensuring the debt of the water entities is considered to be separate from that of local authorities, or "off balance sheet".

… so managing local government expectations of influence will be key

Te Waihanga notes that the role local authorities will play in the governance of the proposed water entities may not be as substantial as they might have preferred or expect. This may mean local elected members are unsatisfied with their lack of influence over the new entities, and could be a key point of contention when the final proposals are released. s9(2)(f)(iv), and could also lead to friction between local authorities and the water entities once the entities are established.

In the absence of direct local authority control over water entities, the main local authority point of influence will be through the planning system. Decisions on how local authority decision-making will occur in the reformed resource management system are likely to be made after Cabinet has made substantive three waters policy decisions. adds to the risk around local authority expectations of reform and level of influence.

You may wish to ask:

- How expectations about the level of local authority influence over the new water services entities are being managed?
- What level of expectation has been set that the resource management reforms will provide for local authority influence over the new entities?
- How the timeframes for resource management reform line up with Reform Programme decisions, and how the risk that resource management reform will not deliver the level of influence that local authorities expect is being managed?

Iwi/Maori rights and interests

The proposed governance arrangements and mechanisms for Māori representation and input into the new water entities are also relatively complex, but appear suitable for the various interests the water entities will need to manage.

As with the governance arrangements for the water entities, there are links between the reform proposals, resource management reforms, and work on freshwater, all of which will need to be aligned to ensure the proposals deliver on the expectations of Māori.

The Treasury also supports the potential for delivery partnerships between local Iwi/Hapū and the water entities, as indicated on slide 15.

Proposals for a Government Policy Statement (GPS)

The slide pack proposes a Government Policy Statement (GPS) for three waters services, to support the Government’s stewardship role in three waters.

From the information that we have been provided to date, it is unclear what specific problem the GPS is intended to address. The material mentions a range of functions that a GPS might play, such as providing direction to regulators, or setting expectations for the water entities to address inequalities.

In the absence of a clear rationale, a GPS may add unnecessary complexity to the regulatory system. We are concerned that in the case of three waters services, adding additional expectations to the water entities beyond efficiently delivering high quality water services may distract from the step-change in behaviour needed to achieve the desired levels of quality and investment that are the drivers of this reform.

Our initial view is that any proposal for a GPS needs to be supported by detailed information about the problem that it is trying to address. Specifically, given the range of other proposed levers, including economic and quality regulation, what marginal benefit is intended for a GPS.

Te Waihanga considers it important that either a GPS or legislation are light-handed to ensure water entities have the autonomy to reflect the unique circumstances of their rohe and allow for innovation and efficiencies. As an example, the needs of an urban Auckland water entity (should it remain separate) would be substantially different at a local level to the needs of the lower South Island.

You may wish to ask:

- What problem is the GPS is intended to solve?
- What a GPS will deliver that could not be done through the various regulatory systems?
- How is a GPS expected to interact with price-quality regulation – how will the independent regulator take and use the GPS?
- Will a GPS or legislation still allow enough autonomy for water entities to reflect their unique circumstances of their rohe and find innovation and efficiencies?

Commercial operations

Te Waihanga have outstanding questions about the commercial operations of the new water entities.

We understand water entities will not be permitted to produce dividends but will instead need to reinvest surpluses back into their networks. The requirement of provide dividends can be effective at incentivising efficient operations in the absence of market competition. Te Waihanga is concerned the provision of surpluses may not have the same effect.

Also care needs to be taken regarding a prohibition on asset sales. While Te Waihanga acknowledges Cabinet has committed to council ownership, some level of asset sales and the rationalisation of stock are a normal part of business. There is also the issue of small supplies may be best operated by small communities as non-reticulated water supplies rather than stay within operation of larger water entities.

You may wish to ask:

- What is the intent behind requiring water entities to reinvest surpluses rather than produce dividends for shareholders?
- Will there be provision for water entities, in the normal course of business, to purchase and sell assets while retaining the overall commitment of council ownership?

Transition and implementation

The slides for discussion contain a very low level of information about the significant range of transition and implementation decisions that Ministers will need to make. To support the success of the reforms, it is important that there is a clear transition and implementation plan, including risk management.

However, the transition material is scheduled to be presented to Cabinet for decision in June/July, after April/May date that Cabinet expected Ministers to make decisions in December 2020 [CAB-20-MIN-0521.01].

Early Reform Programme decisions that Cabinet is scheduled to take in May may constrain future decisions on the transition and implementation of the reforms. It is therefore important that Ministers have oversight of the potential trade-offs or implications for transition when making substantive decisions on the reform programme in May.

Te Waihanga agree that a 12 month establishment phase and an 18 month transition phase is ‘ambitious’, but also agree that a speedy transition will reduce uncertainty, particularly for existing staff, and the unlikely potential for decisions to be ‘gamed’.

You may wish to ask:

- How will the transition and implementation considerations be considered by Ministers in more detail prior to seeking decisions from Cabinet?

Morgan Dryburgh, Senior Analyst, National Infrastructure Unit (NIU), +s9(2)(k)
David Taylor, Manager, National Infrastructure Unit (NIU), +s9(2)(k)

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

TE TAI ŌHANGA
THE TREASURY

BRIEFING

WorkSafe New Zealand's request to access remaining contingency funding

Date:	7 April 2021	**Priority:**	High
Security classification:		**Tracking number:**	MBIE: 2021 - 2679 Treasury: T2021/781

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Agree** to release the operating component of WorkSafe New Zealand's Budget 2019 funding held in contingency **Approve** WorkSafe New Zealand to borrow the capital component of the Budget 2019 funding held in contingency **Agree** that it is necessary or expedient in the public interest to provide the loan to WorkSafe New Zealand **Sign** the attached Facility Agreement	Before Cabinet at **1pm on 12 April** to avoid the Budget Moratorium
Hon Michael Wood **Minister for Workplace Relations and Safety**	**Agree** to release the operating component of WorkSafe New Zealand's Budget 2019 funding held in contingency **Approve** WorkSafe New Zealand to borrow the capital component of the Budget 2019 funding held in contingency **Sign** and **send** the attached letter to WorkSafe New Zealand	

Contact for telephone discussion (if required)				
Name	**Position**	**Telephone**		**1st contact**
Simon Wakefield	Manager, Economic & Regulatory Performance (MBIE)	s9(2)(k)	s9(2)(g)(ii)	✓
Nick Carroll	Manager, Skills and Work (The Treasury)			
Richard Baird	Senior Analyst, Skills and Work (The Treasury)			

The following departments/agencies have been consulted
WorkSafe New Zealand

Minister's office to complete:

☐ Approved ☐ Declined
☐ Noted ☐ Needs change
☐ Seen ☐ Overtaken by Events
☐ See Minister's Notes ☐ Withdrawn

Comments

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

TE TAI ŌHANGA
THE TREASURY

BRIEFING

WorkSafe New Zealand's request to access remaining contingency funding

Date:	7 April 2021	**Priority:**	High
Security classification:		**Tracking number:**	MBIE: 2021 - 2679 Treasury: T2021/781

Purpose

To provide Joint Ministers with an assessment of whether WorkSafe New Zealand (WorkSafe) has met the requirements to access the remaining contingency-held funding from Budget 2019.

Executive summary

WorkSafe has written to the Minister of Finance and the Minister for Workplace Relations and Safety (Joint Ministers) requesting access to the remaining Budget 2019 funding held in contingency for its *Knowledge, Evidence and Insights* and *Digital and Information* programmes.

These programmes are part of the Budget 2019 Programme investment, which combined with other WorkSafe change programmes will enable WorkSafe to become an insights-driven regulator (Transition State One) by 2022/23. Achieving Transition State One will help build the foundational capability that will be leveraged and built upon by further transition states as WorkSafe moves towards its 10 year target state as represented in the Enterprise Target Operating Model (ETOM).

WorkSafe considers it has met the information requirements contained within the November 2019 Joint Ministers' letter and has obtained robust external assurance and support.

Whilst MBIE and the Treasury consider that WorkSafe has not fully met all these requirements, we support the release of the remaining contingency funding because:

- We continue to support the strategic case for modernisation,
- We consider WorkSafe has undertaken sufficient planning to support successful implementation of these key programmes, and
- We also recognise WorkSafe's commitment to comprehensive internal and external assurance over the modernisation, including targeted Gateway reviews at key decision points and ongoing external reporting on programme design and implementation.

The transformation being undertaken by WorkSafe is significant. Given the multi-faceted nature of the modernisation programme, WorkSafe will need to be responsive and agile as it delivers the programmes. WorkSafe will need to maintain a clear focus on the alignment of its strategic programmes, IT programmes and service design. This is particularly relevant for the *Digital and Information* programme which involves WorkSafe transitioning away from MBIE providing its IT platform to being standalone, at the same time as significantly modernising its digital platforms.

Cabinet intended that the capital funding of $31.6 million would be repaid by WorkSafe within a ten-year period constituting a concessionary loan rather than a permanent capital injection.

The Minister of Finance is authorised to lend money on behalf of the Crown, if the Minister believes it is necessary or expedient in the public interest to do so [Section 65L of the Public Finance Act 1989 (PFA)].

The Treasury considers that it is in the public interest for the Crown to provide the concessionary loan to WorkSafe to provide funding for the Digital and Information services programme that is a key enabler of WorkSafe's modernisation programme.

The Crown Entities Act 2004 (CEA) also requires that the portfolio minister – the Minister of Workplace Relations and Safety – and the Minister of Finance jointly give approval in order for WorkSafe to borrow from the Crown.

Should you both approve the loan, and the Minister of Finance sign the attached Facility Agreement, WorkSafe will be able to request drawdown up to the full amount of the loan. The Treasury will publish a notice in the *Gazette* on the Minister of Finance's behalf.

We note that the funding currently held in contingency, is only part of the required funding for the modernisation programme. WorkSafe have forecast an increase in operating costs, particularly related to the *Digital and Information* workstream due to WorkSafe progressing to provide its own IT function and an intended significant increase in functionality. WorkSafe have advised they will fund the increase in operating expenditure from within its existing appropriation by reprioritising expenditure.

WorkSafe are seeking Ministers approval in advance of the Budget moratorium so they have certainty over planning for 2021/22 which it considers will reduce costs and risks associated with the programme.

Recommended action

The Ministry of Business, Innovation and Employment (MBIE) and the Treasury recommend that:

Context for the contingency funding

The Minister of Finance and the Minister for Workplace Relations and Safety:

1. **Note** that as part of Budget 2019 decisions made on 15 April 2019 [CAB-19-MIN-0174.23 refers], Cabinet agreed to provide funding for WorkSafe to meet some existing cost pressures and new investments to modernise the organisation to take an intelligence-driven and technology-enabled approach to the prevention of work-related harm;

   Noted *Noted*

2. **Note** that the majority of funding that related to the modernisation was agreed to be held in contingency, with authority delegated to the Minister of Finance and the Minister for Workplace Relations and Safety (Joint Ministers) for approving draw-down of the contingency subject to necessary planning being completed and the proposed investments are likely to realise the promised benefits;

   Noted *Noted*

3. **Note** that Joint Ministers wrote to the Chair of WorkSafe's Board on 26 November 2019 to set out expectations of what evidence would be required ahead of draw-down in order to provide Ministers with assurance that the promised benefits of modernisation would be delivered, including:

   i. A target operating model

   ii. Programme level-planning and a detailed implementation plan; and a

   iii. Reporting plan

   Noted *Noted*

4. **Note** that in July 2020, Joint Ministers agreed to release the operating component of WorkSafe's Budget 2019 funding held in contingency that relates to its Work Related Health programmes;

Noted *Noted*

5. **Note** the remaining Budget 2019 funding held in contingency is as follows:

	$ millions				
Increasing WorkSafe New Zealand's capacity to improve the health and safety outcomes of workers in New Zealand –	2020/21	2021/22	2022/23	2023/24	2024/25 & outyears
Tagged operating contingency	1.310	3.700	5.300	5.300	5.300
Tagged capital contingency	16.370	7.800	7.400	-	-

Noted *Noted*

Assessment of investment readiness

The Minister of Finance and the Minister for Workplace Relations and Safety:

6. **Note** that WorkSafe wrote to Joint Ministers on 7 April 2021 requesting release of the remaining Budget 2019 capital and operating funding held in contingency for the *Knowledge, Evidence and Insights*; and *Digital and Information* programmes, as it considered it had met the requirements for release of this funding;

Noted *Noted*

7. **Note** that WorkSafe has met most of the requirements of the Joint Ministers' letter, and for those requirements not fully met WorkSafe has appropriate programme and project planning in place to give confidence this will be delivered;

Noted *Noted*

8. **Note** that due to the complex nature of the *Digital and Information* programme, significant emphasis will need to be placed on the monitoring and oversight by the WorkSafe Board to provide increased assurance on effective delivery. This assurance and progress will be reported quarterly to the Minister for Workplace Relations and Safety and programme summary reports shared with the Ministry of Business, Innovation and Employment;

Noted *Noted*

9. **Agree** that sufficient work has been undertaken by WorkSafe to approve the release of the remaining contingency-held funding

Agree / Disagree *Agree / Disagree*

Loan arrangements

The Minister of Finance and the Minister for Workplace Relations and Safety:

10. **Note** that the capital component of WorkSafe's Budget 2019 funding, which relates to its *Digital and Information* programme was intended to be repaid by WorkSafe New Zealand within a ten-year period, constituting an interest free loan to a Crown Entity;

    Noted *Noted*

11. **Note** that the concessionary expense associated with the foregone revenue of this loan was overlooked during Budget 2019 funding decisions, and is subsequently being approved through the 2021 Budget Technical package, with sufficient buffer in the appropriation to account for the final calculation of the expense by the Ministry of Business, Innovation and Employment;

    Noted *Noted*

12. **Note** that in order for WorkSafe, as a Crown Entity, to borrow from the Crown, the Minister of Finance and the Minister of Workplace Relations and Safety must jointly approve the borrowing and notify in the Gazette that this approval is given;

    Noted *Noted*

13. **Note** that the Minister of Finance has the legal power to lend money on behalf of the Crown if it appears to the Minister to be necessary or expedient in the public interest to do so;

    Noted *Noted*

14. **Approve** WorkSafe to borrow the amount of $31.570 million from the Crown as per the terms and conditions described in the report, subject to the Minister of Finance agreeing the loan to be necessary or expedient in the public interest, and signing the final Facility Agreement on behalf of the Crown;

    Approve / Do not approve *Approve / Do not approve*

The Minister of Finance only:

15. **Agree** that it is necessary or expedient in the public interest to lend $31.570 million to WorkSafe for ICT investments relating to the *Digital and Information* programme;

    Agree / Disagree

16. **Agree** to sign the Facility Agreement (**Annex Five**) on behalf of the Crown;

    Agree / Disagree.

17. **Note** that, subject to decisions taken in recommendations *'14', '15',* and *'16'* above, the Treasury will notify in the *Gazette* the joint approval of this borrowing;

    Noted

Financial recommendations

The Minister of Finance and the Minister for Workplace Relations and Safety:

18. **Agree** to release and appropriate the loan funds, which relate to the *Digital and Information* programme, in advance of Budget moratorium to provide WorkSafe with planning certainty to prepare for the delivery of work from July 2021;

Agree / Disagree *Agree / Disagree*

19. **Approve** the following fiscally neutral changes to appropriations to provide for the decisions in recommendation '18' above, with no corresponding impact on net core Crown debt as the loan will be repaid within 10 years:

	$m - increase/(decrease)				
Vote Labour Market Minister for Workplace Relations and Safety	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26 & Outyears**
Non-Departmental Capital Expense: Workplace Relations and Safety - Capital for WorkSafe New Zealand	13.390	10.530	4.650	3.000	-
Total Capital	**13.390**	**10.530**	**4.650**	**3.000**	-

Approve / Not Approved *Approve / Not Approved*

20. **Agree** to rephase the funding within the *Increasing WorkSafe New Zealand's capacity to improve the health and safety outcomes of workers in New Zealand – Tagged Capital Contingency* to mirror the phasing in recommendation '19' above;

Agree / Disagree *Agree / Disagree*

21. **Agree** that the capital amounts in recommendation '19' above, be charged against the *Increasing WorkSafe New Zealand's capacity to improve the health and safety outcomes of workers in New Zealand – Tagged Capital Contingency* described in recommendation '5' above, fully exhausting that contingency;

Agree / Disagree *Agree / Disagree*

22. **Agree** to release the operating component of WorkSafe's Budget 2019 funding held in contingency that relates to its operating expenditure for the associated depreciation that is held in contingency, comprising $7.52 million in operating funding over the two years from 2021/22 and $3.65 million in 2023/24 and out years;

Agree / Disagree *Agree / Disagree*

23. **Note** that further detailed design has informed the nature of the *Digital and Information* investments that WorkSafe will be making, and that although less depreciation expense will be incurred as a result, the reprioritised operating funding is required to cover higher operating costs from "as-a-service" products and ICT operational independence from the Ministry of Business, Innovation and Employment;

Noted *Noted*

24. **Agree** to release the operating component of WorkSafe's Budget 2019 funding held in contingency that relates to its *Knowledge, Evidence and Intelligence* programme, comprising $2.79 million in operating funding over the two years from 2021/22 and $1.65 million in 2023/24 and out years;

Agree / Disagree *Agree / Disagree*

25. **Approve** the following fiscally-neutral changes to appropriations, funded from the Health and Safety at Work Levy, to provide for the decisions in recommendation '22' and '24 above, with no corresponding impact on the operating balance:

	$m - increase/(decrease)			
Vote Labour Market Minister for Workplace Relations and Safety	**2021/22**	**2022/23**	**2023/24**	**2024/25 & Outyears**
Non-Departmental Output Expense: Workplace Relations and Safety - Workplace Health and Safety	5.010	5.300	5.300	5.300
Total Operating	**5.010**	**5.300**	**5.300**	**5.300**

Approve / Not Approved *Approve / Not Approved*

26. **Agree** to rephase the funding within the *Increasing WorkSafe New Zealand's capacity to improve the health and safety outcomes of workers in New Zealand – Tagged Operating Contingency* to mirror the phasing in recommendation '25' above;

Agree / Disagree *Agree / Disagree*

27. **Agree** that the expenses incurred under recommendation '25' be charged against the *Increasing WorkSafe New Zealand's capacity to improve the health and safety outcomes of workers in New Zealand – Tagged Operating Contingency* established in Budget 2019 and described in recommendation '5' above, fully exhausting that contingency;

Agree / Disagree *Agree / Disagree*

Next Steps

The Minister for Workplace Relations and Safety only:

28. **Sign and send** the attached letter (**Annex Four**) to the Chair of the WorkSafe Board, which outlines an expectation that monitoring and oversight of delivery of the modernisation programme will need to be a focus of the Board, and continued engagement is required with the Ministry of Business, Innovation and Employment on its reporting framework.

Agree / Disagree

Nick Carroll
Manager, Skills and Work,
The Treasury

Simon Wakefield
Manager, Economic & Regulatory Performance
Ministry of Business, Innovation and Employment

Hon Grant Robertson
Minister of Finance

Hon Michael Wood
Minister for Workplace Relations and Safety

Background

1. This paper is intended to:

   i. provide background as to why the Budget 2019 funding was held in contingency;

   ii. outline what WorkSafe's modernisation programme is intended to achieve;

   iii. provide evidence to support that whilst not all elements of the Joint Ministers letter have been met, sufficient work has been undertaken to support the release of requested funding; and

   iv. provide detail of the loan agreement under which capital funding is proposed to be released, and the rationale for this lending in relation to the statutory tests involved with the lending of Crown money to a Crown Entity.

Table 1: Outline of initiatives funded by Budget 2019[1]

Budget 2019	Status of funding	Work required
Ministers agreed to a baseline increase of $57.0m over 4 years	Funding appropriated at Budget 2019	
Multi-year harm prevention programmes ($15.0m, plus out-year funding)	Funding appropriated in 2021/21	
Research and intelligence investment in capability, processes and systems[1] ($2.79m, plus out-year funding)	Held in contingency	**Subject of this draw-down request**
ICT systems and tools to replace manual processes and outdated systems ($31.57m capital, $7.52m operating, plus out-year funding)	Held in contingency	**Subject of this draw-down request**

Outcome of Budget 2019 funding and contingency funding recommendations

2. WorkSafe New Zealand (WorkSafe) was provided funding through Budget 2019 for a combination of cost pressures and new initiatives relating to a programme of organisational modernisation.

3. An up-front increase to its baseline of $57.0 million over four years (including $16.8m ongoing) was provided, from the Health and Safety at Work Levy (the Levy), to fund WorkSafe's cost pressures, new frontline staff, learning and development and the costs associated with its Modernisation Office.

[1] Funding amounts are framed as amounts over the four-year forecast period as at Budget 2019 (through to 2022/23) with additional ongoing funding in out-years for all components with operating funding.

4. Budget 2019 also provided for the establishment of contingency funding for a portion of WorkSafe's bid. Funding to be held in contingency comprised the following:

   i. Operational funding of $25.3 million over four years (and $10.3 million in out-years), from the Levy, for harm prevention programmes, and the delivery of new data and intelligence functions.[2]

   ii. Capital funding of $31.57 million over four years, from the Crown, for implementation of new ICT systems.

5. The Budget Cabinet Minute [CAB-19-MIN-0174.23 refers] (the Cabinet Minute) noted that WorkSafe needed to undertake further planning for the overall modernisation programme, including developing a future operating model, before the proposed investment could be considered ready for implementation.

6. The Cabinet Minute provided authority for the Minister for Workplace Relations and Safety and the Minister of Finance to jointly approve charges against the contingencies, subject to their satisfaction that the necessary planning had been done and the benefits of the investment, as contained in its Budget bid were likely to be realised.

7. Joint Ministers wrote to WorkSafe on 26 November 2019 (**Annex One**) to request the information WorkSafe would need to provide to make the decision to draw-down on the contingency. The letter stated funding was subject to their satisfaction that the necessary planning had been done and the promised benefits of the investment, as contained in its Budget bid were likely to be realised.

8. Since July 2019 WorkSafe has undertaken to complete the required planning, development and implementation work. WorkSafe has regularly updated and consulted with MBIE and the Treasury over the past years as it has developed its programmes.

9. The contingency funding was set aside in the Health and Safety at Work Levy account when decisions were made in Budget 2019. Accordingly the release of contingency funding can be managed within the existing surplus revenue, with no impact on the Crown's Operating Balance.

10. In July 2020 Joint Ministers agreed to release the operating contingency funding related to WorkSafe's Work Related Health (WRH) programme following a request from WorkSafe. WorkSafe represented and MBIE and Treasury agreed that the WRH programme could be progressed outside of the other parts of the modernisation programme, which at the time were not ready to request contingency draw-down.

WorkSafe's modernisation programme aims to improve its effectiveness and reduce harm

11. The Cabinet decision supported WorkSafe's modernisation programme's aim to improve its effectiveness and reduce harm by building an insights-led and technology-enabled approach to the prevention of work-related harm. This will allow WorkSafe to better target resources to underlying drivers of harm, including through the delivery of evidence-based harm prevention programmes.

12. The modernisation programme is intended to take WorkSafe from being a reactive regulator with localised knowledge of harm to a modern effective regulator where: harm is understood

[2] The Cabinet minute refers to "research and data analytics", WorkSafe has changed the framing of this to "Knowledge, Evidence and Intelligence (Research and Data Analytics)" to better reflect this work programme.

across the system, including causes; investment and intervention is planned and measured; and prevention is at the heart of what WorkSafe does.

13. WorkSafe has developed a future state *Enterprise Target Operating Model (ETOM)* that sets out a framework for the transition of WorkSafe into a modern work Health and Safety regulator and provides its vision for the future operating model. A highly summarised version of this change journey is contained within the WorkSafe Chair's letter (**Annex Two**, **p4**).

14. In order to deliver this proposed future state WorkSafe created a high-level 10-year modernisation programme roadmap which has three distinct transition states as follows:

    i. Insights Driven Regulator by 2022/23 (Transition State One / T1).

    ii. New Zealand Leading Regulator by 2026/27 (Transition State Two / T2).

    iii. World Class Regulator by 2029/30 (Transition State Three / T3).

15. WorkSafe has represented that the Budget 2019 Programme investment, combined with other WorkSafe change programmes will enable it to become a modern, insights-driven regulator by 2022/23 (ETOM Transition State One) and build the foundational capability that will be leveraged and built upon for the other transition states.

16. WorkSafe has advised that the transition states are effective, stable platforms designed to consolidate progress and are stand-alone "jump off" points, allowing WorkSafe to pause at each transition state and still operate effectively. Accordingly investment in Transition State One does not therefore commit Joint Ministers to further substantive investments to progress to Transition State Two or Three.

17. WorkSafe has indicated that no further significant funding should be required for it to move to the other Transition States. Although it should be noted that a Strategic Baseline review of WorkSafe is about to commence, which will consider WorkSafe's future funding requirements.

WorkSafe has requested access to the remaining contingency funding

18. You received a letter from WorkSafe on 7 April 2021 (**Annex Two**), seeking your joint approval for a drawdown of the remaining Budget 2019 funding held in contingency.

19. WorkSafe is requesting to draw down $31.57 million in capital funding related to its *Digital and Information programme* workstream over four years (2021/22 - 2024/25). To support this it is also requesting draw down of the depreciation associated with the capital funding, comprising of $7.52 million in operating funding over the next two years and $3.65 million baselined in 2023/24 and out years.

20. WorkSafe will repay the capital funding under a loan agreement drawn up **(Annex Five)** and required to be signed by the Minister of Finance.

21. WorkSafe is also requesting to draw down the operating component of WorkSafe's Budget 2019 funding held in contingency that relates to its *Knowledge, Evidence and Intelligence programme*, comprising of $2.79 million in operating funding over the next three years and $1.65 million baselined in 2023/24 and out years.

22. This drawdown request represents the remainder of the funding held in contingency, following the early approval of release of WRH funding by Joint Ministers in July 2020.

23. WorkSafe has provided the following information to support release of the remaining contingency held-funding consistent with the structure provided in the Joint Ministers' letter of 26 November 2019 (**Annex One)**, which detailed expectations of information WorkSafe were required to present:

i. Updates of WorkSafe's 'Summary of Budget 19 Programme Investment, Benefits and Outcomes' and its table representing the proposed future state for WorkSafe following the remaining Budget 2019 investment, are within the WorkSafe Chair's letter (**Annex Two, Appendix A**).

ii. To represent its *Digital and Information programme*, WorkSafe have provided its 'Digital Strategy' (**Annex Two, Appendix C**) which articulates the key digital priorities and outcomes WorkSafe intend to achieve over the next three years, This is supported by the 'Digital Roadmap' (**Annex Two, Appendix C**) which shows the substantial number of IT projects (as at March 2021) which WorkSafe intend to undertake to 2023/24, not just projects funded by Budget 2019.

iii. To represent its *Knowledge, Evidence and Intelligence programme*, WorkSafe has provided a' Project Roadmap' and 'Capability and resource timeline' (**Annex Two, Appendix F**).

24. We note funding for the operating component of both the *Digital and Information* and *Knowledge, Evidence and Intelligence* programmes comes from both Budget 2019 contingency funding and baseline funding, similar to other parts of WorkSafe's modernisation programme. With a significant increase in IT-related operating costs forecasted these will need to be met from WorkSafe's existing appropriation.

25. WorkSafe's total investment in the Digital and Information programme is $46 million in capital funding, and $132.11 million in operating funding over six years. Of this the contingency held funding provides $31.57 million in capital funding, to be repaid by 2030, and $11.2 million operating funding for depreciation.

Our assessment of deliverables against the requirements in the Joint Ministers' letter

26. MBIE and the Treasury continue to support WorkSafe's strategic case for modernisation. We also recognise WorkSafe's engagement with us and commitment to comprehensive internal and external assurance over the modernisation – including targeted Gateway reviews at key decision points – and ongoing external reporting on programme design and implementation.

27. A summarised assessment is provided below and more detail on our assessment is provided in **Annex Three**.

We recommend Ministers approve the release of all remaining contingency funding

28. Not all of the requirements for release of contingency funding for the modernisation programme as set out in the Joint Ministers' letter have been fully achieved. However, on balance, we consider that the benefits from progressing with the modernisation programme outweigh the risks from WorkSafe not having finalised all elements of the modernisation programme.

29. We note the transformation being undertaken by WorkSafe is significant. Given the multi-faceted nature of the modernisation programme, WorkSafe will need to be responsive and agile as it delivers the programmes and we would expect continued evolution of its documentation to reflect this. WorkSafe will need to maintain a clear focus on the alignment of its strategic programmes, IT programmes and service design.

30. This is particularly relevant for the *Digital and Information* workstream. This represents a significant change for WorkSafe who are transitioning away from MBIE providing its IT platform to being standalone, at the same time as significantly modernising its digital platforms.

31. We consider that WorkSafe has undertaken sufficient planning to progress its modernisation programme and the required remaining work is currently in progress.

32. As with any significant change programme the capability and capacity for WorkSafe to deliver this work will need to be monitored. The appropriateness of governance arrangements and sources of independent assurance will need to be monitored as the modernisation programme begins delivering on the strategic changes required, particularly with multiple programmes of work occurring simultaneously.

Target operating model

33. The Joint Ministers' letter required a target operating model, with information detailing the future state operating model and how this differed from the current operating model.

34. The existing ETOM provided to meet this requirement is a strategic framework that provides high-level principles for the proposed 10-year future state. It does not clearly show for Transition State One how the integrated systems, processes and capabilities within the target operating model differ from the current operating model.

35. However, work is being undertaken on the target operating model for WorkSafe's modernisation programme within the new service design programme under WorkSafe's Taura Here Waka (THW) strategic programme.

36. Work on the *Knowledge, Evidence and Intelligence* programmes can progress in parallel to the service design work. This is similar to the WRH programme with both programmes informing and being informed by service design work.

37. The *Digital and Information* programme is able to continue to make progress in advance of the completion of service design work, which is scheduled for completion in quarter four 2020/21 as initial projects are predominately separation from MBIE ICT environment initiatives.

Programme level planning and implementation planning

38. We consider the documentation contained within the Programme Implementation Plan and associated work reflecting programme level planning and detailed implementation plans have been appropriately completed.

39. The significant number of inter-related ICT projects creates an increased number of risks and dependencies. This will need to be a key focus of WorkSafe assurance processes particularly given WorkSafe's limited experience in running an ICT function.

40. Further detail on programme planning including details on WorkSafe's assurance programme, joint planning with MBIE ICT and on-going engagement with the Digital Public Service (DPS) branch of the Department of Internal Affairs, is contained within **Annex Three**.

Reporting plan

41. In accordance with requirements of the Joint Ministers' letter WorkSafe has prepared a partial programme benefits realisation plan relating to Digital Benefits Map (**Annex Two, Appendix E**).

42. The modernisation programme has a clear set of programme outputs, programme outcomes and benefits providing visibility of what is being purchased. However, it lacks a clear set of:

   i. mature lead indicators and targets across the programme to provide a robust reporting framework;

   ii. comprehensive parameters and lead indicators to clearly and independently assess whether the investment is likely to deliver the expected benefits.

43. Where WorkSafe has less well defined outcome and benefit measurement with a baseline of existing performance, monitoring of delivery will be more reliant on assessment against project deliverables and milestones. We note these may not always be reasonable proxies for delivery of benefits, but are the best measures currently available for assessing progress.

44. WorkSafe are currently preparing a Statement of Intent (2021 – 2025) which we understand will include a new outcomes framework. This will provide a further opportunity to work with WorkSafe in developing its performance measurement framework and clarify how they intend to report against this framework, including these Budget 19 Modernisation Programme workstreams.

45. We recommend you outline in a letter to the WorkSafe Chair that you expect continued development of WorkSafe's reporting framework. We have suggested wording in the draft letter that reflect this.

Loan Arrangements

46. The capital component of WorkSafe's Budget 2019 funding, which relates to its *Digital and Information* workstream was intended to be repaid by WorkSafe New Zealand within a ten-year period, constituting an interest free loan to a Crown Entity.

47. The Ministry for Business, Innovation and Employment (MBIE) has prepared, in consultation with WorkSafe and the Treasury, a Facility Agreement to record the terms and conditions under which the loan would be advanced.

Details of the Loan

48. The attached Facility Agreement sets out the terms and conditions of the loan. Key aspects include:

   i. The **agreement is between WorkSafe and the Crown**. MBIE will hold the main relationship with WorkSafe regarding the loan, on behalf of the Crown.

   ii. The **loan advances up to a total of $31.570m to WorkSafe** to provide capital for the planned ICT investments under the Digital and Information workstream

   iii. The loan is concessionary, with **no interest being applied** to the principal amount, and there has been an expense appropriated to account for this through the 2021 Budget Technical package.

   iv. WorkSafe will **repay the loan over a 10-year period**, according to schedule in the Facility Agreement.

49. Once a draw-down has been approved by MBIE, that portion of the loan will be administered by the Capital Markets function in the Treasury, with MBIE continuing to be the intermediary that receives draw-down or early repayment notices from WorkSafe.

Legal Obligations and Powers

50. Sections 160 and 162 of the Crown Entities Act 2004 (CEA) stipulate that the relevant portfolio Minister – the Minister of Workplace Relations and Safety – and the Minister of Finance must jointly give approval for a Crown Entity – WorkSafe – to borrow from the Crown, and that the Minister of Finance must notify in the *Gazette* that this approval is given.

51. Section 65L of the Public Finance Act 1989 (PFA) provides the Minister of Finance with the legal power to lend money on behalf of the Crown, if the Minister believes it is 'necessary or expedient in the public interest' to do so.

52. To demonstrate that it is necessary or expedient in the public interest for the Crown to provide this loan to WorkSafe, we have detailed below the benefit to the public that the loan is securing, the reason the loan is necessary to secure that benefit and how the risks of the lending have been mitigated.

Public Interest Test

53. The PFA does not define 'the public interest'. However, it is generally accepted that the public interest is broadly equivalent to the concept of the public good and can cover a wide range of values and principles relating to the public good, or what is in the best interests of society. In the context of the Act, the public interest should be viewed in a New Zealand context, that is, in the interest of the New Zealand public.

54. The following paragraphs set out factors that officials consider are relevant to the assessment of whether extending the facility now is 'necessary or expedient in the public interest'. The Minister of Finance may decide to ignore these factors, or take into account other factors he considers relevant, and he may give such weight to the factors referred to below as he deems fit. The Minister of Finance should make an independent decision and is not bound to accept the assessment below.

Benefit to the public of the loan:

55. It is in the public's interest to ensure that risks to health and safety are mitigated. As outlined in paragraphs 11 and 12 above, the modernisation programme will allow WorkSafe to better target resources to underlying drivers of harm, including through the delivery of evidence-based harm prevention programme. The ICT investments required through the *Digital and Information programme* are the key enabler of these benefits, requiring significant upfront investment.

56. This wider modernisation programme is also drawing upon WorkSafe's existing cash reserves, and WorkSafe does not have the cashflow necessary to cover the full initial cash outflow.

57. The proposed loan facilitates funding to enable the upfront investment to become an Insights-driven regulator, and therefore supports the public interest.

Why the loan is necessary or expedient:

58. The first consideration is whether the Crown should provide the necessary funding, or whether it should be procured from the private market. Ultimately, this requires a consideration of the implications of interest on the Levy.

59. WorkSafe was established in 2013, with initial funding provided through capital injections from the Crown. WorkSafe has been and continues to be exempt from the capital charge regime, due to keeping net taxpayers funds under $15 million over the medium-term.

60. The quantum of the loan represents the anticipated shortfall in cash required to make the necessary ICT capital investments that will enable WorkSafe's modernisation.

61. The Levy is projected to enter a negative balance in 2025/26, based on current funding commitments and revenue forecasts, before returning to positive balance in 2026/27. There are already likely to be further funding pressures on the levy account due to other policy or operational commitments, including an upcoming Strategic baseline review of WorkSafe. As a result, MBIE is investigating options to bring the Levy to a more sustainable balance through an increase in the levy rate. Imposing interest on this loan would further increase any future increases required, which may not be considered appropriate.

62. Given the above, securing private sector funding was discounted.

63. The second consideration is whether the Crown should provide funding through a capital injection or a repayable loan.

64. The option of providing a similar non-repayable capital injection for the initial operating costs was also considered. The benefit of this would have been that the costs to be recovered from the Levy would be marginally lower over time. The cost would have been a corresponding increase in net Crown debt.

65. On the other hand, the proposed loan will provide the capital to enable modernisation of the regulator without this impact on the fiscal position.

The risks of lending:

66. The main risk of lending to WorkSafe is the possibility that they will not repay the loan.

67. We consider that this risk is partially mitigated by the following factors:

    i. The Facility Agreement includes disincentives for default, such as the reservation of the right of the Crown to terminate the agreement and declare the outstanding amount payable;

    ii. Repayment is split up across a 6-year period, so it should be more manageable to repay;

    iii. The Levy rate could be increased in future to provide for further revenue to repay the loan; and

    iv. Decision-making on any future requests for additional funding to support that work would not look favourably on the default of the loan, thereby incentivising WorkSafe to comply with its repayment obligations.

Assessment

68. It is the Treasury's judgement that it is expedient in the public's interest for the Crown to provide this concessionary loan to WorkSafe.

Next steps

69. If you agree to release the remaining contingency funding, we recommend that the Minister for Workplace Relations and Safety as responsible Minister for WorkSafe, sign and send the attached letter contained within **Annex Four** to the Chair of WorkSafe approving release of the funding.

70. Once the loan is approved, the Minister of Finance can sign the Agreement on behalf of the Crown.

71. It is generally standard process for the Minister of Finance to bring a paper to Cabinet to inform his colleagues of a Crown loan that he is considering authorising under section 65L of the PFA. The Treasury considers that this is not necessary in this case, given the moderate level of funding was approved through the Budget 2019 process. However, the Treasury can prepare a paper if the Minister of Finance requires it.

72. Treasury will notify in the *Gazette* that approval of the loan has been given.

73. WorkSafe will then be able to request drawdown of the amount of the loan from MBIE.

74. We expect WorkSafe will provide integrated reporting for the Modernisation Programme in the third quarter report for 2020/21.

Annexes

Annex One:	Joint Ministers' letter to WorkSafe New Zealand
Annex Two:	WorkSafe's request for approval to release remaining contingency funding
Annex Three:	WorkSafe's delivery against Ministers' expectations assessment
Annex Four:	Letter to WorkSafe: Agreement to release remaining Budget 2019 contingency funding
Annex Five:	Facility Agreement - WorkSafe Digital and Information Services Loan

Annex One: Joint Ministers' letter to WorkSafe New Zealand

Hon Iain Lees-Galloway

MP for Palmerston North
Minister for Workplace Relations and Safety Deputy Leader of the House
Minister of Immigration
Minister for ACC

2 6 NOV 2019

Mr Ross Wilson
Board Chair
WorkSafe New Zealand
PO Box 165
Wellington 6140

Dear Ross

Accessing WorkSafe New Zealand's contingency-held funding

We understand WorkSafe New Zealand (WorkSafe) has started to develop an implementation plan and enterprise target operating model to support the implementation of the modernisation outlined in WorkSafe's 2019 Budget bid. I look forward to hearing an update on WorkSafe's progress.

As you are aware, Cabinet has delegated to us the authority to approve the draw-down of funding currently held in contingency. To provide us with assurance as we make this decision, please provide us with the following information.

- **A target operating model that will deliver the proposed future state of WorkSafe as a modern work health and safety regulator** and how this differs from the current operating model. We expect that the future-state operating model will be supported by WorkSafe's key stakeholders, and that the Ministry of Business, Innovation and Employment and the Treasury have assurance that the operating model furthers the purpose and objectives of the Health and Safety at Work regulatory system.
- **Programme-level planning across the current modernisation programme, funded through Budget 2019,** that outlines:
    - an updated case for change, confirming that the investment objectives and planning assumptions are still valid following development of a future operating model, or are otherwise updated
    - the interaction between the current modernisation programme and the longer-term investment required to fully-embed the target operating model, including:
        - a high-level roadmap that sets out any potential key transition states, and the outcomes of each transition state, in terms of progressively embedding the target operating model
        - the rationale for the scope and sequencing of the current modernisation programme in the context of implementing the target operating model, including whether there is sufficient case for investment in current modernisation programme (in terms of costs and benefits) on its own merits, i.e. even if no further investments were made

- how the current modernisation programme is being managed to provide greater assurance to investors of a successful implementation, including:
  - breaking down the programme into smaller stages, and the rationale for the proposed sequencing of investments
  - any internal and external assurance mechanisms planned for the programme.

- **A detailed implementation plan for the funding sought in the draw-down.** This should provide evidence that the first set of investments are ready for implementation, including the following:
  - The investment work-streams (e.g. people, ICT, harm prevention programmes), what the proposed investments are within each work-stream, what they cost, and how they relate to the target operating model. This should include a joint plan for decoupling ICT and service arrangements with MBIE, including total cost to the Crown.
  - The change management arrangements to support successful implementation, including management of dependencies and risks.
  - Any commercial arrangements necessary.

  We expect to be provided with implementation plans for each tranche, where WorkSafe is seeking to access contingency funding across several stages.

- **A reporting plan**, for reporting around project implementation and benefits realisation, including establishing a baseline of current performance, and lead indicators for benefits. We expect that reporting on the progress of the investment will occur at least quarterly, with more detailed annual reporting on the programme of work and progress towards the future state.

Yours sincerely

Hon Iain Lees-Galloway
Minister for Workplace Relations and Safety

Hon Grant Robertson
Minister of Finance

Annex Two: WorkSafe's request for approval to release remaining contingency funding

Letter from the Chair

Appendices

A. Summary of Budget 19 Programme Investment

B. B19 Programme Implementation Plan *

C. Digital Strategy and Digital Roadmap

D. Digital Programme Assurance Plan

E. Digital Benefits Map

F. Pūmahara Project Roadmap

G. B19 Modernisation Programme Benefit Plan

H. WorkSafe's Three-year Assurance Framework

I. B19 Funded Programme Workstreams Delivery and Next Steps

J. B19 Financial Tables

K. Service Design

* Provided separately as not included in body of the Letter from the Chair

7 April 2021 21/00260

Hon Michael Wood
Minister for Workplace Relations and Safety
Parliament Buildings
Wellington 6011

Hon Grant Robertson
Minister of Finance
Parliament Buildings
Wellington 6011

Dear Ministers

WorkSafe New Zealand Budget 19 contingency funding: final drawdown

A. Proposal

I am writing to seek your joint approval for drawdown of the remaining Budget 19 funding held in contingency to support WorkSafe to become an effective, insights-driven regulator. Specifically, WorkSafe is requesting the drawdown of:

- $2.79 million in operating funding for the Knowledge, Evidence and Intelligence work stream over two years, and $1.65 million for 2023/24 and outyears.
- $31.57 million in capital funding for the Digital and Information programme stream and associated change management activities over four years, which is repaid by 2029/30.
- $7.52 million in operating funding for depreciation and $3.65 million in outyears to support the Digital and Information Programme.

We are seeking release of Budget 19 contingency funding on 1 July 2021 to enable the Digital and Information programme stream to scale up and deliver the programme initiatives. Ministerial approval is sought before 12 April 2021 (when the Budget 21 moratorium takes effect) to provide WorkSafe with the planning certainty required for the next phase of its modernisation programme.

The overall Budget 19 funding package ($113.87 million over four years) supports uplift in WorkSafe's capability and capacity to deliver the following benefits:

- Reduced economic costs to New Zealand from workplace harm.
- Fewer people are harmed as a result of work.
- Increased regulatory effectiveness.
- Interventions targeted for better outcomes for New Zealand.
- Increased efficiency through better processes and systems.
- Secure and supported workforce.

B. Introduction

This letter sets out:

C. Background to the final drawdown request.
D. Joint Ministers' expectations to be satisfied.
E. WorkSafe's progress to become investment ready.
F. Independent assurance of the B19 Modernisation Programme.
G. Delivery progress against previous B19 funding.
H. Proposed approach and timing for the drawdown.
I. Consultation with agencies.

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The funding sought through this proposal supports the Government's Wellbeing and Economic Agenda – by strengthening the health and safety regulator to undertake insights-driven, efficient interventions to support workers and employers to make sustainable improvements to how they design, set-up and undertake work. As New Zealand's economic recovery drives forward, including through new infrastructure and small business support, a capable health and safety regulator will be critical to supporting this work to be undertaken in a healthy and safe way.

C. Background to the drawdown request

Government set a 10-year Health and Safety at Work Strategy to ensure that 'work is healthy and safe for everyone in New Zealand'. WorkSafe is critical to achieving this vision. In October 2018 the WorkSafe Board approved a Funding Business Case to seek funding for 'base capability and capacity' to support a 10-year modernisation pathway, with WorkSafe becoming an insights-driven regulator by 2023.
A Budget 19 bid was submitted to fund WorkSafe's modernisation journey across five programme workstreams:

1. Work Related Health (referred to as Harm Prevention in the Cabinet minute and Budget 19 Bid).
2. Knowledge, Evidence and Intelligence (referred to as Research and Data Analytics in the Cabinet minute and Budget 19 Bid).
3. Digital and Information Services.
4. People, Capability and Safety.
5. WorkSafe's enterprise target operating model and Modernisation Programme.

Cabinet approved a scaled Budget 19 funding investment of $56.99 million, over four years, to maintain services and develop the modernisation programme. Cabinet placed a further $56.88 million in contingency consisting of:

i. $25.31 million operational funding for harm prevention programmes, research and data analytics, and depreciation associated with the additional capital funding.
ii. $31.57 million of capital funding for our Digital and Information services programme, to be repaid at a future date.

Cabinet authorised joint Ministers to approve any charges against contingency funding, subject to satisfying themselves that WorkSafe has completed the necessary planning and the proposed investments are likely to realise the stated benefits. WorkSafe subsequently developed the Budget 19 Programme Implementation Plan (B19 PIP), following the Treasury Better Business Case model for Programmes to document the planning approach and pathway aligned to the modernisation programme.

In July 2020 Ministers agreed to release the operating component of the Budget bid relating to the work-related health programme, comprising $15 million in operating funding over three years and $5 million baselined in 2023/24 and out-years. This has enabled WorkSafe to start delivering against our three work-related health harm prevention priorities (progress is outlined in section G).

The Budget 19 investment, benefits and outcomes, along how WorkSafe will operate differently with the Budget 19 investment is summarised in Appendix A.

D. **Joint Ministers’** Expectations to be satisfied

In Ministers’ letter dated 26 November 2019 expectations of WorkSafe were set out to provide assurance that we are ready to drawdown Budget 19 funding held in contingency. Expectations related to four key areas:

- A *target operating model* that will deliver the proposed future state of WorkSafe New Zealand as a modern work health and safety regulator.
- *Programme-level planning* across the current modernisation programme, funded through Budget 2019.
- *Detailed implementation plan* for the funding sought in the draw-down.
- A *reporting plan.*

Below is a summary of how WorkSafe has met these expectations, with further detail on each element below.

Joint Ministers information expectations	**Budget 19 funding appropriated**	**Budget 19 contingency funding held for these Programme Streams:**		
	Modernisation Office, eTOM, and cost pressures	Work Related Health *(Harm Prevention Programme)*	Knowledge, Evidence and Intelligence (*Research and Data Analytics)*	Information and Digital, and associated change costs
Timing for B19 appropriation / contingency Funding release	Approved Jul 2019	Joint Ministers approval July 2020	To be requested Apr 21	To be requested Apr 21
A **target operating model** that will deliver the proposed future state of WorkSafe	✓	✓ WorkSafe Service Design – shaping the people, processes, policy & systems changes	✓	✓
Programme-level planning across the current modernisation programme	✓	✓	✓	✓
Detailed implementation plan for the funding sought in the draw-down	✓	✓	✓ Intelligence Maturity Journey – Briefs (Field intelligence and Collection capability, Pumahara (intervention logic framework))	✓ Digital Strategy Digital Work Plan
A reporting plan Benefits refer B19 Programme Benefits Realisation Plan	Quarterly report. Benefit #6 - measures, baseline & targets set.	Quarterly report Benefit #1 - measures, baseline & targets agreed. Benefit #2 - measure agreed. Key milestones agreed to support baseline & targets being set	Quarterly report Benefit #3 & #4 – measurement tool agreed. Key milestones agreed to support baseline & targets being set	Quarterly report Benefit #5 Three Digital Benefits defined to realise benefit #5. Measures agreed, some baselines establish, approach for the balance

E. **WorkSafe’s progress to** become investment ready

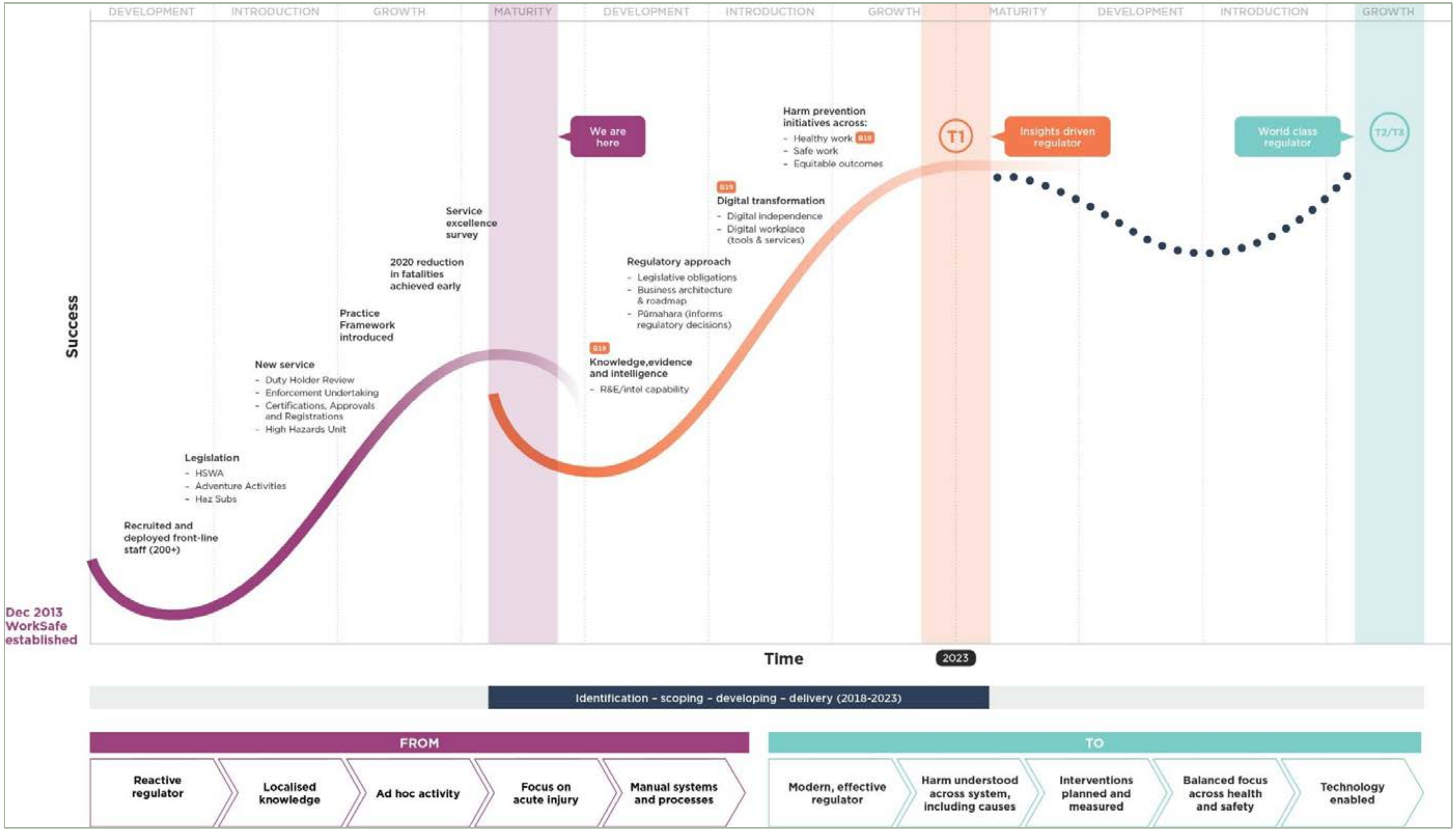
WorkSafe’s enterprise target operating model

WorkSafe has developed a future state *enterprise target operating model (eTOM)* that sets out a framework for the transition of WorkSafe into a modern, effective Health and Safety regulator. This is changing the way we operate, how we make decisions and allocate our resources aligned to becoming a modern effective regulator. The eTOM framework was confirmed by the WorkSafe Board in 2019 following consultation with key agencies and our social partners. It is responsive to our role in delivering the Government's Health and Safety at Work strategy and provides agility to a changing operating environment, locally and globally.

WorkSafe has carried out a gap assessment of our current operating model against the agreed future state eTOM to shape and define a 10-year modernisation programme that will be delivered through three distinct transition states:

- Insights-Driven Regulator by 2022/23 (transition state one / T1).
- New Zealand Leading Regulator by 2026/27 (transition state two / T2).
- World Class Regulator by 2029/30 (transition state three/ T3).

The diagram below illustrates the change journey WorkSafe began in 2013 and the ten-year modernisation programme ahead.



Key: B19 *– B19 funded programmes*

The first modernisation transition state is focused on becoming an insights-driven regulator by June 2023. We are being guided by Taura Here Waka, our strategic delivery plan that brings our organisation strands together, to make a measurable impact on health and safety at work.

Budget 19 funding provides base capability and capacity (across people, process and systems) to enable WorkSafe to become an insights-driven regulator by 2023.

Key programmes that will support this shift over the next three years include:

- Our regulatory approach (being a really responsive regulator[1]) – communicating and making the shift to what is described as our future state in eTOM. Key components include:
    - Legislative obligations.
    - Business architecture (our Blueprint for WorkSafe across people, policy, processes and systems) and business roadmap (initiatives that deliver on the Blueprint)
    - Pūmahara project (informs our regulatory decisions through intelligence insights capability).
- The Digital Transformation Programme, incorporating Digital Independence (around WorkSafe's disengagement from the MBIE ICT environment) and Digital Workplace (providing fit for purpose tools and ICT services).
- Knowledge, evidence and intelligence to increase capability and capacity in data analytics, research and intelligence. In the short-term we are building seed capability within our research and evaluation and regulatory intelligence functions. Over time this will support our regulatory approach (e.g. Pūmahara supports regulatory decisions along with this programme workstream) and the Digital transformation programme.

As WorkSafe moves forward and evolves our thinking, we will continually realign modernisation enablers to reflect the structure in the diagram above. The 'business architecture' component is critical to informing WorkSafe's regulatory approach but will also support design of the Digital transformation programme.

Programme level planning and detailed implementation

The Programme Implementation Plan (B19 PIP) (refer Appendix B) was prepared to provide programme-level planning across the B19 Programme aligned to the ten-year modernisation programme. The B19 PIP reconfirmed the case for change and need for investment and outlined how it will enable WorkSafe to operate differently. The B19 PIP was endorsed by the WorkSafe Board in February 2020 and provided direction and oversight for detailed programme stream planning.

To enable the shift from planning to delivery, detailed implementation planning was undertaken and included in the B19 PIP using the following programme streams:

- Work Related Health (referred to as Harm Prevention in the Cabinet minute and Budget 19 Bid).
- People, Capability and Safety.
- WorkSafe's enterprise target operating model and Modernisation Programme.

[1] As a 'really responsive regulator', WorkSafe can stay true to its course and resist the pressures that can push a regulator to over or under-regulate. WorkSafe targets areas where we can make the greatest difference, while providing flexibility to be responsive to ongoing issues and emerging trends. This enables WorkSafe to be more reflective about where we focus effort rather than reacting where harm has already occurred.

Subsequent detailed planning has been undertaken for Knowledge, Evidence and Intelligence and the Digital and Information Services programme streams which form part of this funding drawdown request.

Digital Transformation

In November 2020 the WorkSafe Board approved the WorkSafe Digital Strategy and Digital Roadmap to direct WorkSafe's digital transformation (refer Appendix C). The Digital Strategy is aligned to Government Digital Strategy and demonstrates WorkSafe's commitment to shift to 'as a service' platforms as part of the transformation. The WorkSafe Board has established a sub-committee to have direct oversight of the Digital Transformation Programme.

Our digital transformation is a holistic organisation change activity to support WorkSafe's modernisation to become an Insights-Driven Regulator by 2023. WorkSafe's total investment in the Digital Transformation is $46 million capital funding and $132.11 million operating funding over six years. Of this, B19 funds $31.57 million capital (to be repaid by 2030) and $14.82 million operating for depreciation.

The Digital Transformation Roadmap outlines key inflight initiatives, including:

- Digital Independence and the key enablers to realise the WorkSafe Integrated Service Platform (WiSP) transformation. The first wave of data maturity and ICT capability uplift is due to be completed by June 2021
- Scaling up digital work for the WiSP transformation from July 2021, uplifting and improving channels (from MBIE) and continuing the data, knowledge, evidence and insights, and ICT modernisation
- Work to uplift corporate services (such as payment gateways and procurement capabilities) from MBIE from July 2021
- Case management functionality transformation, data and ICT capability uplift, and key corporate services uplift from MBIE completed by July 2022
- WiSP transformation complete by July 2023.

A Digital Programme Assurance Plan and a Digital Benefits Map have also been agreed to support the programmes delivery and realisation of the Budget 19 main benefit 'Increased efficiency through better processes and systems' (refer Appendix D and Appendix E).

The programme is managing two critical risks that are forecast to be 'reduced' in rating with mitigation actions taking effect (refer Appendix D).

- Insufficient rigour/detail behind cost estimates.
- Impact of change on Organisation.

Knowledge, Evidence and Intelligence

The Knowledge, Evidence and Intelligence workstream is being delivered through the Pūmahara project. This project has been developed through seed research and evaluation and regulatory intelligence capability to support new insights needed to inform WorkSafe's regulatory approach and targeted interventions to reduce health and safety harm.

The project is developing an innovative decision-making model to assist WorkSafe to become a modern, effective regulator through the more effective use of data, evidence and subject matter expertise. The Pūmahara roadmap has been approved by internal governance to set the approach, resource requirements, and work plan priorities for delivering this project (refer Appendix F).

The first 18 months of the Pūmahara Project is focused on design development and testing; the second 18 months will focus on embedding capability within the organisation.

Budget 19 Programme Reporting Plan

The WorkSafe Board will provide assurance to Ministers that the Budget 19 investment sought is being well executed while delivering on your expectations.

A reporting plan and a programme benefit realisation plan have been developed. Once the final B19 funding has been approved for drawdown, the B19 programme workstreams will be integrated into WorkSafe's strategic delivery plan.

B19 funded workstreams (Work-Related Health harm prevention, Digital Transformation and Knowledge, Evidence and Intelligence) will be identified and reported in WorkSafe's Quarterly reports (key milestones, timeliness, and budget). This enables B19 funded deliverables to be monitored and reported in an integrated way through the WorkSafe Board to the Minister for Workplace Relations and Safety and MBIE monitor on a quarterly basis.

An approach for agreeing Benefit measurement and schedule is set out in the B19 Modernisation Benefits Plan (refer Appendix G). The Benefits Plan has become more detailed as the programme moves from planning to delivery. The Benefits Plan now includes expected benefits from Digital Transformation. Baseline data is included where known and a plan for identifying baseline data over time is provided where it is not yet available. WorkSafe will be able to run information reports through its portfolio function to show the tracking towards benefits.

F. Independent assurance of the Budget 19 Modernisation Programme

Following the independent Gateway Review undertaken in March 2020, a further Gateway Action Plan Review (AAP) was undertaken in December 2020 (to confirm delivery confidence and investment readiness to support WorkSafe's drawdown of the remaining Budget 19 contingency funding).

The Review confirmed WorkSafe's Digital ICT Programme and Knowledge, Evidence and Intelligence (intelligence) Programme were 'investment ready' and made three recommendations (progress in italics) to address the two key risks (strategic relationship with MBIE and funding held within contingency). WorkSafe is underway completing these recommendations:

1. Review governance arrangements across the programme to support shift to delivery
2. Partner with MBIE to facilitate successful separation of ICT system and data transfer
3. Complete the process to gain Ministerial approval to access remaining appropriated B19 funds held in contingency.

WorkSafe has developed a three-year Assurance Framework to direct assurance activities across all programmes, projects and business as usual activities (refer Appendix H). WorkSafe's internal audit function is responsible for ensuring the framework is adhered to on behalf of the Board. WorkSafe engages PWC to carry out internal audit functions.

The Digital Programme has developed an assurance plan (refer Appendix D), aligned to the WorkSafe three-year Assurance plan and encompassing of their delivery methods. The Digital Public Service has been consulted on during the development of this Assurance plan and will continue to stay 'linked in' over the duration of the Digital Transformation Programme.

Future independent assurance activities are planned around 'critical decision points' such as Gateway reviews, Independent and Technical Quality Assurance, along with internal assurance driven through the agile delivery approach.

G. Delivery progress against previous B19 funding

An overview of progress across B19 funded deliverables is attached at Appendix I. Key highlights since the B19 Work-Related Health harm prevention contingency drawdown in July 2020 include:

- Established a health and technical service function to deliver core aspects of the work-related health programme (including specialist technical advisors across mentally healthy work, ergonomics, health and safety by design, and data science and analysis).
- Developed a Kaimahi Hauora team (work related health inspectors) to help lift capability across all areas of health risk management.
- Prepared mentally healthy work guidance material.
- Activities to improve understanding of work-related health risks and harm, better target interventions and track their effectiveness (worker exposure to carcinogens survey, worker exposure database and research on risk and protective factors for work-related psychological harm).

WorkSafe developed a People Strategy in 2018 to lead and guide our people capability. Our people are critical to our success in becoming a world-class regulator – their commitment and capability have a direct influence in enabling healthy and safe work for all workers. Key highlights since the B19 appropriation in July 2019 include:

- Implementation of the People Strategy across eight focus areas to improve employee experience, embedding new organisation culture and enabling more sophisticated workforce planning to meet changing demands, growth in key sectors, changing population dynamics. Included Leadership framework and programme, Workforce planning, Employee Relations Strategy, Refreshed values rolled out.
- Learning and development programme: delivered tailored and focussed programme that equips staff with the skills needed to meet future demands and new ways of working. Included Inspectorate capability development with training of new inspectors, delivery of Good Practice (intermediate & advanced) programme delivered to experienced inspectors; development and delivery of Advanced Leadership programme; development and delivery of Asbestos Regulations training.

H. Proposed approach and timing for the draw-down

WorkSafe is seeking to drawdown the remaining B19 appropriated funding in full on 1 July 2021, with capital to be repaid at a future date, as follows:

- $2.79 million in operating funding for Knowledge, Evidences and Insights Programme stream (2021/22 and 2022/23), and $1.65 million for 2023/24 and outyears.
- $31.57m in capital funding for the ICT programme stream and associated change management activities.
- $7.52m in operating funding for depreciation and $3.65 million in outyears.

A timeline for when WorkSafe requires the capital investment (and associated opex) to improve WorkSafe's digital services, along with a repayment schedule, is attached as Appendix J. The timing enables WorkSafe and MBIE sufficient time to jointly agree the ICT disengagement roadmap to terminate the ICT and business shared services agreement that was put in place in WorkSafe's establishment in 2013.

WorkSafe requests that Ministers approve the B19 funding drawdown before 12 April 2021 (when the Budget 21 moratorium takes effect).

There are implications for WorkSafe if planning certainty is delayed until after Budget 21 announcements. The Digital Programme will hold a greater risk profile by having to tackle more complex components of the transformation early (i.e. supporting new legislation - Plant and Structures) and projects will have to be put on hold then restarted meaning momentum will be lost. There is a risk WorkSafe will lose existing ICT capability (and will face delays securing new capability); operating funding will be a challenge; and the Digital work plan will have to be reprioritised, leading to a programme delay of three to six months.

I. Consultation with agencies

WorkSafe has engaged closely with MBIE, Treasury and DPS officials on the B19 Modernisation programme and they have been consulted on this joint Ministers' letter and the proposed Budget 19 Contingency draw-down.

I am happy to discuss any of the information contained in this letter.

Yours sincerely

Ross Wilson
Chair, WorkSafe New Zealand Board

Appendices

A. Summary of Budget 19 Programme Investment
B. B19 Programme Implementation Plan
C. Digital Strategy and Digital Roadmap
D. Digital Programme Assurance Plan
E. Digital Benefits Map
F. Pūmahara Project Roadmap
G. B19 Modernisation Programme Benefit Plan
H. WorkSafe's Three-year Assurance Framework
I. B19 Funded Programme Workstreams Delivery and Next Steps
J. B19 Financial Tables
K. Service Design

Appendix A: Summary of Budget 19 Programme Investment

Summary of investment, Outcomes and Benefits

Investment (over four years)	Investing / buying	Outcomes by 2022/23	Benefits	Risk of not investing
Multi-year Work Related Health programmes (Harm Prevention) for mental health, carcinogens, and musculoskeletal disorders. $15m (funding held in contingency)	Capability to design and deliver Harm Prevention initiatives through the WRH programmes, includes: Economic modelling to assess responses. Integrated suite of interventions. Working with strategic partners to develop guidance, tools, apps and resources.	• Sustained Work Related Health Programmes. • Improved knowledge and understanding of work-related health risks and harms and effective approaches to reducing risk. • Strengthen internal & external capability to address priority work-related health risks and respond to emerging issues. • Improve the maturity and consistency of PCBU approaches to identifying and managing work-related health risks. • Build system alignment to leverage greater impact for addressing work-related health risks.	Fewer people are harmed as a result of work Reduced economic costs for New Zealand	The extent and scale of economic and social costs from workplace harm continues to remain unacceptably high.
Strengthen and grow WorkSafe capability in specialised areas, legal, data analytics and under resourced areas. $7.24m for frontline operations $3.94m for implementing the People Strategy (funding appropriated)	Increase of capability & capacity in operations, legal, enforcement and prosecutions Implementation of People strategy. Increased capability over two years to develop & embed a learning and development framework.	• Increase in capability and capacity in operational specialist areas to meet emerging areas of demand i.e. psychosocial, hazardous substances, and growth in commitment to H&S in key sectors. • Increased legal capability to support specialist assessments and investigations and targeted areas of persistent non-compliance and bring test cases. • People Strategy implemented to improve employee experience, embed new values, deliver of a leadership programme and competency framework. • Learning and development framework supporting continuous learning and capability building of our staff.	Secure and supported Workforce	WorkSafe does not have the capability and capacity to meet the increasing demand
Research and intelligence investment in capability, processes and systems $7.01m (includes $2.79m held in contingency)	Increase of capability & capacity in data analytics, and research and intelligence. Data analytics programmes, models and data sets. Capability to develop educational and guidance material and digital tools.	• Data analytics programme examining workplace mental health. • Operational frontline initiatives to improve regulatory effectiveness (i.e. new Psychosocial team). • Evidence-based understanding of NZ harm trends and hotspots, and the ability to develop and target harm prevention programmes. • Ability to redirect existing activity toward areas of greatest risk of harm. • Development of harm lead-indicators, KPIs.	Interventions are targeted for better outcomes for NZ Increased efficiency through better processes and systems	A lack of systematic evidence, knowledge and intelligence about the effectiveness and impact of our possible interventions continues

Investment (over four years)	Investing / buying	Outcomes by 2022/23	Benefits	Risk of not investing
Critical ICT systems and tools to replace manual processes, and outdated & disconnected systems. $31.57m (capital) $7.52m (operating) depreciation (all funding held in contingency)	Digital projects aligned to Digital Strategy and Work Plan.	• Stand-alone platforms and systems. • Technology that supports and improves business processes. • Technology that enables an intelligence driven organisation. • Technology that is supported and secure. • Adheres to NZ Government Digital Strategy and utilises cloud based as a service technologies where possible.	Increased efficiency through better processes and systems	Non-supported, end of life technology is used by WorkSafe. Continued duplication of frontline efforts with manual processes
Cost pressures and establishment of modernisation office Cost pressures $37.14m Modernisation office $4.46m (funding appropriated)	Operation of Modernisation office. Remuneration increase and retention incentives for staff. Increased ICT operational expenditure. Inflation adjustment, Baseline deficit and Unfunded depreciation.	• Modernisation programme to support WorkSafe's ten year change journey. • New risk-based and intelligence driven operating model (eTOM) developed. Transition to implementation and ongoing eTOM review / refinements. • Transition state one defined. • Harm Prevention Framework and programme planning. • Remuneration increase for all staff and Wellbeing remuneration insurance. • Build capability to support the ICT Strategy and move of payroll from MBIE to WorkSafe. • Inflationary driven costs, Cover historical unfunded cost pressures, Depreciation funding to cover the capital investment programme.	Increased regulatory effectiveness Secure and supported Workforce	Ongoing operational challenges and / or risk of losing staff

How WorkSafe will operate differently with the Budget 19 investment

How will we operate differently?	Current State	Future State (B19 Programmes outcomes)
How does the organisation most effectively develop and share its insights and intelligence across WorkSafe and the System?	While many insights are created for and consumed by decision makers, some important domains of knowledge are held within our experts, and are not made accessible and consumable to the rest of the organisation in the form of insights. As not all the knowledge is available to insights generators, insights are often disconnected.	The domains of data, information and knowledge that are necessary for the creation of effective insights are collected, connected and shared, so that insight generators can create the more connected insights necessary to improve decision making and targeting interventions. This includes a continuous, evidence-based improving cycle for organisational learnings.
How will workers and employers have access to skills in WorkSafe that reflect the changing nature of work, population dynamics, workforces, and the new and emerging work-related harms that WorkSafe is expected to address?	We have sound representation in our workforce that to date have been well placed to respond to Health Safety topics. It has been identified WorkSafe has gaps to respond to new and emerging regulatory risks that need specialised capabilities such as mental health work and accelerated silicosis.	Increased range of specialised skills in growing areas of need, such as health economists, to understand the root of the problem and design effective measurable interventions. Capabilities in place to support sector-focused initiatives.
How can programmes be sustained to effectively deal with the underlying root causes of systemic harms, and the increasing public and government expectations on WorkSafe?	Short-term funded programmes designed and delivered around narrow topics with confined interventions. As a consequence efforts and benefits cannot be sustained over time.	Long-term funded projects designed and delivered to address systematic problems, informed by intelligence driven data, to sustain and strengthen the benefits to the system. Interventions are a result of collaborative

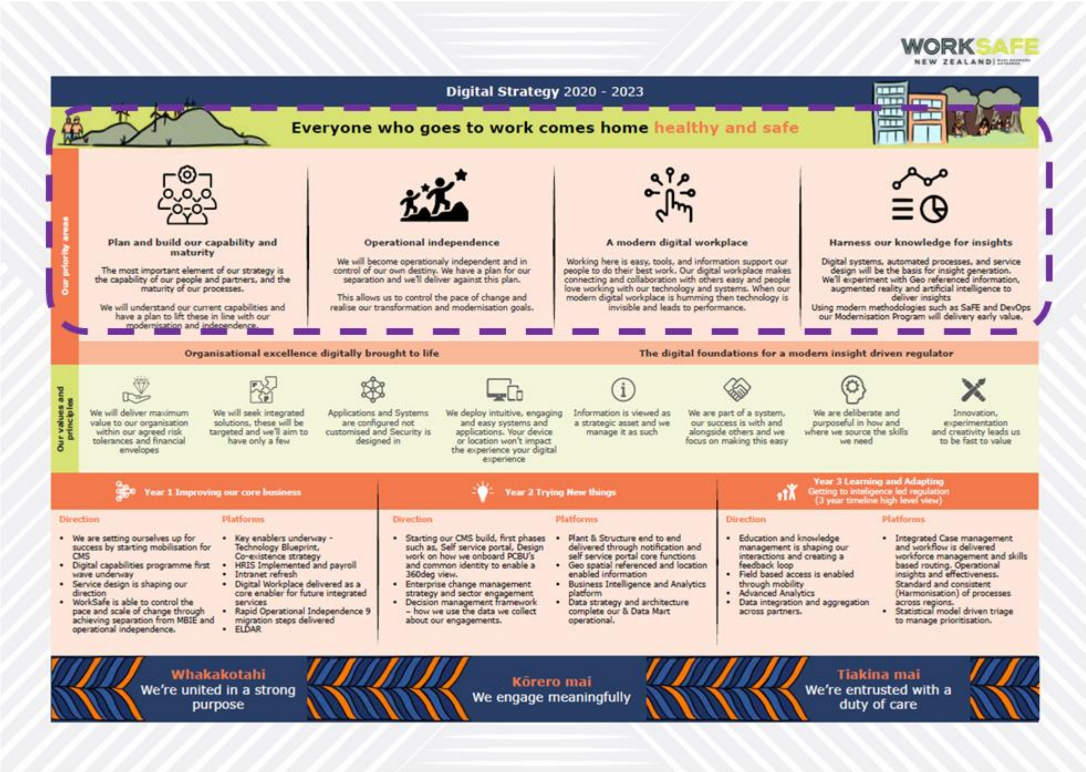
How will we operate differently?	Current State	Future State (B19 Programmes outcomes)
		approach with agencies and social partners to use the right levers at the right time.
How will WorkSafe clearly articulate and reach its desired future state eTOM that represents the strategic direction and vision of a modern effective regulator?	There is not currently a collective road map for WorkSafe to undertake organisational redesign and change around a coherent desired future state, with priority actions to make that shift or what the interim steps would like.	The eTOM will direct WorkSafe through three transitional states to reach WorkSafe 2030 – a modern effective regulator – to underpin and guide that journey and to best help lead and steward the system.
Do our inspectors have the tools and technology to be able to effectively and adroitly deal with issues away from our desks offices and out in people's place of work?	Current systems and technology are inefficient and paper-based, involving duplicate processes when typing up notes back at the office. This reduces the effectiveness of our people and means they are not best using their strengths and skills.	WorkSafe staff will have the mobile technology, systems, and skills to be able to be capture information and intelligence out in work places to make them more effective and efficient.

Appendix B: B19 Programme Implementation Plan

Refer Separate Attachment

Appendix C: Digital Strategy and Digital Roadmap

The Digital Strategy articulates the key digital priorities and outcomes WorkSafe will achieve over the next three years. This is underpinned by values and principles that align to Taura Here Waka and a Digital Workplan that delivers technology platform and capability uplift year-on-year



Organisational excellence digitally brought to life

Plan and build our capability & maturity
The most important element of our strategy is the capability of our people and partners, and the maturity of our processes.

We will understand our current capabilities and have a plan to lift these in line with our modernisation and independence.

Operational Independence
We will become operationally independent and in control of our own destiny. We have a plan for our separation and we'll deliver against this plan.

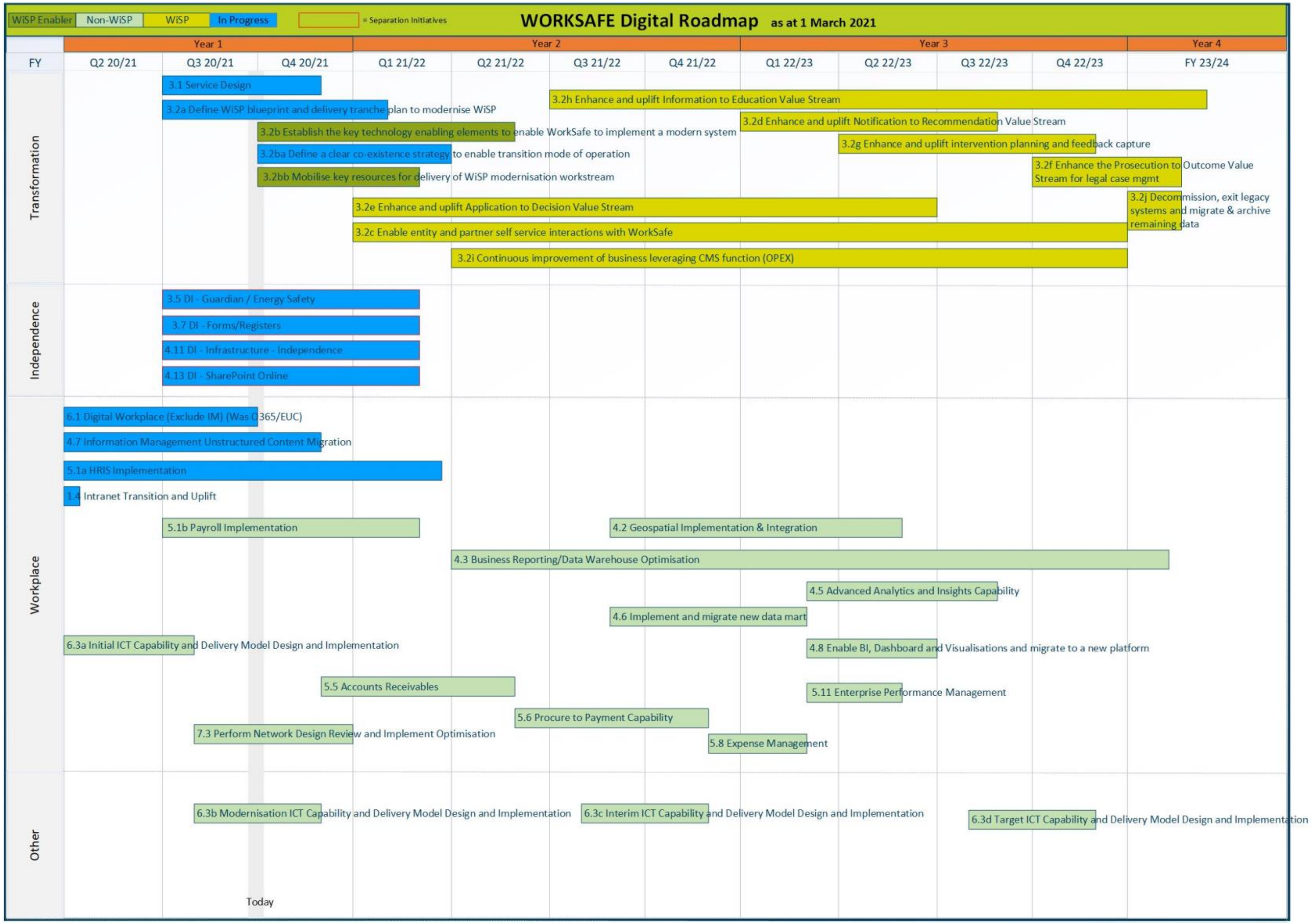
This allows us to control the pace of change and realise our transformation and modernisation goals.

The digital foundations for a modern insight driven regulator

A modern Digital workplace
Working here is easy, tools, and information support our people to do their best work. Our digital workplace makes connecting and collaboration with others easy and people love working with our technology and systems. When our modern digital workplace is humming then technology is invisible and leads to performance.

Harness our Knowledge for Insights
Digital systems, automated processes, and service design will be the basis for insight generation.
We'll experiment with Geo referenced information, augmented reality and artificial intelligence to deliver insights
Using modern methodologies such as SAFe and DevOps our Modernisation Program will deliver early value.

Appendix C: Digital Strategy and Digital Roadmap



WORKSAFE

Digital Transformation Assurance Plan

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Document Control

Version History:

Version	Date	Author	Description of Amendments
0.1	9 Mar 2021	s9(2)(a)	Initial Draft
0.2	12 Mar 2021		Update after assurance workshop
0.3	17 Mar 2021		Updated from feedback provided
0.4	19 Mar 2021		Updated from feedback provided by s9(2)(a)
0.5	24 Mar 2021		Updated from feedback provided by Risk and Compliance

Reviewers

Name	Role	
Anna Ashton	Modernisation Office Business Advisor	Consulted
Paul Mahoney	Manager, Digital and Information Services	Consulted
Quin Carver	GM Digital and Information Services	Consulted
Rob Weston	Digital Public Service Branch of DIA	Reviewed 18/3
Pete Tansey	Agile Advisor	Consulted
Lara Simpson	Risk and Compliance	Reviewed 24/03

Reference Documents

The Assurance plan is endorsed by

Document Name	Version
B19 Programme Implementation Plan	Final Endorsed 2020
B19 Programme Benefit Plan	V0.8
Digital Transformation Benefits Measures	V0.9

Document Approval

The Assurance plan is endorsed by

Role	Persons name	Date	Embed approval
Business Owner	Quin Carver		

Senior Responsible Owner (Overall Product Owner)

I have reviewed the assurance plan and confirm that it is fit-for-purpose based on my understanding of the complexity and risk of the investment.

Role	Persons name	Date	Embed approval
SRO	Mike Hargreaves		

Content

1. Investment Overview

1.1. Background

Government has set a 10-year Health and Safety at Work Strategy to ensure that 'work is healthy and safe for everyone in New Zealand'. WorkSafe's role is critical to achieving Government's strategy and it has set a ten-year modernisation journey to best support this role and become a modern effective regulator. This journey will be made over three deliberate and synthesised transition states to reach its future state enterprise Target Operating Model (eTOM).

Our first transition state is focused on becoming an Insight Driven Regulator by 2023. To get there we are being guided by our 'Taura Here Waka', our strategic delivery plan that weaves together our organisation's strengths to make this journey.

The Digital Roadmap supports WorkSafe becoming an Insights Driven Regulator and is core to Taura Here Waka. It gives 'rope and strength' to Taura Here Waka through 'base capability' investments to support the ten-year modernisation journey. The Digital Transformation is a holistic organisation change activity that encompasses the Digital Strategy and Digital Work Plan to enable WorkSafe's modernisation to become an Insights Driven Regulator by 2023.

In 2019 Cabinet approved funding for WorkSafe to provide 'uplift in capability and capacity'. Approximately half of the funds were appropriated to meet cost pressures and establish a Modernisation Office and the rest was placed in contingency.

Cabinet authorised joint Ministers to approve any charges against contingency funding, subject to satisfying themselves that WorkSafe has completed the necessary planning and the proposed investments are likely to realise the stated benefits. WorkSafe subsequently developed the Budget 19 Programme Implementation Plan (B19 PIP), following the Treasury Better Business Case model for Programmes.

In March 2020 a Gateway Review 0/3 of the B19 Programme was carried out to assess the case for change and investment readiness for the B19 Programme. The B19 Programme received an overall rating of 'Amber' with eight recommendations with the key findings for the ICT programme being:

- That the ICT programme and associated change management activities are 'not investment ready'. The Gateway Review has recommended key steps to be undertaken over the next six months to support 'investment readiness' and the request for investment.
- A key priority is to develop the supporting B19 Programme Management Plan that will detail our way forward, confirm Governance and Management arrangements and set out a roadmap with key milestones.
- The release of the contingency funds is to be requested in a staged manner aligned with the Programme Management Plan, Gateway Review recommendations and agreed key milestones.

In December 2020 a Gateway Action Plan Review (AAP) was undertaken to confirm delivery confidence and investment readiness to support WorkSafe's drawdown of the remaining Budget 19 contingency funding. It confirmed WorkSafe's had taken the necessary key steps and the Digital ICT Programme and Knowledge, Evidence and Intelligence (intelligence) Programme were 'investment ready'.

The Digital Transformation Roadmap outlines the inflight initiatives, as well as completing Digital Independence and the key enabler initiatives to realise success for the WorkSafe Integrated Service Platform (WiSP) transformation. The first wave of data maturity and ICT capability uplift is due to be completed by June 2021.

From July 2021 the Digital Transformation will start scaling up the digital programme of work for the WiSP transformation, uplifting our channels and continuing the data knowledge, evidence and insights and ICT capability maturity journey and modernisation. Corporate services such as payment gateways, and procurement capabilities are also uplifted.

From July 2022 we will start the key case management functionality transformation and completing the data and ICT capability uplift journey to reach our target state. Key corporate services uplift is also completed.

July 2023 will see the completion of the WiSP transformation with a focus on continuous improvement activities based on the backlog.

1.2. Objectives and Outcomes

The digital and intelligence investment objective set out in the Budget 19 Programme Implementation Plan supports the shift from WorkSafe's current state to deliver the B19 outcomes aligned with the eTOM future state.

This investment objective is "Build and improve Intelligence and Digital Services", specifically design and implement Intelligence and Digital systems and processes that enable our people to be more efficient and proactive and that can be adapted and develop upon to support Worksafe and its customers today and into the future.

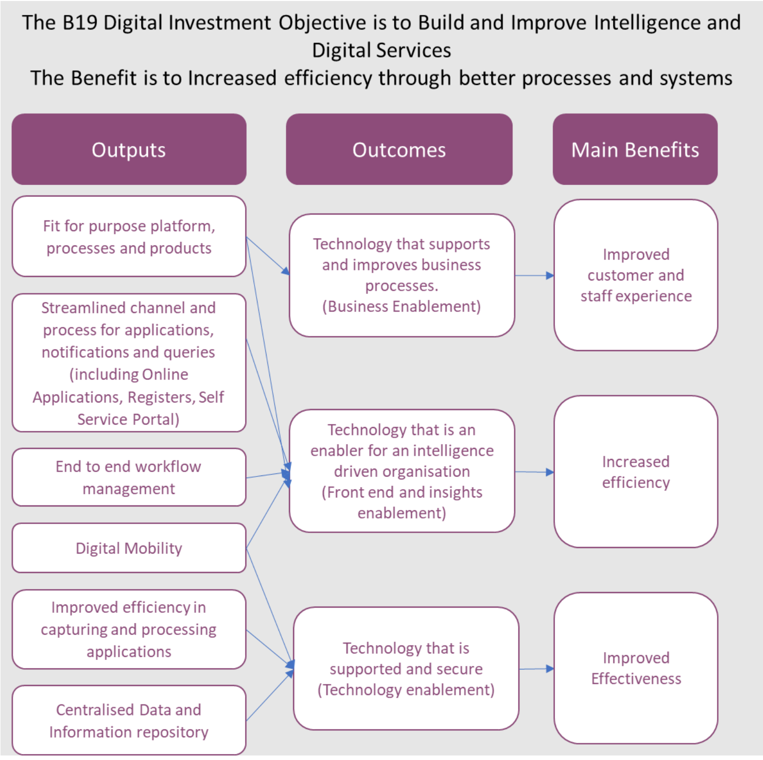
The investment outcomes are as follows:

- Technology that supports and improves business processes.
- Technology that is an enabler for an intelligence driven organisation.
- Technology that is supported and secure.

1.3. Benefits

The overarching benefit associated with B19 investment is increased efficiency through better processes and systems.

This has been broken down in to the following three Digital benefits as per the below diagram.



Please refer to the Digital Transformation benefits register for a breakdown of the benefits, measures and associated baselines and targets.

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1.4. Investment and risk rating

Risk Rating from Risk Profile Assessment (RPA)	Medium

The agency's initial self-assessed RPA rating for this programme was MEDIUM risk in 2018. After review by the central agencies and functional leads, this rating is confirmed as MEDIUM risk in August 2019.

The Programme had a Gateway Review (Stage 0/3) in March 2020. The Delivery Confidence Assessment at this time was Amber and the Programme leadership team executed an Action Plan to remediate the recommended areas for improvement.

Given the rating, Gateway Unit and the SRO agreed to undertake an Assurance of Action Plan Review in December 2020. This resulted in a Delivery Confidence Assessment of Amber and acknowledgement that external risks had influenced this rating. With the management of these risks (funding certainty with the B19 contingency funding released and joint governance with MBIE to manage the separation in place) the assessment would improve.

1.5. Financial and budgeting

As per the approved Budget, the whole of life costs for this programme of work is provided in the following table. This includes all assurance activities for the life of the programme. As part of our new agile practices, assurance actives form part of our standard Product backlog items / user stories included with each project initiated. This ensures that assurance actives are embedded in the end product.

$m	2019 - 20 Actual	2020 - 21 Forecast	2021 - 22 Estimate	2022 - 23 Estimate	2023 - 24 Estimate	2024 - 25 Estimate	Total
Project CAPEX	5.68	11.13	10.99	10.52	4.65	3.00	45.97
Project OPEX	-	3.13	3.60	3.98	2.45	2.00	15.16
Baseline OPEX	13.39	16.96	17.75	20.12	24.09	24.63	116.94

*note: The Digital Transformation investment is inclusive of all components (tech, change, management, Business etc) and includes all operating expenditure that is required to enable the Digital Transformation Roadmap and fund the new normal operating baseline. This also includes the WorkSafe Capital and Operating contribution to digital transformation key enablers.

2. Key Management

2.1. Risk management and assurance approach

The Digital Transformation Programme manages a single risk register relating to the overarching risks associated with the programme of work. This follows the WorkSafe 5 by 5 risk framework. The programme will ensure that risk areas are managed through our agile practices. The following channels are in place for risk discussions, management, escalation and reporting:

Current issues and prospective risks are placed on the ‘sprint board’ and discussed at each stand up.

Cross-team issues and risks are placed on the Programme-level / Scrum of Scrums board.

Twice-weekly milestone and deliverable discussions at the programme-level/Scrum of Scrums meeting, with opportunity to highlight any associated risks.

Sprint end review of all escalated risks and issues across the programme teams.

Sprint end collation by the EPMO of escalated risks.

End of PIP Scrum of Scrums board showing current issues and risks.

2.2. Key Risks

Specific to the Digital Transformation Programme, inclusive of the Intelligence programme, key programme risks have been identified and are monitored, managed and reported on, refer below:

ID	Risk Name	Risk Description	Risk Impact	Residual risk rating	Mitigation Actions
R3	Insufficient rigour / detail behind cost estimates	The available cost estimation data lacks the expected “good-practice” level of granularity, considerations and documented assumptions.	• It is difficult to review and validate planned costs in any meaningful way. • There is a lack of confidence in the estimates. • The actual costs may vary significantly from plan and may impact delivery scope.	Critical	• Cost estimates for initiative briefs were derived using a bottom-up resource modelling approach. 10%-30% tolerance was built into the cost profile. Estimates were reviewed by PwC. • Each initiative will complete detailed costings where these are not in line with the original estimates a full impact assessment will be completed to understand the implications.

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ID	Risk Name	Risk Description	Risk Impact	Residual risk rating	Mitigation Actions
R13	Impact of change on Organisation	Initiatives such as the core platform implementation will have an affect across the organisation. It has been expressed that there will concern over the level of process change this will bring.	• Formation of shadow IT and duplicating systems costs to support business capabilities • Lack of governance and oversight on the benefits and impact of the Digital Roadmap initiatives	Critical	• Costs have been modelled and technical roadmap has been agreed by the business. • Business change strategy being developed. Change management will be imbedded into the initiatives providing organisational change overview.
R1	Insufficient business engagement in ICT capability planning.	The Digital Transformation Business Roadmap and initiative sequencing is based largely on WS IT input only without business stakeholder engagement and input of requirements and priorities.	• The Digital Transformation Business Roadmap will change when stakeholder requirements and priorities are aligned. • This will impact the system transition priorities and timings and add new initiatives.	High	• Workshops were held with business representatives as a part of developing initiative briefs that detail the requirements and priorities of business groups. • Product owners from the business will be embedded into each of the key initiatives
R7	Core Platform fit-gap analysis identifies significant gaps	There is a chance that the fit-gap-analysis will highlight capability gaps that require customisation or alternative solutions. The current evaluation process was based on functional and non-functional requirements; however, this preceded the Service Design workstream.	• Increase in complexity and cost. • Poor functional fit and business outcomes. • Slippage in delivery timeframes. • Live with the function provided.	High	• Value Stream analysis and mapping used to identify business pain points and opportunities. • High-level core platform blueprint developed at the technical layer.
R8	Lack of System and Domain Architecture strategy and definitions	There is a lack of technical documentation on the overall WorkSafe Domain Architecture strategy and definitions on what the strategy and initiatives mean. This will need to be documented in a language that the business can understand.	• Hard to convince business stakeholders on the benefits and impacts of the Digital Transformation Business Roadmap, thus resulting in low confidence.	High	• High level Architecture view of ICT current systems has been developed. • The Programme has engaged stakeholders to understand legacy systems to plan future work through the Value Stream phase. • Architecture blueprints and coexistence still need to be developed.

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ID	Risk Name	Risk Description	Risk Impact	Residual risk rating	Mitigation Actions
R9	Lack of "good-practice" planning, delivery and governance methodology	Currently WorkSafe does not have well structured documentation of processes to deliver the initiatives on the Digital Transformation Business Roadmap.	• Lack of confidence and understanding from stakeholders on how projects will be managed and how their business units will be affected.	High	• Establishment of the ePMO and enabling the implementation of delivery mechanisms, governance, and controls. • Establish governance of delivery of the Digital Transformation Business Roadmap initiatives. • Establishment of the WorkSafe agile playbook.
R15	Stakeholder expectations not met	The expectations of the stakeholders are miss matched / exceed the preferred Plan and we are unable to bridge / gain agreement. Impact: Loss of stakeholders confidence to deliver.	• Confidence for delivery among key stakeholders will be low. • Business engagement will waver or be lost. • Business outcomes will not be met.	High	• Engage with delivery and transformation partners to assist in delivering key initiatives across the roadmap. • Ensure business ownership, engagement and approvals throughout delivery lifecycles.
R16	Agile capability	WorkSafe has a low Agile delivery capability.	• Lack of confidence in the delivery plan • Slippage in delivery timeframes. • Business outcomes and benefits will not be met.	High	• Engage with Agile CoLab to train and coach teams throughout the delivery plan • Development of the WorkSafe Agile playbook which will define the agile tools, techniques and rituals which provide guidance and structure to our work. • Embed Assurance reviews of our agile was of working by a third party.

3. Assurance

3.1. Purpose of Assurance

WorkSafe's definition of assurance is "An objective examination and independent assessment to inform decision-making and monitor progress, including risks, controls, processes, benefit realisation and governance".

The detailed Digital Transformation Plan aligns to and compliments WorkSafe's Assurance Framework and three lines of defence risk management model.

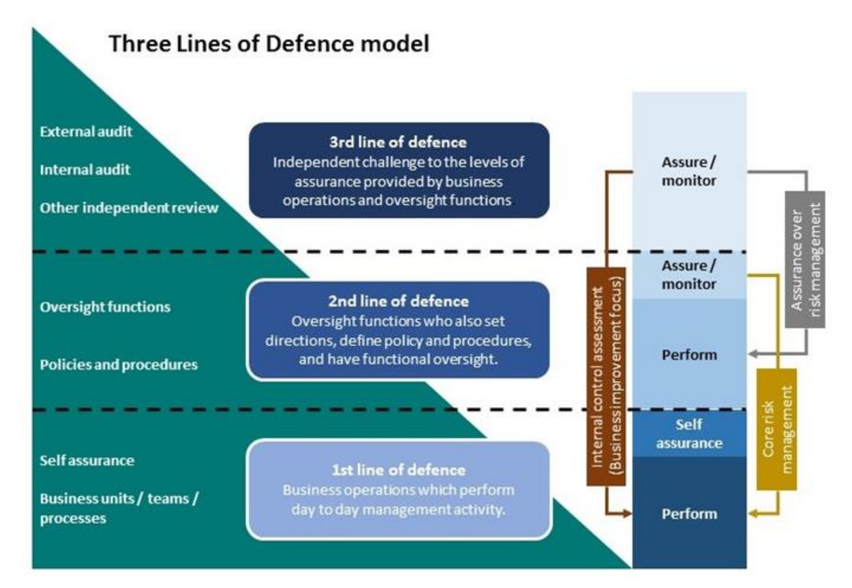
The purpose of the Digital Transformation Assurance Plan is to outline the detailed activities that may be called upon in order to provide confidence to the SRO, Business Owner(s) and other key stakeholders that the programme is effectively managed and that it will deliver our intended objectives, outcomes and benefits through the success measures that are well defined and monitored.

3.2. Assurance Approach

The programme is adopting the 'Three Lines of Defence' model as supported by the Digital Public Service Branch of DIA. Refer to Figure 1.

1. **Line of Defence 1: Agile quality management** – using built-in day to day assurance that will occur continuously throughout product development including:
   - Having a clear Definition of Done (DoD) that is reviewed and adjusted periodically to meet the characteristics of the phase and work in progress.
   - Having built in quality management activities in the day to day running of the team.
   - Having a dedicated product owner to make key decisions.
   - Demonstrations of working product (or parts of a product) to key stakeholders.
   - Customer feedback loop throughout development.
   - Iteration planning and daily stand-ups to foster cross-team collaboration and prioritisation of the product backlog.
   - Retrospectives at both scrum/dev team as well as iteration/increment level to promote continuous improvements.
2. **Line of Defence 2: Ongoing programme governance** – providing controls and assurance to the governance layer, including:
   - Monitoring of progress through agile programme controls (Burn down and up chart, Sprint reviews and Reports)
   - Risk and issue management.
   - Regular reporting to provide governance with assurance.
3. **Line of Defence 3: Independent external assurance** to provide confidence around the programme delivery of objectives and benefits. This includes:
   - Shifting the timing and length of assurance reviews to be shorter and more frequent. Embedding this process within the first level where possible.
     - independent quality assurance
     - technical quality assurance
     - gateway reviews

Figure 1: Three Lines of Defence Model



Quality management activities are engrained into delivery using the WorkSafe agile playbook.

The programme team and delegated governance officers are responsible for the quality of the products. They will collectively ensure that iteration planning, daily stand-ups, iteration reviews, retrospectives, stakeholder engagement and threats to the products are managed. This work will be done and evaluated through ceremonies and independent (technical) quality assurance and reviews.

From an assurance perspective, reliance will be placed on these ceremonies and activities operating effectively within the programme (first line). Risk and Compliance, along with other second line functions such as the EPMO will oversight the design and operating effectiveness of these ceremonies and activities, and objective and independent challenge will be undertaken by third parties for example Internal or External Audit.

3.3. Programme Assurance Principles

A number of guiding principles for assurance activity are promoted by the Digital Public Service Branch within DIA and the Quality Assurance industry. These include:

- "A principles-based approach provides confidence in the delivery of outcomes without resulting in excessive levels of assurance".
- "Assurance is integrated and operating effectively across all 'three lines of defense".
- "Assurance is adaptable to meet changes in scope, approach, solution and/or risk profile".
- "Assurance is performed by competent people outside of the delivery team who are not unduly influenced by key stakeholders".
- "Assurance provides timely, credible information to inform key decisions".
- "Assurance assesses the risks to successful delivery and their impact on outcomes".

This assurance plan has been developed to reflect these principles.

3.4. Lessons learned

• Learnings from Gateway reviews and Independent /Technical Quality Assurance reviews will continue to inform the approach we take to ensuring we are successful in our delivery. The recommendations from their findings have been and are being acted on and are currently managed through action reports which are then reported at ELT, Audit Risk and Finance Committee meetings and the Board. The programme will actively run lesson learned workshops on regular bases and ensure that the lessons learned will be used to inform assurance activity as we progress through the project of work. Retrospectives and increment reviews will be the first source of such lessons and will be actively sought to improve work.

- Key learnings relevant to the Digital Transformation Programme from work to date include:

  Have the right mix of skills and experience at the governance level, including consideration of appropriately skilled people from other public sector agencies and external advisors.

  Be mindful of capability / capacity to change and don't over promise; align to a capability maturity model to have a managed transition / uplift.

  Ensure there is clarity with respect to the roles, responsibilities and accountabilities of the governance members and other governance bodies and advisory groups. Governance needed to be mature / robust to detect / address this and an independent advisor is highly recommended.

  Ensure change management is imbedded into the way of working and engaging within the Digital Transformation work programme.

  Ensure that the Digital Transformation work programme is led by the business and not by the technology team members.

Assurance for this Programme will ensure the appropriate focus is maintained for these learnings, including Risk Management actions, contract negotiations, capability planning and change management approaches.

4. Detailed Assurance Plan

Agile inherently has quality and risk management activities built into delivery using daily stand-up, testing, Definition of Done (DoD), inspections, reviews and retrospectives; Agile delivery encourages continuous identification and implementation of improvements.

As part of Agile delivery, reviews are undertaken throughout, rather than waiting until the end of the process (as is often the case with Waterfall). The following tables provide details of the assurance activities against each of the lines of defence.

4.1. Delivery assurance First line of defence

The ceremonies, roles and artefacts integrated within Agile project teams ways of working are inherently self-assuring. They focus on transparency and clarity ensuring everyone is aligned with the product vision and way of working. A small set of artefacts are used track delivery progress and provide appropriate assurance documentation of decisions and performance. This table summarises the ceremonies and assurance evidence.

Reviews *	Purpose	Frequency	Assurance Evidence
Sprint planning	Lead by the Product Owner. Attended by the full delivery team. Agrees the goal for the next 2 weeks, the product backlog items to be worked on and a plan for the sprint that the full delivery team commit. Any new risks are added to the team board.	Every 2 weeks at the start of a sprint	Observe ceremony - is Definition of Done (DoD) used to guide planning work items? Sprint Goal (Sprint report) Sprint Backlog (Sprint report)
Daily stand-up	Facilitated by the Scrum Master. Attended by the full Delivery Team to inspect & adapt their progress against their sprint plan. Purpose -Daily confirmation that the sprint goal is still achievable. Helps the team stay connected by tracking the previous days progress, asking for help if necessary, identifying new team risks/issues, sharing plans for the current day – all in a collegial and supportive manner.	Daily	Observe ceremony View teams physical work board: • ticket flow • issues / risks • tech debt • burn down • Conversations

Reviews *	Purpose	Frequency	Assurance Evidence
			Provide access to electronic board.
Scrum of scrums	Lead by the Scrum Masters from each team. Attended by nominated delivery team members that are best positioned to resolve issues and their Product Owners. A regular team level communication channel to resolve integration dependencies. Ensures a consolidated view of programme integration delivery risks & issues.	Twice weekly	Observe ceremony View the integration board: • releases • issues / risks Provide access to electronic board.
Product backlog refinement (PBR)	The Product Owner is accountable but often delegates' authority to a delivery team member to facilitate. Attended by a subset of delivery team representatives with the necessary skills to understand and size the product backlog items. Product Owner ensures the highest priority items are at the top of the backlog.	Weekly or as required	Definition of Ready (DoR) used to guide refinement work. Compliance items, e.g. security & privacy review, are part of the prioritised & sized backlog Use of a structured estimating model such as Weighted Shortest Job First. (WSJF)
Definition of Ready	Created collectively by the Product Owner & Delivery Team. Facilitated by the Scrum Master. Describes the Minimum Design Up Front (MDUF) that the Delivery Team deems desirable to accept a Product Backlog item into Sprint Planning.	Sprint Planning - confirm Sprint Retros - review/refine	Visible on team board
Definition of Done	Created collectively by the Product Owner & Delivery Team. Facilitated by the Scrum Master. Describes the Quality standards the Delivery Team is works to when planning and delivering each sprint backlog item.	Sprint Review - confirm Sprint Retros - review/refine	Visible on team board Quality debt tickets Post release defects
Team Working Agreement	Facilitated by the Scrum Master. Created collectively by the Product Owner & Delivery Team -	PBF workshops - created	Observe team interaction and problem solving

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Reviews *	Purpose	Frequency	Assurance Evidence
	redone each time there is significant change in team composition. Describes the teams' values, mechanics of working together and how to have "uncomfortable conversations"	Sprint Retros - selective review On-boarding a new team member - refined	Team board visibility
Sprint retrospective	Facilitated by the Scrum Master Attended by the Product Owner & Delivery Team. A formal continuous improvement & innovation opportunity at the end of each sprint to experiment with different ways of working to improve the team effectiveness. Creates a tangible action for next sprint.	2 weekly at end of each sprint	Retro action (Sprint report) Team Board – Latest Retro action DoR / DoD / TWA - regularly updated
Baseline Forecasting (BF) **(Typically Collaborative Community Workshops)**	Lead by the SRO, Product Owner and Technical Lead. Requires an experienced large scale facilitator with significant pre work. Uses co-creation workshops to kick off each significant new initiative. Includes as many of the Product Community as have been identified at this early stage, including oversight functions such as governance, risk and compliance. Leaders engage the Product Community in creating a shared understanding of the vision, goals, customer outcomes and business constraints. The delivery team uses risk based rapid agile forecasting (RAF) techniques to baseline both their Product Roadmap and near view Product Value Plan.	An initial one off Product Community activity within the Initiate Phase. Transitions each significant piece of work from the ideate phase (funding agreed) to deliver phase. (The outputs serve as the foundation for the quarterly PIPs).	Scheduled observation Vision & Outcomes Product Roadmap – baseline forecast Product Value Plan (Burn Chart) – baseline forecast Estimation risk tolerance tracking Dependencies board Risk & Issue board
Programme increment planning (PIP)	Lead by the SRO, Product Owner and Technical Lead. Facilitated by the Scrum Masters. Attended by the full Product Community, including governance,	Quarterly Product Community activity in the Deliver phase.	Scheduled observation Product Release - burn chart forecast & last quarter actuals

Reviews *	Purpose	Frequency	Assurance Evidence
(making sure we are all working together on the most important stuff)	risk and compliance. Co-creation of the goals for the next programme increment to ensure everyone is focused on the most important product backlog items. Provides delivery teams with the opportunity to share their plan for the next PI and surface any risks, specifically dependencies, product community availability or 3rd parties engagement. If significant product releases are planned, then explicit inclusion of product backlog items for: • business/customer readiness • certification & accreditation privacy & security	Confirm with the delivery teams the near view goals that have been agreed as the delivery teams priority for this next period.	PI specific - Dependency board - Risk & Issue board - Privacy Impact Assessments - C&A

4.2. Second line of defence

These agile oversight ceremonies inform those outside the delivery teams by actively engaging them on a regular cadence so that as leaders in their areas of expertise they can proactively influence product direction and explicitly sign on to the agreed outcomes.

This reduces the need for much of the traditional governance documentation and formal sign off that impedes teams setup to rapidly release value on a regular cadence.

Reviews*	Purpose	Frequency	Assurance Evidence
Digital Transformation Committee (Sub Board)	Governance of the WorkSafe Digital strategy, Delivery plan and the MBIE Separation plan • oversight of ICT performance, risks, capability and effectiveness • Monitor and track the ICT assurance programme, especially area such as security, privacy, ICT succession, ICT procurement and programme	Monthly	Scheduled observation Vision & Outcomes - DoD Product Roadmap – baseline forecast Product Value Plan – baseline forecast Estimation risk tolerance tracking

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Reviews*	Purpose	Frequency	Assurance Evidence
	delivery • Monitor and track transformation programme's outcome realisation and benefit enablement.		Dependencies board Risk & Issue board Burnup forecast Privacy Impact Assessments C&A
Taura Here Waka Initiatives Oversight Committee	Ensure projects and programmes are managed well and remain healthy from cost/benefit, timeline, quality and risk/issue perspective. Raise programme/project escalations for changes to scope, cost, schedule, benefits to the ELT when THW-GC financial tolerances are exceeded. Ensure that relevant assurance processes are adhered to. Realise the Committee's stated strategic outcomes and benefits.	Monthly	Scheduled observation Product Release - burnup forecast PI specific - Dependency board - Risk & Issue board - Privacy Impact Assessments - C&A
Risk and Compliance	Oversight the application of WorkSafe's Risk Management Policy and Framework within the programme (first line), ensuring that these continue to align WorkSafe's risk maturity uplift. Review and challenge the effectiveness of risk management activities, including the identification of delivery (project) and delivered (operational) risks and controls, alignment to Risk Appetite and impacts to WorkSafe's strategic risks. Support the identification of emerging risks that may impact the programme. Ensure ongoing compliance with WorkSafe's legislative and regulatory obligations, and alignment with WorkSafe's Protective Security Requirements. Monitor and challenge remedial actions and improvements		Product Backlog contains security, privacy, performance and C&A stories. Acceptance criteria includes product controls that ensure internal product safety. Issues & Risk visible on team board. Escalation process defined and responsive.

Reviews*	Purpose	Frequency	Assurance Evidence
	(as required / identified through reviews). Provide independent reporting and assurance to ELT, governance committees and report to the Audit, Risk and Finance Committee (ARFC) on WorkSafe's risk management activities, including escalation where required.		
Solution demo	Integrated demonstration of scrum team's work to key stakeholders who provide feedback to the team to ensure key milestones and deliverables remain on track, required quality is built in and any necessary corrective action is taken.	End of every second sprint	Scheduled observation Governance Product Release update - burnup forecast - Dependency board - Risk & Issue board

4.3. Third line of defence

The third line of defence is the independent assurance from third party providers (Technical Quality Assurance, Independent Quality Assurance and or Gateway). The Digital Transformation Programme in conjunction with Risk and Compliance will be initiating reviews selecting the right fit-for-purpose assurance approach based on the risk and complexity of where we are at, at that point in time.

Independent Programme assurance will include retrospective and planning assurance as well as mid-increment checks where management controls are reviewed. This includes but is not limited to Governance, Management, time, scope, quality, cost, risk, benefits, and the assurance framework. It also includes Targeted Management Reviews (deep dives) as required which will focus on any issues, concerns or programme control gaps.

Agile Delivery Assurance will focus on the ceremonies and techniques expected to make Agile successful. Including observational sit-ins in ceremonies, assessing the adoption of Agile roles (like Product Owners), appropriateness of Agile adoption, and more detailed Agile metrics reviews (e.g. burn down metrics). It is also expected that at least one sit-in with a Scrum team will be required per increment.

We will work with the team to adapt assurance oversight to support them and the products they deliver. This means that assurance work may be focused on specific elements of concern to improve our work.

A Targeted Quality Review (TQR) will be scheduled in July to ensure that we have the capability to delivery to in an agile manner to scale up as we move into the delivery phase.

4.4. Delivery approach

The programme is adopting an Agile delivery method that focuses on supporting the speed of change that can be delivered by switching from 'sign-off' (stage-gates and approval processes) to 'sign-on' (agreed principles and empowered decision making to continue by default, unless out of agreed guardrails). This allows for a built-in assurance approach throughout the development process, with activity aligned to the three lines of defence model.

The incremental and risk aware approach to delivery will focus on delivering value early through iterative development with small releasable products, delivering frequently allows for regular feedback which gives the team the ability to react to changes as required.

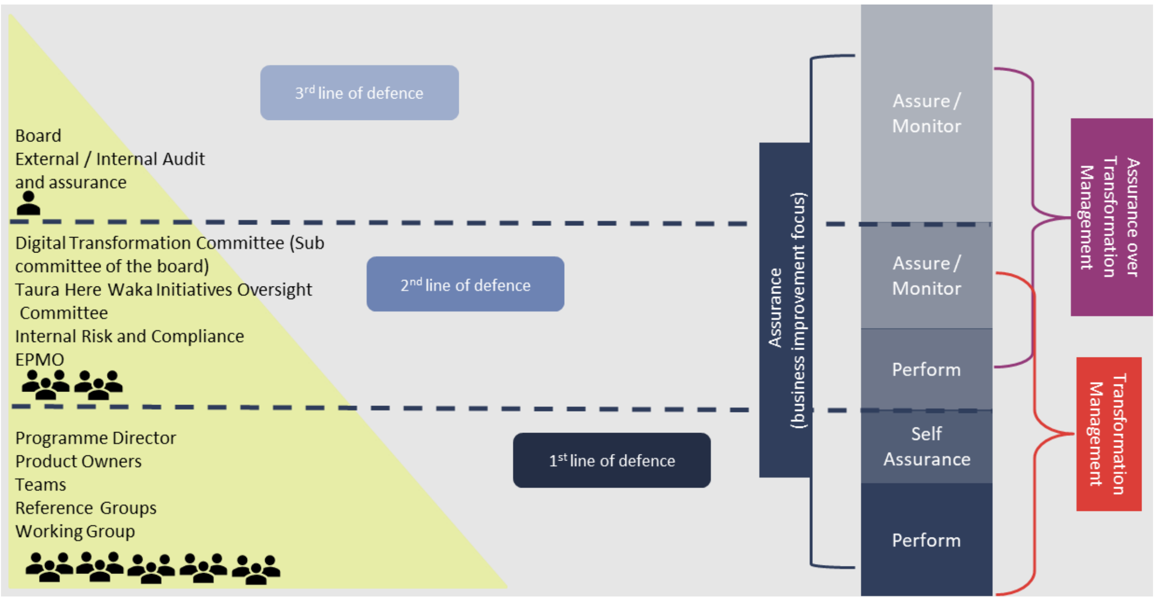
The Team is currently developing an Agile playbook which will inform our agile processes and agreed guardrails. Each of the Initiatives in the digital transformation roadmap will complete a Product baseline forecast which take the current initiative brief and develops this into the product roadmap for that initiative. This is then broken down by completing a more detailed Product baseline forecast which informs development of the product value plan.

In this mobilisation phase we are in the process of completing this process for the following three initiatives. 1 - Define a clear co-existing strategy, 2 - Enable entity and partner self-services interactions with WorkSafe and 3 - Enhance and uplift application to decision value stream. (refer to Appendix A for the Digital Roadmap)

As we grow and mature though our processes around agile delivery so will our agile assurance plan. With this in mind this plan will be reviewed 3-monthly or following any major programme or Organisational changes, together with any associated project assurance plan.

5. Governance

5.1. Governance and assurance structure



The Board will provide governance to the Chief Executive, Digital Transformation Sub Board Committee, Taura Here Waka Oversight Committee and SRO of Taura Here Waka to oversee the B19 Programme and ensure strategic alignment with Government's Health and Safety at Work Strategy, the WorkSafe's four-year strategy set out in the Statement of Intent and the transition to a modern effective regulator.

The Digital Transformation Sub Board Committee and Taura Here Waka Oversight Committee terms of reference and membership are currently being reviewed and refined to ensure that they are fit for purpose to allow quick decision required in an agile delivery model.

Good governance is integral to Assurance. It ensures that:

- We have a clear vision and objective, and this is still relevant and valuable.
- There is a committed Business Owner providing leadership.
- The programme team know where they are and where they are going (effective KPIs).
- Value is being created.
- Decision making is de-centralised and centralised where required.
- Delivery is well managed and will deliver the expected benefits.
- Risk management is improved and actively managed.

5.2. Assurance roles and responsibilities

The following table provides a high-level view of the assurance roles and responsibilities. The Line of Defence (LoD) indicates that a function at that level provides assurance to the recipient.

Role	Assurance Need	Assurance Responsibility	LoD	Assurance Source
Monitoring Agencies (MBIE, Treasury, DPS)	Visibility that the programme is delivering to the approved business case.		2	Programme dashboard
Digital Transformation Committee	Test and approves budgets and associated plans to deliver agreed values against these budgets. Monitors and test progress against budget, time and value delivered. Test and approves change to value, plans budgets.	Ensures the programme operates within the agreed parameters and delivers to the overall vision. Seeks and endorses assurance that the programme is established and managed so that deliverables can be met e.g. through formal quality assurance practices and governance reports. Ensures the quality and integrity of deliverables and outcomes, leveraging internal and external quality assurance practices as appropriate.	2,3	
Taura Here Waka Committee	Visibility that the programme is tracking towards the benefits realisation.	Monitors progress and quality of the deliverables and approach. Ensures delivery of the benefits outlined in the Detailed Business Case. Participate in reviews (as required).	2,3	
Business Owner (Digital GM)	Evidence that the programme is operating effectively, delivering within the agreed tolerances.	Accountability for the success of the programme and is the key decision maker. Their role is to make sure the delivery team is focused on achieving its objectives and provide confidence to the THW and the Chief Executive that the investment will deliver the expected outcomes and benefits. A key responsibility is to support the SRO in make sure the assurance approach is fit-for-purpose.	2,3	

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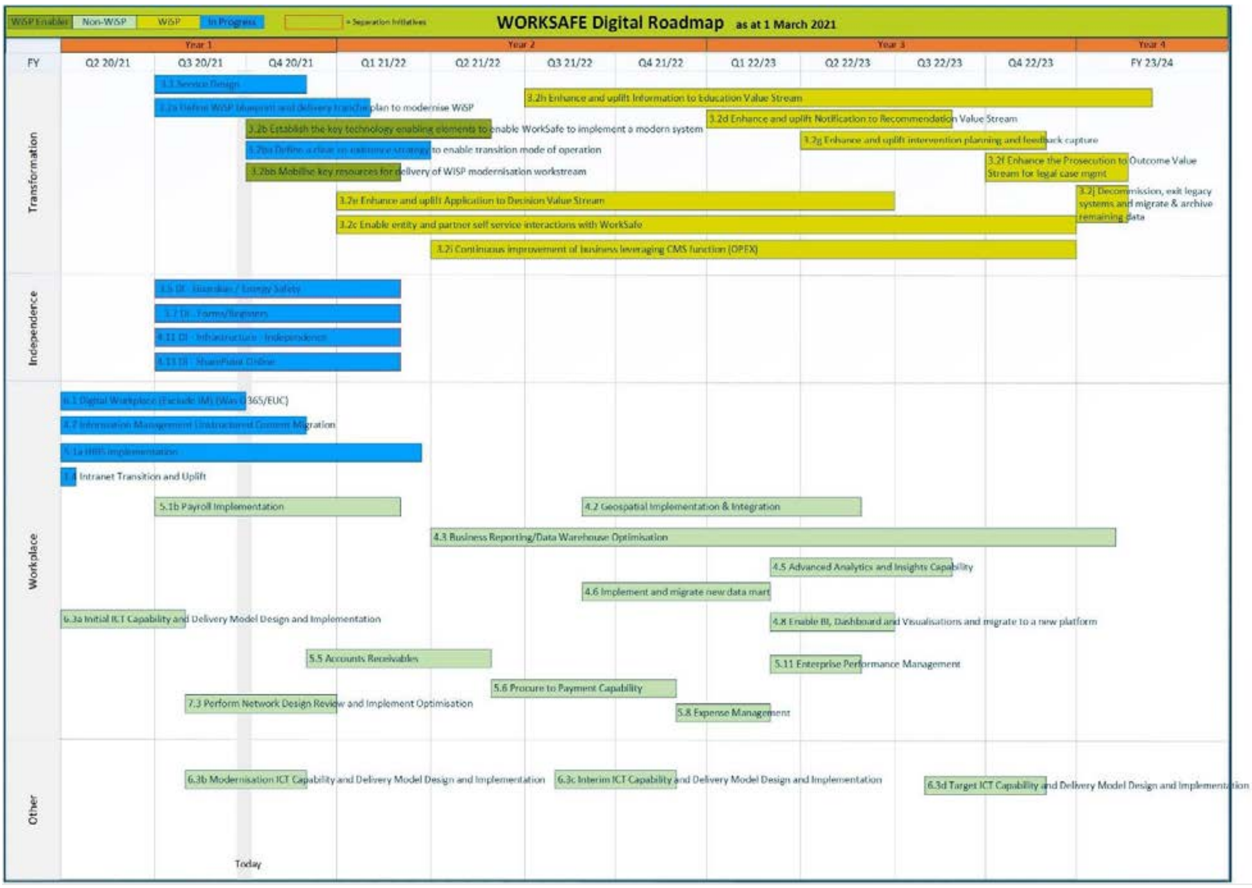
Role	Assurance Need	Assurance Responsibility	LoD	Assurance Source
Risk and Compliance	Evidence that the programme is operating effectively, delivering within the agreed tolerances, programme impacts and risks.	Facilitates and monitors the implementation of effective risk management practices. Assists risk owners in defining the target risk exposure and reporting adequate risk-related information throughout the organisation for projects which are high risk or critical to an organisation's success. Participate in reviews (as required).	2, 3	
EPMO	Visibility that the programme is operating effectively, delivering within the agreed tolerances, programme impacts and risks.	Monitors risks and reporting issues and supports the digital work programme to ensure the first line of defence is properly designed, in place and operating as intended.	2	
Product Owner (PO)		Responsible for defining Stories and prioritising the Team Backlog to streamline the execution of program priorities while maintaining the conceptual and technical integrity of the components for the team. Work with the team to manage and mitigate key stakeholder risks and issues. Review progress and variations ensure delivery against timelines.	1	
Digital Transformation Co-ordinator		Reviews, monitors and updating of the Assurance Plan. Programme controls and updating programme management artefacts002E. Reports on progress against the assurance plan to relevant parties. Maintains a register of assurance findings and reports on the progress of management plans.	1	
Scrum Master		Facilitates team delivery and managing / eliminating impediments to effectively deliver PI objectives.	1	

Appendix A: Digital Roadmap



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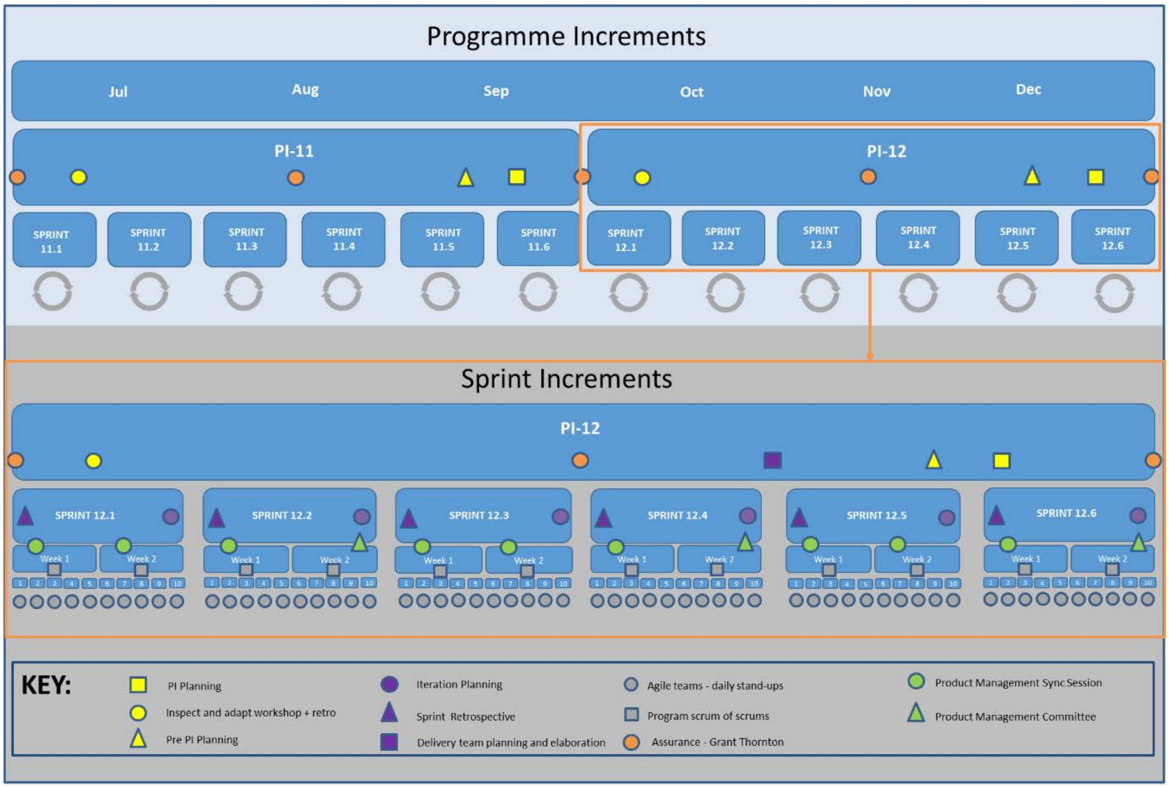
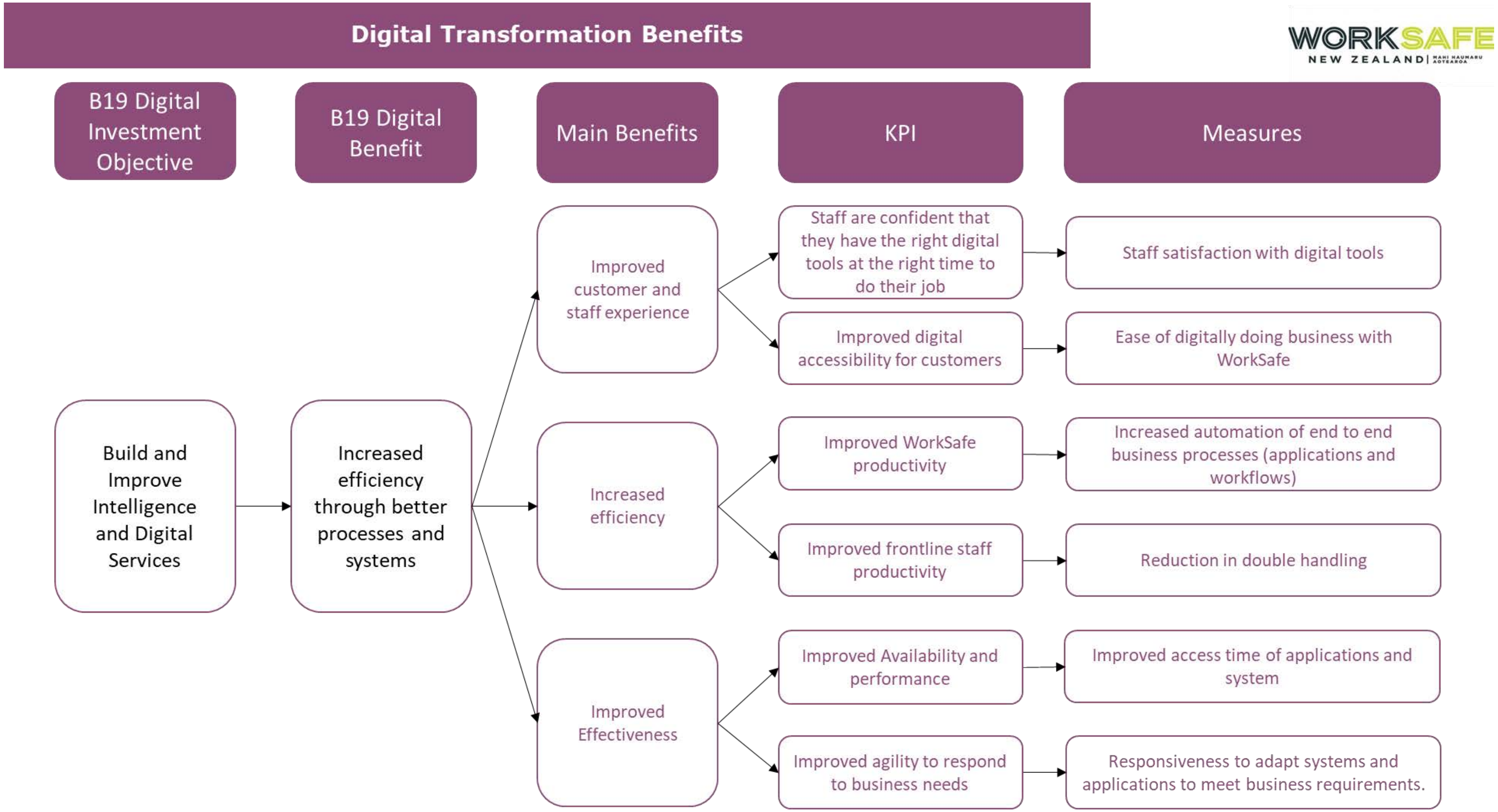
Appendix B: Agile Practise and Ceremonies

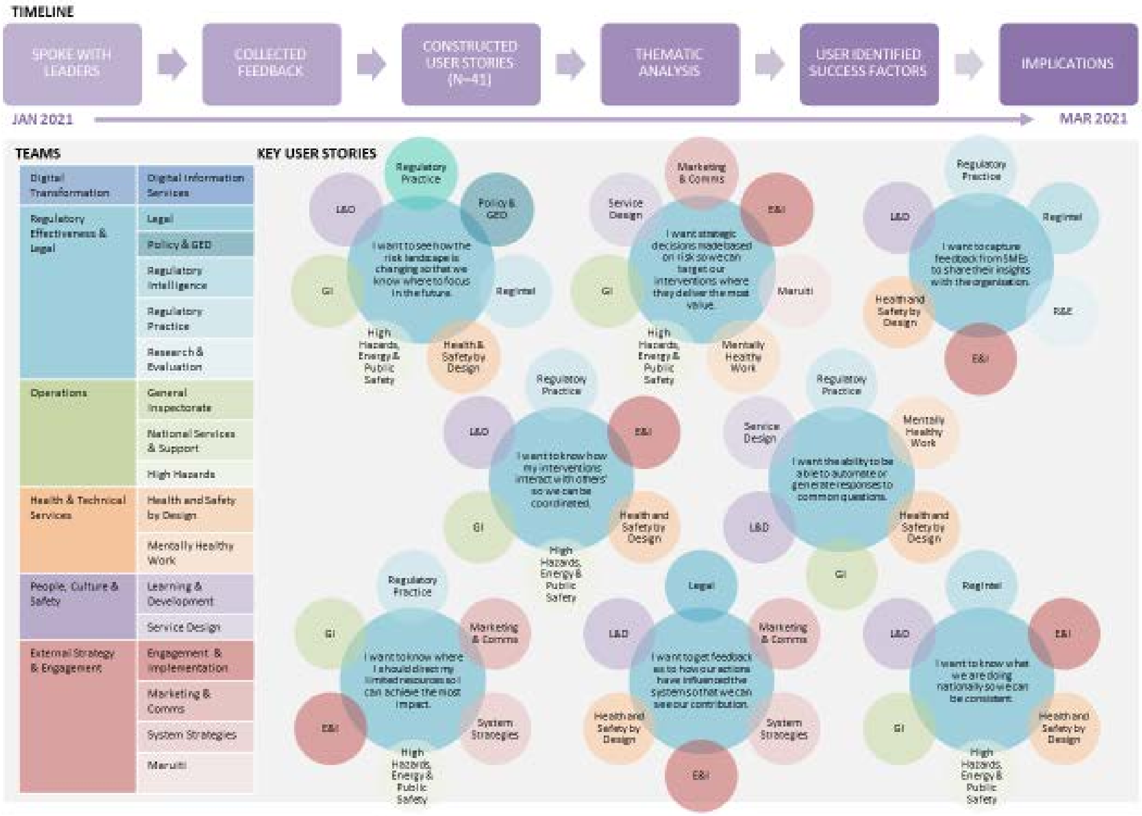


Appendix E: Digital Benefits Map



Appendix F: **Pūmahara Project Roadmap**

Pūmahara demand analysis (18 March 2021)



THEMATIC ANALYSIS OF USER STORIES

1 in 4
want to contribute to the capability

3 in 4
want to use the capability

The imagined use is diverse, and multi-dimensional

Users described being able to view the same, connected world from different dimensions

USER IDENTIFIED SUCCESS FACTORS

1 ALIGNMENT
Pūmahara should enable teams to align their operations to the strategic decisions and also align them with other, and within, their teams (Taura Here Waka).

2 CONSISTENCY
Pūmahara should enable consistency in what knowledge is available to decision makers and consistency in how insights are generated.

3 TRAINING
To achieve consistency, Pūmahara should ensure appropriate training is available both to those contributing data, information and insights and to those generating new insights.

4 OWNERSHIP
Subject matter experts, with the training to use the Pūmahara capability, must have ownership over their insights and how they should be used.

5 RESOURCING
Pūmahara should be adequately resourced to support operationalisation of the capability.

IMPLICATIONS

CENTRALITY OF STRATEGIC INSIGHTS CAPABILITY
The majority of stories described how people wanted to use the insights enabled by the capability. The majority of these uses described either enabling insights-led, high-level strategic decisions about where to allocate WorkSafe's resources, or being able to align operational activities to these strategic decisions. Prioritisation of the strategic capability is essential to realising the majority of user stories.

CAPTURING OPERATIONAL INSIGHTS
An unexpected finding from the process was users' goodwill to contribute to the capability. Users described insights available to them and their team that would be of consequence for strategic and operational decision making, were they available to the organisation. Subject matter experts should be enabled to capture and own their own insights in a manner that the insights can be accessed and used by the organisation.

IMPORTANCE OF SERVICE DESIGN
The success of Pūmahara will be contingent on how it integrates and supports how work is (and will) be done. The unification work being done by Service Design provides an unique opportunity to reconsider how knowledge capture and insights use can be integrated into how we do our work. Service Design should be the key partner in shaping the operationalisation of the Pūmahara.

WORKSAFE

[SCENARIO 2] Pūmahara capability and resource timeline (18 March 2021)

CAPABILITY (ROLE)	PILOT	BUILD	ONGOING	START	FINISH	FTE	EST. BAND	POSSIBLE ALTERNATE SOURCE	ASSUMPTIONS
CORE PŪMAHARA TEAM									
TEAM LEADER	P0,	B0	C0, C11	1-Jul-21	Ongoing	1	B19		
KNOWLEDGE MODELLER	P4	B3, B4, B5, B6, B11, B12, B13	C8, C9,10	1-Jul-21	Ongoing	1	B18		
PROJECT MANAGER	P0	B0	C0	1-Apr-21	Ongoing	1	B17		ROLE INCLUDES CHANGE MANAGEMENT
BUSINESS ANALYST	P0, P4	B0, B1, B2, B5, B12, B13	C0	1-Apr-21	Ongoing	1	B17		CAPABILITIES WILL INCLUDE SYSTEM THINKING AND DEVELOPING STRONG ORGANISATIONAL KNOWLEDGE
DATA ENGINEER		B11	C8	1-Oct-21	Ongoing	1	B17		MANAGE THE PLATFORM CONNECTIVITY ONGOING (PIPELINE).
SOCIAL NETWORK ANALYST		B6	C6	1-Jan-22	Ongoing	1	B17		
PROJECT COORDINATOR	P0	B0		1-Apr-21	Ongoing	0.4	B16		
EXTERNAL									
CAPABILITY ADVISOR + DESIGNER (BUILD)	P0	B0		1-Apr-21	30-Jun-22				
STAGE 1 DEVELOPMENT (OPEN-SOURCE) • KMCT		B3, B4, B5, B7, B8, B11		1-Apr-21	30-Jun-22				
STAGE 2 DEVELOPMENT (WITHIN WORKSAFE TECHNOLOGY STACK) • DEVELOPMENT, FRONT-END, UX, TESTING		B5, B4, B5, B6, B7, B8, B9, B10, B11, B12, B13		1-Jul-21	30-Jun-22				
OTHER INTERNAL SUPPORT									
KNOWLEDGE DOMAIN EXPERTS		B1, B2		1-Jul-21	30-Jun-22	4			CAPABILITIES WILL INCLUDE EXPERTISE IN THE FOLLOWING DOMAINS: SYSTEM, INTERVENTION, RISK, HARM
FINANCE DOMAIN EXPERTS		B2		1-Jul-21	30-Jun-22	0.5			CAPABILITY TO MAP THE RESOURCING DOMAIN (PEOPLE, $) INTO PŪMAHARA AND LINK TO INTERVENTION
SOLUTION ARCHITECTURE		B3, B4, B5, B6, B7, B8, B9, B10, B11		1-Apr-21	30-Jun-22	0.5			

Appendix G: B19 Modernisation Programme Benefit Plan

WorkSafe New Zealand

B19 Modernisation

Benefits Plan

MARCH 2021 V0.9

Contents

1. Executive Summary

The purpose of this document is to detail how the B19 Modernisation Programme benefits identified for the Budget 19 funded initiatives will be achieved and managed. It sets out:

- A summary of the background and objectives for the Budget 19 Modernisation Programme.
- The Modernisation Programme scope, outcomes and workstreams.
- Approach for developing the benefit summary and schedule with baselines and targets.
- Accountabilities and Responsibilities for Benefit measurement, report and realisation.

The overall responsibility for realising the B19 Programme benefits is held by the Chief Executive. The CE has delegated the Senior Responsible Officer programme role to the SRO of Taura Here Waka / General Manager of Regulatory Effectiveness and Legal.

After the programme is closed, oversight of execution of this plan will become the responsibility of the WorkSafe Enterprise Portfolio Management Office (ePMO). The ePMO will work with the identified Programme Benefits Owners (who are accountable for the benefits to be realised) to ensure appropriate measuring and monitoring continues for the duration of the benefit realisation period.

2. B19 Programme Background

Government set a 10-year Health and Safety at Work Strategy to ensure that 'work is healthy and safe for everyone in New Zealand'. WorkSafe is critical to achieving this vision. In October 2018 the WorkSafe Board approved a Funding Business Case to seek funding for 'base capability and capacity' to support a 10-year modernisation pathway, with WorkSafe becoming an insights-driven regulator by 2023.

A Budget 19 bid was submitted to fund WorkSafe's modernisation journey across five programme workstreams:

6. Work Related Health (referred to as Harm Prevention in the Cabinet minute and Budget 19 Bid).
7. Knowledge, Evidence and Intelligence (referred to as Research and Data Analytics in the Cabinet minute and Budget 19 Bid).
8. Digital and Information Services.
9. People, Capability and Safety.
10. WorkSafe's enterprise target operating model and Modernisation Programme.

Cabinet approved a scaled Budget 19 funding investment of $56.99 million, over four years, to maintain services and develop the modernisation programme. Cabinet placed a further $56.88 million in contingency consisting of:

iii. $25.31 million operational funding for harm prevention programmes, research and data analytics, and depreciation associated with the additional capital funding.
iv. $31.57 million of capital funding for our Digital and Information services programme, to be repaid at a future date.

Cabinet authorised joint Ministers to approve any charges against contingency funding, subject to satisfying themselves that WorkSafe has completed the necessary planning and the proposed investments are likely to realise the stated benefits.

WorkSafe subsequently developed the Budget 19 Programme Implementation Plan (B19 PIP), it builds on the previous 2018 Funding Business Case and Budget 19 Bid, focusing on what is new or has changed since the full business case and bid was developed. The B19 PIP addressed the specific programme planning requirements and detailed planning for Work Related Health set by joint Ministers. This BRM along with the quarterly report to Minister meets the reporting requirements.

In July 2020 Ministers of Finance and Workplace Relations and Safety released B19 Operating Contingency Funding of $15 million over three years and $5 million in outyears for the Harm Prevention Work Related Health Programmes. WorkSafe is seeking the balance of the remaining Budget 19 contingency funding in 20/21.

3. B19 Programme Summary and Approach

The B19 Programme is focused on building and growing WorkSafe capability and capacity to improve health and safety for workers across New Zealand. The B19 Programme will:

1. Strengthen and sustain harm prevention across New Zealand.
2. Develop and grow our capability and capacity to be a modernised regulator.
3. Build and improve intelligence and digital services.

The B19 Modernisation Programme is made up of five interlinked programme workstreams:

1. Harm Prevention: Multi-year work related health programmes for mental health, carcinogens, and musculoskeletal disorders.
2. People, Culture and Safety: Strengthen and grow WorkSafe capability in specialised areas, data analytics and, legal, enforcement and prosecution capacity.
3. Knowledge, Evidence and Intelligence: Research and intelligence investment in capability, processes and systems
4. Digital and Information: Critical ICT systems and tools to replace manual processes, and outdated & disconnected systems.
5. Enterprise Target Operating Model (& Modernisation Office): establishment of a Modernisation Office to oversee design and development of the eTOM and establishment an eMPO. The Modernisation Office ceases in 20/21 with the ePMO in place for monitoring and reporting on B19 funding initiatives.

Each programme workstream is made up of multiple projects. Each project will complete a Detailed Business Case (DBC) or Project Brief (determined by value, risk and scope) and Project Management Plan document to detail:

- Alignment to WorkSafe's enterprise target operating model (eTOM) that sets out a framework for the transition of WorkSafe into a modern, effective Health and Safety regulator.
- Alignment to Taura Here Waka, our strategic delivery plan to support the being an insights driven regulator by June 2023.
- Commercial arrangements.
- Management arrangements including delivery approach.
- Projects benefits and contribution to programme benefits.

The ePMO will support B19 Funding workstreams and initiatives to complete a DBC or Project Brief, determining delivery method (agile verses waterfall) and benefits. The Programme streams and projects will be overseen by/accountable to the governance and management arrangements set out in section 10 of this document.

Reporting will be coordinated by the ePMO.

4. Benefits Overview

Investment in the B19 Modernisation Programme will deliver the following monetary and non-monetary programme benefits as set out in the B19 Programme Implementation Plan (PIP):

Table 1: Budget 19 Modernisation Programme main Monetary Benefits

#	Main Benefits	Description	Who Benefits?	Measurement Scope / Notes	Direct or Indirect?
2	Reduced economic costs to New Zealand from workplace harm	Good health and safety practices support good business, which has a direct role in supporting income and material living conditions for New Zealanders. The impact on government expenditure in the wider health and social welfare systems is reduced when there is less workplace harm in New Zealand.	Public, Business and Government	International Data was used for the Budget 19 Cost Benefit Analysis as New Zealand data is not currently captured. The WRH programme has an initiative to design, develop and put in place a NZ Exposures Database. This will be used for establishing a baseline for this benefit, then estimating targets and timelines. The database is be fully populated and being used by Dec 2023. Targets are based on a shift in exposures rate measured (improves by 5% over 4 years) that is monetised with either Quality adjusted life years (QALYs) or Value of a statistical life (VSL) values.	Indirect

Table 2: Budget 19 Modernisation Programme main Non- Monetary Benefits

#	Main Benefits	Description	Who Benefits?	Measurement Scope / Notes	Direct or Indirect?
1	Fewer people are harmed as a result of work	Fewer people are harmed at work, which lifts the long-term health and life expectancy of workers by addressing the underlying causes of work-related diseases and ill-health. There is better performance in relation to more complex and currently less understood harms.	Public, Business and Government	Measurement of risk factors and actual levels of cancer, airborne risk, MSD, and psychosocial to determine impact of harm on workers. Measure shift of impact resulting from our interventions, target is an annual improvement of 1.5% reduction in persons being harmed as a result of work per year from December 2022.	Indirect
3	Increased regulatory effectiveness	WorkSafe increases the effectiveness of its responses through an improved understanding of its range and application of levers underpinned by knowledge, insights and evidence to best response to risk - 'right place, at the right time for the right reason'. Assessing the impact of programmes, projects and activities is a critical element of the WorkSafe culture underpinning its continuous improvement. This is recognised as being a credible system leader.	Public, Business and Government	Utilise Company Risk Model (CRM) version 3 to target harm based on forecasted insights, and use the unified 360 view data landscape in it to measure effectiveness of the insights driven interventions and the outcomes achieved. The CRM model is being enhanced with the next iteration to be completed October 2020. Planning is already underway for the next iteration to enhance and optimise the insights, intelligence, and evidence via state of the art Knowledge Models (currently being adopted in Pumahara/ELDAR). On the journey towards measuring the quality of insight delivered, key outcomes are required in support, such as improved data across all sectors. For this purpose, we are in the process to set up a strategic project to assess the "Data Economy" e.g. how much does it cost to deal with bad quality data. We are planning to do this project in an	Direct

#	Main Benefits	Description	Who Benefits?	Measurement Scope / Notes	Direct or Indirect?
				iterative fashion. Investment in the project to date has been the design of data quality check dashboards for the SAN groups, which are currently being trialled.	
4	Interventions are targeted for better outcomes for NZ	WorkSafe understands the levers and ongoing efforts/programmes make optimal impact and achieve outcomes sought. It applies its knowledge when intervening in order to maximise the efficacy and impact. In doing so, WorkSafe understands the risk system, can assess which risks can be modified, and what levers can be applied to deliver better outcomes for NZ.	Public, Business and Government	The Evidence Led Decision and Risk (ELDAR/Pumahara) project will develop and mature our 'understanding of system of harm' to ensure the right levers are identified and funded, and measure interventions are targeted for better outcomes for NZ. The learnings, insights and outcomes will inform the planning process from strategy through to project level.	Direct
5	Increased efficiency through better processes and systems	WorkSafe staff have appropriate tools and platforms to do their job effectively – and can be mobile and out with workers/ employers in their place of work. The quality of WorkSafe's front-end user-facing services is improved, such as call centre and overall web presence. WorkSafe has access to modern systems, tools and methodologies for its evidence, knowledge and insights, which then drives what it does. All of this is foundational in order to be a modern and effective regulator.	WorkSafe staff	The measures will be derived through the Digital and Information Services programme stream and the Service Design Programme.	Direct
6	Secure and supported workforce	WorkSafe's staff understands how their role contributes to the WorkSafe purpose and focus areas. WorkSafe has a clear view of organisational capabilities needed and growing the competencies to deliver, directed through its	WorkSafe staff	Focus and programme work on values, culture, competencies and development will support the development of measures, baselines and targets. The implementation of the HRIS and H&S system along with Staff	Direct

#	Main Benefits	Description	Who Benefits?	Measurement Scope / Notes	Direct or Indirect?
		People Strategy and the THW focus areas. WorkSafe' people have a clear understanding of how to grow their career and the associated pathway with opportunities to learn and develop. Implementation of new HRIS & H&S capability supports our people to feel safer and valued. Delivers effective work practices and professional support to WorkSafe people at all organisational levels, leading to engaged and valued staff. Improved H&S outcomes for WorkSafe people.		surveying will be utilised to determine a secure and supported workforce.	

The B19 Modernisation Programme benefits are presented in a Benefit Map (refer Appendix B). The Benefit Map sets out the main benefits that will be realised through the Budget 19 investment, the outcomes delivered by the programme, and aligned to the enterprise Target Operating Model (eTOM) future state.

A benefit schedule has been developed and is to be updated with measures, baselines and targets as per the approach and timelines set out in section 5. Refer to Appendix C for that benefit schedule.

5. Approach for measuring Benefits

As the B19 Programmes moves from planning to delivery, the measures, baselines and targets will be agreed for each benefit aligned to the B19 Programme Stream and clearly state how the stream will contribute to its realisation.

The measures, baseline and targets have been agreed for Benefit #1 and Benefit #6.

For Benefits #2, #3, and #4 key milestones have been set to deliver outcomes that will support the determination of measures, baselines and targets. Table 3 sets out this approach. The benefit #2 approach was agreed in June 2020.

For Benefit #5, three Digital Benefits have been set to 'tree' up to the main B19 benefit of 'Increased efficiency through better processes and systems'. Measures have been set for each Digital Benefit and where plausible baseline data agreed. Approach agreed to gather remaining baseline data (refer Appendix D for Digital Benefits and measures).

Table 3: Approach to B19 Programme Benefit Measurement and Schedule

#	Main Benefits	Measures, Baselines and Targets	Benefit Owner
1	Fewer people are harmed as a result of work	Measures, baseline and targets have been set in the Benefit Schedule, refer Appendix C.	Catherine Epps
2	Reduced economic costs to New Zealand from workplace harm	Measurement will be occurring through the proposed Exposure Database that is planned to be in place by Dec 2023. A baseline is to be established as part of this work. The Targets will be based on a shift in exposures rate measured (improves by 5% over 4 years) and that is monetised. Key milestones have been set to support the establishment of a NZ Exposure Database by Dec 2023 to provide measurement and baseline for Benefit #2. The key milestones are: • Integrate carcinogens action plan into Ministry of Health national cancer action plan by May-21. • Complete workers exposure survey based on Australian Workers Exposure Survey (AWES) approach by May-21. • Agree approach and option for	Catherine Epps

#	Main Benefits	Measures, Baselines and Targets	Benefit Owner
		Exposure Database by May-21.	
3	Increased regulatory effectiveness	The Company Risk Model (CRM) V3.0, subsequently the Knowledge Management Model, will be utilised to measure regulatory effectiveness. Key milestones to get to this point are: • Innovate and evolve the CRM to version 3.0 – responding / generating insights, knowledge and learnings that are gained (Oct 20) • Explore unstructured data based insights – maximise the insights gained using the CRM V3 ecosystem • Data entry standards implemented in agriculture (in line with business rules project) (by Mar 21) • Data entry standard implemented in all sectors (in line with business rule project) (by Nov 21) • Agree baselines and targets for knowledge management model (by Nov 21) • Smart profiling system to provide the organisation with fast, enhanced and self-serviced Intel profiles (by Jun 2022) • Measure data entry quality baselines and improvements • Measure CRM effectiveness - 'right place, at the right time for the right reason'.	Pelin Fantham
4	Interventions are targeted for better outcomes for NZ	The Evidence Led Decision and Risk (ELDAR) capability will be established to measure if Interventions are targeted for better outcomes for NZ. Key milestones to get to this point: • 2020/21 - Embed the concepts of risk, risk factors and what are modifiable risks at the core of all WorkSafe decision making (through the ELDAR project). • 2020/21- Determine baseline and targets for incremental improvements for Work-Related Health Programme initiatives MSD and Carcinogens, and #BetterWork. • 2021/22 – 20% of new	Bronwyn Turley

#	Main Benefits	Measures, Baselines and Targets	Benefit Owner
		interventions started in the previous financial year for MSD and Carcinogens are insights driven informed by a deep and integrated understanding of the system of harm. • 2021/22 demonstrate levers are being adjusted based on insights to better target interventions. • 2022/23 – 60% of new interventions started in the previous financial year for MSD and Carcinogens and 20% psychosocial are insights driven informed by a deep and integrated understanding of the system of harm. • Ongoing measurement to confirm Interventions are targeted for better outcomes for NZ in newly defined focus areas.	
5	Increased efficiency through better processes and systems	To achieve this main benefit, three Digital Benefits have been set to 'tree' up. The three benefits are: 1. Improved customer and staff experience (Staff and customers have trust and confidence in our digital tools; They chose to interact with WorkSafe using our digital tools) – Business enablement 2. Increased efficiency (Efficiency gains through processes and systems underpinned by digital technology, allowing staff to be mobile and out with workers/ employers in their place of work; WorkSafe has access to modern systems, tools and methodologies for its evidence, knowledge and insights, which then drives what it does) - Front end and insights enablement. 3. Improved Effectiveness (Agility of our digital tools to improve responsiveness of our technology solutions; The quality of WorkSafe's front-end user-facing services is improved, such as call centre and overall web presence) - Technology enablement Measures have been set for each Digital Benefit and where plausible baseline data agreed. Approach agreed to gather	Quin Carver

#	Main Benefits	Measures, Baselines and Targets	Benefit Owner
		remaining baseline data (refer Appendix D for Digital Benefits and measures).	
6	Secure and supported workforce	Staff engagement through surveying and being delivered HRIS and H&S system, will be utilised to measure a 'secure and supported workforce'. Key milestones to get to this point: • Undertake staff survey to establish a baseline on Staff's assessment of being a 'secure and supported' workforce. Set targets for outyears. Completed by Dec 20. • Implement Targeted Development Programme by March 21. • Embed blended approach to Cohort training and Inspector development by March 21. • Define culture today and desired future culture by April 21. • Determine measurement for the capabilities shift to better align with becoming an insights driven regulator on our journey towards becoming a modern regulator by June 21. • Through the H&S system implementation set baseline data for H&S incidents, risks and hazards and set targets for outyears. Completed by May 21	Glenda Harvey

The Benefit owner is tasked with developing measures, baselines and targets for each benefit under the joint approval of the SRO.

Benefits will be reported on through B19 funded workstreams and initiatives reports. The shape and form of these reports are being designed and agreed.

6. Variation Request

During the life of the programme, if the realisation of the benefit is impacted a Variation Request (VR) is submitted to WorkSafe's portfolio 'Taura Waka Here' governance for consideration and approval. The VR will set out the level of impact to benefit realisation, including scope, budget, time, quality the proposed course of action. Refer to the Taura Waka Here Governance Terms of Reference (see appendix D) for agreed Tolerances and Escalation process.

If after the programme has closed and the realisation of benefits is not tracking as detailed in the Benefits Realisation Plan, then the Benefit Owner is responsible for developing any necessary interventions or remedial actions and presenting these to the Chief Executive, or delegated role for approval.

7. Risks, Constraints and Dependencies

Main risks

The main risks that could impact and or delay the achievement of B19 Modernisation Programme benefits are set out in Table 3. The main risks are a refinement of the risks set out in the B19 PIP and these will be monitored over the life of the programme by ePMO and in reviewing this plan.

Table 3: B19 Modernisation Programme main risks

Risk	Description	Mitigation and Management Strategies
1. WorkSafe capability and track record in managing funding increases	Since establishment in 2013, WorkSafe has received several funding increases in recognition of initial levels of under-funding at start-up. This funding has been applied to lift base capability and capacity numbers within the organisation and has resulted in increased health and safety performance at work. Outcomes achieved from this funding have been mixed – particularly regarding ICT investment. *There is a risk the benefits of the B19 investment is not fully realised.*	Lessons learnt and experiences gained have informed governance and management arrangements for WorkSafe programmes and projects. Where possible AoG panels and Common capability will be utilised. THW governance with ePMO function in place to manage, monitor and report on the delivery confidence of the B19 Benefits. Taura Here Waka Governance to oversee WorkSafe's investment initiatives and programmes to ensure a joined up modernisation journey. B19 Funded initiatives are a key enabler of Modernisation.
2. Specialist capability in a tight labour market	There is already a tight labour market in New Zealand for H&S specialist capability, which impacts on WorkSafe's ability to attract and retain key specialist skills. *There is a risk WorkSafe cannot retain or attract the specialist capability and capacity to deliver the B19 funded initiatives.*	The People Strategy will continually be refined to help retain and attract specialist capability. The Wellbeing package, learnings and development opportunities and defined career paths are mitigating levers. Forward planning on the timing of when specialities capabilities. Establishing / maintaining 'stand up' teams with

Risk	Description	Mitigation and Management Strategies
		specialist capabilities.
3. ICT risks (both for existing services and additional investment)	ICT investments often face challenges in meeting budget, timing or quality expectations. Investment in digital services needs to be integral to the B19 Modernisation Programme in order to be fit-for-purpose and realise the full benefit to the business. WorkSafe has a dependency with MBIE to have resourcing in place for supporting the transition of services to WorkSafe at the proposed schedule and timing. Any delays will result in duplication of services, and result in cost and time delays. *There is a risk the ICT / digital projects will not be fit for purpose, delayed or cost more than budgeted.*	Lessons learnt from previous projects (successful and failures) inform all ICT programmes and projects planning and delivery. Digital Strategy and Roadmap approved by Board (Nov 20). The roadmap prioritises and sequences initiatives, resourcing and funding, manage risks and dependencies and align to Taura Here Waka (Strategic Delivery Plan). Joint MBIE and WorkSafe oversight governance group to oversee dis-engagement, planning, delivery, timing and resourcing. Disengagement roadmap integrated into the Digital Roadmap. Establishment of a Board Sub-committee with external advisors to directly oversee the Digital Transformation on behalf of Board. Establishment of the General Manager of Digital Transformation role, reporting to the Chief Executive. Engagement with comparable agencies key personnel to share learnings and provide quality assurance.
4.Contingency funding is not released or is tranched	*There is a risk that the Ministers do not approve the drawdown of the Budget 2019 contingency funding*, which means that the B19 Programme cannot be effectively delivered and economic monetary and non-monetary benefits will not be realised. *There is a risk that the drawdown of the contingency funding is*	Gateway Reviews scheduled to provide independent assurance. Engagement with Monitoring agencies on the contingency drawdown requirements. Satisfying joint Ministers information requirements on Budget 19 Programme. Cross-agency engagement

Risk	Description	Mitigation and Management Strategies
	tranched for digital services which could result in stranded investments or hinder WorkSafe's ability to secure optimal solutions from the market (i.e. providers with confidence of full solution as opposed to an iterative and uncertain approach). Tranching for one part of the contingency funding puts at risk the realisation of the benefits for other parts of the funding (including funding already allocated).	and regular meetings on the B19 Programme and the impact to WorkSafe ten year modernisation Programme. Governance in place supported by WorkSafe and Digital Programme Assurance Plans.

Key Constraints and Dependencies

The B19 Modernisation Programme is subject to the following constraints and dependencies outlined in Table 4 below. The Constraints and Dependencies are a refinement of those set out in the B19 PIP and these will be monitored over the life of the Programme by ePMO and in reviewing this Plan.

Table 4: B19 Programme key constraints and dependencies

Constraints	Notes and Management Strategies
Ability to deliver the number of projects required	Taura Here Waka to provide governance oversight to support success with ePMO providing programme and project management advice to plan, sequence, resource, mange issues, risks and dependencies. ePMO will support an uplift programme and project management capability and resource management planning. There will also be a tension between delivering new projects whilst managing 'business as usual' activity, which will require a transparent prioritisation of existing and new services lead through Taura Here Waka.
Dependencies	**Notes**
Long-term funding certainty	Given that this is an investment that will provide benefits over the long-term, certainty of funding over that horizon will allow up-front investment to deliver expected outcomes.
Service design	WorkSafe is developing best practice approaches for designing and delivering our services according to the needs of our external and internal stakeholders (adhering to regulatory obligations) and in a consistent way within our organisation. We will be able to map the processes we current undertake and the systems we follow to drive improvements in what we already do and effectively design and deliver new services.
Operational capability and	In order to deliver a change of this magnitude, operational capability and capacity must be enhanced within WorkSafe,

capacity	including programme management, change management and benefits management. However, investments in a range of enabling infrastructure (HR systems, CMS) are all also necessary to support the step-change that is being proposed.
Access to government and business data	In order for the digital investment to deliver expected outcomes, particularly in the data and intelligence driven activities, it is critical that timely and accurate data sharing are available for WorkSafe. These inputs are required from both government and private business, and without which it will be difficult to create targeted, effective and evidence-based interventions.
Support from government agencies	Interagency support required to make a coordinated and integrated approach to lift health and safety performance. This is particularly relevant with ACC and musculoskeletal disorders; and Ministry of Health and NZ Cancer Agency for carcinogens and airborne; and Ministry of Health, Suicide Prevention Office, Mental Health and Wellbeing Commission and MBIE for psychological risks and mentally health work.

8. Change Management

The WorkSafe change management framework and change management delivery approach (Prosci) is being utilised for all B19 funded workstreams. The change management framework provides structure and direction, and specifies the change transition states and the change domains that will be assessed and undertaken as a whole programme as well as dropping to the project level.

The transition and business readiness from project build and implementation to operations BAU will be managed by each project under the guidance of the enterprise change manager and project delivery methodology applied i.e. incremental go lives (agile) verses single go live (waterfall).

The change management framework across the levels in included in Appendix D.

9. Handover of Benefits Realisation

The overall responsibility for realising the B19 Modernisation Programme benefits is the Programme SRO, SRO of Taura Here Waka / General Manager of Regulatory Effectiveness and Legal.

After the Programme is closed, oversight of execution of this Plan will become the responsibility of the ePMO. The ePMO will work with the identified Benefit Owners (who are accountable for the benefits to be realised) to ensure appropriate measuring and monitoring continues for the duration of the benefit realisation period. The Benefit Owners are recorded in Appendix A.

10. B19 Programme Governance & Management Arrangements

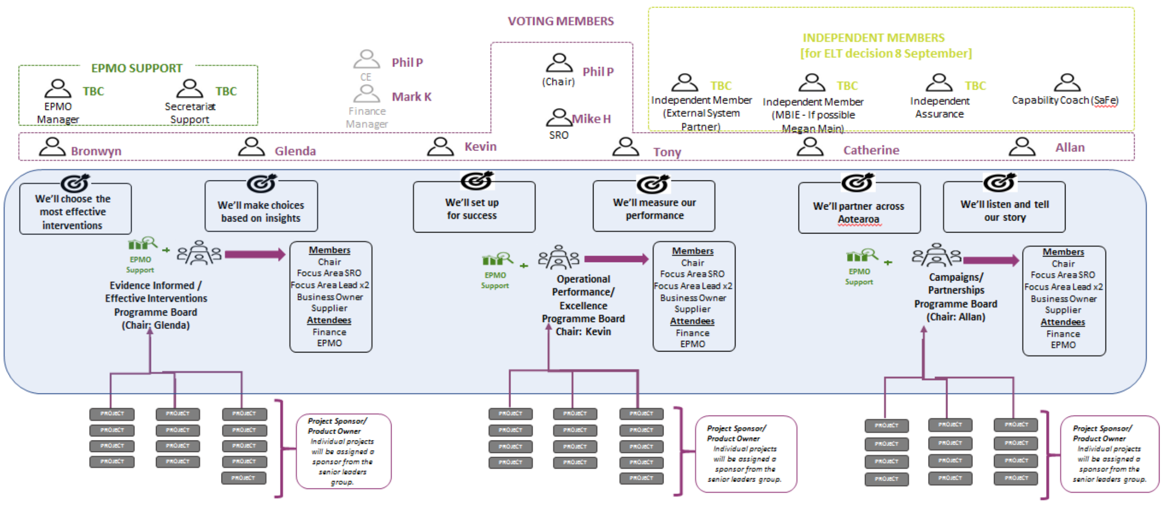
The Board will provide governance to the Chief Executive, Taura Here Waka Oversight Committee and SRO of Taura Here Waka to oversee the B19 funded workstreams and ensure strategic alignment with Government's Health and Safety at Work Strategy, the WorkSafe's four year strategy set out in the Statement of Intent and the transition to a modern effective regulator.

A Board subcommittee has been established to oversee the Digital Transformation, of which includes B19 funded projects and initiatives. The subcommittee reports to the Board.

The Taura Here Waka Oversight Committee oversees WorkSafe investment initiatives and is structured around the six enterprise target operating model (eTOM) focus areas. This structure provides a line of sight between investment initiatives and the future state, becoming an Insights Driven Regulator by 2022/23.

Refer Diagram 1 for illustration of delivery governance and management arrangements.

Diagram 1: Budget 19 Modernisation Programme Delivery Governance and Management Arrangements as part of Taura Here Waka Governance



B19 funded workstreams (Work-Related Health harm prevention, Digital Transformation and Knowledge, Evidence and Intelligence) will be identified and reported in WorkSafe's Quarterly reports (key milestones, timeliness, and budget). This enables B19 funded deliverables to be monitored and reported in an integrated way through the WorkSafe Board to the Minister for Workplace Relations and Safety and MBIE monitor on a quarterly basis

The Taura Here Waka Oversight Committee ensures overall successful delivery and alignment of the B19 Modernisation Programme, on behalf of the Chief Executive. The Taura Waka Here Oversight Committee is accountable for:

- Delivery, including establishment, delivery and close off of B19 Programme workstream projects.

- Review benefit measures, baselines and targets on an annual basis to confirm fit for purpose and on track for realising the stated benefits.
- Realising stated programme outcomes and benefits.
- Management of risks, budget and quality assurance.
- Management of project alignment and dependencies, interlocked with organisational expectations and requirements.

The Taura Here Waka Oversight Committee will be chaired by the SRO. The Taura Waka Here Oversight Committee is supported by Focus Area leads to provide active leadership, management, and decision making for the B19 programme.

The SRO of Taura Here Waka will be accountable for the B19 Programme of work with the Modernisation Office and ePMO providing oversight across the programme and constituent projects and ensuring delivering within the agreed boundaries and resolving issues between projects.

The ePMO capability will monitor and report on B19 funded projects and initiatives, interdependences and risks.

The ePMO is responsible for reporting on benefits, risks and delivery plan to the Taura Waka Here Governance Group.

The B19 Programme Roles and Responsibilities are set out in Table 5.

Table 5: B19 Programme Roles and Responsibilities

Name	Responsibilities
Taura Here Waka Senior Responsible Officer (SRO)	Accountability for the delivery of the Programme and ultimately the realisation of Programme benefits on behalf of the Benefit Owners. Ensure all aspects of the benefits realisation process are satisfactorily completed. Ensure appropriate benefits and measures are identified with key stakeholders. Ensure the Benefits Profiles; Benefits Schedule / Register; and Programme Benefits Realisation Plan are completed. Ensure tracking and reporting of any interim benefits (and any changes) realised during the life of the project.
The Taura Here Waka Oversight Committee	Will actively lead and govern the programme delivery work-streams to establish and operationalise Programme Review and approve the Programme Benefits Realisation Plan. Review / Approve any Variation Requests which impact programme schedule. Work with the SRO to manage and mitigate Programme and key stakeholder risks and issues. Review Programme progress, variations and approval of actions to ensure delivery against timelines. Review proposed changes to timeline and potential impacts and approve actions.

Name	Responsibilities
Enterprise Programme Management Office (part of Modernisation Office)	Support the development and maintenance of programme and programme stream briefs. Work with communications staff to implement the Programme's Communications Strategy and plans. Define the standards for reporting to enable ease of roll-up of milestone data and dependencies. Undertake periodic reviews of programme and programme stream progress. Track deliverables and identify and report deviations (forecast and actual). Monitor risks and issues to ensure that all risks have a nominated owner and action. Assess the effectiveness of any mitigation actions and whether any risks identified have actually materialised. Provide quarterly programme reports to the Board and joint Ministers. Work with the Benefits Owners to ensure appropriate measuring and monitoring.
Programme Change Manager	Responsible for managing change across culture, communications, stakeholder management and reporting.
Benefit Owners	Responsible for realising the stated benefit. Identify suitable benefit measures and targets with the Measure Owners. Approve the Benefit Profiles. Ensure and monitor the progress of realising the benefit during the entire realisation period. Ensure the business planning activities includes the outcome of the realisation of each benefit. In the event the realisation of the benefit is not tracking to the schedule in Benefits Realisation Plan, then identify interventions to bring the realisation back on track. In the event that a measure has changed due to unforeseen circumstances then provide a variation to the Benefit Realisation Plan and or measure.
Measure Owner(s)	Provides input into the benefits identification activities Provide the outputs from the agreed benefit measures to the Benefit Owner for the duration of the realisation period. Update progress of the benefit measures.
B19 Programme Stream Business	Inputs to benefits identification. Agrees and signoffs the Benefits Realisation Plan.

Name	Responsibilities
Owners	Actively lead and govern the programme delivery work-streams to establish and operationalise projects. Report into through Modernisation Office to support B19 Programme alignment and prioritisation for resources.
Project Delivery Leads	Provide free and frank advice (either individually or together) to The Taura Waka Here Governance Group and Delivery Boards on Projects issues and risks. Provide advice on the development of deliverables. Work with the SRO and Programme Management to manage and mitigate programme and key stakeholder risks and issues. Lead the delivery of projects to realise the stated outcomes and report to the steering committees. Plan for and embed the change so the benefits can be fully realised.
Assurance Providers	The Assurance Provider reports directly to the SRO and is responsible for carrying out the assurance activities in determine level of programme delivery confidence to realise the stated benefits.

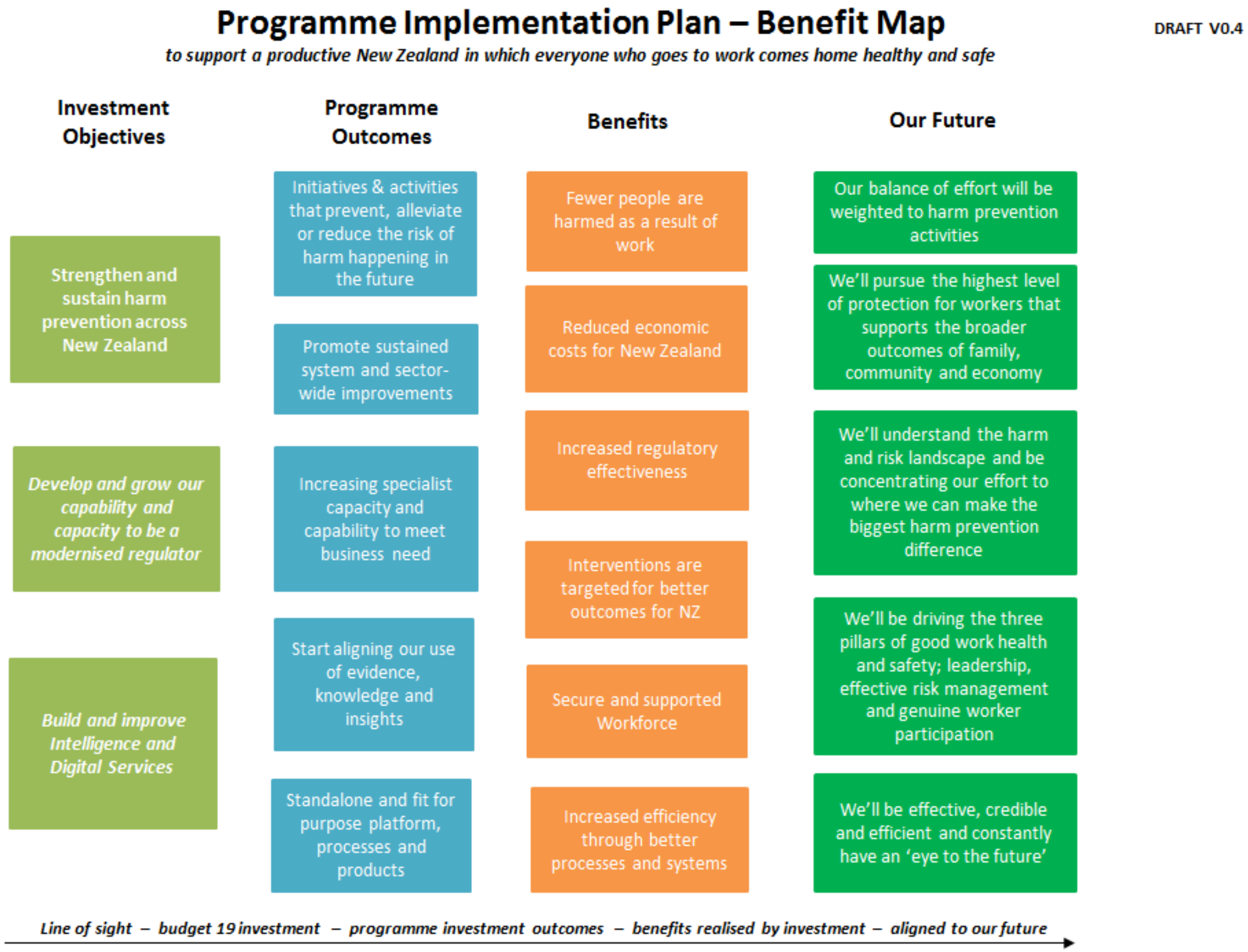
Appendix A - Benefit Plan Approval

Programme Name	Budget 19 Programme
Taura Here Waka SRO	Mike Hargreaves
Date	13 November 20
Benefit #1: Fewer people are harmed as a result of work	
Benefit Owner	Catherine Epps
Date	11 June 2020
Benefit #2: Reduced economic costs for New Zealand	
Benefit Owner	Catherine Epps
Date	11 June 2020
Benefit #3: Increased regulatory effectiveness	
Benefit Owner	Tony Hetherington
Date	15 October 2020
Benefit Owner	Pelin Fantham
Date	25 March 2021
Benefit #4: Interventions are targeted for better outcomes for NZ	
Benefit Owner	Bronwyn Turley
Date	15 October 2020
Benefit #5: Increased efficiency through better processes and systems	
Benefit Owner	Allan Frost
Date	13 October 2020
Benefit Owner	Quin Carver
Date	24 March 2021
Benefit #6: Secure and supported Workforce	
Benefit Owner	Glenda Harvey
Date	15 October 2020

Document control

Version	Issue Date	Changes	Approval
V0.1	February 20	Initial draft based on the Treasury template	n/a
V0.2	March 20	Updated to reflect initial feedback by programme team	n/a
V0.3	9 June 20	Final version for consulting / seeking approval	n/a
V0.4	11 June 20	Approved version to support seeking joint Ministers approval of the B19 contingency funding for WRH	SRO / Benefit Owner for #1 & #2 Benefits
V0.5	11 August 20	Updated to reflect team feedback and proposed approach to measuring benefits #3, #4, #5, #6.	n/a
V0.6	Sept – Oct 20	Benefit owners input and agreement to the proposed approach to measuring benefits #3, #4, #5, and #6.	Benefits owners approval for approach to measuring benefits #3, #4, #5, #6
V0.7	20 Oct 20	Version submitted to THW oversight committee approval of this benefit plan	Submitted for meeting 30 October 2020
V0.8	13 Nov 20	Minor refinements reflecting THW feedback	THW Oversight Committee approval
V0.9	25 March 21	Review and updating of the plan. Reflect change of Benefit owners with newly established General Manager of Transformation and appointment of GM Operations	SRO

Appendix B - Benefit map



Appendix C - Benefit Schedule (to be updated aligned to section 5)

Benefit Details								Measure, Baseline and Target Details															Notes	
Benefit ID	Benefit Status	Benefit Name	Benefit Description	Benefit Type	Benefit Weighting	Benefit Owner	Dashboard Status	Measure Description	Measure Owner	Baseline Value	Date 1	Date 1 Target Value	Date 1 Actual Value	Date 1 Achieved Value	Date 2	Date 2 Target	Date 2 Actual	Date 2 Achieved	Date 3	Date 3 Target	Date 3 Actual	Date 3 Achieved	General	Explanation for any variance
1	Open	Fewer people are harmed as a result of work	Fewer people are harmed at work, which lifts the long-term health and life expectancy of workers by addressing the underlying causes of work-related diseases and ill-health. There is better performance in relation to more complex and currently less understood harms.	Non-monetary	50.0%	Catherine Epps	Jun-20	*WR Fatalities (average over 3 years)		~2.1 per 100,000 FTE per year	Dec-22	2.04			Dec-24	1.98			Dec-26	1.92			takes 18 months to report on - 1.5% decrease annually up to ~6% 2024 which will be visible in 2026	
							Jun-20	*Serious non-fatal work-related acute injury		17.3 per 100,000 FTE per year	Dec-22	16.8			Dec-24	16.3			Dec-26	15.8			1.5% decrease annually up to ~6% 2024 which sill be visible in 2026	
							Jun-20	*WAFW injury (week away from work)		12.7 per 1000 FTE per year	Dec-22	12.3			Dec-24	11.9			Dec-26	11.5			1.5% decrease annually up to ~6% 2024 which swill be visible in 2026	
							Jun-20	Exposure database^ set up		No database	Dec-23	Database receiving data			Dec-24	NZ exposure baseline created			Dec-26	Exposures reduce 1.5%				
							Jun-20	*WSIP survey question about risk at work improves		52%	Dec-22	55%			Dec-24	58%			Dec-26	61%			Improvement of 3% biannually.	
2	Open	Reduced economic costs to New Zealand from workplace harm	Good health and safety practices support good business, which has a direct role in supporting income and material living conditions for New Zealanders. The impact on government expenditure in the wider health and social welfare systems is reduced when there is less workplace harm in New Zealand.	Monetary	25.0%	Catherine Epps		Estimated social cost from Workplace harm		TBD													Reliant on the exposure database^ being in place to give us a NZ baseline	
3	Open	Increased regulatory effectiveness	WorkSafe increases the effectiveness of its responses through an improved understanding of its range and application of levers underpinned by knowledge, insights and evidence to best response to risk. Assessing the impact of programmes, projects and activities is a critical element of the WorkSafe culture underpinning its continuous improvement. This is recognised as being a credible system leader.	Non-monetary	5.0%	Pelin Fantham																		
																							Measure, baseline and targets to be agreed by Sept 2020.	
4	Open	Interventions are targeted for better outcomes for NZ	WorkSafe understands the levers and ongoing efforts/programmes make optimal impact and achieve outcomes sought. It applies its knowledge when intervening in order to maximise the efficacy and impact.	Non-monetary	10.0%	Bronwyn Turley		Service Excellence Survey		83%	Dec-21	84%			Dec-22	85%			Dec-23	86%			Percentage who reported making at least one change to their workplace H&S practices because of their recent contact with WorkSafe	
																							Measure, baseline and targets to be agreed by Sept 2020.	
5	Open	Increased efficiency through better processes and systems	WorkSafe staff have appropriate tools and platforms to do their job effectively – and can be mobile and out with workers/ employers in their place of work. The quality of WorkSafe's front-end user-facing services is improved, such as call centre and overall web presence. WorkSafe has access to modern systems, tools and methodologies for its evidence, knowledge and insights, which then drives what it does. All of this is foundational in order to be a modern and effective regulator	Non-monetary	5.0%	Quin Fantham		Refer Separate Digital Map															Measure, baseline and targets to be agreed by Sept 2020.	
6	Open	Secure and supported workforce	WorkSafe's staff understands how their role contributes to WorkSafe purpose and focus areas. WorkSafe has a clear view of organisational capabilities needed and growing the competencies to deliver on them directed through its People Strategy and the eTOM focus areas. WorkSafe' people have a clear understanding of how to grow their career and the associated pathway with opportunities to learn and develop.	Non-monetary	5.0%	Glenda Harvey	Jun-20	Staff Engagement Survey															Current engagement surveys to be utilised to undertake surveying. Baseline to be established and targets set.	
								Safeplus rating		Performing	Jun-22	Leading											Lift H&S performance one category as measured by SafePlus	
							Jun-20	Shift in attrition rate		16.10%	Sep-21	< 10-15%			Sep-22	< 10-15%			Sep-23	< 10-15%			Shift in attrition & retention rate. This is currently measured. B19 PIP stated - keep voluntary attrition at a sustainable 10%-15% rate. This has been achieved through 18/19 Q2,3,4, 19/21 Q1,2,3 - Targets to be reviewed by June 20	

Assumptions

1. Assumption of 1.5% reduction in injuries and exposures with one year lag in carcinogens
2. Note that fatals are a 3 year moving average
3. WR carcinogens will have to be modelled until exposure monitoring is established
4. Constant GDP fraction is adjusting the social cost estimate for GDP growth
5. Measurement for benefit 1 and benefit 2 encompassing the 'value created' with the uplift in operational capacity (B19 appropriation)
6. WSIP survey proportion "care for others" and "protect me and mine"
7. Requirement for the Exposure database^ to be place to measure reduced economic costs to New Zealand from workplace harm

^ current WorkSafe measure

Appendix D – Digital Transformation Benefits and Measures

B19 Digital Benefit	Main Benefits	Benefit Weighting	KPI	Measures	Measure description	Baseline information (**= Approach to obtaining baseline numbers and targets)	Actual Baseline	Target Value 1	Date	Target Value 2	Date	Target Value 3	Date	Target Value 4	Date
Increased efficiency through better processes and systems. WorkSafe staff have appropriate tools and platforms to do their job effectively – and can be mobile and out with workers/ employers in their place of work. The quality of WorkSafe's front-end user-facing services is improved, such as call centre and overall web presence. WorkSafe has access to modern systems, tools and methodologies for its evidence, knowledge and insights, which then drives what it does. All of this is foundational in order to be a modern and effective regulator.	**Improved customer and staff experience** Staff and customers have trust and confidence in our digital tools They chose to interact with WorkSafe using our digital tools (Business Enablement)	30%	Staff are confident that they have the right digital tools at the right time to do their job	Staff satisfaction with digital tools	Improved staff satisfaction with the provision and access to Digital Tools	Survey " We have the technology to effectively support our processes" 26% . The Public sector standard is 56%	26%	35%	Aug-22	45%	Aug-23	55%	Aug-24	65%	Aug-25
			Improved digital accessibility for customers	Ease of digitally doing business with WorkSafe	Customers find it easier to complete WorkSafe documentation through the digital channels	Surveys on satisfaction	**1 - Current survey results to confirm baseline (Strategy team currently validating information)								
						Shift from manual to automated digital channels (Digital by default)	**2 - Currently validating manual processing point through our Operational team.								
	Increased efficiency Efficiency gains through processes and systems underpinned by digital technology, allowing staff to be mobile and out with workers/ employers in their place of work. WorkSafe has access to modern systems, tools and methodologies for its evidence, knowledge and insights, which then drives what it does (Front end and insights enablement)	30%	Improved WorkSafe productivity	Increased automation of end to end business processes (applications and workflows)	Improved integration of systems (duplication of information / access to information)	Information systems will be integrated across the business domains by 80% (includes consolidation of information held in registers)	**3								
						We can quickly obtain customised reports from our information systems (public sector average is 60%)	17%	30%	Aug-22	50%	Aug-23	60%	Aug-24		

B19 Digital Benefit	Main Benefits	Benefit Weighting	KPI	Measures	Measure description	Baseline information (**= Approach to obtaining baseline numbers and targets)	Actual Baseline	Target Value 1	Date	Target Value 2	Date	Target Value 3	Date	Target Value 4	Date
			Improved frontline staff productivity	Reduction in double handling	Increased functionality for Inspectors to captured and load information in a single transaction	Time taken for inspectors to complete loading of daily transactions end to end	**4 - Baseline through inspectors over a one month period starting 1 April.								
						OIA - time required from staff to process a request. Currently have to go to multiple channels to get the base information. - Dream to have it all in one place	**5 - Ministerial Services to provide baseline								
	Improved Effectiveness Agility of our digital tools to improve responsiveness of our technology solutions. The quality of WorkSafe's front-end user-facing services is improved, such as call centre and overall web presence. (Technology enablement)	40%	Improved Availability and performance	Improved access time of applications and system (e.g. Guardian)	ESI CRM responsive times	x time to open application x time to upload the "Pictures Log template" word document x time to run inbuilt reports	**6 - Request to vendor to provide baseline information								
					Improved availability of digital workplace	service availability up time of core systems (Office 365) (amount of time available to use 24/7)	**6 - Request to vendor to provide baseline information								
					Wait times for Guardian functions	Wait times for Guardian functions x time to open x time to upload the "Pictures Log template" word document x time to run inbuilt reports	**6 - Request to vendor to provide baseline information								
			Improved agility to respond to business needs	Responsiveness to adapt systems and applications to meet business requirements.	Single-sign on to business applications	XXX Number of applications that need manual sign on.	**7 - Validation of application list by D&IS Team								
					Decommission of applications and systems	Applications that are not adaptable in their current state	**7 - Validation of application list by D&IS Team								

Appendix E - Change Management - across different levels at WorkSafe (2021)

Level of change	Who is responsible (and who they report to)	Summary of role and connections across levels	Overview of work
Enterprise Change • **Taura Here Waka**	Enterprise Change Manager (reports to GM People, Culture & Safety)	*This role provides overall guidance and direction to the organisation re change management practices.* *All other change roles should interact with this role to ensure consistency (directly and/or via the Enterprise change community of practice).* *This role works closely with the ePMO.*	• Focus on building organisational change maturity across five areas: Leadership, Process, Project, Skill, Structure • Embedding enterprise-wide change management methodology (Prosci) including change management advice and guidance for use of Prosci • Manages the Enterprise change community of practice • Enterprise-wide change view including change landscape, stakeholder analysis and heatmap of people change impacts (with ePMO) • Taura Here Waka change strategy and plans
Programme, portfolio or business group change, e.g. • **Digital Workspace** • **Operations**	Change lead allocated to programme, portfolio or business group (reports to GM, Business Group Leadership Team and/or Steering Committee)	*This role provides hands-on change management for large changes impacting one or more business groups, including change that has an enterprise wide impact.* *This role would interact with the Enterprise Change Manager as well as other change managers within this business group.*	• Programme/portfolio/business group stakeholder analysis, people change impacts, and change strategy and plans • Change management advice and guidance for all projects, initiatives and any small-scale changes happening within the portfolio or business group • Use Prosci tools and models (for portfolio level) e.g. change risk assessment across the business group • Use full Prosci methodology as needed including Prosci 3-Phase process: Preparing for change, managing change, and reinforcing change
Project or initiative change, e.g. • **New devices** • **HRIS**	Change manager allocated to project or initiative (reports to Project Manager)	*This role provides hands-on change management for medium-sized projects or initiatives.* *This role would interact with the Programme or Portfolio change lead.*	• Project/initiative stakeholder analysis, people change impacts, and change strategy and plans • Use full Prosci methodology including Prosci 3-Phase process: Preparing for change, managing change, and reinforcing change
BAU or small-scale change, e.g. • **Team restructures** • **New policies**	Person nominated from within business to lead the change (most likely reports to GM) e.g. HR Business Partner	*Change management is only a portion of this person's role; they provide hands-on change management for small-scale change.*	• Use Prosci tools and models (for small scale change) e.g. ADKAR model for individual change and CLARC model for people leaders

Appendix H: **WorkSafe's Three**-year Assurance Framework

Introduction to WorkSafe's Assurance Framework

WorkSafe's definition of assurance: ***An objective examination and independent assessment to inform decision-making and monitor progress, including risks, controls, processes, benefit realisation and governance.***

Three lines of defence

- Clear roles and responsibilities
- A culture of good decision making and ability to challenge decisions
- Embedded risk and assurance management across first and second line
- Third line providing independent challenge on effectiveness of assurance activities
- Alignment between strategy and risk management

Fit for purpose assurance

- Focuses on capacity, competency and capability uplift for first line of defence to deliver maximum value
- Independent reviews focus on design and operating effectiveness of assurance across first and second line
- Framework caters for both agile and traditional project delivery methodologies

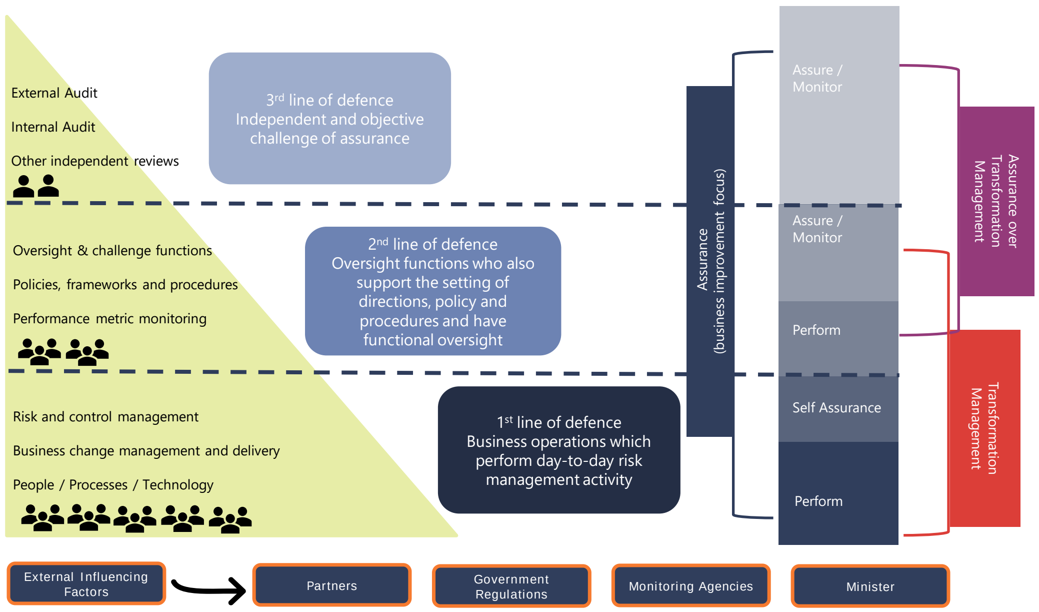
Assurance Programme

- Assurance is embedded in day-to-day processes and Agile development
- Demonstrable evidence throughout digital transformation
- Key external reviews are scheduled to provide independent assurance at the right time
- Balanced sourcing approach to our assurance delivery.

Three Lines of Defence

WorkSafe's Three lines of defence

To position WorkSafe strongly for success, a credible and robust assurance framework is required to inform decision-making and monitor performance.



Investing in our internal capability and assurance framework is essential in supporting our transformation journey.

By building risk maturity and embedding a strong self-assurance framework, along with established internal controls within WorkSafe (*first line*), we can provide confidence and evidence to management and Board that we're delivering what we said we will, at the right time.

Management (*second line*) will provide challenge and oversee the decision making. They'll make sure milestones are being met and manage performance.

Independent reviews (*third line*), aligned to key milestones will provide additional assurance that our internal framework is robust and operating effectively, and we're delivering what we said we will, at the right time.

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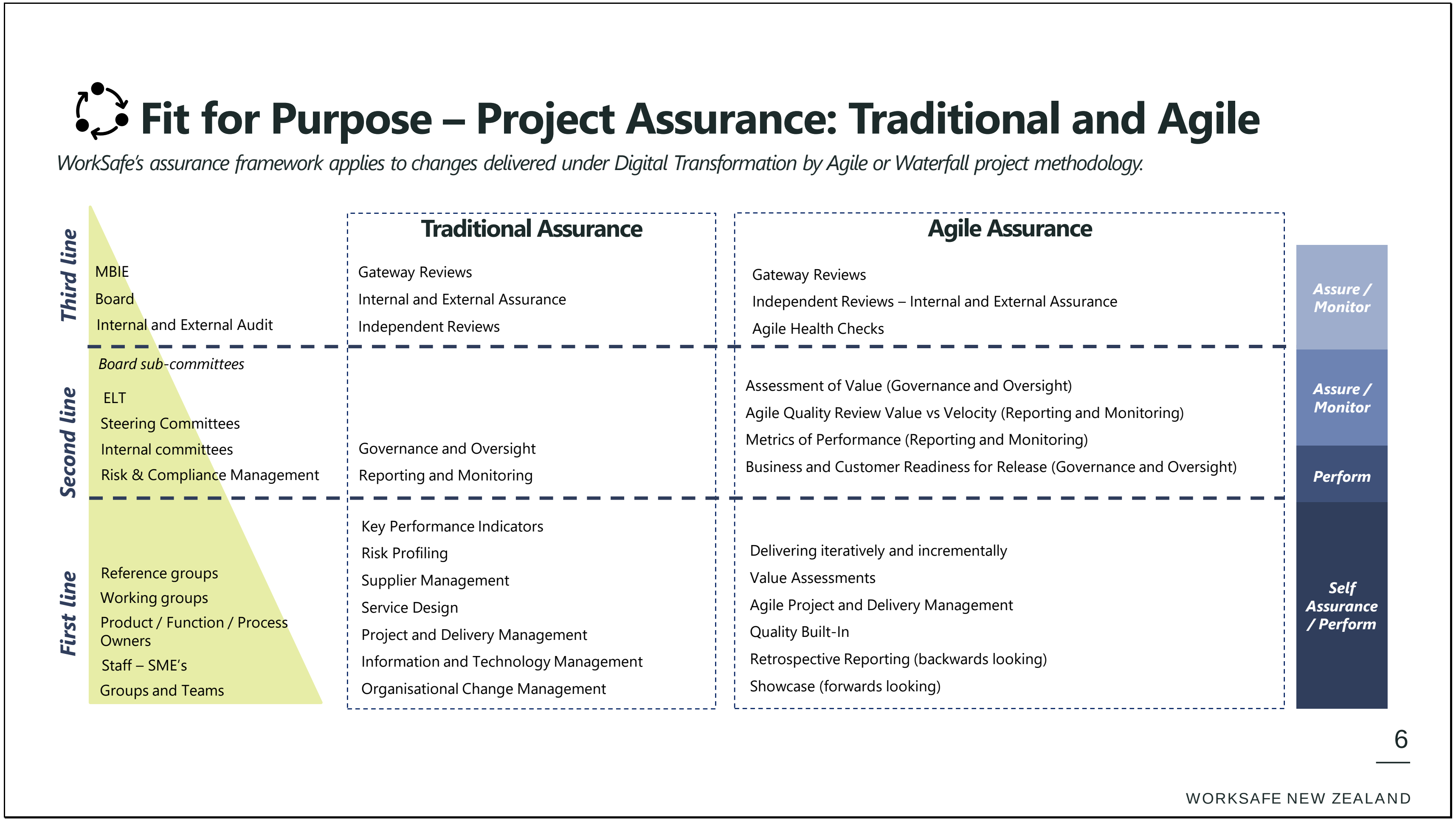
WORKSAFE NEW ZEALAND

Our Approach to Fit for Purpose Assurance



Fit for Purpose – Business Readiness Assurance

To ensure successful mobilisation and delivery of WorkSafe's Digital Transformation, business readiness assurance will support WorkSafe to baseline and measure its ability to adopt and embed changes across our business (staff and functions).

Third line

MBIE
Board
Internal and External Audit

Internal and External Assurance
Independent Reviews

Assure / Monitor

Second line

Board sub-committees
ELT
Steering Committees
Internal committees
Risk & Compliance Management

Monitoring of KPI's and KRI's
Leadership of Change
Stakeholder and Change Management (People and Business)
Performance and Planning

Assure / Monitor

Perform

First line

Reference groups
Working groups
Product / Function / Process Owners
Staff – SME's
Groups and Teams

People
People planning – capacity and capability
Roles and responsibilities - position descriptions aligned
Leadership and performance
Training and development

Communications
Communication planning – internal and external
Identification, analysis, engagement and management (ADKAR)

Processes
Process mapping and internal controls
Business requirements / impact analysis

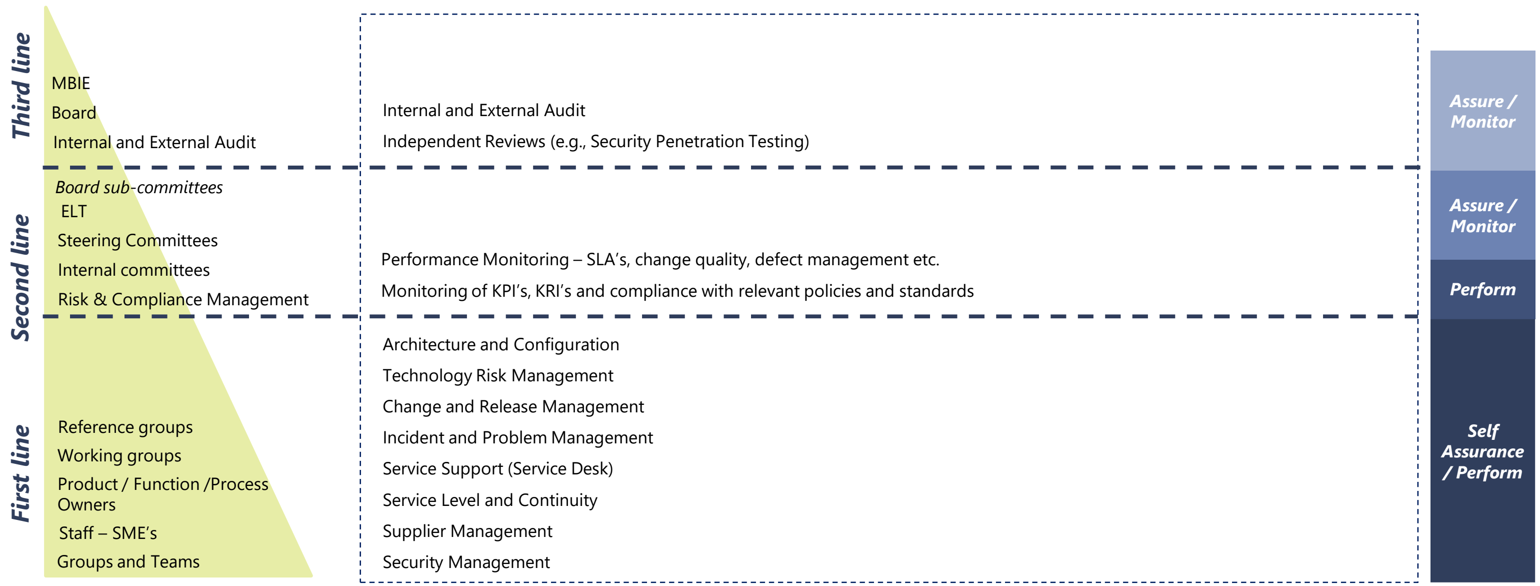
Self Assurance / Perform

7

WORKSAFE NEW ZEALAND

Fit for Purpose – Technology Service Assurance

To ensure successful mobilisation and delivery of WorkSafe's Digital Transformation, technology assurance will support WorkSafe to baseline and measure its ability to support and service technology changes.



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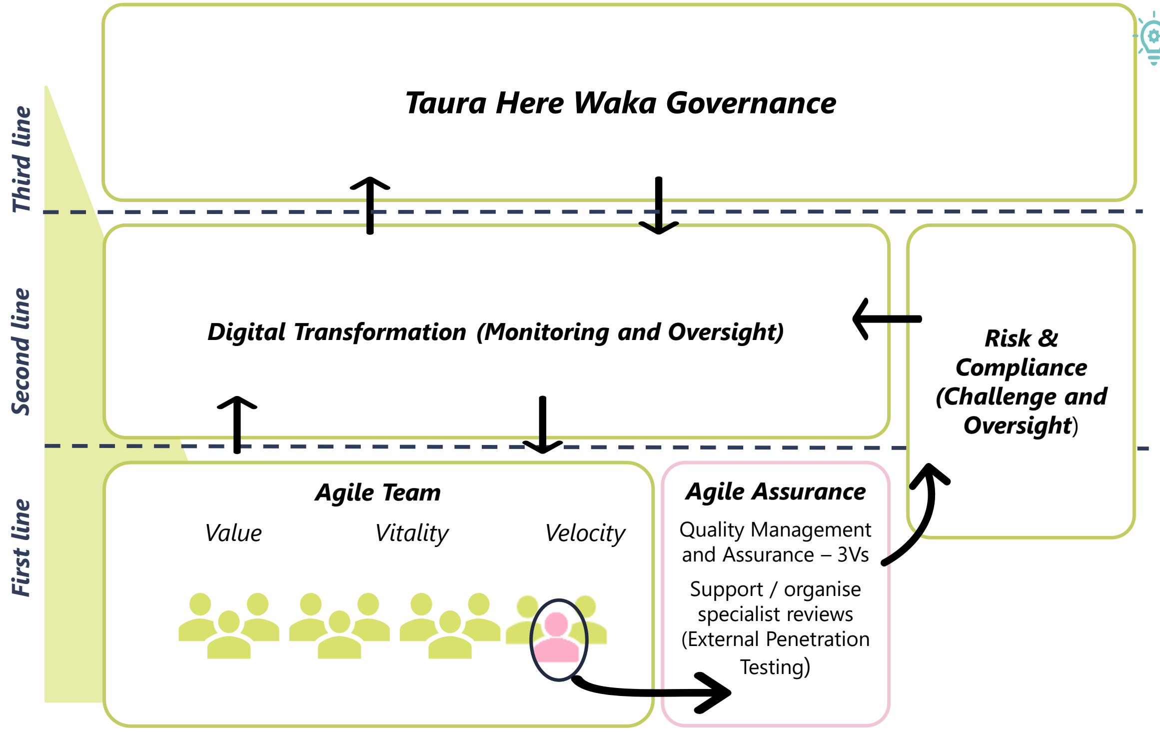
WORKSAFE NEW ZEALAND

Digital Agile Assurance (a little more)

Fit for Purpose - Embedding Assurance in Agile Delivery



How we provide quality assurance in the agile world is fundamentally different as agile is about sprint, learning and reflection cycles.

Quality assurance needs to be embedded in the team to ensure and independent understanding of the value, vitality and velocity progress of the team.

However, an independent voice needs to playback into governance about progress or the lack therefore and the size of the quality debt.

As the governance of agile is quite close to the coal face; this needs to be a fast, flexible and engaging process rather than the traditional reporting one.

This normally requires a Manager with a sound understanding of assurance, a great understanding of the business and an eye for quality debt.

Agile

WorkSafe's approach to embed assurance in Agile across the three lines of defence and 3 Vs

		Value	Vitality	Velocity	
Third line	Independent Assurance	Gateway(s) Independent quality assurance			***Assure / Monitor***
Second line	Governance & Oversight	Product Vision Rapid agile forecasts - time, cost, discovery Flexible funding mechanism Baseline product release roadmap – value Strategy aligned benefits realised	Tailored agile approach Success measures (create right culture) Sustainable pace Customer & business inclusive Agile governance terms of reference	Delegated decision authority Oversight function integration Impediment resolution Target Architecture evolution Release Sign on vs Sign off	***Assure / Monitor*** ***Perform***
First line	Agile teams	Brutal prioritization (value based) Relative sizing - scope, risk and value Definition of Ready (DoR) Just in time product backlog refinement Safe to fail experimentation Review / showcase feedback	Coaching Support Working Agreement Definition of Done (DoD) Retrospectives / Surveys Continuous business improvement Regular technology refactoring Scrum of Scrums (multi team coordination)	PIP – multi team dependency resolution Cross functional teams Sprint planning / daily standups Scope/cost burn charts Flow charts (cycle time / cumulative flow) Value burn charts Automated deploy - release on demand	***Self Assurance / Perform***

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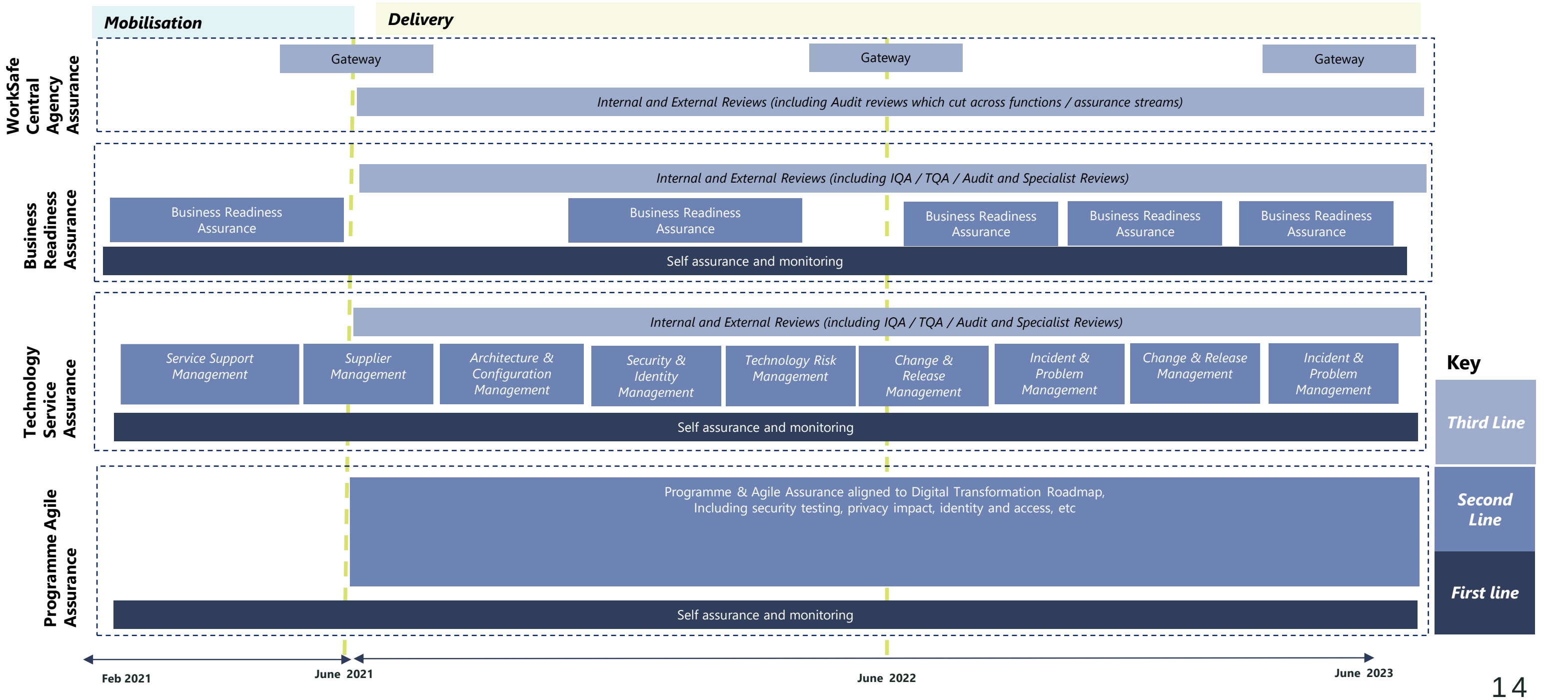
WORKSAFE NEW ZEALAND

Our Assurance Programme

Our assurance programme allows for flexibility to draw on expertise and assurance across the three lines of defence as it is required.

Assurance Roadmap and engagement with the Digital Transformation Committee



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WORKSAFE NEW ZEALAND

Appendix I: B19 Funded Programme Workstreams Delivery and Next Steps

B19 Programme Stream	Planning and Delivery to date	Next steps
Knowledge, Evidence and Insights (Research and Data Analytics)	B19 Appropriation to fund uplift in capability, Data Analytics and Data Science, to progress programme stream aligned to WorkSafe's Intelligence Journey and eTOM. *Gateway review assessed Knowledge, Evidence and Intelligence programme workstream as investment ready in March 2020 and December 2020.* *WorkSafe to request release of 2021/22 and out years B19 funding in Mar / Apr 2021.*	Pūmahara (formerly ELDAR) is a process and a technological capability to join data, information and knowledge together to enable and generate the connected insights necessary to make evidence-based intervention decisions to most effectively and efficiently reduce harm in the work-related health and safety system (HSS). Initiated in early 2020, the project is leading the following work over three years: • Embedding the concept of risk at the core of all WorkSafe decision making (through a more comprehensive understanding of risk, risk factors, and modifiability). • Use these shared concepts of risk to join up all activities and approaches within WorkSafe, allowing WorkSafe to collaborate and act as a unified and effective organisation. • Gain a deeper understanding of who are the key stakeholders in the HSS and identify their strengths, capabilities, motivations and abilities to affect change in the HSS. • Provide a scientific and integrated approach to develop theories of change and design intervention logics that support mixed model regulation. • Inform resourcing, business planning and operational decision making. • Use state of the art knowledge modelling methods to access, collate and analyse all existing and newly validated available data, empirical evidence and subject matter expertise to generate fit-for-purpose insights. • Implement a technologically enhanced solution that is federated, scalable and can evolve to meet changing needs of WorkSafe. Note the first 18 months the focus is on design, development and testing, the second 18 months will focus on embedding the capability within the organisation.
Digital and Information Services	Integrated Separation Roadmap (ISR) Completed – This is the Digital Transformation Roadmap	Key Digital enablers to initiate: • Establish the key technology enabling elements to enable WorkSafe to

B19 Programme Stream	Planning and Delivery to date	Next steps
	HRIS in implementation phase. Information management project in progress. Gateway review assessed Digital and Information Services Programme workstream as investment ready in December 2020. WorkSafe to request release of 2021/22 and out years B19 funding in Mar / Apr 2021. Key enabling ICT and digital projects initiated: • Service Design (refer Appendix K). • Define WiSP Blueprint and delivery tranche plan to modernise WiSP. • Define a clear co-existence strategy to enable transition mode of operation. Mobilise key resources for delivery.	implement a modern system • Enable Entity and partner self-service interactions with Work Safe. • Enhance and uplift application to decision value steam. • Enhance and uplift information to educate value stream. • Business reporting / Data Warehouse optimisation. (refer Digital Strategy and Roadmap)
Work Related Health (Harm Prevention)	During 2020/21, B19 funding has supported actions to scale up and deliver work-related health initiatives, including: • Publication (before June 2021) of high-level plans for the three focus areas of carcinogens & airborne risks, musculoskeletal disorders and mentally healthy work. • Scoping options for a worker exposure database to track measured exposures to health risks. • Development and commissioning of a national carcinogens exposure survey and a psychosocial risks survey using internationally-validated tools. • Development of a knowledge base for mentally health work and psychosocial risks. • Support for a suite of projects co-designed with professional associations to support professional workforce development.	During 2021/22 WorkSafe intends to: • Continue building knowledge and intelligence including acting on the results of surveys and exploring next steps for a worker exposure database • Develop a framework for targeting efforts to control carcinogens and airborne risks • Develop and shared enhanced tools and resources on psychosocial risks and how to address them. • Implement Good Work Design approach via PCBU-led Proof of Concepts with businesses and population groups to design practical frameworks and tools for wider distribution and use. • Use human factors/ergonomics expertise to develop insights, analyses, and tools to reduce MSD-related harm. • Leverage increased internal expertise in work-related health to improve targeting and effectiveness of operational interventions.

B19 Programme Stream	Planning and Delivery to date	Next steps
	• Recruitment of increased internal work-related health expertise, including in mentally healthy work, occupational medicine, human factors / ergonomics and a team of Kaimahi Hauora (inspectors with front-line work-related health expertise). • Conceptual development of WorkSafe's approach to support PCBUs to use Good Work Design principles, specifically to building positive work organisation culture. • Development and implementation of a joint-agency (with ACC and Ministry of Health) approach to reducing the risk of accelerated silicosis in engineered stone workers and assessing the health of those workers. • Support for implementation and evaluation of the New Zealand Occupational Hygiene Society's Breathe Freely programme.	• Continue the programme of actions to address risks of RCS exposure and accelerated silicosis in engineered stone workers. • Scope and pilot a programme to offer small businesses expert support to assess and control carcinogens and airborne risks.
People, Capability and Safety	People Strategy implemented to improve employee experience, embed new values, deliver of a leadership programme and competency framework. Ongoing review and refresh cycle. Learning and development framework in place to support continuous learning and capability building of our staff. Increase in capability and capacity in operational specialist areas to meet emerging areas of demand i.e. psychosocial, hazardous substances, and growth in commitment to H&S in key sectors. Increase in legal capability to support specialist assessments and investigations and targeted areas of persistent non-compliance and bring test cases. People Strategy led activity: • Leadership Programme. • Values refreshed. • Become a performing & leading	*People strategy and L&D programmes funding for 19/20 & 20/21 – B19 appropriation.* Continued delivery of the People Strategy focus areas through baseline funding.

B19 Programme Stream	Planning and Delivery to date	Next steps
	organisation (in terms of Health, Safety and Wellbeing) as described by SafePlus* • ER/IR Strategy. • Talent Review. • Workforce Strategic planning. • Recognition activities for all of WorkSafe integrated into a framework. • Optimal employee experience defined. • Property Strategy developed and signed off. Learning & Development led activity: • Development of Risk literacy capability. • Development of a WorkSafe capability framework. • Office 365 – all staff trained and using tools. *Baseline increase through B19 appropriation for uplift in capability / capacity.*	
WorkSafe's future state enterprise target operating model and Modernisation Programme	Ten year Modernisation Programme agreed to embed the eTOM. Three distinct transition stages set in the ten year modernisation programme roadmap to direct and manage the change journey. Cost pressures applied and reported on in 2019/2020. THW governance oversee WorkSafe investment portfolio including B19 funded modernisation initiatives and programmes ePMO to oversee Modernisation Programme with an immediate focus on the shift to becoming an Insights Driven Regulator (Transition State One). *Baseline increase through B19 appropriation for Modernisation office. Budget 19 cost pressure appropriations.*	Preparing Quarterly reports with integration of B19 funded programmes. eMPO to report on B19 funded programmes, including: • Tracking against milestone in lieu of baselines measures. • B19 funding tracking against budget. • Outcome / benefit tracking. The next phase of understanding the eTOM through the Business Architecture blueprint which expands on our strategy to identify the right things to do to become an Insights Driven Regulator. This work will be lead through the regulatory approach work.

Appendix J: B19 Financial Tables

	FY19/20			FY20/21			FY21/22	FY22/23	FY23/24	FY24/25	Total
Programmes	**Actual**	**Budget**	**Var**	**Actual/ Forecast**	**Budget**	**Var**	**Budget**	**Budget**	**Budget**	**Budget**	**Budget**
Improve the Healthy and Safety Outcomes	**9.7**	**11.7**	**2.0**	**4.86***	**14.3**	**9.4**	**14.2**	**16.8**	**16.8**	**16.8**	**90.6**
Operating (B19)	9.7	11.7	2.0	4.86*	14.3	9.4	14.2	16.8	16.8	16.8	90.6
Capital (B19)	-	-	-	-	-	-	-	-	-	-	-
Work Related Health	**-**	**-**	**-**	**0.28***	**3.0**	**2.7**	**7.0**	**5.0**	**5.0**	**5.0**	**25.0**
Operating (B19)	-	-	-	0.28*	3.0	2.7	7.0	5.0	5.0	5.0	25.0
Capital (B19)	-	-	-	-	-	-	-	-	-	-	-
Knowledge Evidence and intelligence	**-**	**-**	**-**	**-**	**-**	**-**	**1.1**	**1.7**	**1.7**	**1.7**	**6.1**
Operating (B19)	-	-	-	-	-	-	1.1	1.7	1.7	1.7	6.1
Capital (B19)	-	-	-	-	-	-	-	-	-	-	-
Digital and Information	**19.1**	**20.2**	**1.1**	**31.2**	**27.2**	**- 4.0**	**32.3**	**34.6**	**31.2**	**29.6**	**178.1**
Operating (B19)	-	-	-	-	-	-	3.9	3.7	3.7	3.7	14.82
Operating (WorkSafe)	13.4	12.8	- 0.5	20.1	17.7	- 2.3	17.5	20.4	22.9	23.0	117.3
Capital (B19)							11.0	10.5	4.7	3.0	29.2 **
Capital (WorkSafe)	5.7	7.4	1.7	11.1	9.5	- 1.6	-	-	-	-	16.8

***YTD December**

**** WorkSafe will incur costs of $2.4 in FY20-21 that will be reimbursed by the loan**

	FY 23-24	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29
Capital Injection Repayment	5.00	5.00	5.00	5.00	5.00	6.57

The below table show the total expense for the Digital and Information group.

Digital and Information Operating Expenses

$m	2019 - 20 Actual	2020 - 21 Forecast	2021 - 22 Estimate	2022 - 23 Estimate	2023 - 24 Estimate	2024 - 25 Estimate
Outsource Costs and Software Licence Fees	-	4.45	7.52	8.92	9.59	10.08
Personnel	1.84	3.07	3.56	3.65	5.03	5.03
MBIE Shared Service Fee	6.24	5.17	0.80	0.80	0.80	0.80
Project	-	3.13	3.60	3.98	2.45	2.00
Communication	1.15	1.69	1.61	1.61	1.61	1.61
Contractors	1.12	0.45	0.38	0.20	0.20	0.20
Consulting	2.17	0.66	0.16	0.16	0.13	0.11
Other	0.15	0.26	0.10	0.08	0.06	0.05
Other IT Services	0.13	0.08	-	-	-	-
Depreciation	0.60	1.13	3.62	4.72	6.68	6.76
Total Operating Costs	**13.39**	**20.09**	**21.35**	**24.10**	**26.55**	**26.63**

Digital and Information Capital Expenses

$m	2019 - 20 Actual	2020 - 21 Forecast	2021 - 22 Estimate	2022 - 23 Estimate	2023 - 24 Estimate	2024 - 25 Estimate
Project and Portfolio Management Tool	0.20	-	-	-	-	-
Digital Workplace	2.97	3.09	-	-	-	-
Information Management	0.19	0.97	-	-	-	-
Network Enhancements	-	-	-	-	-	-
Plone Migration	0.54	-	-	-	-	-
HRIS	0.18	2.46	-	-	-	-
ICT Laptop Purchases	1.60	0.61	-	-	-	-
Digital Independence	-	2.12	-	-	-	-
Pumahara	-	1.00	0.75	0.75	-	-
3.2a WISP Blueprint and delivery tranche plan	-	-	-	-	-	-
3.2b Establish the key tech enabling etc	-	0.33	0.56	-	-	-
3.2ba Define co-existency strategy	-	0.39	0.40	1.67	-	-
3.2bb Mobilise key resources CMS	-	-	3.59	1.90	-	
3.2c Enable entity and partner self service	-	-	1.67	0.83	0.00	-
3.2d Enhance and uplift Notification	-	-	-	0.52	-	-
3.2e Enhance and uplift Appication	-	-	1.63	1.92	-	-
3.2f Enhance the prosection to	-	-	-	1.11	0.71	-
3.2g Enhance and uplift intervention	-	-	-	-	-	-
3.2h Enhance and uplift information	-	-	0.55	-	0.56	-
Continous improvement	-	-	-	-	3.00	3.00
Other - 7.3 Network design & review	-	0.10	-	-	-	-
Other 1.1 Website virtual assistance	-	-	0.12	-	-	-
Other 1.4 Intranet Transition and Uplift	-	-	-	-	-	-
Other 1.7 Define channel strategy	-	-	0.13	-	-	-
Other 4.2 Geospatial Implementation	-	-	0.18	0.23	-	-
Other 4.3 Business Reporting	-	-	0.13	0.18	0.05	-
Other 4.5 Advanced Analytics	-	-	-	0.65	0.33	-
Other 4.6 Implement and migrate new data mart	-	-	0.77	0.44	-	-
Other 4.7 IM unstructured content mig	-	-	-	-	-	-
Other 4.8 Enable BI, etc	-	-	-	0.20	-	-
Portfolio mgmt EPMO training	-	-	-	-	-	-
Other 5.5 AR	-	0.07	0.34	-	-	-
Other 5.6 Procure to Pay	-	-	0.14	-	-	-
Other 5.8 Exp mgmt	-	-	0.03	0.07	-	-
Other 5.11 Entreprise perf mgmt	-	-	-	0.07	-	-
Total Capital Costs	**5.68**	**11.13**	**10.99**	**10.53**	**4.65**	**3.00**

Service Design

CORE PIECES OF WORK

Legal obligations

Being clear on what we should and shouldn't be doing

User & staff experience

Understanding our users and staff to enable us to effectively target our engagement, education and enforcement efforts

Business Architecture

Expanding on our strategy to identify the right things to do to become an Insights Driven Regulator

Programmes we support

SERVICE DESIGN PROGRAMME

Taura Here Waka (TBC methodology)	Digital Transformation (Agile approach)

• Business Architecture
  • Future Ways of Working
  • Blueprint for Change
• User Segmentation
• Legal Obligations Register
	• Legal Obligations by value stream
	• User Research (Journey Maps) linked to value stream
	• Service Catalogue

Annex Three: WorkSafe's delivery against Ministers' expectations assessment

75. The Joint Ministers' letter requested information on four areas to provide Ministers with assurance that WorkSafe had undertaken adequate planning work to support the implementation of the modernisation outlined in WorkSafe's 2019 Budget Bid. An assessment against these requirements is provided below.

76. We note that the letter from Joint Ministers was written on the basis that the full programme of work would be requested for draw-down at one time, not that components of the programme may be requested separately. However, we have been able to assess whether the *Knowledge, Evidence and Intelligence*; and *Digital and Information* programme workstreams, when combined with wider Modernisation programme documentation have met the requirements of the letter.

77. Our assessment of some components of WorkSafe planning and documentation is consistent with that provided in our earlier briefing to support the release of WRH funding (3631 19-20 refers). This has occurred as strategic documents which apply across all programmes were already completed and available at that stage. We have represented these here against the requirements for completeness.

Target operating model

78. Ministers requested WorkSafe provide:

    i. ***A target operating model that will deliver the proposed future state of WorkSafe as a modern work health and safety regulator*** *and how this differs from the current operating model. We expect that the future-state operating model will be supported by WorkSafe's key stakeholders, and that the Ministry of Business, Innovation and Employment and the Treasury have assurance that the operating model furthers the purpose and objectives of the Health and Safety at Work regulatory system.*

79. WorkSafe has provided an "Enterprise Target Operating Model" ("ETOM"), which presents the future state at the end of the modernisation programme and outlines "*who WorkSafe is, what they're there for, how they'll do it and why they do it*".

80. The ETOM is intended to change the way WorkSafe operates, how it makes decisions and allocates resources aligned with its desire to become a modern effective regulator. The ETOM framework has been confirmed by the WorkSafe Board following consultation with key agencies and their social partners.

81. The vision described in the ETOM is estimated to be delivered in ten years, over three transition states. It does not provide clear insight into what will be achieved in the relevant time horizon (or "Transition State One") which the Budget 2019 investment is intended to fund.

82. Whilst the ETOM informs the shape, direction and context for the service design programme it does not provide information on the new integrated systems, processes and capabilities that will result from the Budget 2019 investment, and how these differ from the current operating model.

83. WorkSafe has commenced a Service Design Programme across the Budget 2019 funding programmes, which we consider is likely to eventually provide the information to fully address this requirement. This programme comprises three core work streams:

    i. Legislative Obligations (rules) - well progressed

    ii. User Segmentation (user and staff experience) – commenced

    iii. Business Architecture (people/processes/policy/systems) – just commenced

84. A key work stream under THW is the Business Architecture work stream to develop 'Future Ways of Working' and a 'Blueprint for Change', the latter encompassing the standard components of an operating model (people/processes/systems etc). Initial scoping stages of this operating model work was completed by PriceWaterhouseCoopers and the WorkSafe Digital Transformation team in mid-2020.

85. While we acknowledge that elements of this work may continue to change over time as WorkSafe learns to become more insights-driven, it is of concern this core THW work appears to have not progressed significantly, when it is a core requirement of the Ministers joint letter. We will continue to engage with WorkSafe, to ensure this work actively progresses.

Programme level planning and detailed implementation plan

86. We consider WorkSafe has met the requirements in relation to the programme level planning and detailed implementation plan as outlined in the Joint Ministers' letter. That letter had requested:

Programme-level planning across the current modernisation programme, funded through Budget 2019 *that outlines:*

- *an updated case for change, confirming that the investment objectives and planning assumptions are still valid following development of a future operating model, or are otherwise updated*
- *the interaction between the current modernisation programme and the longer-term investment required to fully-embed the target operating model, including:*
    - *a high-level roadmap that sets out any potential key transition states, and the outcomes of each transition state, in terms of progressively embedding the target operating model*
    - *the rationale for the scope and sequencing of the current modernisation programme in the context of implementing the target operating model, including whether there is sufficient case for investment in current modernisation programme (in terms of costs and benefits) on its own merits, i.e. even if no further investments were made*
- *how the current modernisation programme is being managed to provide greater assurance to investors of a successful implementation, including:*
    - *breaking down the programme into smaller stages, and the rationale for the proposed sequencing of investments*
    - *any internal and external assurance mechanisms planned for the programme.*

A detailed implementation plan for the funding sought in the draw-down. *This should provide evidence that the first set of investments are ready for implementation, including the following:*

- *The investment work-streams (e.g. people, ICT, harm prevention programmes), what the proposed investments are within each work-stream, what they cost, and how they relate to the target operating model. This should include a joint plan for decoupling ICT and service arrangements with MBIE, including total cost to the Crown.*
- *The change management arrangements to support successful implementation, including management of dependencies and risks.*
- *Any commercial arrangements necessary.*

We expect to be provided with implementation plans for each tranche, where WorkSafe is seeking to access contingency funding across several stages.

Programme level planning

87. Relevant documentation to address these requirements has been provided by WorkSafe and is contained within the Programme Implementation Plan (PIP) within the Executive Summary, Strategic Case, Management Case and Commercial Case sections.[3]

88. The Strategic case contained within the PIP revisits and confirms the case for change remains and investment / intervention is required. The review of assumptions has been valuable and has tested and refined the focus of the programme.

89. The Executive Summary of the PIP sets out the three transition states to becoming WorkSafe 2030 a "World class regulator". The Management case outlines how achieving the desired Transition State One (T1) foundation capabilities will then be leveraged in Transition States Two and Three.

90. Given the complex interaction of the IT programmes, and the requirement to have a stable platform, the IT development is expected to be undertaken in T1. Future transition states are expected to have a lower level of IT development required, with the focus being on further organisational and cultural change and system interventions to deliver desired outcomes.

91. The Budget 2019 Programme will be overseen by WorkSafe governance structures, in particular the WorkSafe Three-year Assurance Framework (**Annex Two, Appendix H)**.

Detailed implementation plan

92. The PIP was prepared to provide an update on significant contextual and material changes since WorkSafe's 2018 WorkSafe Funding Business Case was prepared. Whilst the summary level material remains relevant, detailed programme specifics have continued to be developed and be refined since the PIP was finalised in February 2020. In particular there have been significant developments in WorkSafe's IT planning, so the document needs to be read in conjunction with other more recent programme material.

De-coupling shared services from MBIE

93. WorkSafe and MBIE have established a joint programme team to undertake detailed discovery of the next phases of de-coupling. This is supported by established working arrangements including a terms of reference for the working group and oversight committee.

94. WorkSafe's forecast increased opex costs include the cost to MBIE of undertaking the de-coupling process as this will be recovered by MBIE from WorkSafe (**Annex Two, Appendix J)**. MBIE's IT team have indicated that following de-coupling there is unlikely to be a significant saving in MBIE's commercial IT costs from suppliers. However they note there are likely to be other benefits, including potential gains in efficiency from a reduction in the complexity of MBIE's IT environment.

95. MBIE ICT support the continued de-coupling of WorkSafe given the work completed to date means WorkSafe have now partially completed the process. Delays in releasing funding would create complexity by requiring transitional solutions for systems scoped to be replaced which are coming to the end of life and support will no longer be available.

96. Whilst we have seen some senior level appointments, establishing capability and capacity in WorkSafe's IT function will be critical to success of a substantial work programme.

[3] The Programme Implementation Plan has been provided by WorkSafe in its Chair Letter (as Appendix B)

Change Management

97. WorkSafe have introduced the change management methodology 'Prosci', and have embedded change management processes within the underlying projects under the Digital and Information programme.

98. WorkSafe have determined they are 'starting from a low point in terms of organisational change management maturity, with many opportunities to develop 'managing change' as a core capability at WorkSafe'. The newly established Enterprise Project Management Office will assist with ensuring this development, combined with other project management methodologies and tools, is consistent across the overall transformation planned under THW

99. We consider that WorkSafe have sufficient Change Management planning in place to support successful implementation. However, given the scale of change envisaged in WorkSafe's modernisation journey and WorkSafe's low level of change management maturity this will need to be a continued focus for the WorkSafe Board. Ensuring a good fit of Change Management planning into the People, Culture and Safety plan 2020-2023, as well as embedding the thinking and developing the plan of work within THW will be important for successful delivery.

Reporting plan

100. We consider WorkSafe has partially met the requirements of the Joint Ministers' letter:

> ***A reporting plan****, for reporting around project implementation and benefits realisation, including establishing a baseline of current performance, and lead indicators for benefits. We expect that reporting on the progress of the investment will occur at least quarterly, with more detailed annual reporting on the programme of work and progress towards the future state.*

101. The reporting plan is intended to provide Ministers an understanding of to what degree, their investment has been successful, or to understand where the Crown has achieved value for money.

102. The B19 Modernisation Programme Benefit Plan outlines how WorkSafe will approach the delivery of these benefits, and how it will report on the delivery in the coming years (**Annex Two, Appendix G)**

103. A Benefit Realisation Plan should set out what investors can expect from the programme, to be used as the basis for tracking against what is realised. This should include a complete view of the expected benefits, their dependencies and expected timing for realisation. These should also support Ministers in understanding the connection between near-term funded initiatives and longer-term investment benefit. Where benefits are not expected to be realised until the distant future, a strong set of lead indicators should be included to provide evidence of progress towards delivery of benefits.

104. While there is detail in the Benefit Plan on the overall approach WorkSafe proposes to take to benefit reporting, there is limited detail in the benefits register about the "quantification" of benefits relative to baseline, the expected time profile for accumulation of these benefits, and necessary lead-indicators and milestones of the progress over time necessary to realise the promised benefits. We recognise that some difficulty in establishing current baselines is unavoidable, as the change required for the Digital and Information programme includes implementation of new systems.

105. WorkSafe has provide a summary of programme investment, benefits and outcomes (**Annex Two, Appendix A**). This maps the benefits to the Investment streams including funding which was appropriated at Budget 2019 and the WRH funding held in contingency which was released.

106. We have not seen a finalised reporting template for how WorkSafe intend to represent delivery of the project in its quarterly reporting. We expect reporting will include a baseline plan that provides a consolidated view of projected spending and milestones over the period and progress against programme benefits. With status assessment of component projects reported to Minister against factors including, but not limited to Budget, Scope and management of key risks.

107. MBIE will continue to engage with WorkSafe in its monitoring capacity on the development of WorkSafe's reporting plan.

Other broader considerations

108. As we identified earlier, the transformation being undertaken by WorkSafe is significant. WorkSafe will need to maintain a clear focus on the alignment of its strategic programmes, IT programmes and service design as the organisation continues on its transformation journey.

Assurance

109. A Gateway review team considered WorkSafe's modernisation programme against *Gateway Review 0: Strategic Assessment* and *Gateway Review 3: Investment decision* in March 2020 and a further *Gateway Action Plan Review* was undertaken in December 2020.

110. The December 2020 Review stated WorkSafe's Digital ICT programme (*Digital and Information*) and *Knowledge, Evidence and Intelligence* programme were 'investment ready' and made three recommendations, which WorkSafe is underway in executing:

- Review governance arrangements across the programme to ensure they are relevant for the lifecycle stage.
- Partner with MBIE to develop key relationships at all levels (strategic, operational and tactical).
- Complete the process to gain Ministerial approval to access remaining appropriated B19 funds held in contingency.

111. The Department of Internal Affairs' Digital Public Service branch (DPS), on behalf of the Government Chief Digital Officer (GCDO) has been involved with and supported the activities Worksafe has undertaken since August 2020. DPS have represented "While further work to refine Worksafe's digital transformation plan will occur in 2021, and some risks remain present, in the context of an iterative delivery construct, we believe it is appropriate for Worksafe to receive funding to continue its digital modernisation programme."

112. WorkSafe have provided a 'Digital Transformation Assurance Plan', which was developed with the support of DPS (**Annex Two, Appendix D**).

113. WorkSafe intend to deliver the Digital and Information WorkSteam using an agile project methodology. DPS are supportive of this approach as it will allow WorkSafe to be responsive and adjust programme planning as required, but this approach is new to WorkSafe and its governance arrangements will need to be flexible whilst still maintaining appropriate over-sight.

114. Given the risks with a project of this nature WorkSafe will need to have effective governance arrangements and robust sources of independent assurance across its modernisation programme to ensure it delivers on the strategic changes required. We believe the frameworks and assurance proposed by WorkSafe are appropriate.

Forecast cost increases and intended MBIE Baseline Spending Review

115. WorkSafe is forecasting a significant increase in operating costs to deliver its modernisation programme at a time when they are representing cost pressures across its wider portfolio.

116. Since the funding was allocated in Budget 2019, WorkSafe have undertaken further detailed design of the *Digital and Information* investments that it will be making. WorkSafe have

identified that due to the lower than anticipated life-time capital spend anticipated they forecast less depreciation expense will be incurred. However, reprioritised operating funding is required to cover higher operating costs from "as-a-service" products and ICT operational independence from MBIE.

117. MBIE is progressing planning for the Strategic Baseline Spending Review of WorkSafe, designed to provide an assurance around WorkSafe's management of resources, insights to further inform WorkSafe's planning; and support MBIE in its advice to Ministers on future funding needs.

118. The review is planned to commence in April, and while it has excluded from its scope evaluation of WorkSafe's modernisation programme or target operating model, it notes it may have implications for them, particularly given the increased operating spend forecast as part of the *Digital and Information* workstream.

119. We consider WorkSafe's modernisation investment is required to enable it to operate more efficiently and effectively, which are core focuses of the Strategic Baseline Spending Review.

Annex Four: Letter to WorkSafe - Agreement to release remaining Budget 2019 contingency funding

Mr Ross Wilson
Chair
WorkSafe New Zealand
PO Box 165
Wellington 6140

By email to: wilsonross@xtra.co.nz

Dear Ross

Agreement to release remaining Budget 2019 contingency funding

Thank you for your letter dated 7 April 2021 on behalf of WorkSafe New Zealand (WorkSafe) seeking approval for access to the remaining Budget 2019 contingency-held funding. The funding is intended to support WorkSafe's *Knowledge, Evidence and Intelligence* and *Digital and Information* programmes, including associated operating funding for depreciation.

The Minister of Finance and I have approved the request for the remaining funding held in the Budget 2019 contingency in accordance with the table below~~:~~

	$ millions				
	2021/22	2022/23	2023/24	2024/25	2025/26 & outyears
Operating funding	5.010	5.300	5.300	5.300	5.300
Capital funding (loan)	13.390	10.520	4.650	3.000	-

In particular we have approved the loan from the Crown to WorkSafe, and the Minister of Finance has signed the Facility Agreement on behalf of the Crown. WorkSafe should engage with MBIE to arrange for draw-down of the loan, in accordance with the Facility Agreement.

I thank the Board, management and staff of WorkSafe for providing quality information to support your request.

Your engagement with government agencies and the outcome of the Gateway reviews has provided us with assurance that WorkSafe has done sufficient planning, so that the proposed investments are likely to realise the promised benefits.

The complexity and scale of the programme remains a key risk. It is reassuring to see that WorkSafe has introduced new Change Management, Assurance and Project Management frameworks and methodologies to address these complexities.

I expect significant emphasis will be placed on the monitoring and oversight of delivery of the modernisation programme by the WorkSafe Board to provide increased assurance on effective delivery.

WorkSafe should continue to engage with the MBIE monitoring team on its reporting framework, which should demonstrate how the integrated modernisation programme is delivering the expected benefits, whether this delivery is on-track, and where the programme has had to flex in response to challenges or opportunities.

I am supportive of the need for WorkSafe to progress on its modernisation programme and the substantial benefits which will be gained from its implementation. I look forward to continue to engaging with you as you progress to becoming an insights driven regulator.

Yours sincerely

Hon Michael Wood
Minister for Workplace Relations and Safety

Copy to: Mr Philip Parkes, Chief Executive, WorkSafe New Zealand

Annex Five: Facility Agreement - WorkSafe Digital and Information Services Loan

Execution version

Facility Agreement

—

WorkSafe New Zealand (**WorkSafe**)

The Sovereign in Right of New Zealand acting by and through the Minister of Finance (the **Crown**)

—

18th Floor, 125 The Terrace, Wellington 6011
T +64 4 4985000 F +64 4 4985001
www.minterellison.co.nz

MinterEllisonRuddWatts

Execution version

Facility Agreement

Details

Date

Parties

Name	**WorkSafe New Zealand**
Short form name	**WorkSafe**
Notice details	Address: Level 6, 86 Customhouse Quay, Wellington 6011 Email: WorkSafe.Finance@worksafe.govt.nz Attention: Sandra Lee
Name	**The Sovereign in Right of New Zealand** acting by and through the Minister of Finance
Short form name	**Crown**
Notice details	Address: PO Box 1473, Wellington 6140 Email: Patrick.O'Leary@mbie.govt.nz Attention: Patrick O'Leary, Finance Business Partnering, Finance + Performance

Background

A The Crown has determined to advance the amount of $31,570,000 to WorkSafe under this Facility Agreement for the purposes of providing funding for the Digital and Information services programme that is a key enabler of WorkSafe's modernisation programme.

B This Facility Agreement records the terms and conditions of the facilities under which such loan will be advanced.

Agreed terms

1. Defined terms and interpretation

1.1 Defined terms

In this Agreement, unless the context requires otherwise:

Agreement means this Facility Agreement.

Availability Period means, in respect of the Facility, the period which commences on the date of this Agreement and terminates on the date fifty months after the date of this Agreement.

Business Day means a day (other than a Saturday or Sunday) on which registered banks are open for general banking business in Wellington.

Capital Markets means the Crown acting through the Capital Markets team at the Treasury.

Drawdown means a drawdown made or to be made under the Facility or the principal amount outstanding for the time being of that drawdown, including any interest amounts that have been added to the principal amount.

Drawdown Date means the date specified as such in the Drawdown Request relating to that Drawdown.

Drawdown Request means a notice substantially in the form set out in Schedule 2.

Early Repayment Date has the meaning set out in clause 5.3(a).

Early Repayment Notice has the meaning set out in clause 5.3.

Event of Default means an event or circumstance specified in clause 12

Facility means the facility described in this Agreement.

Facility Amount means $31,570,000.

Financial Indebtedness means any indebtedness for or in respect of:

(a) money borrowed;

(b) any amount raised by acceptance under any acceptance credit facility;

(c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;

(d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with generally accepted accounting practice, be treated as a finance or capital lease;

(e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);

(f) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;

(g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value will be taken into account);

(h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and

(i) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (h) above.

Maturity Date means the date 10 years after the date of this Agreement.

PPSA means the *Personal Property Securities Act 1999*.

Transaction Documents means this Agreement, each Drawdown Request, and any other document designated as such by the Crown and WorkSafe.

Unpaid Amount means any amount due and payable but unpaid by WorkSafe under a Transaction Document.

1.2 References

In this Agreement, unless the context requires otherwise:

an **asset** includes any present or future, real or personal, tangible or intangible asset, benefit, interest, property, revenue, right or undertaking, (including assets, benefits, interests, properties, revenues, rights or undertakings derived from or under any of the same) and intellectual property rights and includes uncalled capital and called but unpaid capital.

authorisation includes any consent, authorisation, registration, filing, lodgement, agreement, notarisation, certificate, permission, licence, approval, authority, record, order and exemption from, by or with a governmental authority; and in relation to anything which will be fully or partly prohibited or restricted by law if a governmental authority intervenes or acts in any way within a specified period after lodgement, filing, registration or notification, the expiry of that period without intervention or action.

expenses includes all expenses, losses, claims, costs (including legal costs), disbursements, taxes, stamp duty, travel expenses, out of pocket expenses, and audit, investigative or administrative costs including any of the foregoing incurred by the Crown under this Agreement or any other Transaction Document.

generally accepted accounting practice has the meaning given to that term by section 8 of the *Financial Reporting Act 2013*.

governmental authority includes any government or any governmental, semi-governmental or judicial entity, agency or authority (including a local authority), or legislative body, or any person or body charged with the administration of any law.

a **guarantee** means any guarantee, indemnity, or other obligation (whatever called) to: (a) be responsible for the payment of any debt by, or the performance of any obligation by, or the solvency or financial condition of, any person; or (b) make payment of any debt, purchase any debt, provide funds for the payment or discharge of any debt (whether by the advance of funds, the purchase or subscription of shares or other securities, the purchase of assets or services, or otherwise) or indemnify against the consequences of default in the payment of any debt.

indebtedness includes any present or future, actual or contingent, secured or unsecured obligation for the payment or repayment or delivery of money (including expenses), whether as principal or surety or otherwise and debt is to be construed accordingly.

material adverse effect means, in relation to any person, a material adverse effect on the relevant person's ability to perform or comply with its obligations under any Transaction Document, and references to material adverse change will be construed accordingly.

a **regulation** includes any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation.

right includes any right, power, remedy, authority or discretion.

security includes:

(a) any present or future mortgage, charge, encumbrance, lien, pledge, finance lease, sale and lease-back, sale and repurchase, flawed asset arrangement, title retention arrangement, charge or similar interest imposed by statute, or other arrangement of any nature having similar economic effect to a security;

(b) any present or after acquired interest in personal property that is a security interest for the purposes of the PPSA; and

(c) a guarantee or indemnity,

but excludes: (i) liens (except as provided in Part 8 of the PPSA), charges, or other interests in personal property created by any Act other than the PPSA or arising by operation of any rule of law; and (ii) any right of set-off, netting or combination of accounts.

tax includes any present or future tax, levy, impost, duty, rate, charge, fee, deduction or withholding of any nature and whatever called, imposed or levied by any governmental authority, together with any interest, penalty, charge, fee or other amount imposed or made on or in respect of any of the foregoing, and taxes and taxation are to be construed accordingly.

upon notice means upon a notice which complies with clause 16.4 being deemed to be delivered to the recipient in accordance with the provisions of that clause.

written and **in writing** include all means of reproducing words in a tangible and permanently visible form including by facsimile transmission.

1.3 Construction

(a) Headings and the table of contents are for convenience only, and do not affect interpretation.

(b) The singular includes the plural and the converse.

(c) A gender includes all genders.

(d) A part or any includes the whole or all, and the converse.

(e) A reference to a clause is to a clause of this Agreement.

(f) A reference to a party to, or beneficiary under, this Agreement or any other agreement or document includes that party's successors, executors, administrators and permitted substitutes and assigns (as applicable).

(g) A reference to a person includes an individual, firm, company, corporation, unincorporated body of persons, organisation or trust, and any governmental authority, in each case whether or not having separate legal personality.

(h) A reference to an agreement or document is to the agreement or document as amended, novated, supplemented or replaced from time to time, except to the extent prohibited by this Agreement.

(i) A reference to legislation or to a provision of legislation includes any amendments and re-enactments of it, a legislative provision substituted for it and a regulation rule, order or instrument made under or issued pursuant to it.

(j) Anything which may be done at any time may also be done from time to time.

(k) Time is of the essence in relation to WorkSafe's obligations, and references to time are to New Zealand time.

2. Conditions precedent

This Agreement is subject to and conditional upon the Crown confirming to WorkSafe in writing that it has received all of the documents and other evidence listed in Schedule 1 in form, substance and manner satisfactory to it (in its sole discretion). The Crown will notify WorkSafe promptly in writing once the Crown is so satisfied.

3. Drawdowns

3.1 Availability of Drawdowns

Subject to clause 3.2, the Facility Amount of the Facility may be drawn down by WorkSafe in one or more Drawdowns, in each case following receipt by the Crown of a Drawdown Request that complies with the requirements set out in this Agreement.

3.2 Conditions precedent to Drawdown

The obligation of the Crown to make a Drawdown available is conditional on WorkSafe providing a completed Drawdown Request for the Drawdown to the Crown in form, substance and manner satisfactory to it (in its sole discretion) and in accordance with clause 3.3.

3.3 Drawdown Request

A Drawdown Request given for the purposes of clause 3.1 must:

(a) be substantially in the form set out in Schedule 2;

(b) be delivered to the Crown not later than 10:00 a.m. five Business Days before the proposed Drawdown Date;

(c) be for an amount not exceeding the Facility Amount less the amount of each prior Drawdown; and

(d) include confirmation from WorkSafe that:

(i) no event or circumstance which in the reasonable opinion of WorkSafe constitutes a material adverse change in respect of WorkSafe has occurred and is continuing;

(ii) there has been no change since the date of this Agreement in the law or any regulation that has or is likely to have a material adverse effect in respect of WorkSafe;

(iii) the representations and warranties set out in clause 10.1 are true and accurate in all material respects; and

(iv) no event which is an Event of Default has occurred and is continuing unwaived by the Crown whether or not remedied or will occur as a result of making the Drawdown.

3.4 Payment in accordance with Drawdown Request

If clause 3.2 has been complied with, then the relevant Drawdown will be advanced to WorkSafe on the Drawdown Date.

3.5 Purpose of Drawdowns

WorkSafe must apply each Drawdown under the Facility for the purposes of providing funding for the Digital and Information services programme that is a key enabler of WorkSafe's modernisation programme.

4. No interest

Subject to clause 7, no interest will accrue or be payable on the Facility Amount.

5. Repayment

5.1 Principal repayment

Subject to this clause 5, WorkSafe will pay to the Crown the principal amount of the Facility in the amounts and on the dates set out in Schedule 3, together with all accrued interest (if applicable).

5.2 Early repayment

(a) WorkSafe is entitled to repay the Facility in part or in full (other than in accordance with clause 5.1). If WorkSafe wishes to repay early, it must:

(i) deliver to the Crown an Early Repayment Notice in accordance with clause 5.3 in respect of the early repayment; and

(ii) pay to the Crown the amount set out in the Early Repayment Notice, on the Early Repayment Date.

(b) If WorkSafe delivers an Early Repayment Notice in accordance with clause 5.3, WorkSafe must make the early repayment contemplated by that Early Repayment Notice in accordance with that Early Repayment Notice.

5.3 Early Repayment Notice

If WorkSafe wishes to make an early repayment pursuant to this clause 5, WorkSafe will deliver to the Crown an irrevocable written notice substantially in the form of Schedule 4 (an **Early Repayment Notice**) stating:

(a) the day on which WorkSafe will repay, which must be a Business Day not earlier than five Business Days after the date upon which the Crown has received such notice (the **Early Repayment Date**); and

(b) the principal amount of the Drawdown to be repaid early,

which, in each case, has been agreed in writing by the Crown before the Early Repayment Notice is sent.

5.4 Redrawing not allowed

Any amount repaid under this clause 5 may not be redrawn.

6. Default interest

6.1 Default interest

If WorkSafe fails to pay any amount payable under this Agreement or a Transaction Document on its due date, it will pay interest on the amount from time to time outstanding in respect of that Unpaid Amount for the period beginning on its due date and ending on the date of its receipt by the Crown (both before and after any judgment) in accordance with this clause 6.

6.2 Rate of Default Interest

(a) Interest payable under clause 6.1 will be determined by the Crown and will be calculated and payable by reference to successive periods of not less than 30 days, each of which (other than the first, which will begin on the due date) will begin on the last day of the previous period.

(b) Each such period will be of a duration selected by the Crown from time to time and the rate of interest applicable for a particular period will be the rate per annum determined by the Crown to be equal to the aggregate of 2 per cent. per annum and the cost to the Crown (as certified by Capital Markets and expressed as a rate per annum) of funding the Unpaid Amount for that particular period by whatever means it determines to be appropriate.

(c) Any determination by the Crown of an amount or rate under this clause will, in the absence of manifest error, be conclusive and binding.

6.3 Payment of Default Interest

Interest payable under clause 6.1 will be payable on the last day of each period in respect of which it is calculated and on the date of receipt of the Unpaid Amount by the Crown. Any interest which is not paid when due will be added to the Unpaid Amount and will itself bear interest accordingly.

6.4 Notification

The Crown will promptly notify WorkSafe of the determination of a rate of default interest under clause 6.1. Failure to so notify on any occasion will not relieve WorkSafe of its obligation to pay the relevant interest or any other amount under this Agreement or a Transaction Document.

7. Taxes

7.1 Tax gross-up

Without limiting clause 15.1(d), if the law requires:

(a) any deduction or withholding for or on account of tax to be made from any amount paid or payable by WorkSafe under a Transaction Document; or

(b) the Crown to make any payment for or on account of tax (other than tax on the overall net income of the Crown) on, or calculated by reference to, any amount received or receivable by it under a Transaction Document,

then:

(c) WorkSafe will ensure that any such deduction, withholding or payment does not exceed the legal minimum and will pay or procure the payment of the amount required to be deducted or withheld to the relevant governmental authority before the date on which penalties attach;

(d) the amount payable to the Crown in respect of which that deduction, withholding or payment is required to be made must be increased to the extent necessary to ensure that, after that deduction, withholding or payment is made, the Crown receives and retains (free from any liability in respect of such deduction, withholding or payment) a net amount not less than the amount which it would have received and retained had no such deduction, withholding or payment been required; and

(e) within 30 days after each deduction, withholding or payment is required by law to be made, WorkSafe will deliver to the Crown, or procure the delivery to the Crown, a receipt issued by the relevant governmental authority recording that such deduction, withholding, or payment has been made.

7.2 Stamp duties

WorkSafe will pay and, within three Business Days of demand, indemnify the Crown against any cost, loss or liability the Crown incurs in relation to all stamp duty, registration and other similar taxes payable in respect of any Transaction Document and any amendment or variation to any Transaction Document.

7.3 GST

If any supply by the Crown to WorkSafe in relation to any Transaction Document will, at the time of supply, be subject to goods and services tax, WorkSafe will pay to the Crown an amount equal to the applicable goods and services tax in addition to the consideration for that supply.

8. Indemnities

8.1 General indemnities

WorkSafe will, within three Business Days of demand, indemnify the Crown against any expenses or liability incurred by the Crown as a result of:

(a) a failure by WorkSafe to pay any amount due under a Transaction Document on its due date; or

(b) the Facility not being repaid early in accordance with an Early Repayment Notice given by WorkSafe to the Crown.

9. Expenses

9.1 Transaction expenses

WorkSafe will promptly on demand from time to time pay the Crown the amount of all expenses (including legal fees on a solicitor and own client basis) reasonably incurred by it in connection with the negotiation, preparation, printing, execution, registration and administration of:

(a) this Agreement, the Transaction Documents and any other documents referred to in this Agreement (whether or not such documents are executed); and

(b) any other Transaction Document executed after the date of this Agreement or other document referred to in a Transaction Document (whether or not such documents are executed).

9.2 Amendment expenses

If WorkSafe requests an amendment, waiver or consent in relation to any Transaction Document, WorkSafe will, within three Business Days of demand, reimburse the Crown for the amount of all expenses (including legal fees on a solicitor and own client basis) reasonably incurred by the Crown in responding to, evaluating, negotiating or complying with that request.

9.3 Enforcement expenses

WorkSafe will, within three Business Days of demand, pay to the Crown the amount of all expenses (including legal fees on a solicitor and own client basis) incurred by the Crown in connection with the exercise, enforcement or preservation, or attempted exercise, enforcement or preservation of any rights under this Agreement and any other Transaction Document, or suing for or recovering any amounts outstanding under this Agreement or a Transaction Document.

10. Representations and warranties

10.1 Representations and warranties

WorkSafe represents and warrants that:

(a) it is a statutory entity validly existing under the laws of New Zealand with perpetual existence, capable of suing and being sued, and has the power and authority to own its assets and to carry on its business generally;

(b) it has:

  (i) the power to enter into, exercise its rights and perform and comply with its obligations under the Transaction Documents; and

  (ii) taken all necessary action to authorise the entry into, execution and delivery of the Transaction Documents and the performance of all the obligations expressed to be binding on it;

(c) the Transaction Documents constitute its legal, valid and binding obligations enforceable in accordance with its terms subject to applicable bankruptcy, re-organisation, insolvency, moratorium or similar laws affecting creditors' rights generally;

(d) neither the execution and delivery of the Transaction Documents, nor the exercise by it of any right or the performance or observance of any obligation under the Transaction Documents nor any transactions contemplated thereby, will:

  (i) violate or contravene any law to which it is subject; or

  (ii) conflict with, or result in any breach of, any agreement, document, arrangement, obligation or duty to which it is a party or by which it or any of its assets may be bound; or

  (iii) violate any instrument constituting it or cause any limitation on any of its powers, or on the right or ability of its board members to exercise those powers, to be exceeded; or

  (iv) create, or result in the creation or imposition of any security on the whole or any part of its assets; or

  (v) result in the acceleration of any of its Financial Indebtedness, or anything which constitutes (or which, with the passing of time or the giving of notice or both, would constitute) an event of default, cancellation event, prepayment event or similar event (whatever called) under any agreement relating to its Financial Indebtedness;

(e) all authorisations required by it in relation to the entry into, execution or performance by it and the validity and enforceability of the Transaction Documents and the transactions contemplated thereby have been obtained or effected and are in full force and effect;

(f) no litigation, tax claim or administrative or arbitration proceedings before or of any court, tribunal, arbitrator or governmental agency, or dispute with any governmental agency, is or are presently in process, pending or (to the best of its knowledge, information and belief) threatened (other than where frivolous or vexatious), which, if determined adversely to it, would have a material adverse effect in respect of WorkSafe;

(g) no event or circumstance has occurred or exists and is outstanding which constitutes a default under any other agreement or instrument which is binding on it or to which its assets are subject which might have a material adverse effect in respect of WorkSafe;

(h) the information provided by it to the Crown at any time in connection with the Transaction Documents was true and accurate in all material respects and not misleading in any material respect as at the date on which it was provided;

(i) all that information was prepared with due care and skill and was based on all the information which it reasonably believes to be relevant;

(j) it has used and will use each Drawdown for the purpose set out in clause 3.5; and

(k) it is solvent and able to pay its indebtedness as it falls due.

10.2 Repetition

The representations and warranties made in clause 10.1 are deemed to be repeated by WorkSafe on each Drawdown Date, each Early Repayment Date, and the Maturity Date, by reference to the facts and circumstances then existing.

11. Undertakings

11.1 Notice

WorkSafe will promptly on becoming aware of the same notify the Crown of:

(a) the occurrence of any event which has or would have a material adverse effect in respect of WorkSafe;

(b) any litigation, arbitration or similar proceedings which if it had been in process, pending or (to the best of its knowledge, information and belief) threatened as at the date of this Agreement, would then have rendered the representation and warranty contained in clause 10.1(f) incorrect;

(c) each actual or proposed lapse, withdrawal, or termination of, or material modification to, any material authorisation required in relation to the entry into, execution or performance of a Transaction Document and the validity and enforceability of a Transaction Document;

(d) it becoming unlawful for WorkSafe to perform any of its obligations as contemplated by this Agreement;

(e) each actual or potential invalidity or unenforceability of a Transaction Document or any provision thereof; and

(f) each change in its authorised signatories, and providing to the Crown specimen signatures and evidence satisfactory to the Crown of the authority of each new authorised signatory.

11.2 Authorisations

WorkSafe will obtain, effect and promptly renew from time to time all authorisations required under any applicable law to enable it to perform and comply fully with its obligations under the Transaction Documents or required for the validity or enforceability of the Transaction Documents.

11.3 Compliance with law

WorkSafe will duly comply with all laws binding on it the non-compliance with which would have a material adverse effect in respect of WorkSafe:

11.4 Ranking of obligations

WorkSafe will ensure that its liabilities under the Transaction Documents rank and will at all times rank at least equally in right and priority of payment with all its other present and future unsecured unsubordinated indebtedness (actual or contingent) except indebtedness preferred solely by operation of law.

11.5 Negative pledge

WorkSafe will not:

(a) incur any Financial Indebtedness (either secured or unsecured) from any person; or

(b) create or permit to exist any security over any of its assets; or

(c) enter into any arrangement having a similar effect to either of the above, in each case without the Crown's prior written consent.

12. Events of default

The Crown reserves the right to terminate the Facility with immediate effect and declare that all or part of the Facility is payable on demand, if:

(a) WorkSafe fails to pay any of the Facility and all other amounts outstanding and payable by it, in the manner required, when due; or

(b) WorkSafe fails to comply with any material undertaking in clause 11 of this Agreement and in respect of any such failure which is capable of being remedied, such failure is not remedied within 10 Business Days of WorkSafe becoming aware of such failure; or

(c) any loan obligation of WorkSafe in excess of $10,000,000:

  (i) becomes due and payable before its due date; or

  (ii) is not paid when due or within any applicable grace period; or

(d) any representation or warranty under clause 10 of this Agreement is untrue, incorrect or misleading in a material respect when made or repeated and, if the circumstances giving rise to the misrepresentation are capable of being remedied, such circumstances are not remedied within 10 Business Days of WorkSafe becoming aware of such misrepresentation; or

(e) an event or circumstance has occurred or exists and is outstanding which constitutes a default by WorkSafe under any other agreement or instrument which is binding on WorkSafe or to which its assets are subject which has had or will have a material adverse effect in respect of WorkSafe; or

(f) WorkSafe is insolvent or is otherwise unable to pay its indebtedness as it falls due.

13. Appointment of investigator

If the Crown believes on reasonable grounds that an Event of Default has occurred, the Crown may appoint a suitably qualified person to investigate WorkSafe's use of the Facility, in which case WorkSafe will:

(a) pay all reasonable costs associated with the investigator;

(b) allow the investigator access to its premises (subject to compliance by the investigator with any health and safety and other requirements reasonably required by WorkSafe or WorkSafe's landlord);

(c) subject to the investigator agreeing to any confidentiality undertakings reasonably required by WorkSafe, allow the investigator to inspect and take copies of all information held by or on behalf of WorkSafe reasonably requested by the investigator, provided such disclosure does not breach WorkSafe's then existing obligations of confidentiality to third parties or affect legal privilege applying to that information; and

(d) do everything lawfully within its power and reasonably requested by the investigator to assist the investigator.

14. Assignment

Neither WorkSafe nor the Crown may assign any of its respective rights or transfer any of its respective rights or obligations under the Transaction Documents without the prior written consent of the other party, such consent not to be unreasonably withheld or delayed.

15. Administration

15.1 Payment mechanics

(a) Each payment to be made by WorkSafe to the Crown under any Transaction Document is to be made at the time specified in the relevant Transaction Document or, if no time is specified, during normal banking hours, in each case on the due date, in cleared funds and to the bank account which the Crown specifies from time to time by notice to WorkSafe.

(b) On each Drawdown Date and subject to satisfaction of clause 3.2 the Crown will make the amount requested in the Drawdown Request available to WorkSafe during normal banking hours and to such account as WorkSafe will have specified in the relevant Drawdown Request.

(c) If the Crown receives a payment that is insufficient to discharge all the amounts then due and payable by WorkSafe under this Agreement, the Crown (and notwithstanding any contrary appropriations by WorkSafe) may apply that payment towards the obligations of WorkSafe under this Agreement in such order as it deems fit.

(d) All payments to be made by WorkSafe under this Agreement will be paid:

(i) free and clear of any restriction or condition;

(ii) free and clear of and (except to the extent required by law) without any deduction or withholding on account of any tax; and

(iii) without any deduction or withholding on account of any other amount, whether by way of set-off, counterclaim or otherwise.

(e) All payments to be made by WorkSafe under this Agreement will be calculated and be made without (and free and clear of any deduction for) set-off or counterclaim.

(f) If a payment made by WorkSafe to the Crown pursuant to a Transaction Document is avoided by law:

(i) that payment will be deemed not to have discharged or affected the obligation of WorkSafe in respect of which that payment was made or received; and

(ii) the Crown and WorkSafe will be deemed to be restored to the position in which each would have been, and will be entitled to exercise all the rights which each would have had if that payment had not been made.

15.2 Set off

(a) WorkSafe irrevocably authorises the Crown to apply (without any prior notice or demand) any amount owing by the Crown to WorkSafe (whether or not due and payable) in satisfaction of any indebtedness due and payable by WorkSafe to the Crown under the Transaction Documents but unpaid.

(b) For the foregoing purposes, the Crown is not obliged to exercise its rights under this clause 15.2 which are without prejudice and in addition to any other rights of the Crown under any Transaction Document and any right of set-off, combination of accounts, lien or other right to which the Crown may at any time be entitled (whether by operation of law, contract or otherwise).

(c) The rights of the Crown under this clause 15.2 are contractual rights affecting the terms on which any amount owing by the Crown to WorkSafe is held and the creation of such rights does not constitute the creation of any security over any such amount.

15.3 Moratorium legislation

All legislation (including, without limitation, the *Corporations (Investigation and Management) Act 1989*) which directly or indirectly:

(a) lessens or otherwise varies or affects in favour of WorkSafe an obligation under a Transaction Document; or

(b) delays or otherwise prevents or prejudicially affects the exercise of any right by the Crown,

is, to the fullest extent permitted by law, deemed to be negatived and excluded in its application to the Transaction Documents.

16. General

16.1 Amendments

No amendment to this Agreement or any other Transaction Document will be effective unless it is in writing and signed by all the parties.

16.2 Accounts

In any litigation or arbitration proceedings arising out of or in connection with a Transaction Document, the entries made in the accounts maintained by the Crown are prima facie evidence of the matters to which they relate.

16.3 Certificates and determinations

Any certification or determination by the Crown as to any rate or amount under this Agreement or any other Transaction Document or fact which might reasonably be expected to be within the Crown's knowledge will be, in the absence of manifest error, conclusive evidence of the matters to which it relates.

16.4 Communications

Each notice, request, demand, consent, approval, agreement or other communication under this Agreement:

(a) must be in writing and given by delivery, post or, subject to the restrictions below, electronic mail;

(b) must be given to the addressee at the address or electronic mail address, and marked for the attention of the person or office holder (if any), from time to time designated for the purpose by the addressee to the other party, the initial address, electronic mail address and relevant person or office holder of each party being set out beneath its name on the execution page at the end of this Agreement;

(c) may be made by electronic mail or other electronic means:

  (i) unless and until a party is notified by the other party that electronic mail is not an accepted form of communication;

  (ii) if the parties notify each other in writing of their electronic mail address and/or any other information required to enable the sending and receipt of information by that means;

  (iii) if the parties notify each other of any change to their address or any other such information supplied by them; and

  (iv) if made in accordance with this clause 16.4(c) will be delivered to an addressee when actually received by the addressee in readable form and in respect of which an active response has been received from the addressee (not being an automatically generated response such as an out of office notification or read receipt); and

(d) **Deemed Delivery:** will be deemed to be received by the addressee:

  (i) if delivered, subject to clause 16.4(c) above, upon delivery;

(ii) if sent by post, on the second Business Day after posting; and

(iii) if received or deemed received after 5.00 pm on a Business Day in the place to which it is sent, or on a non-Business Day in that place, on the next Business Day in that place.

16.5 Conflict of provisions

In the event of a conflict between a provision of this Agreement and a provision of any other Transaction Document, the Crown may, in its absolute discretion, determine which will prevail.

16.6 Counterparts

This Agreement may be executed in any number of counterparts. Once the parties have executed the counterparts, and each party has received a copy of each signed counterpart which that party did not execute, each counterpart will be deemed to be as valid and binding on the party executing it as if it had been executed by all the parties. A party may execute a counterpart copy of this Agreement by photocopying a facsimile or a scanned/electronic copy of this Agreement and executing that photocopy. Where a party executes such a counterpart copy and transmits the signed execution page of that counterpart copy by electronic mail to the other parties then, for the purposes of this Agreement, the transmission will be deemed proof of signature of the original and the signed counterpart copy will be deemed an original.

16.7 Electronic execution

The parties agree that this Agreement may be executed electronically.

16.8 Discretions

Except to the extent otherwise expressly provided, the Crown may act in its absolute and sole discretion when:

(a) forming any opinion; or

(b) exercising, or not exercising any right; or

(c) taking, or not taking, any action; or

(d) giving or withholding consents or releases; or

(e) dealing with any other matter; or

(f) imposing any terms in respect of any such matter.

16.9 Partial invalidity

The illegality, invalidity, or unenforceability of any provision of this Agreement or any other Transaction Document under the law of any relevant jurisdiction will not impair the legality, validity or enforceability of:

(a) the other remaining provisions; or

(b) those provisions under the law of any other jurisdiction.

16.10 Waiver

A waiver of any provision of any Transaction Document will only be effective if it is given in writing and signed by the Crown. A waiver will be effective only to the extent that it is expressly stated to be given. A failure to act, delay in exercising or attempting to exercise or a non-exercise of any right under any Transaction Document or at law does not operate as a waiver of that right. A single exercise or partial exercise of any right does not preclude further exercise of that right or the exercise of any other right.

16.11 Survival of obligations

The payment and indemnity obligations of WorkSafe under this Agreement will survive the termination of the Facility and payment of all other indebtedness under the Transaction Documents and the rights of the Crown to set off such amounts against moneys owing to them will likewise be preserved. The payment and indemnity obligations owing to the Crown will likewise survive termination of the Facility and payment of all other indebtedness under the Transaction Documents.

16.12 Day count convention

Any interest accruing under a Transaction Document will accrue from day to day and is calculated on the basis of the actual number of days elapsed and a year of 365 days.

16.13 Modified following Business Day convention

In this document, unless the context otherwise requires, when any payment is due to be made or any other thing required to be done on a day that is not a Business Day, that payment will be made or thing will be done on the next Business Day, unless that day falls in the next calendar month, in which case the payment will be made or thing will be done on the immediately preceding Business Day.

16.14 Governing law and jurisdiction

This Agreement will be governed by and construed in accordance with New Zealand law, and the parties submit to the non-exclusive jurisdiction of the courts of New Zealand.

Signing page

EXECUTED as an agreement

WorkSafe

WorkSafe New Zealand by its authorised signatory:

Signature of authorised person

Signature of witness

Name of authorised person

Name of witness

Occupation of witness

City/town of residence

Notice details Address:

Address:	Level 6 86 Customhouse Quay Wellington 6011
Attention:	Sandra Lee
Email Address:	WorkSafe.Finance@worksafe.govt.nz

THE CROWN

The Sovereign in Right of New Zealand acting by and through the Minister of Finance:

____
Signature of Minister of Finance

____
Signature of witness

____
Name of Minister of Finance

____
Name of witness

____
Occupation of witness

____
City/town of residence

Notice details Address:

Address:	Finance Business Partnering, Finance + Performance PO Box 1473 Wellington 6140
Attention:	Patrick O'Leary Finance Business Partner
Email Address:	Patrick.O'Leary@mbie.govt.nz

Schedule 1 – Conditions Precedent

1. This Agreement, duly executed.
2. The Minister of Finance has determined, pursuant to section 65 of the *Public Finance Act 1989*, to make a loan to WorkSafe on the terms set out in this Agreement.
3. Any other certificates, information or matters the Crown reasonably requires.

Schedule 2 – Drawdown Request

From: WorkSafe New Zealand

To: The Sovereign in Right of New Zealand
Finance Business Partnering, Finance + Performance
Ministry of Business, Innovation and Employment
PO Box 1473
Wellington 6140

Email: Patrick.O'Leary@mbie.govt.nz

Dated: [ ]

WORKSAFE NEW ZEALAND – DRAWDOWN REQUEST

We refer to clauses 4.3 and 4.4 of the Facility Agreement, made between The Sovereign in Right of New Zealand (the **Crown**) and WorkSafe New Zealand (WorkSafe) on [date] (the **Agreement**), the hereby request a Drawdown as follows:

Facility Amount: $31,570,000

Amount of Drawdown: $[ ]

Drawdown Date: [ ] (which must be a Business Day within the Availability Period) or, if that is not a Business Day, the next Business Day

Confirmation of Conditions:

We confirm that:

(i) no event or circumstance which in the reasonable opinion of WorkSafe constitutes a material adverse change in respect of WorkSafe has occurred and is continuing;

(ii) there has been no change since the date of the Agreement in the law or any regulation that has or is likely to have a material adverse effect in respect of WorkSafe;

(iii) the representations and warranties set out in clause 10 (Representations and warranties) of the Agreement are true and accurate in all material respects; and

(iv) no event which is an Event of Default has occurred and is continuing unwaived by the Crown whether or not remedied or will occur as a result of making this drawing.

The proceeds of this Drawdown should be credited to [account].

This Drawdown Request is irrevocable.

Yours faithfully

Authorised signatory for
WorkSafe New Zealand

Schedule 3 – Repayment Schedule

Due Date for Repayment	**Repayment Amount**
30 June 2024	$5,000,000
30 June 2025	$5,000,000
30 June 2026	$5,000,000
30 June 2027	$5,000,000
30 June 2028	$5,000,000
30 June 2029	$6,570,000

Schedule 4 – Early Repayment Notice

From: WorkSafe New Zealand

To: The Sovereign in Right of New Zealand
Finance Business Partnering, Finance + Performance
Ministry of Business, Innovation and Employment
PO Box 1473
Wellington 6140

Email: Patrick.O'Leary@mbie.govt.nz

Dated: [ ]

WORKSAFE NEW ZEALAND - EARLY REPAYMENT NOTICE

We refer to clause 5 of the Facility Agreement, made between Her Majesty the Queen in right of New Zealand and WorkSafe New Zealand on [date] (the **Agreement**), and hereby confirm early repayment of the Facility as follows:

Principal amount of Facility to be repaid early: [ ]

Early Repayment Date: [ ]

Yours faithfully

____

Authorised signatory for
WorkSafe New Zealand

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Investor Confidence Rating – finalise and release the round 2 tranche 4 results

Date:	8 April 2021	**Report No:**	T2021/761
		File Number:	ST-4-8-4-6-2-33

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Agree** the Investor Confidence Rating round 2 tranche 4 results are final and can be released in coordination with your office. Refer the report to the Minister of Health.	Monday 19 April 2021

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Grant Petherick	Senior Analyst, Office of the Government Accountant	s9(2)(k)	N/A (mob)	✓
Aaron Matthews	Head of Stewardship and Governance, Office of the Government Accountant		s9(2)(g)(ii) (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury. Refer the report to the Minister of Health.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Investor Confidence Rating – finalise and release the round 2 tranche 4 results

Purpose

1. This paper invites you to agree that the Investor Confidence Rating (ICR) results for six agencies, which did not proceed through the usual process of Cabinet consideration due to COVID-19 priorities, can be finalised without going to Cabinet.

2. These results will then be publicly released by the Treasury in line with the usual process for these ICR results on a date agreed with your office.

Background

3. The ICR provides an assessment of the performance of investment intensive agencies in managing investments and assets that are critical to the delivery of NZ government services. The ICR provides an indication of the level of confidence that Cabinet and Ministers can have in an agency's ability to realise a promised investment result if funding was committed. The ICR has completed two rounds of assessments in a series of tranches.

4. The last tranche of round two included: Department of Internal Affairs (DIA); Department of Conservation (DoC); Ministry of Business, Innovation & Employment (MBIE); Ministry of Foreign Affairs & Trade (MFAT); Ministry of Health (MoH); and New Zealand Customs Service (NZ Customs).

Agency	2016 ICR Result	2020 Preliminary ICR result
DIA	C	C
DoC	C	B
MBIE	B	B
MFAT	A	B
MoH	C	D
NZ Customs	B	B

5. The Treasury strengthened Round 2 assessments – they are now more challenging than they were in Round 1. This means that even if an entity has made some real improvements it could still see a minor reduction in score. Maintaining the same result should be viewed as positive, as improvements and sustained effort will have been required to do this.

6. With that context, the shifts in agency's ratings were:
    1. three agencies have retained their C or B ratings,
    2. one has increased its rating (DoC from a 'C' to a 'B' rating), and
    3. two agencies have decreased (MFAT from an 'A' to a 'B' rating, and MoH from a 'C' to a 'D' rating).

7. You communicated these preliminary results to Responsible Ministers in July 2020 (refer T2020/153).

Finalising the Results

8. In our view it is expedient to consider that the ICR results for the six agencies assessed in 2020 are now final. While this skips the usual step of Cabinet consideration, the results were communicated to Responsible Ministers, and both they and agencies have responded to the results as they can in the context of COVID-19.

9. Cabinet consideration of these dated ICR results is not likely to increase entities ability to respond to them and improve now. However, ICR results are always proactively released, so these ones should be finalised and released as soon as possible to maintain this standard of transparency.

10. In recognition of Department of Conservation's improvements and its move from a C to a B rating, we expected to invite Cabinet to increase the Department's authority over its investments. As we no longer intend to take these results to Cabinet, we have advised the Department that this change in its general approval thresholds will need to wait for the next Cabinet paper on this matter.

Communications

11. The Ministry of Health D rating may attract comment, and the timing of release will need to consider other announcements – for example any changes to the health sector.

12. Subject to your agreement to finalise these results, the Ministry will brief the Minister of Health with more detail on its ICR result before the public released.

13. The results will be released in the form of agency scorecards (as attached) on the Treasury's website. We will publish aggregate analysis of all ICR results between Round 1 and 2 (2015 – 2020) at the same time. We will agree timing of the release with your office.

Next steps developing the Investor Confidence Rating

14. The Treasury has paused further ICR assessments while it reviews possible changes to the ICR. We have undertaken a review that has confirmed that the assessments have value and should continue. It also identified three issues that need to be addressed:

- Its **methodology** is complex
- It isn't **integrated** into Public Finance System processes, e.g. Budget advice
- It lacks **credibility** with some CEOs and Ministers

15. We are addressing these issues by shifting to:
    - a simplified Rating derived from actual data on investment performance; and
    - an Outlook that brings together information and perspectives from investment system leads on an agency's capability to manage future investments.

16. As part of our future development of the investment management system, we will outline how the enhanced ICR will support agency delivery performance and assurance of planned investments.

Recommended Action

17. We recommend that you:

a **agree** that the six agency ICR results for Department of Internal Affairs (DIA), Department of Conservation (DoC), Ministry of Business, Innovation & Employment (MBIE), Ministry of Foreign Affairs & Trade (MFAT), Ministry of Health (MoH), and New Zealand Customs Service (NZ Customs) are final;

Agree/disagree.

b **agree** that the Treasury can release these six agency ICR results on a date coordinated with your office;

Agree/disagree.

c **note** that the Ministry of Health's 'D' rating is an outlier that may draw comment.

d **refer** this note to the Minister of Health; and

Agree/disagree.

e **note** that ICR assessments have been paused as we look to enhance the approach as part of the strengthening of the investment management system.

Aaron Matthews
Investment Management and Asset Performance, Head of Stewardship and Governance

Hon Grant Robertson
Minister of Finance

Department of Internal Affairs

Investor Confidence Rating:	C
Scope of ICR assessment	Property and ICT portfolios*

Elements Score

		Element	Element Score
Lead Indicators	1	Asset Management Maturity (AMM)	11/15
	2	Project, Programme and Portfolio Management Maturity (P3M3)	12/15
	3	Quality of Long Term Investment Plan (LTIP)	2/10
	4	Procurement Capability Index (PCI)*	5/5
	5	Organisational Change Management Maturity	8/10
Lag Indicators	6	Benefits Delivery performance	4/20
	7	Project Delivery performance	4/10
	8	Asset performance	6/10
	9	System performance	4/5
		Total Score	**56/100**

Total Score	Rating
81	A
66	B
51	C
26	D
0	E

* Excludes the Government Chief Digital Officer (GCDO) functional lead

Treasury Comment

DIA's score of 56 has decreased slightly from the 58 in 2016. As assessment in Round 2 is more robust, this indicates that some improvements have been made as the score has only marginally decreased. However, the evidence shows DIA has further work to achieve Cabinet's expected level of a B rating for investment-intensive agencies.

In Round 2 DIA's Asset Management Maturity, Organisational Change Management Maturity and System Performance have improved. There is also an excellent first result in Procurement Capability.

The Asset Management Maturity assessment has slightly improved. Key strengths are in the ICT portfolio, and asset management policy, strategy and service delivery. Improvements are to lift property maturity, and asset planning, performance and condition assessments.

Portfolio programme and project maturity showed strengths in portfolio and project, with improvements required in programme maturity and DIA's capability offerings. There is a high level of PCI maturity.

The LTIP describes DIA's contribution to the government's priorities, planned investments, operating context and organisation well. However, it could be further improved by extending the timeline and improving the clarity of the prioritisation rationale. Additionally, there could be further discussion for a number of significant projects, including the Te Ara Manaaki programme to outline rationale for the investment, impacts and value-add, such as how it could better position DIA to serve its customers.

With the more robust verification in Round 2, both Benefits Delivery and Project Delivery elements had moderate to significant verification adjustments applied this round. For benefits, improvements are to ensure there are SMART benefits and DIAs benefits are consistently managed.

The Asset Performance element for this round had quality issues within both measure data and target approval information. This has impacted DIA's score and resulted in a downwards adjustment to the self-assessed score.

Potential Implications

As in Round 1, based on a C rating there will be no change to the general approval thresholds or other requirements set out in Cabinet Office circular CO(19)6.

Department of Conservation

Investor Confidence Rating:	B
Scope of ICR assessment	All department *

Elements Score

		Element	Element Score
Lead Indicators	1	Asset Management Maturity (AMM)	13/15
	2	Project, Programme and Portfolio Management Maturity (NZP3M)	15/15
	3	Quality of Long Term Investment Plan (LTIP)	8/10
	4	Procurement Capability Index (PCI)	4/5
	5	Organisational Change Management Maturity	10/10
Lag Indicators	6	Benefits Delivery performance	8/20
	7	Project Delivery performance	6/10
	8	Asset performance	4/10
	9	System performance	4/5
		Total Score	**72/100**

Total Score	Rating
81	A
66	B
51	C
26	D
0	E

* Except AMM/Asset Performance (Visitor and Road portfolios), Project and Benefits Delivery (Operations, ICT, Fleet & Plant)

Treasury Comment

DoC has made significant progress in investment and asset management, achieving an improved 72 score compared to 61 from its 2016 assessment. This is also positive considering the more robust ICR assessment process applied in Round 2. The focus should now be on embedding internal capability to sustain the improvements made.

DoC has significantly improved Asset Management Maturity. It is recommended that DoC sustain the AMM gains made and implement the priority improvements identified.

DoC has also had a significant uplift in their NZP3M score of 6 in Round 1. There is a strong commitment to improve across all levels and this is well-supported by senior level management.

The LTIP is comprehensive and future-focused. However, there are some improvements required in achievability and scenario modelling (i.e. including risks and impacts) as well as accounting for asset performance and the potential impact of this on service target levels.

DoC's change management maturity has seen a significant uplift, through concerted improvement actions.

There is opportunity for DoC to further develop and refine Benefits Delivery. Specifically, in ensuring that all benefits have clear targets and measurement is meaningful. This should serve DoC well in optimising future benefits.

This round of Asset Performance assessment included a more robust verification of asset performance data. This assessment revealed some enhancements to improve both the availability of supporting evidence and target approvals. Also, some changes to the measures used are recommended to better reveal underlying performance.

DoC respects the requirements of the investment system as evidenced by the System Performance score.

Potential Implications

DoC intends to improve benefits, asset performance, and portfolio, programme and project capability. Based on the improved B, Cabinet approval for a higher decision threshold would normally be sought, but this is not being actioned at this time.

Ministry of Business, Innovation and Employment

Investor Confidence Rating:	B
Scope of ICR assessment	Property and ICT portfolio *

Elements Score

		Element	Element Score
Lead Indicators	1	Asset Management Maturity (AMM)	14/15
	2	Project, Programme and Portfolio Management Maturity (P3M3)	15/15
	3	Quality of Long Term Investment Plan (LTIP)	6/10
	4	Procurement Capability Index (PCI)	2/5
	5	Organisational Change Management Maturity	8/10
Lag Indicators	6	Benefits Delivery performance	16/20
	7	Project Delivery performance	8/10
	8	Asset performance	6/10
	9	System performance	4/5
		Total Score	**79/100**

Total Score	Rating
81	A
66	B
51	C
26	D
0	E

* Excludes the NZ Government Procurement (NZGP) functional lead

Treasury Comment

MBIE has made good progress in investment and asset management as evidenced by the improvement from its initial assessment in 2016 (a score of 70). Given the more robust ICR assessment in Round 2, this result shows a good level of improvement. The focus should now be on developing and embedding internal capability to sustain the improvements made.

MBIE's Asset Management Maturity shows strengths across a number of areas including Asset Management Policy and Strategy, Levels of Service and Performance Management. Key improvements are forecasting demand (especially for Immigration NZ) and introducing a property visualisation tool.

MBIE has a solid foundation to enhance the strong performance in Benefits Delivery and Project Delivery. Evidence for these elements was high quality and MBIE's tracking and reporting of benefits and project information is clear and coherent. Projects mostly meet time, cost, and scope. A key improvement is to embed good benefits practice across all investments.

MBIE is developing a new procurement operating model to lift this capability across the organisation. A number of improvement initiatives are already in place, and MBIE's internal procurement is supported by MBIE's procurement functional lead.

There has been a significant uplift in P3M3 maturity since Round 1. Processes and management are robust with an active Investment Board. To maintain this elements' score, recommendations are to improve capability, frameworks and reporting.

The Asset Performance element for Round 2 included more robust verification. This impacted MBIE's score as verification revealed some issues in the quality of ICT measures.

MBIE's improved LTIP has strengths in financial, asset and procurement. Improvements are to have a greater focus on service impacts, extend thinking beyond 10-years and to revisit the plan once the organisational strategy is in place. MBIE has positively improved the System Performance result to Very Good from Good.

Potential Implications

Retain existing increased delegations from ICR Round 1. These expanded the general approval thresholds for medium or low risk baseline-funded investments up to $35m WOLC for the Responsible Minister and up to $20m for the Chief Executive.

Ministry of Foreign Affairs and Trade

Investor Confidence Rating:	B
Scope of ICR assessment	Property and ICT portfolios

Elements Score

		Element	Element Score
Lead Indicators	1	Asset Management Maturity (AMM)	14/15
	2	Project, Programme and Portfolio Management Maturity (P3M3)	12/15
	3	Quality of Long Term Investment Plan (LTIP)	8/10
	4	Procurement Capability Index (PCI)	3/5
	5	Organisational Change Management Maturity	8/10
Lag Indicators	6	Benefits Delivery performance	12/20
	7	Project Delivery performance	6/10
	8	Asset performance	10/10
	9	System performance	4/5
		Total Score	**77/100**

Total Score	Rating
81	A
66	B
51	C
26	D
0	E

Treasury Comment

MFAT's score of 77 has decreased slightly from the 81 achieved in 2016. Given the more robust ICR assessment in Round 2, this result shows that improvements have been made to almost maintain this same score.

Round 2 has seen improvements in MFAT's Asset Management Maturity, Long Term Investment Plan, Organisational Change Management Maturity, and System Performance. MFAT's improved Asset Management result is especially due to an uplift in ICT portfolio maturity. MFAT has strengths across many areas, including asset policy and strategy, asset management planning and audit and improvement.

Although the Project, Programme and Portfolio maturity score has remained the same, given the more robust assessment, there have been improvements made since 2016. There is the opportunity to be more consistent across all investments.

The LTIP has robust rationale for investment intentions across a range of different timeframes, and has clear strategic alignment with current and future states. An improvement is to describe how MFAT might better engage with external agencies and what impacts these engagements may have on their investments.

MFAT has positively lifted its Change Management capability through the Change Management Capability Uplift Project.

The Benefits Delivery and Project Delivery investments included all investments in MFAT's portfolio. The Asset Performance result is outstanding.

MFAT has improved System Performance since 2016, and are a proactive agency that seeks out opportunities with sector agencies. An area of opportunity is to further embed investment planning and management processes across the organisation.

Potential Implications

Retain existing increased delegations from ICR Round 1. These expanded the general approval thresholds for medium or low risk baseline-funded investments funded from baselines up to $40m WOLC for the Responsible Minister and up to $25m for the Chief Executive, as well as the Chief Executive having flexibility over investment reviews e.g. Gateway

Ministry of Health

Investor Confidence Rating:	D
Scope of ICR assessment	Property and ICT portfolios

Elements Score

		Element	Element Score
Lead Indicators	1	Asset Management Maturity (AMM)	11/15
	2	Project, Programme and Portfolio Management Maturity (P3M3)	9/15
	3	Quality of Long Term Investment Plan (LTIP)	4/10
	4	Procurement Capability Index (PCI)	2/5
	5	Organisational Change Management Maturity	4/10
Lag Indicators	6	Benefits Delivery performance	4/20
	7	Project Delivery performance	2/10
	8	Asset performance	2/10
	9	System performance	2/5
		Total Score	**40/100**

Total Score	Rating
81	A
66	B
51	C
26	D
0	E

Treasury Comment

MoH's score of 40 has decreased from the 62 achieved in 2016. The decrease is partly due to significant change in the organisation such as staff turnover in critical roles (i.e. leadership). The ICR assessment is also more robust in Round 2. MoH has resource, capability, and process improvements underway and is working on strengthening their health system steward role e.g. National Asset Management Plan and Health Infrastructure Unit establishment. The evidence shows MoH has further work to achieve Cabinet's expected level of a B rating for investment-intensive agencies.

AMM, P3M3 and LTIP scores have been maintained, however there has been a reduction in capability and performance across five of the nine elements. Treasury recommends that MoH identify the ICR priority improvement items and put in place a project to address these. Better information management practices will also support an uplift in capability and performance.

To lift P3M3 maturity, MoH should determine the portfolio structure to ensure oversight and management of MoH's investments, and implement a project and programme framework. For PCI, strengthening internal capability, including induction training, will support an uplift in contract and supplier relationship management.

The LTIP rating has been maintained since Round 1 with a score of 'Basic'.

Benefits and Project Delivery raw scores were adjusted down as there were moderate issues evidenced through the more robust assessment. MoH has a good foundation for Benefits Delivery in Bowel Screening which, if leveraged and applied consistently, should serve it well in optimising benefits from its other investments.

Asset Performance element verification revealed significant opportunities for improvement for ICT measures and consistency of performance measurement. This resulted in a downwards adjustment to the self-assessed score.

System Performance result has decreased as there is room to improve in complying to Cabinet requirements. However, there has been recent improvement in engagement with system leads (i.e. a joint-review for the DHB sector system).

Potential Implications

Based on a D rating there would be no change to the general approval thresholds or other requirements set out in Cabinet Office circular CO(19)6.

New Zealand Customs Service

Investor Confidence Rating:	B
Scope of ICR assessment	Property and ICT portfolios

Elements Score

		Element	Element Score
Lead Indicators	1	Asset Management Maturity (AMM)	14/15
	2	Project, Programme and Portfolio Management Maturity (P3M3)	15/15
	3	Quality of Long Term Investment Plan (LTIP)	10/10
	4	Procurement Capability Index (PCI)	2/5
	5	Organisational Change Management Maturity	6/10
Lag Indicators	6	Benefits Delivery performance	12/20
	7	Project Delivery performance	6/10
	8	Asset performance	8/10
	9	System performance	5/5
		Total Score	**78/100**

Total Score	Rating
81	A
66	B
51	C
26	D
0	E

Treasury Comment

NZ Customs has made good progress in investment and asset management as evidenced by the improvements made across elements. Overall, Customs has slightly increased from the 77 score from the 2016 assessment. Given the more robust ICR assessment in Round 2, this result shows good improvement. The focus should now be on developing and embedding internal capability within procurement and project delivery in addition to sustaining the improvements across other elements.

NZ Customs have consistently rated high maturity in Asset Management In AMM, a large proportion of the high priority recommendations from the 2016 AMM assessment have been implemented.

NZ Customs has made a good uplift in P3M3 maturity. An improvement is to consider implementing project management software to be more efficient and move away from the reliance on manual processing.

NZ Customs excellent rated LTIP is an exemplar for others to copy. The LTIP has a high degree of usability and can model the impacts that real-time decisions may have on their investments. It is future-focused and includes strategic alignments across many different aspects of their organisation.

The Benefits and Project Delivery elements scores for this round include a more robust verification. This has impacted on NZ Customs' score, as verification revealed some underlying issues. Similar issues were noted last round but a verification was not applied at that time.

For Asset Performance a wide range of quality measures were submitted, with positively 82 percent of targets being met.

Customs meets all investment system requirements as evidenced by the System Performance score.

Potential Implications

Retain existing increased delegations from ICR Round 1. These expanded the general approval thresholds for medium or low risk baseline-funded investments funded from baselines up to $35m WOLC for the Responsible Minister and up to $20m for the Chief Executive.

TE TAI ŌHANGA
THE TREASURY

Treasury Report: New Zealand Infrastructure Commission/Te Waihanga: Updated Fees Report

Date:	8 April 2021	**Report No:**	T2021/424
		File Number:	SH-11-5-17

Action sought

	Action sought	Deadline
Minister for Infrastructure (Hon Grant Robertson)	**Agree** recommendations, sign and send attached letter	As soon as possible

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Simon Wi Rutene	Senior Advisor, Governance and Appointments	s9(2)(k)	N/A (mob)	✓
Gael Webster	Manager, Governance and Appointments		s9(2)(g)(ii) (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury

Note any feedback on the quality of the report	

Enclosure: **Yes (attached)**
[21.04 NZIC Letter to Chair - Fees (Treasury:4436422v1)]

Treasury Report: New Zealand Infrastructure Commission/Te Waihanga: Updated Fees Report

Executive Summary

This report details the board of Te Waihanga's current fee issues, and recommends retaining the daily rate regime, amending the maximum allowable fees, and that you agree that a review of Te Waihanga's board fees is completed before 25 September 2022, or earlier if requested.

As you are aware, board member Stephen Selwood resigned from Te Waihanga with effect from 26 March 2021. A letter thanking Mr Selwood for his service has been provided to you. We are currently working with the chair and will soon be providing advice on suitable skills to commence an appointment process.

Recommended Action

We recommend that you:

a **agree** to retain the current fee regime paid on a daily basis

Agree/disagree.

b **agree** to sign and send the attached letter to the chair revising the maximum allowed total fees paid on a daily basis as follows:

- for the chair, up to a maximum of nine days ($9,558) per month, excluding GST, with an annual cap of 72 days
- for the deputy chair, up to a maximum of eight days ($6,400) per month, excluding GST, with an annual cap of 60 days
- for members, up to a maximum of seven days ($5,600) per month, excluding GST, with an annual cap of 50 days

Agree/disagree.

c **note** this is an expected reduction of $258,696 per annum from the maximum allowable total fees provided for during the board's establishment phase ($575,160)

d **agree** that Te Waihanga's board fee regime is to be reviewed by 25 September 2022, or earlier if requested

Agree/disagree.

Gael Webster
Manager, Governance and Appointments

Hon Grant Robertson
Minister for Infrastructure

Treasury Report: New Zealand Infrastructure Commission/Te Waihanga: Updated Fees Report

Purpose of Report

1. This report seeks your agreement to:

   - retain the current fee regime paid on a daily fee basis under the Cabinet Fees Framework (Framework)
   - amend the maximum allowable monthly total fees which are paid on a daily rate with the inclusion of an annual cap
   - a review of fees and workload to be completed by 25 September 2022 or earlier if requested.

Background

2. On 26 November 2020 we provided you with advice on Te Waihanga's fee review *(T2020/3140 refers)*. Due to the large number of papers that needed to be considered by the Cabinet Business Committee before Christmas, we advised that the proposal to reclassify the board's daily fees to annual fees was not urgent and that we would revisit the matter in 2021.

Investing in infrastructure is at the core of the Government's economic plan

3. Te Waihanga, a new Autonomous Crown Entity (ACE), was established on 25 September 2019, and is governed by a seven-member Board chaired by Dr Alan Bollard. Since establishment, the Board has focused on Te Waihanga's establishment – both internally and within the infrastructure sector.

4. In your February 2021 Letter of Expectation to the chair you set out your specific expectations for the board, including Te Waihanga is your primary advisor on infrastructure and general infrastructure policy issues. The letter also sets out your expectations in relation to additional strategy and support functions, as provided for in section 10 of the New Zealand Infrastructure Commission / Te Waihanga Act 2019 (the Act).

The responsible Minister determines fees for Autonomous Crown Entities (ACE)

5. As responsible Minister for Te Waihanga you are required under section 27 of the Crown Entities Act 2004 to set the fees for the board in accordance with the Framework administered by the Public Service Commission (PSC). The Framework allows for consideration of rates that align with the skills, knowledge, and experience of the chair and board members, and their expected workload.

A Group 4 governance body paid daily fees was preferred for the establishment phase

6. To attract high calibre members and to provide appropriate compensation during the establishment phase the Te Waihanga board was classified as a Group 4 Level 1 body. Under the Framework fee levels for Group 4 bodies are expressed as a daily rate, which is suitable for entities that have an unpredictable workload.

7. At the time both the Treasury and the PSC considered that if Te Waihanga's board was classified as a Group 3a body to be paid an annual rate, an exception to the fee level would be needed. This is because an annual rate within the range would not ensure appropriate compensation as the expected workload required of board members during the establishment phase was unpredictable. The fees were to be reviewed after 12 months.

Due to pay restraint, maximum of daily fees paid decreased

8. Following the Public Services Commissioner's 28 April 2020 letter to chairs of Crown entities, advising that visible pay restraint in the public sector is an appropriate response to the COVID-19 context, the previous Minister for Infrastructure wrote to Te Waihanga's chair. Hon Jones set out his expectation for a reduced maximum of daily fees that could be paid per month, and advised the chair that he proposed to reclassify Te Waihanga as a Group 3a governance board with an annual rate exception, if approved by APH and Cabinet.

9. The Letter of Fee Expectation retained the current daily rate and directed that:

- for the chair the maximum would be $6,372 per month (an annualised rate of $76,464), based on a reduced workload of six days per month
- for the deputy chair the maximum would be $4,000 per month (an annualised rate of $48,000), based on working five days per month
- for members the maximum would be $3,200 per month (an annualised rate of $38,400), based on a reduced workload of four days per month.

2020 fee review

10. Treasury officials reviewed the fees and considered that additional work would still be required of the chair and members for at least another year (to 25 September 2021). We also considered that their workload remained unpredictable and if there are ongoing responsibilities after that, these were unlikely to be properly compensated by the fees the Framework would ordinarily set.

The proposal to change to annual fees is not recommended at this time

11. Hon Jones proposed a change from daily fees to annual fees. That proposal comprised a standing annual rate exception under the Framework as ongoing significant work is required of the chair, the deputy chair, and the board members, and a temporary uplift of the annual rates for the additional workload still expected to 25 September 2021. Support was sought from the Minister for the Public Service as the proposed annual fees would fall outside the parameters of the Framework. Hon Hipkins agreed in principle to support the proposals if these were brought to APH and Cabinet for consideration.

12. According to the chair, the board's experience has been that their workload remains higher than expected, and they are concerned about Hon Jones' proposal to seek annual fees for Te Waihanga as a Group 3a Level 4 governance board, even with a standing exception for fees above the range and a temporary uplift for additional work.

13. Under the current proposal the temporary additional workload uplift expires on 25 September 2021. The Treasury considers there is a risk that the proposed rates after September 2021 would still not ensure appropriate compensation given the expected additional workload and necessary availability required of board members. This is the same rationale for why a daily rate was preferred for the establishment phase.

A focus on infrastructure outcomes remains a priority

14. In their November 2020 briefing to you as incoming Minister for Infrastructure, Te Waihanga advised that they were available to provide advice on a broad range of infrastructure matters, which in turn has resulted in the board needing to provide greater oversight and prioritisation of these additional matters.

15. Te Waihanga is due to deliver the first draft of their 30-year infrastructure strategy to you in September this year. Under the Act, you may provide comments on the draft Strategy Report in writing, within 90 days of receiving the draft and, following that, Te Waihanga must provide the final report to you within another 90 days. We expect that the board will be heavily involved in the development of the 30-year strategy, including any responses required under the Act, as it is the key deliverable for the organisation.

16. The Act also stipulates that you must present a copy of the 30-year Infrastructure Strategy Report to the House of Representatives as soon as practicable after receiving the draft Strategy Report for consideration from Te Waihanga. You must also present a statement of the Government’s response to the Strategy Report to the House of Representatives not later than 180 days after the report is provided to you.

17. The 30-year infrastructure strategy is important and the board needs to focus on this, together with their other business as usual functions.

18. For the reasons provided above the proposal to change to annual fees is not recommended at this time.

A monthly cap increase with an annual cap is recommended

19. The Treasury has seen an increase in requests directed to Te Waihanga resulting in significant involvement from the board in infrastructure-related reforms and we expect that to continue.

20. Board fees must be sufficient to attract and retain an appropriate level and balance of governance capability. We are proposing a fresh approach to balance the risk that should workloads remain high beyond 2021, the willingness of the board (including the chair and deputy chair) to commit their time and expertise would greatly reduce, once the proposed temporary uplift in September 2021 ends.

21. The chair has advised Treasury of an issue with the current regime as a consequence of the board’s workload varying from month to month. In some months the workload exceeds the allowable amount per month, and in months when there is no board meeting the board’s workload is lower. In essence this issue is a combination of the way the maximum allowed total fees paid on a daily basis is expressed as a monthly cap in the previous Minister’s letter, and the uneven nature of the workload. The lack of flexibility associated with the current monthly cap means the chair and deputy chair sometimes spend a lot more time than the current monthly amount allocates and are therefore doing unpaid work.

22. We recommend you address these issues by amending the current maximum allowable monthly cap and include an express annual cap on the maximum amount of days worked per year, as follows:

- for the chair, up to a maximum of nine days ($9,558) per month, excluding GST, with an annual cap of 72 days
- for the deputy chair, up to a maximum of eight days ($6,400) per month, excluding GST, with an annual cap of 60 days
- for members, up to a maximum of seven days ($5,600) per month, excluding GST, with an annual cap of 50 days.

23. The main benefit of an increase in the monthly cap and inclusion of an annual cap is that a fresh monthly buffer will provide flexibility, and ensure board members will not run out of allowable days half way through the year.

24. We have already provided advice on a general problem of experienced directors and board members being cautious about taking on Crown entity board roles on current fee levels *(T2019/2194 refers).* We therefore recommend that the daily fee regime with an annual cap be retained until a review is completed of workload and fees by 25 September 2022. That would allow more time to observe workloads over the first three years of Te Waihanga's operations.

25. The change we recommend is not a fee increase. Retaining the current regime will result in an expected reduction of $258,696 per annum from the maximum allowable total fees provided for during the board's establishment phase ($575,160)

Next Steps

26. If you agree with the recommendation to amend the current monthly cap to include a cap on the maximum amount of days per year, please sign and send the attached an updated Letter of Fee Expectation.

27. We will schedule a review of Te Waihanga's fees for completion by 25 September 2022.

Attached Documents

28. Attached to this report is:

- Annex I: Letter to Te Waihanga Chair

Hon Grant Robertson
MP for Wellington Central
Deputy Prime Minister
Minister of Finance
Minister for Infrastructure
Minister for Sport and Recreation
Minister for Racing

Dr Alan Bollard
s9(2)(a)
[redacted]

Dear Alan

NEW ZEALAND INFRASTRUCTURE COMMISSION (TE WAIHANGA): DAILY FEES

This letter is to inform you of my decision to retain the current daily fee regime and to amend the maximum allowable monthly fees which are paid on a daily rate.

As I anticipate extra additional work is required of you and the board it is appropriate to continue the current daily fee arrangement rather than putting the board on an annual fee at this time.

To assist the board and address the issue that the board's workload, in some months, exceeds the allowable amount per month, I agree to amend the current maximum days per month cap and include an annual cap as follows:

- for the chair, up to a maximum of nine days ($9,558) per month, excluding GST, with an annual cap of 72 days
- for the deputy chair, up to a maximum of eight days ($6,400) per month, excluding GST, with an annual cap of 60 days
- for members, up to a maximum of seven days ($5,600) per month, excluding GST, with an annual cap of 50 days.

I have proposed that your workload is reviewed by 25 September 2022, or earlier if requested, to ensure that fees are appropriate after that date.

If you wish to discuss any specific aspects of my proposal, you are welcome to contact the responsible Treasury official: Simon.WiRutene@treasury.govt.nz.

Yours sincerely

Hon Grant Robertson
Minister for Infrastructure

Private Bag 18041, Parliament Buildings, Wellington 6160, New Zealand
+64 4 817 8703 | g.robertson@ministers.govt.nz | beehive.govt.nz

TE TAI ŌHANGA
THE TREASURY

Treasury Report: New Dunedin Hospital - Final Detailed Business Case and Wider Capital System Implications

Date:	9 April 2021	**Report No:**	T2021/681
		File Number:	CM-1-3-28-0-6

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Discuss** with the Minister of Health appropriate governance arrangements for the SDHB Transformation Programme in light of the upcoming Health and Disability System Review reforms.	15 April 2021

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
James de Hamel	Analyst, Health	N/A (wk)	s9(2)(g)(ii)	
Sebastian Doelle	Team Leader, Health	N/A (wk)		✓

Minister's Office actions (if required)

Return the signed report to Treasury.

Refer a copy of this report to the Minister of Health

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: New Dunedin Hospital - Final Detailed Business Case and Wider Capital System Implications

Purpose of Report

1. This report provides advice on the New Dunedin Hospital (NDH) Project in advance of the upcoming Cabinet paper on the final Detailed Business Case (DBC) being considered by the Cabinet Government Administration and Expenditure Review Committee on 15 April 2021.

2. It discusses the progress made to date on the NDH Project and highlights the importance of successfully executing Southern District Health Board's (SDHB) Transformation Programme in order to deliver the associated benefits from the capital investment.[1]

3. The challenges associated with the NDH Project and SDHB's Transformation Programme are further examples of prevalent systemic issues in the current health capital system. We note the opportunities for comprehensive health capital system reform as part of upcoming Health and Disability System Review decisions and advocate the prioritisation of key elements of the Health Infrastructure Unit's (HIU) Work Programme to accelerate "quick wins" in the capital system.

Background and Progress of the NDH Project

The Treasury supports the approval of the final DBC in light of the progress made on the NDH Project to date…

4. The Draft DBC for the NDH Project was approved in-principle by Cabinet in August 2020, subject to a number of outstanding significant matters being addressed [CAB-20-MIN-0413, T2020/2527 refers]. These matters included:

   a demonstrating progress on design;

   b conducting a Quantitative Risk Assessment;

   c establishing new governance arrangements; and

   d ensuring stronger alignment between the NDH Project and the SDHB Transformation Programme, including changes to service delivery and model of care, workforce, and data and digital systems.

5. Significant progress has been made on these requirements ahead of the final DBC going to Cabinet:

   a design work for the NDH Project has now progressed and the concept design stage is complete for both the inpatient and outpatient buildings. The project risks have been assessed (based on the concept designs) with a Quantitative Risk Assessment (QRA) to provide a level of confidence in the project costs and contingencies included;

   b the QRA has been independently reviewed. It confirmed the budget cap of s9(2)(f)(iv) including contingencies for design, scope and construction; and

[1] The SDHB Transformation Programme includes a data & digital programme, and service changes to the model of care and workforce.

c in line with Cabinet's decision in September 2020 [CAB-20-MIN-0431 refers], the new Executive Steering Group for the NDH project has been established and is operational as part of the new governance structure for the project.

… and additional conditions proposed by the Treasury will mitigate specific risks for the NDH Project.

6. In light of the progress made to date on the NDH Project, the Treasury supports the final approval of the DBC, subject to the inclusion of conditions. These conditions have been included in the Cabinet paper, and are intended to mitigate the specific risks for the NDH Project regarding the alignment with the SDHB's Transformation Programme, as well as budget and scope management risks. Treasury's recommended conditions are:

   a the NDH Executive Steering Group receives regular monthly updates on progress of the SDHB's Transformation Programme in order to provide appropriate visibility and input into the design processes for the NDH project;

   b a Value Management Strategy is developed to enable effective trade-off decisions that may be needed to keep the project within budget. A Value Management Strategy will support the process of identifying the optimum balance of project benefits in relation to project costs and risks. It will also assist project governance in assessing whether or not design changes or cost reductions are appropriate, and when budget or risk decisions should be escalated.

   c Quantity Surveyor Reports are developed at each of the design stages, and an updated Quantitative Risk Assessment is performed as part of the Implementation Business Cases for the Outpatient and Inpatient Buildings by February 2022 and December 2023 respectively. This will provide assurance of budget planning, while providing early visibility of contingency constraints.

7. In addition to the above conditions, s9(2)(g)(i)
s9(2)(g)(i)
s9(2)(g)(i) We highlight the ongoing need for the overall budget and the specific risk contingencies to be carefully managed in line with the scope brief reflected in the DBC. The Treasury will continue to monitor progress of risk mitigations as part of our observer role on the Executive Steering Group for the NDH Project.

8. While the Implementation Business Cases for both the Outpatient and Inpatient buildings are now expected by February 2022 and December 2023 respectively, these postponements allow for the completion of further design stages and preferred contractor decisions (prior to contract award) to be made. In our view, these extended timelines are conducive to mitigating risk during design and procurement, and are not reflective of delays to the NDH Project overall.

Additional funding for the NDH Project should be considered alongside other investments in health infrastructure.

9. Given the Cabinet paper is presented during the Budget Moratorium, the paper seeks approval for Joint Ministers to finalise funding arrangements after Budget Day 2021, including the increase of the total budget for the NDH Project to s9(2)(f)(iv)

10. The Treasury recommends that the additional funding of s9(2)(f)(iv) for the NDH Project, over and above the $1.4 billion available in the tagged contingency *Dunedin Hospital Redevelopment,* is sought from the available funding in the Health Capital Envelope 2020-2025 Multi Year Allowance (MYA).

11. This would allow consideration of additional funding requests for the Dunedin Hospital Project alongside other health capital investment proposals, improving transparency and prioritisation across the health capital system. The alternative, which would be to seek funding from future Budget allowances, limits the opportunity to prioritise and trade-off decisions against other budget investment proposals.

Update on the SDHB Transformation Programme

12. SDHB recognised the importance of a new hospital being developed around technology-enabled models of care and processes based on current evidence and best practice. A Transformation Programme is required to ensure these considerations are taken into account and implemented.

SDHB's data and digital Indicative Business Case is progressing and will be submitted for Ministers' consideration in due course…

13. A key element of the SDHB Transformation Programme is its data and digital investment proposal. SDHB expects to present an Indicative Business Case (IBC) to Cabinet in July 2021.

14. The scope of the investment includes new digital infrastructure and equipment (i.e. hardware), business changes for SDHB's operations, and new digital systems (i.e. software). The IBC for this investment is being completed separately to the Business Case for the NDH Project.

15. The IBC outlines a preferred option valued at s9(2)(f)(iv), with a Crown capital contribution accounting for s9(2)(f)(iv) These costs are expected to be incurred over a 10-year period.

16. In their feedback on the IBC for SDHB's Data and Digital Investment Proposal, Officials noted that investment in data and digital is being driven by the shift to the new models of care being developed under the Transformation Programme. However, Officials also noted that the IBC failed to show how the data and digital investment would enable new models of care. These concerns were echoed by CIC at its recent meeting at which it endorsed the final DBC for the NDH project.

17. The IBC notes a key dependency between the NDH Project and the data and digital project, with delays to the latter risking delay for the NDH Project. Officials have asked for dependencies relating to the NDH Project to be mapped. The Ministry of Health has confirmed that dependencies have been mapped for certain elements of the data and digital investment, however this information has not been reflected in the IBC to date.

… however the Treasury remains concerned about the lack of visible progress across the wider Transformation Programme by SDHB.

18. It is our view that the successful execution of transformation programmes such as this will be critical to realising the benefits from investment in other new hospitals, regardless of the future health system operating model emerging from the Government's programme of reforms.

19. The wider investment across the NDH Project and the SDHB Transformation Programme still lacks significant alignment and coordination of the wider dependencies, creating risks for delivery.

20. In response to the Gateway Review findings, and as part of the initial DBC for the NDH Project in August 2020, Cabinet noted that SDHB had been asked to prepare a programme business case for the Capital Investment Committee, covering all the interdependencies it is managing, including ICT and workforce, to ensure visibility of the total investment required [CAB-20-MIN-0413 refers].

21. In addition to the request for a programme business case, Cabinet also noted that as part of the overall governance arrangement for the NDH Project and SDHB's Transformation Programme, the Director General of Health would write to SDHB requesting that it establish a Transformation Programme Board. This Board would ensure more robust governance and appropriate alignment with the NDH Project, reporting to the SDHB Board [CAB-20-MIN-0431 refers].

22. The Treasury currently has no visibility of a structured and comprehensive programme approach to the Transformation Programme being applied to date. Following the letter by the Director General of Health, SDHB has elected to provide oversight directly rather than establish a separate board. This decision was made on the basis that the Transformation Programme strongly links to business-as-usual and an additional governance group may confuse accountabilities.

23. The lack of visible progress on the Transformation Programme and absence of a comprehensive and structured programme approach increases the risk of failing to deliver the benefits associated with the NDH project and the Transformation Programme. Further, there is a consequent risk that the building design may not be fit-for-purpose for any new model of care and/or digital capability evolving from the SDHB Transformation Programme.

Further steps need to be taken to address the risk of misalignment between the SDHB Transformation Programme and the New Dunedin Hospital Project.

24. s9(2)(g)(i) s9(2)(g)(i) Unlike other major builds such as the Christchurch Hospital, the health service planning required to inform the scope of the services that the new hospital will be expected to provide was not undertaken in advance. Instead, this work has been running in parallel with planning for the facility.

25. We understand that SDHB is currently conducting a strategic refresh exercise with the intent of providing improved visibility of its Transformation Programme to central government by June 2021.

26. The Treasury intends to engage with the Ministry of Health to provide advice to Joint Ministers with options to further mitigate the risk of misalignment between the SDHB Transformation Programme and the NDH Project following the expected strategy refresh by SDHB in June 2021. These options may include SDHB establishing a dedicated governance group which would be consistent with the above Cabinet signal in September 2020.

27. In light of the upcoming Health and Disability System Reforms, and consequential changes to the health system operating model, we recommend you discuss appropriate governance arrangements for the SDHB Transformation Programme with the Minister of Health. This might include consideration of whether a direction to SDHB's Board prior to their strategic refresh in June 2021 would be preferable.

Strengthening the health capital system

28. The wider investment in the NDH Project and the SDHB Transformation Programme illustrates the need for reform of the capital investment and asset management system (capital system) in the health sector.

29. s9(2)(f)(iv) [redacted]

30. Many of these issues directly contribute to design work for health capital projects taking a long time and business cases being time-consuming and costly to develop. The underlying issues relate not to business case requirements and processes themselves, but to the quality of information provided in support of investment proposals.

There are opportunities to improve the system through the Health and Disability System Review reforms…

31. The new health system operating model will establish a national hospital network and increase levers over delivery of capital projects compared to the current, decentralised model.

32. As previously advised [T2021/419 refers], the Treasury strongly supports this approach as we expect it to facilitate national prioritisation of health capital projects; the development and use of facility design standards; and national oversight and coordination of the pipeline of major projects, underpinned by a robust national service plan. We see national service planning as the cornerstone of system change, as it will enable a system view of what and where health capital investment is most needed.

33. Recent DHB capital intentions suggest that $14.2 billion of Crown funding is required over the next 10 years. The scale of current and upcoming investment requires critical oversight and effective prioritisation to ensure best use of limited resources.

34. The Treasury will continue working with the Ministry of Health, the Health and Disability System Review (HDSR) Transition Unit (TU), and the Infrastructure Commission on the design of the health capital system within the new health system operating model.

35. The Treasury is also engaging with the Infrastructure Commission on its review of the health capital system. The review looks at the investment and infrastructure systems in the health sectors of New South Wales and Victoria and intends to develop recommendations for an operating model for the health capital system in New Zealand. We anticipate the review findings and recommendations will inform the policy work by the TU and feed into recommendations to the HDSR Ministerial Oversight Group.

…and in the shorter term through the Ministry of Health's HIU.

36. The Ministry of Health's HIU has recently developed an action plan to strengthen the health capital system, with outputs to support better investment planning; asset management; delivery; and monitoring of projects [HR20202299 refers].

37. s9(2)(f)(iv)

38. The Treasury fully supports this action plan and will continue working with the HIU, and the Infrastructure Commission where appropriate, on shorter-term actions to strengthen the health capital system. These actions include:

- signalling to DHBs the Government's health capital priorities, and Ministers' expectation that business cases for priority projects s9(2)(f)(iv) s9(2)(f)(iv) will be progressed; and

- working with DHBs from an early stage where needed (for example, on the s9(2)(f)(iv) to set clear expectations and provide tailored support for business case development.

39. While a range of shorter-term actions are being progressed, change will take time to materialise, as it requires central capability and capacity to be established across a sizeable and complex portfolio of projects.

40. The Treasury continues to work with the Ministry of Health on understanding the pipeline of upcoming DHB capital projects and considering options to support development of these projects. This includes a potential option of funding the business case development process for major projects.

Next steps

41. Following Cabinet's decisions on the NDH DBC in April 2021, and SDHB's strategic refresh in June 2021, the Treasury and the Ministry of Health will provide further advice regarding how the concerns with the Transformation Programme governance arrangements might be addressed.

42. Final funding decisions on the NDH Project will be sought following Budget Day on 20 May 2021. This will include the previously signalled increase in the NDH Project budget by s9(2)(f)(iv) from the existing Health Capital Envelope 2020-2025 MYA.

43. The Treasury will continue working with the Infrastructure Commission on its review of the health infrastructure investment system (expected to be completed around June 2021). We anticipate this will inform overall system settings advice to Ministers.

Recommended Action

We recommend that you:

a **note** the progress made on the NDH Project, while significant alignment risks with the SDHB Transformation Programme remain

b **note** the conditions proposed by Treasury included in the Cabinet Paper seeking approval of the final DBC, namely:

i. the NDH Executive Steering Group receives regular monthly information updates on progress of the SDHB Transformation Programme in order to provide appropriate visibility and input into the design processes for the NDH Project;

ii. a Value Management Strategy is developed to enable effective trade-off decisions that may be needed to keep the project within the budget; and

iii. Quantity Surveyor Reports are developed at each of the design stages, and an updated Quantitative Risk Assessment is performed as part of the Implementation Business Cases for the Outpatient and Inpatient Buildings. This will provide assurance of budget planning, while providing early visibility of contingency constraints.

c **note** the opportunities to address the underlying issues in the health capital investment and asset management system via the Ministry of Health's HIU action plan, and as part of the Government's upcoming programme of health system reform

d **discuss** with the Minister of Health appropriate governance arrangements for the SDHB Transformation Programme in light of the upcoming Health and Disability System Review reforms, and

e **refer** a copy of the report to the Minister of Health.

referred / not referred

Sebastian Doelle
Team Leader, Health & ACC

Hon Grant Robertson
Minister of Finance

Inland Revenue
Te Tari Taake

POLICY AND REGULATORY STEWARDSHIP

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

TE TAI ŌHANGA
THE TREASURY

Joint Report: Responding to feedback from the business community on the COVID-19 Resurgence schemes

Date:	Monday 12 April	**Report No:**	T2021/775 REP/21/4/341 IR2021/158
		File Number:	AD-1-58

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson) Minister for Social Development and Employment (Hon Carmel Sepuloni) Minister of Revenue (Hon David Parker) Minister of Small Business (Hon Stuart Nash)	**Note** the recommendations in the report. **Agree** to the recommendations.	Monday 19 April

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Clara Rowe	Analyst, Transitions, Regions, and Economic Development, The Treasury	s9(2)(k)	N/A (mob)	✓
Jean Le Roux	Manager, Transitions, Regions, and Economic Development, The Treasury		N/A (mob)	
Kerryn McIntosh-Watt	Policy Director, Policy and Regulatory Stewardship, Inland Revenue,		N/A (mob)	
Megan Beecroft	Policy Manager, Ministry of Social Development		N/A (mob)	
Mana Williams-Eade	Policy Analyst, Employment Policy, Ministry of Social Development		N/A (mob)	

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Joint Report: Responding to feedback from the business community on the COVID-19 Resurgence schemes

Executive Summary

In December 2020, Cabinet agreed to a package of measures to provide support during periods of public health alert level escalations, which included the COVID-19 Wage Subsidy Scheme (WSS) and a COVID-19 Resurgence Support Payment (RSP) scheme. The RSP has been activated twice and the WSS has been activated once during the February and March alert level escalation periods [CAB-20-MIN-0531 refers].

The Treasury's analysis of the February and March schemes suggests that in aggregate, the WSS and RSP are meeting the original objectives, including by sharing the economic costs and targeting support to those who need it.

However, members of the business community have reached out to Ministers and officials to highlight challenges faced at a firm level, particularly reflecting concerns around providing RSP support to businesses in commonly-owned-groups (COGs) and the understanding of the comparator period and seasonal revenue rules across both schemes. Following direction from the Minister of Finance, this report considers possible changes to the schemes or clarification of rules to address the concerns raised.

RSP treatment of commonly-owned-groups

Officials have considered the issue and acknowledge that the current settings may disadvantage COGs, however note the data on the scale of the issue is limited and any solution may result in increased fiscal costs and potential gaming of the scheme. We advise that any change to the scheme should also seek to ensure that SMEs are still the beneficiaries.

Officials have considered a range of options that make changes to the RSP scheme with the aim to address the issue. The recommended solution we have identified would maintain the 30% revenue drop test across the group, however allow for entities within the group to receive a RSP payment if the 30% revenue drop test is also met at an individual entity level. To help mitigate risks of gaming, Inland Revenue (IR) would also manually review all applications for these types of applicants. It is anticipated the volumes would be in the region of 100s which is manageable under IR's current operating model. To support the integrity of the scheme we also advise that communications and guidance on the changes stress that the intended recipients of the RSP, which are small businesses, remain. Initial Treasury calculations suggest that this change would not affect the overall fiscal forecasts for the scheme, as previous modelling assumed coverage for all affected small businesses, regardless of organisational structure.

We are seeking Ministers' direction to consult on this preferred option with the business community before finalising any changes to the scheme by the end of April.

Comparator period and firms with seasonal revenue

The revenue drop test and comparator period rules for both schemes are understood by the business community, however there appears to be confusion over the 'firms with seasonal revenue' rule. Officials recommend developing improved guidance for firms with highly seasonal revenue, which clearly communicates what types of activities can result in firms having highly seasonal revenue. This paper seeks Ministers agreement to a definition of these types of business activities used for both schemes.

Additionally, there have been concerns expressed by some stakeholders that, due to their revenue already being supressed by the impacts of COVID-19, it is difficult for them to demonstrate the needed revenue drop within the default comparator period and therefore the current policy settings do not provide the support they seek. It is not the intent of the RSP or the WSS to mitigate ongoing impacts of border closures, broader economic effects of COVID-19, and normal baseline revenue volatility. Officials therefore do not recommend a change to the comparator period or other policy settings that might address this concern.

The report also considers other matters including relating to communications surrounding the schemes (page 13) and clarification of the seven day activation period for both the RSP and WSS. Annex One provides performance and uptake information on the schemes.

Recommended Action

We recommend that you:

a. **note** that Treasury analysis suggests that the Wage Subsidy Scheme (WSS) and Resurgence Support Payment (RSP) are meeting the original objectives, including by sharing the economic costs and targeting support to those who need it;

b. **note** the WSS was successfully delivered, supported by action taken by officials to enable businesses to mitigate the risks inherent in using predicted revenue to meet eligibility criteria alongside the uncertainty of the timing of alert level de-escalation;

c. **note** that Cabinet authorised the Minister of Finance and the Minister for Social Development and Employment jointly to make operational changes, and decisions on minor changes and clarifications to WSS settings, including on any further implementation details for the revenue decline test, test and comparator period (including exceptions to the default period), and reapplication requirements;

d. **note** that Cabinet authorised the Minister of Finance, Minister for Small Business and the Minister Revenue to jointly make operational changes, and decisions on minor changes and clarifications to RSP settings, including on any further implementation details for the revenue decline test, test and comparator period (including exceptions to the default period), and reapplication requirements;

RSP treatment of commonly-owned groups

e. **note** that the 50 FTE cap rule significantly limits the amount of RSP support available to groups of firms that have a common owner but operate as separate entities;

f. **note** that whilst data on the scale of this issue is limited and uncertain, information based on applications and queries received to date suggests around 40 groups (which may each employ hundreds of people) have been affected by this rule;

g. **note** that adjusting RSP settings to accommodate this group of firms carries potentially significant fiscal costs; risks that larger, viable firms will benefit; and increases likelihood of gaming;

h. **note** that the recommended solution is to maintain the 30% revenue drop test at a group level, however allow for entities within the group to receive a payment if the 30% revenue drop test is also met at an individual entity level;

i. **note** that mitigations to the risks identified in recommendation e above include upholding the 30% income loss rule across the group as well as for the entities within the group; a strong message on the intention of the scheme in future communications; and for IR to manually review applications from these types of applicants where necessary;

j. **note** that we do not recommend the COGs policy change apply to the WSS because the objectives of the WSS are appropriately met through the current policy settings;

[For the Minister of Finance, Minister for Small Business and Minister of Revenue only]

k. **agree** that IR and Treasury officials will consult on this option for the RSP with the business community;

Agree / Disagree	*Agree / Disagree*	*Agree / Disagree*
Hon Grant Robertson **Minister of Finance**	Hon David Parker **Minister for Revenue**	Hon Stuart Nash **Minister for Small Business**

If agree

l. **note** that officials will provide final advice for your decision on this matter following consultation and final operational and legal checks;

Comparator period and seasonal revenue rules

m. **note** that the revenue drop test and comparator period rules for both schemes are largely understood by businesses, however for some, the seasonal rule should be clearly communicated to support businesses to better understand how to interact with the rule;

n. **note** that MSD and IR will clearly communicate the guidance for firms with highly seasonal revenue to ensure the business community understand the scheme settings;

o. **note** that Cabinet agreed in December 2020 that employers that have highly seasonal revenue be allowed to use a prior year comparator if they can show that the seasonality in their revenue makes it harder to meet the revenue decline test with the default comparator than if their revenues were not seasonal;

[For the Minister of Finance and Minister for Social Development and Employment only]

p. **agree** that for WSS the eligibility criteria for businesses with highly seasonal revenue includes those with activities such as harvesting fruit and vegetables, music festival or event planners whose peak seasons are during the summer months, or tourism businesses with irregular (seasonal) revenue periods;

Agree / Disagree	*Agree / Disagree*
Hon Grant Robertson **Minister of Finance**	Hon Carmel Sepuloni **Minister for Social Development and Employment**

q. **note** that for RSP the same approach has been taken when determining eligibility for businesses with highly seasonal revenue, as already set by the Commissioner of IR;

r. **note** officials do not recommend any changes to the default comparator periods but recognise that in the event of another resurgence the dates of the periods will need to be adjusted to the circumstances at the time to reflect the new period at heightened alert levels;

Seven-day activation period

[For the Minister of Finance and Minister for Social Development and Employment only]

s. **Agree** to the following interpretation of Cabinet's agreed activation trigger for future introductions of the WSS:

a. the activation period of 'seven days, of which the seventh may be a partial day' means 'at least six 24 hour periods and one minute'; and

b. the 'timer' for the activation period begins at the time of the relevant increase in Alert Levels.

Agree / Disagree	*Agree / Disagree*
Hon Grant Robertson **Minister of Finance**	Hon Carmel Sepuloni **Minister for Social Development and Employment**

[For the Minister of Finance, Minister for Small Business and Minister of Revenue only]

t. **Agree** to the following interpretation of Cabinet's agreed activation trigger for future introductions of the RSP scheme;

a. the activation period of 'seven days, of which the seventh may be a partial day' means 'at least six 24 hour periods and one minute'; and

b. the 'timer' for the activation period begins at the time of the relevant increase in Alert Levels.

Agree / Disagree	*Agree / Disagree*	*Agree / Disagree*
Hon Grant Robertson **Minister of Finance**	Hon David Parker **Minister for Revenue**	Hon Stuart Nash **Minister for Small Business**

s9(2)(k)	s9(2)(k)	s9(2)(k)
Jean Le Roux **Manager, The Treasury**	Meegan Beecroft **Manager, Ministry of Social Development**	Kerryn McIntosh-Watt **Policy Director, Inland Revenue**

Hon Grant Robertson **Minister of Finance**	Hon Carmel Sepuloni **Minister for Social Development and Employment**
Hon David Parker **Minister of Revenue**	Hon Stuart Nash **Minister for Small Business**

Joint Report: Further advice on the COVID-19 Resurgence schemes

Purpose of Report

1. This report provides high level analysis of the COVID-19 Resurgence Support Payment February and March Schemes (RSP) and the COVID-19 Wage Subsidy Scheme March 2021 (WSS) during the February and March 2021 alert level escalation periods.

2. The report also provides advice on the issues the business community has raised, particularly about providing RSP support for businesses in commonly-owned-groups (COGs) and understanding of comparator period rules across both schemes. It also seeks clarification on the definition of the 7-day trigger for the schemes.

Overview of schemes

3. The RSP and WSS have together provided $388 million of fiscal support to businesses impacted by the public health restrictions of February and March 2021. Consistent with the severity and nature of the restrictions, uptake has been weighted towards the Auckland region, and accommodation and food services sector.

Fiscal spend on resurgence support over February/March alert level elevation ($m)

	Auckland	**Rest of NZ**	**Total, all New Zealand**	**Coverage**
Wage Subsidy	128	45	173	160,000 jobs
Resurgence Support Payment	161	54	215	45,000 firms *(for Feb 15 payment),* 32,000 firms *(for Feb 28 payment)*
Total	289	99	388	

4. The RSP has seen most applications coming from small businesses, in line with the intent of the scheme. The proportion of small employers (19 or fewer employees) receiving the WSS support has increased significantly compared to the previous WSS. To date, 69% of employee jobs supported are employed in businesses with under 20 employees, compared to 47% overall for the three previous WSS.

5. Treasury analysis suggests that the broad parameters of the respective schemes and the resurgence support package succeed at an aggregate level in providing support to the industries and regions where the impacts of restrictions are felt most acutely. More analysis can be found in Annex One.

6. As such, we recommend that further changes to the schemes should be made with caution not to shift the distribution of support away from the intended target groups.

Overview of concerns from the business community

7. While at an aggregate level, analysis suggests the broad parameters of the resurgence support schemes are succeeding in providing support, the business community has reached out to officials and Ministers to highlight challenges faced at a firm level.

8. Officials have met with members from the business community to understand the challenges. There are two concerns that have been raised in many fora:

a. *Commonly-owned groups (COGs) (RSP only)* – a concern that the criteria that firms are only eligible to apply for the RSP at group level, up to the 50 FTE cap. This means firms will only receive a single payment for the group level, not an individual firm level.

b. *Comparator period and seasonality rules (both schemes)* - concerns that the revenue decline comparator period and the seasonality rules are not clear for some firms resulting in unintended outcomes when comparing between businesses that are similar.

9. Following direction from the Minister of Finance, this report considers possible changes to the schemes or clarification of rules to address the concerns raised above.

10. Other concerns raised by the business community relate to the six month in operation rule (RSP only) which requires firms to be in operation for at least six months to be eligible for the RSP, and concerns from events organisers requesting tailored support due the disruption to their business. We do not recommend considering either of these concerns further, and have supported your dialogue with the business community on these issues.

Commonly-owned groups (COGs) seeking support through the RSP

Problem definition and scale

11. The rule that the RSP is limited to 50 FTE across a group significantly limits the amount of support available to groups of firms that have a common owner but operate through separate entities, many of which are directly impacted by an escalation in alert levels. Such firms may not have the level of resilience expected in the original analysis for the RSP, as profits and losses are generally not shared across the group members. This means the RSP may not be adequately supporting SMEs that may have a legitimate claim to government support.

12. The original rationale for this approach (TR2020/3676 refers) was to tilt the support towards small businesses, recognising that larger firms are generally more resilient. Evidence around the uptake of the scheme shows it has been successful on that matter as 85% of applications firms have less than 5 FTE, and 94% have less than 10.

13. It is very difficult to identify the scale of this issue through official data. At an aggregate level we have compared geographic business units[1] with the number of enterprises in New Zealand and the figures are broadly similar.

14. However, according to those we have consulted with in the hospitality sector (which include group owners and business representative organisations), group models are relatively common. It is a way for hospitality firms (who tend to have small margins) to pool costs such as payroll administration, licenses, and marketing. Anecdotal examples we have heard suggest some groups employ hundreds of staff in total. However, the firms within the group operate as separate entities, so profits from one business are not generally transferred to another experiencing losses.

15. As at 1 April, IR analysis suggested around 2,500 distinct COGs had applied for the Payment across both rounds. 1,718 were approved, of which the highest volume (17%) came from accommodation and food services (427), followed by 10% (259) from the retail sector. In addition, as at 1 April, just 70 applications from 47 distinct COGs with 50 FTE (the highest number of employees the application allows) had applied for the

[1] This is a separate operating unit engaged in one, or predominately one, kind of economic activity from a single physical location or base.

RSP, of which 44 were approved. 36% came from accommodation and food services industries.

16. This corroborates the anecdotal evidence shared with us by the hospitality sector, but also indicates the absolute number of COGs affected is small. This may reflect that COGs with more than 50 FTEs have decided not to apply, but could also be understood as an indication that the size of the issue is somewhat limited and therefore relatively straightforward for IR to triage.

17. However, the challenges of amending the scheme to accommodate such groups relate to the legal definition of entities that are structured this way, and the need to avoid inadvertently opening the scheme to a significant range of firms that do have the ability to withstand shocks at a group level where profits and losses are indeed shared.

How commonly-owned groups are currently defined

18. A COG of businesses is considered to be one where each business has the same combination of owners. It does not matter whether those owners have the same proportion of ownership in each business.

19. A business may also be treated as being in a COG if it is in substance part of a larger group of businesses. For example, this may occur where:

    a. The group has a dominating shareholder or group of shareholders and the businesses operate together as if they were one; or

    b. The group of businesses involves a complex ownership structure where the overall control is centralised, and the businesses are in substance one enterprise.

20. Annex 2 provides more detail on how a member of a COG is defined through the Order in Council for the RSP. We propose using the same definition for entities that can form part of a group for the purposes of RSP.

21. We note a branch of a company/entity is not a ‘specified person’ under the current settings and is therefore not eligible to apply for the RSP. The legal view is therefore that the proposed approach outlined below (which would exclude branches, as a branch is not a separate entity) is in line with the current statutory framework and the related Order in Council.

Implications of potential RSP rule changes

22. We suggest there is merit in amending the rules to allow for separate group members to apply for the RSP. Their identity as a separate group member can be verified through the IR system and manual checks. However we caution that:

    a. The core purpose of the scheme should remain: supporting vulnerable firms to withstand impacts of AL changes. This means aiming to avoid issuing payments to larger, more resilient firms.

    b. The number of firms that are currently negatively affected by the COG rule is understood to be small.

    c. The feasible options for reform are still relatively blunt. It is very likely viable firms with the financial resilience to withstand these shocks would benefit. Gaming risks may also increase. However IR has robust integrity measures in place to mitigate this.

23. We also note that should you agree to proceed with changes to the RSP settings, IR will require time to adjust the application system. If a resurgence were to occur in the intervening period, a retrospective application process may need to be considered. This is enabled by the relevant legislation.

Options analysis

24. Taking these implications into account, we have assessed the below solutions to the issue of COG's eligibility according to the following criteria:

    a. fiscal responsibility;

    b. operational feasibility; and

    c. targeting effectiveness (limiting gaming potential or the risk that payments are issued to viable, resilient businesses).

Option	**Operationally feasible?**	**Targeted?**	**Benefits**	**Risks/Challenges**	**Recommended?**
1. Allow the RSP to be issued where: (a) the constituents of a group are separate entities; (b) **each constituent entity** has met the 30% threshold test. As with current model, relies on declaration.	Yes. [no more than two weeks]	No. Most "blunt" approach.	30% threshold ensures firms in need benefit. Guarantees availability of payment to SMEs in a group directly affected by the AL change.	Greater gaming risks that firms structure themselves this way to benefit from the grant. Highest fiscal cost, but challenging to forecast.	No
2. Allow the RSP to be issued where: (a) the **group** incurs a 30% revenue drop and (b) payments go to **only the constituent entities that experienced the 30%** revenue drop. As with current model, relies on declaration.	Yes [no more than two weeks]	More than above option. Likely to tilt payments towards sectors most hit.	The group-level requirement is unchanged from RSPFEB21 and RSPMAR21, so is consistent, fair and creates a higher bar for support than the above option, meaning we judge it to be the most cost effective way to address issue with existing system build.	Does not eliminate risk that major groups that we expect to have the financial buffers to withstand additional short shocks are supported. Potentially more confusing for businesses.	**Yes**, subject to Ministers' comfort with the risks identified; further consultation with business groups; and strong messaging that the purpose of the scheme is still to support small businesses.
3. Maintain single base payment but increase the FTE cap across a group.	Yes [no more than two weeks]	More likely to benefit groups in need.		Tilts support away from purpose of the scheme, towards larger businesses. Inconsistent with SBCS definition of SME.	No
4. Allow RSP payments to be made on a per-legal entity basis to hospitality firms, where each entity has met the 30% threshold, (requires declaration).	Yes, [no more than four weeks]	Yes. But can only operate on a high-trust model, given definitional issues.	Responds to sector requests.	Boundary issues, risk only responding to an organised sector response and missing firms that have a claim for support. This could expose the government to risks of judicial review.	No

Fiscal implications

25. The fiscal costs resulting from the proposed options are highly uncertain – we estimate $15 – 35 million, about 10% of the current fiscal cost. There is limited data available to identify with accuracy the number of enterprises that are likely to become eligible for payments, given the variability in organisational structures of COGs. As such, these fiscal costs should be treated as indicative estimates only.

26. These costs are driven by the unknown number of large COGs who have to date elected not to apply for the RSP, who would apply were the $21,500 cap on payments lifted. The overall costing model used for the RSP to date was built to the policy intent, assuming coverage for affected small businesses regardless of organisational structure. Therefore, any policy change to COGs would not affect the overall costings for the scheme, as it reflects an improvement in alignment with policy intent.

27. Of the options presented above, Option 1 is most expensive, followed by Option 2, and Option 4 the least expensive (ignoring Option 3 as this is dependent on parameter settings), but all fall within the margin of error in costing this change.

Implications for the WSS settings

28. The purpose of the WSS is to provide support to employers to pay wages if they are struggling to do so as a result of an escalation to Alert Level 3 or above while at the same time sharing the associated costs between Government, employers and employees across economic sectors and encourage the shift to a COVID-19 resilient economy.

29. Business units within a single corporate entity are not eligible to apply for the WSS individually. This includes business structures with different programmes, branches, or divisions that are differently affected by the current escalation in Alert Levels, but that employ all their workers under one corporate entity.

30. Business structures made up of legally separate companies where the employment relationships exist within each separate company are required to apply individually for the subsidy if they meet the eligibility criteria.

31. Discussion about challenges of access to the RSP for small businesses may raise similar questions in regard to the WSS. However, officials consider the objectives of the WSS are appropriately met through the current policy settings. We therefore do not recommend any changes to the WSS in this regard.

Clarifying guidance on comparator periods and seasonal revenue

32. The settings for the RSP and WSS schemes are broadly similar to ensure consistency and simplicity for applicants. However, now these schemes have both been operationalised, there appear to be some design aspects that present challenges to applicants.

33. Many of the challenges we are seeing about seasonality and comparator period interpretation reflects lack of clarity or ambiguity for applicants, or concerns about the ease of use for businesses who are unable to show their typical earnings during the six week default period. It is possible that similar types of businesses are receiving inconsistent support through these schemes.

34. Operationally there has been some feedback from applicants for the WSS that the revenue decline test has been easier than in previous iterations of the scheme. This could suggest that businesses are more familiar with the settings of the scheme now

and are finding less difficulty in understanding what it's for and who is eligible for support.

The revenue drop test and comparator period rules for both schemes are understood, however there appears to be confusion over the 'firms with seasonal revenue' rule

35. To be eligible for the RSP, firms must experience a 30% drop in revenue over a continuous 7-day period when compared to their 'typical revenue' during a comparator period. This is referred to as the 'revenue drop test'. To be eligible for the WSS, firms must experience a 40% drop in revenue over a continuous 14-day period when compared to their 'typical revenue' during a comparator period.

36. Both schemes include a 'seasonal comparator period' option to cater for businesses with highly seasonal revenue and for whom the default comparator period does not contain a period in which they would generate their 'typical revenue'.

37. The scheme settings allow firms to self-identify as being one that has highly seasonal revenue, consistent with the high-trust model. Firms that choose to use the seasonal comparator period instead of the default period are required to retain evidence to show the basis on which they consider their revenue to be seasonal and how the seasonality makes it harder to meet the decline in revenue with the default comparison period.

38. Feedback from businesses and patterns emerging from operational practice have revealed two issues in regard to supporting firms with highly seasonal revenue:

    a. Understanding what types of businesses this applies to, and;

    b. Understanding how to use the seasonal comparator period.

Facilitating better understanding of the types of businesses able to use the seasonal comparator period

39. It appears that understanding what constitutes a business with highly seasonal revenue has been dominated by businesses that are seasonal in a very traditional sense, for example fruit orchards, where fruit is ripe and sold over a distinct period within the year. This could mean that businesses with highly seasonal revenue, for example events companies that hold a large event annually that is cancelled due to Alert Level changes, may have been less sure whether to apply for the scheme because they struggled to demonstrate a genuine drop in revenue due to the default comparator period requirement.

40. There are many similar examples where firms could have highly seasonal revenue but fall outside of the common interpretation of a seasonal business. For example:

    a. a firm working in conservation, such as riparian planting, that generates a lot of revenue during the planting season and has lower levels of revenue at other times of the year;

    b. a café in a university has seasonal revenue due to its inherent reliance on university term times; and

    c. tourism businesses whose peak seasons start at specific times, such as those based around ski sites or which are reliant on bird migratory habits.

41. Guidance already available for applicants to the WSS provides examples of business activities that may result in highly seasonal revenue, such as harvesting fruit and vegetables, music festival or event planners whose peak seasons are during the summer months, or tourism businesses where the season starts on a specific date.

42. Officials seek clarification that this guidance reflects Ministers' intention for the WSS, noting that this provides consistency across both schemes, will enhance

communication with the business community and facilitate better understanding of the seasonal-revenue related settings.

Supporting businesses to better understand how to apply the seasonal comparator

43. Cabinet has decided that both schemes should enable employers that have highly seasonal revenue to use a prior year comparator if they can show that the seasonality in their revenue makes it harder to meet the revenue decline test with the default comparator period than if their revenues were not seasonal.

44. It is apparent that in addition to clarifying what types of business activity may result in seasonal revenue, guidance on how to use the seasonal comparator may be warranted.

45. There are slight differences in how the seasonal comparator is implemented for each scheme. The WSS uses a blunt tool of comparing the current revenue test period with the same 14-day period in either 2020 or 2019 (recognising that COVID-19 may have impacted revenue during 2020). The RSP settings enable a more case-by-case approach to be taken whereby firms can select what they consider to be a typical revenue period from a prior year. For many, this has been a ‘this time last year’ comparator, however some, such as events companies, are allowed to select an equivalent event to demonstrate the difference in revenue so long as they can demonstrate this is a reasonable representation of their revenue.

46. Officials recommend developing improved guidance for firms with highly seasonal revenue, that clearly communicates what types of activities can result in firms having highly seasonal revenue, and how these firms should use the seasonal comparator period to attest their eligibility for the schemes.

47. This approach will retain the core settings of both schemes and recognises the schemes are working well overall, achieving intended outcomes, and employers and employees are familiar with the core settings.

Retaining the default comparator period definition

48. The default comparator period, from which a ‘typical’ 7 days (RSP) and/or 14 days (WSS) can be selected, was a conscious design choice that supports the objective of providing support to mitigate the impact of the contemporary escalation in alert levels, and ensures the change is the main factor leading to the decline in revenue.

49. There has been concern expressed by some stakeholders that, due to their revenue already being supressed due the impacts of COVID-19, it is difficult for them to demonstrate the needed revenue drop within the default comparator period and therefore the current policy settings do not provide the support they seek. However, altering the scheme settings to allow the demonstration of revenue decline over a prolonged period would require a fundamental change in the purpose of the scheme.

50. Instead of supporting businesses to meet costs during individual increased alert levels, such a change would mean that the schemes instead represent a payment that addressed broader and more sustained impacts of COVID-19 on New Zealand’s economy.

51. It is not the intent of the RSP or the WSS to mitigate ongoing impacts of border closures, broader economic effects of COVID-19, and normal baseline revenue volatility. Officials therefore do not recommend this intent change.

Communication surrounding the schemes

52. Recent resurgence periods have highlighted the importance of communication and therefore the understanding of support available amongst the business community. Communication surrounding the availability and eligibility settings of the schemes have impacted the uptake and user experience of the schemes in ways outlined below.

53. IR and MSD will be working with Connected (website, phone and face-to-face service) and business.govt.nz to strengthen communications around eligibility and availability of support, including the RSP and WSS. Connected is one of the key platforms government uses to communicate COVID-19 related support to employers and employees and business.govt.nz is the platform that government uses to communicate business support and are well skilled in doing so.

Mitigating the risks inherent in using predicted revenue to meet eligibility criteria alongside the uncertainty of the timing of alert level de-escalation

54. Overall, the WSS was rolled out successfully and achieved its intended purpose to support employers to retain and to continue paying the wages for their employees.

55. The March WSS used both actual and predicted revenue decline, similar to the Wage Subsidy Resurgence scheme, to allow businesses the chance to pre-empt the loss they expected to experience during the escalated alert levels.

56. While this criteria allows businesses some certainty regarding the support they could receive through the subsidy, it also risks putting businesses into a position of needing to repay the subsidy, or unduly receiving the subsidy, if a decision to de-escalate in alert levels during the period they predicted a revenue decline meant they did not experience the revenue loss and became ineligible for the scheme.

57. To mitigate this risk in the March WSS, following the decision to de-escalate in alert levels after seven days, MSD proactively emailed all businesses who had applied early with the option to withdraw their application. This was to ensure that businesses had a fair opportunity to exit the scheme if they considered they would be in-eligible.

58. While officials are comfortable with this mitigation, we wish to make you aware of the risk of employers being disadvantaged in the applications process when using predicted revenue to assess eligibility alongside the uncertainty of the duration of heightened alert levels.

First and second iterations of the Resurgence Support Payment

59. Uptake for the second RSP (RSPMAR21) is tracking below the expected levels. Despite the second escalation of alert levels in March involving a higher and more prolonged period of restrictions, and therefore a more severe estimated impact on businesses, it is likely that the final cost of the RSPMAR21 will be less than the first (RSPFEB21). The fiscal spend on each of these two schemes will in that case not be commensurate to economic impact.

60. There is no clear explanation for this, however it is possible that there was not wide awareness in the business community that a business could receive a payment for both periods. There have been 22,500 applicants who have applied in both application periods, representing 30% of all applications – we would anticipate a significantly higher percentage of businesses being eligible in both periods.

61. This explanation is consistent with insights from our engagement with stakeholders, which highlighted uncertainty around applying for both periods. There may be value in communicating this aspect, that businesses can receive payments for alert level escalation period.

Communications to strengthen integrity

62. We have learnt from the WSS that strong messaging and media scrutiny on complying with the spirit of the scheme, in combination with publishing the names of companies that have received payments, has fostered greater accountability at the firm level and decreased the number of applications from large firms that have the resilience to respond to short alert level escalations.

63. To support the integrity of the RSP, we therefore recommend that any changes to accommodate COGs should be accompanied with strong messaging and guidance to reiterate that the purpose of the scheme is to support small businesses.

Seven day activation period

64. Cabinet has agreed that the WSS will be activated after a minimum period of seven days at Alert Level 3 or above, anywhere in New Zealand, of which the seventh day may be a partial day, and subject to Cabinet approval at the time. An analogous trigger, of seven days at Alert Level 2 or above, applies to the RSP [CAB-20-MIN-0531 refers].

65. The alert level escalations in February and March revealed this wording for the activation trigger has different possible interpretations. This ambiguity leads to inefficient operational decision-making and may reduce certainty for business.

66. We propose to use the following interpretation of Cabinet's agreed triggers in future. Officials used this interpretation for the February and March schemes.

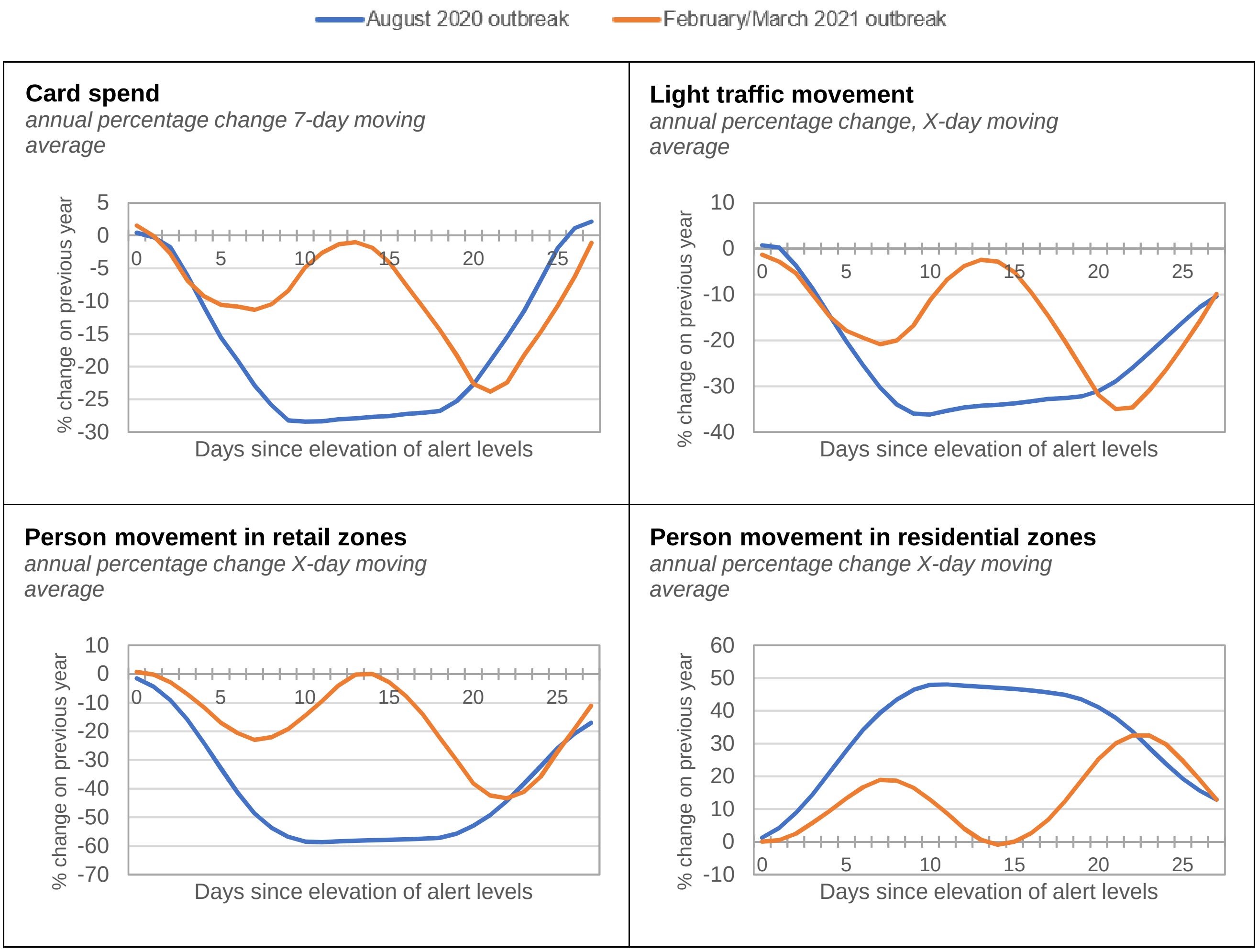
    a. The activation period of 'seven days, of which the seventh may be a partial day' means 'at least six 24 hour periods and one minute'; and

    b. The 'timer' for the activation period begins at the time of the relevant increase in alert levels.

Annex 1: Further analysis of RSP and WSS uptake

1. Treasury analysis of economic impacts and assessment of high frequency indicators suggest the impact on economic activity from the recent resurgence events was about 50% of the August 2020 Auckland outbreak. This is mostly as a result of the duration of restrictions; the behavioural response to Auckland's restrictions appears to broadly reproduce that seen in August.

High frequency indicators throughout August and February/March outbreaks



Comparing estimated GDP impact and scale of fiscal support in resurgence events

	Days spent above Alert Level 1				Economic impact, Treasury estimates ($ million GDP)					
	Auckland		RoNZ		Auckland		RoNZ		Total NZ	
	Aug	Feb	Aug	Feb	Aug	Feb	Aug	Feb	Aug	Feb
AL3	18	10	0	0	510	290	0	0	510	290
AL2	38	10	40	10	160	40	230	60	390	100
Total	56	20	40	10	680	330	230	60	900	390
Economic impact in February period, compared to August					50%		25%		45%	

February/March support provided greater coverage and stronger targeting of economic impacts than that in August

	Auckland		RoNZ		Total NZ	
	Aug	Feb	Aug	Feb	Aug	Feb
Economic impact of alert level elevations	680	330	230	60	910	390
Fiscal spend on resurgence support	480	289	320	99	790	388

2. The level of fiscal support relative to economic impact has been greater in the recent resurgence event than in August. This is in line with the original policy intent of the resurgence package, which recognised the need to address the issue that small business' balance sheets had become more stressed over time. The implication is that the fiscal case for significant change to the schemes is limited.

3. Economic impacts resulting from alert level elevations in February/March were more concentrated in Auckland than those resulting from August/September elevations, when, though still weighted towards Auckland, impacts were felt relatively more widely.

4. Uptake for the RSPMAR21 is tracking below expected. Despite the second escalation of alert levels in February involving a more prolonged period of restrictions, and therefore a more severe estimated impact on businesses, it is likely that the final cost of the RSPMAR21 will be less than the RSPFEB21, meaning the level of support provided by the second RSP is lower than intended relative to the level of economic disruption.

Comparing regional distribution of economic impacts and distribution of fiscal spend, between February/March and August

	August	**February**
Economic impact **in Auckland** as a proportion of total economic impact	75%	85%
Fiscal spend **in Auckland** as a proportion of total fiscal spend	60%	75%

5. Relative to August, increased regional targeting is evident in the greater concentration of spend in Auckland, over and above the level to be expected given the distribution of economic impacts.

6. Despite this improvement in regional targeting, fiscal support relative to economic impact has remained high outside of Auckland, both in August and in February.

7. The Treasury has simulated resurgence support uptake based on assumptions of alert level impacts by industry, to determine the distribution of fiscal support under the RSP and the WSS that is commensurate with our understanding of industry impacts.

8. Comparing simulated uptake with actual uptake, the distribution of fiscal support mirrors the distribution of economic impact in most industries, suggesting that the broad parameters of the respective schemes and the resurgence support package succeed at an aggregate level in providing support to the industries where the impacts of restrictions are felt most acutely.

9. February has seen proportionately more spend directed towards hospitality than in August. Across industries, uptake reflects modelled industry impacts, suggesting sectoral targeting has been effective. Differences in the distribution of economic impacts across industries could be partially attributed to differing levels of adaptation between industries.

Comparing industry distribution of economic impacts and fiscal spend, between actual February/March uptake of resurgence support, and simulated uptake based on Treasury modelling of economic impacts

	WSS		RSP		Total resurgence support	
	Actual	Simulated	Actual	Simulated	Actual	Simulated
Accommodation and Food Services	28%	31%	20%	18%	24%	24%
Retail Trade	10%	13%	10%	10%	10%	11%
Arts and Recreation and Other Services	11%	9%	12%	9%	11%	9%
Construction	8%	6%	9%	9%	8%	8%
Professional, Scientific, and Technical Services	6%	5%	7%	7%	7%	6%
Administrative and Support Services	6%	5%	6%	5%	6%	5%
Transport, postal and warehousing	3%	6%	7%	6%	5%	6%
Wholesale Trade	4%	3%	4%	3%	4%	3%

Annex 2: Definition of group members for the RSP

1. The Order in Council for the RSP uses the term ‘specified person’ to describe who is eligible to apply.
2. The list of entities provided below can be considered as entities within a group – the ‘group members’.
3. Specified person means:
    a. an individual who is self-employed
    b. a body corporate or an unincorporated body
    c. a registered charity
    d. an incorporated society
    e. a post-settlement governance entity
    f. a trust
    g. a partnership (as defined in sections 8 and 9 of the Partnership Law Act 2019)
    h. any department of State or organisation in the State services (as defined in section 5 of the Public Service Act 2020) that is approved by the Minister of Finance as a participant in the RSP scheme
    i. a non-government organisation
    j. a pre-revenue firm
    k. a joint venture.

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Communicating and advancing your economic work programme

Date:	13 April 2021	**Report No:**	T2021/117
		File Number:	TY-2-0

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Provide feedback** on: • s9(2)(f)(iv) [redacted] • our proposal for regular brief reporting; and • the list of key upcoming decisions we have identified.	None

Contact for telephone discussion

Name	Position	Telephone		1st Contact
Tim Maddock	Senior Analyst, Economic Policy	s9(2)(k) [redacted]	N/A (mob)	✓
Mario DiMaio	Acting Manager, Economic Strategy		N/A (mob)	

Minister's Office actions

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Communicating and advancing your economic work programme

Executive Summary

1. The Government has a range of goals regarding New Zealand's economic and wellbeing challenges in both the short and long term, and a busy economic work programme in place to achieve them.

s9(2)(f)(iv)

[redacted]

We recommend commissioning regular reports that help you advance your economic work programme

5. As the environment is uncertain and dynamic due to COVID-19, your economic work programme is likely to need regular review and adaptation to ensure it takes account of changing circumstances and is on track to achieve both short- and long-term economic and wellbeing goals.

6. To support this regular review and adaptation, we propose to provide you with either a three- or six-monthly report that briefly describes the economic context, notes economically significant decisions coming to you in the next six months (via any portfolio), and advises – by exception, and where not covered elsewhere – on any areas of risk or opportunity where we think the work programme needs to adapt if it is to achieve your objectives. This will be a light-touch means of supporting you as you advance the economic work programme toward your goals and priorities.

7. If you confirm that this would be useful to you, then we will talk with the Department of Prime Minister and Cabinet (DPMC) and the Ministry of Business, Innovation and Employment (MBIE) about the best means of producing this report. It would complement rather than overlap with existing monitoring of key projects by the Implementation Unit in DPMC, and of progress against the Five-Point Plan by Economic Chief Executives.

8. This report provides an exemplar economic context section, and a baseline table of key decisions (Table 2 in the body of the report). Please let us know if you see any important gaps in this table, and if any of the economically significant decisions outlined in Table 2

are particularly important for you. Future reports would update this table and comment on any important slippages or gaps.

9. We are also interested in understanding your priorities for pursuing major changes to economic settings – in light of the effects of COVID-19 – to embed positive change for New Zealand when accelerating the recovery and laying foundations for the future.

10. This report also notes how the phasing of the work programme could evolve over the next two to three years to enhance New Zealand's productivity performance. It also recommends against further work at this stage on partial expensing, in light of the stronger than expected economic bounce back and competing priorities.

Recommended Action

We recommend that you:

s9(2)(f)(iv)

d **agree** that we should provide you with a brief report, either three-monthly or six-monthly, as a light-touch check-in point on your economic work programme.

Agree / Disagree.

e If you agree to recommendation d, **indicate** your preference for the frequency of this reporting, noting our advice that three-monthly is likely preferable.

three-monthly / six-monthly

f **indicate** any important gaps you see in Table 2.

g **indicate** if any of the economically significant decisions outlined in Table 2 are particularly important for you.

h **indicate** any priorities you have for major changes to economic settings – in light of the effects of COVID-19 – to embed positive change for New Zealand when accelerating the recovery and laying foundations for the future.

i **agree** that we should cease work on partial expensing for the time being.

Agree / Disagree.

Mario DiMaio
Manager, Economic Strategy

Hon Grant Robertson
Minister of Finance

Treasury Report: Communicating and advancing your economic work programme

Purpose of the Report

s9(2)(f)(iv)

[redacted]

2. This report also proposes that we provide you with a brief report, either three-monthly or six-monthly, as a light-touch means of supporting you as you advance the economic work programme toward your goals and priorities. It provides examples of what such a report might cover, including an overview of the economic landscape and a baseline table of key decisions coming to you in the next six months. We welcome your feedback on this table to ensure we have a shared understanding of the key decisions coming up.

s9(2)(f)(iv)

[redacted]

s9(2)(f)(iv)

s9(2)(f)(iv)

Advancing your economic work programme toward your goals and priorities

13. Given the environment is uncertain and dynamic due to COVID-19, your economic work programme is likely to need regular review and adaptation to ensure it takes account of changing circumstances and is on track to achieve both short- and long-term economic and wellbeing goals.

14. To achieve this, we propose that we provide you with a regular report that:

- briefly describes the **economic context**;
- notes **economically significant decisions** coming to you in the next six months (via any portfolio); and
- gives **brief commentary on the view ahead**, advising – by exception, and where not covered elsewhere – on any areas of risk or opportunity where we think the work programme needs to adapt if it is to achieve your objectives.

15. This will be a light-touch means of supporting you as you advance the economic work programme toward your goals and priorities. As economic strategy deliverables sit across multiple Ministerial portfolios, you could use the “upcoming decisions” table to inform regular discussions with your Ministerial colleagues about changing priorities, and priorities for delivery, as the economic context continues to evolve. This would complement, rather than overlap with, existing monitoring of key projects by the Implementation Unit in DPMC, and of progress against the Five-Point Plan by Economic Chief Executives.

16. In terms of frequency, you could choose to receive this report three-monthly or six-monthly. Our view is that three-monthly reporting is likely preferable, on the basis that there is value in the current dynamic environment to have more frequent check-ins to discuss the implications of any changes in the economic environment and significant upcoming decisions across your work programme. More frequent reports are also suitable for the light-touch reporting approach we have proposed.

17. If you confirm that this would be useful to you, please indicate to us your preferences for the frequency of reporting. We will then talk with DPMC and MBIE about the best means of producing this report.

18. The following sections give a flavour of what such a report could cover.

The economic context

The economic recovery is expected to continue, but considerable uncertainty remains and the recovery has been uneven

19. The New Zealand economy has been more resilient than previously assumed and we expect economic growth to continue over 2021, albeit at a slower pace. However, there is considerable uncertainty and it remains difficult to capture the true state of the economy. COVID-19 remains a key risk, and recent GDP data highlights the uncertainty around recent economic momentum. In particular, the vaccination strategy and border strategy will have significant impacts on the future economic landscape.

20. **Recent labour market data has surprised on the upside**. However, underutilisation and Jobseeker Support recipient numbers remain above pre-COVID levels, highlighting potential softness. The pandemic has also **affected specific groups more than others**, exacerbating long-standing distributional issues in some instances. This includes differences across age, ethnicity, regions, education level, and gender.

21. **Business recovery has been uneven across sectors, regions, and firm type.** Whilst we have observed a strong bounce back on aggregate, many firms continue to voice concerns about persistent pressures, including issues relating to supply chains, hiring and labour supply, and cashflow. The impacts of previous Alert Level escalations continue to stress some balance sheets, and heightened uncertainty is affecting investment behaviours.

22. Given the heightened uncertainties that remain, it will be important to continue monitoring the economic outlook and, if needed, adapt your economic strategy as the recovery continues.

The fiscal position is expected to be better than initially forecast, but it will remain more constrained than pre-pandemic

23. Fiscal policy has been effective at supporting the economy through COVID-19 to date. While the fiscal position will likely be better than initially forecast, it will remain more constrained relative to pre-COVID. We consider current levels of fiscal support to be at the right level to support the recovery, and we advise a ‘watch and wait’ approach. If the economy shows signs of deterioration, there remains space to provide further fiscal support.

The long-term fiscal challenge will pose difficult choices

24. The cost of COVID-19 compounds existing long-term challenges for the Government's fiscal position. Even with lower interest rates, the fiscal position could become unsustainable in the medium term if spending pressures continue to increase at historic rates and revenue is not increased as a share of the economy. These pressures are driven by an ageing population and cost increases in health and education; they existed before COVID-19, but higher debt has brought the challenges forward.

25. Although measures to enhance productivity remain important, even under optimistic scenarios, higher economic growth alone will be insufficient to achieve long-term fiscal sustainability. This will require higher taxes, managing increases in spending on public service provision, reductions in transfer payments, efficiency gains or some combination of these. Different, more effective ways of providing services could also be considered; prioritisation and value for money are more important than ever.

New Zealand continues to face critical long-standing economic challenges to wellbeing

26. Before COVID-19, across the domains of wellbeing used by the OECD, New Zealand sat in the top third of the OECD for all the social capital metrics, and many of the human and natural capital metrics. However, our position for nearly all financial and physical capital metrics was in the middle. Our housing costs as a percentage of disposable household income are among the highest in the OECD, and Māori and Pacific populations experienced worse outcomes across all domains of wellbeing.

27. These outcomes reflect long-standing economic challenges to the wellbeing of New Zealanders, including:

    - Persistently low productivity growth, meaning New Zealand's growth in per capita incomes has largely come from increasing inputs – for example, increasing participation in the workforce and using more natural resources – as well as from a favourable terms of trade.
    - Persistent, multifaceted, and intergenerational disadvantages for some families and communities, with Māori and Pacific over-represented.
    - An infrastructure deficit and significant under-supply of housing, with big impacts for New Zealanders' wellbeing both directly through quality of life and indirectly through impacts on the operation of the economy.
    - A natural environment that is approaching its capacity to absorb some types of human activity without long-lasting or permanent negative impacts. Freshwater quality in New Zealand is of particular concern.

Economically significant decisions

28. Table 2 sets out the **economically significantly decisions** the Government is due to make (whether conclusive or directional) in the next six months, across a range of Ministerial portfolios. Future reports, if desired, would update this table and comment on any important slippages or gaps.

29. Please note we have excluded areas of ongoing work in your Finance Portfolio where you are receiving a regular stream of advice, such as the Reserve Bank Act Review and Public Finance Modernisation Reforms. We may include these in further reports.

Table 2. Key upcoming decisions in the next six months

Priority area		Key upcoming decisions in the next six months
Keeping New Zealanders safe	**Border choices**	• How and when to reopen the border. • Near-term migration settings (plus supporting the Productivity Commission inquiry into long-term options).
	Supporting firms and regions	• Transitional support for border-reliant firms (particularly tourism) and impacted regions – through the business support elements of the tourism package. • Adjustments to support the sustainability of existing COVID-19 business support measures s9(2)(f)(iv) [redacted]
Accelerating the recovery and rebuild	**Delivering the Five-Point Plan**	s9(2)(f)(iv) [redacted] • Supporting an export-led recovery (including Free Trade Agreement negotiations and considering changes to the mandate and strategy of the New Zealand Export Credit Office). • Future of employment support – ensuring programmes support the economic recovery, including alignment, targeting, sustainability, affordability, and decisions link into wider government strategies. • Delivery of existing infrastructure investment (e.g. Housing Acceleration Fund, New Zealand Upgrade Programme, and Infrastructure Reference Group projects).
	Other key issues for the recovery and rebuild	• How to achieve structural change in border-reliant firms and regions (e.g. through regulatory measures such as the International Visitors Levy & other elements of the tourism package). • Government response to the Productivity Commission's Frontier Firms report, which may include directional decisions about the innovation system and industry policy. • Social unemployment insurance and its impact on our macroeconomic and fiscal policy settings (for public consultation later in 2021).
Laying the foundations for the future	**Housing and resource management**	• Regulatory challenges, including the best use of public powers (e.g. the Urban Development Act), and coordination and alignment of parallel reforms and work programmes toward the three strategic housing objectives (i.e. Resource Management Act reforms, role of local government review, and Three Waters). • Policy decisions on the core elements of the new resource management legislation (alongside other responsible Ministers).
	Climate change	• Developing the Government's Emissions Reduction Plan in the second half of 2021, with consideration of the Climate Change Commission's advice. • Furthering work on adaptation, including the National Adaptation Plan and work on managed retreat (ahead of consulting on the proposed Climate Adaptation Act). • Progressing thinking on funding and financing the transition to a lower carbon future.
	Child poverty and equity issues	• New child poverty reduction targets and associated strategy by 20 June 2021 – what levers to use and when, with what fiscal implications? • Process, timeline, co-ordination, and fiscal strategy for a number of interacting labour market interventions including Fair Pay Agreements, living wage for government contractors, pay equity, and pay parity.

30. Please let us know if you see any important gaps in this list at this stage.

31. We would also value your feedback on if any of these economically significant decisions are particularly important for you. Your feedback will help us in ensuring that, as much as is feasible, sufficient resources are devoted to advising on the issues that matter most to you.

Brief commentary on the view ahead

32. *Please note: In future reports, this section would comment on updates or changes to the table above, noting any important slippages or gaps. We have not done that analysis for this first exemplar report.*

Accelerating the recovery in the short-term

33. As noted earlier, the economic recovery is expected to continue, albeit at a slower pace than the rebound in the second half of 2020. Macroeconomic policy is projected to remain very supportive of the recovery over the next several years. The planned withdrawal of fiscal support is gradual and monetary policy is expected to remain accommodative. As reflected in Table 1, a range of work programmes are underway to support the recovery, focussed on the Five-Point Plan, for instance, delivering infrastructure investment, supporting small businesses, and supporting people into employment.

34. As considerable uncertainty remains, policy may need to adjust to reflect economic developments. The following policy variables will have a significant impact on the trajectory of the recovery:

- *Pace of vaccinations* – The pace of the immunisation programme will affect decisions about the re-opening of the border. Opportunities to accelerate vaccination are limited, however, by the timelines for vaccine deliveries.
- *The pace of execution of the fiscal programme* – Sound and on-time implementation of the existing fiscal programme, including managing capacity constraints, will be crucial in ensuring the current economic trajectory is maintained. Data on the implementation of COVID-19 related spend showed that while $10.6 billion has been allocated for 2020/21, agencies reported that $7.8 billion is expected to be spent within the 2020/21 financial year (based on agencies' self-reporting of ongoing delivery initiatives as of 31 December 2020 – T2021/264 refers).

35. In November 2020 you expressed interest in temporary partial expensing as a large-scale stimulus measure to support the recovery. Overseas evidence suggests that partial expensing could be an effective way to boost business investment, particularly if it assists businesses with cashflow. Such a scheme would likely have significant fiscal costs. Given that the economy has bounced back better than expected since November we do not consider such large-scale stimulus necessary. For the time being, we therefore do not consider further work on partial expensing necessary, but it may be a good fiscal stimulus option to consider alongside other options if the economic outlook deteriorated substantially in the near-term.

We are interested in understanding your priorities for pursuing major changes in pre-COVID settings to embed positive change

36. The economic changes caused by COVID-19 present potential opportunities to embed positive change for New Zealand when accelerating the recovery and laying the foundations for the future. Some examples of potential opportunities include:

- *Resetting immigration settings* – When re-opening the border, Government has choices about whether to more actively managing the scale of flows and stocks of migrants as a tool to take off pressure from infrastructure, and take larger steps to shift sectors away from reliance on lower-skilled and lower-paid migrant workers. We note that Minister Faafoi has commissioned an urgent review of the Skilled Migrant Category and Cabinet has agreed the commissioning of a wider strategic review of immigration settings from the Productivity Commission.

- *Resetting the tourism sector* – the closure of the border to international tourists provides an opportunity to consider the effect of tourism on natural and social capital, and whether the costs of the tourism system are appropriately regulated. The latest tourism support package provides an opportunity to contribute to this, including through the Tourism Industry Transformation Plan.
- *Delivery of public services* – the crisis conditions forced the public service – for instance in the health and education sector – to work at pace in new and innovative ways, which hold the promise of enhancing access to public services, reducing inequities, and increasing efficiency.

37. The pressure to snap back to pre-COVID settings is already strong, and resources – financial and human – to deliver change are limited. Prioritisation and pacing of change programmes will therefore matter a lot to the successful achievement of lasting change. We are interested in understanding your priorities for major change, to help inform and shape our future advice to you.

The next phase of reforms should retain a focus on enhancing productivity

38. The current phase of the Government's work programme includes substantial reform efforts in the labour market, vocational education, the health sector, and resource management, including Three Waters and housing. The vocational education and resource management reforms, in particular, will contribute to improving New Zealand's productivity performance, as well as the Government's significant investment in infrastructure.

39. We suggest that productivity remains a key focus as Government considers its next phase of reforms (from 2022 or 2023, varying by portfolio). Enhancing productivity will be important for accelerating the economic rebuild, given our growth (or lack of growth) in productivity will influence the rate at which New Zealanders' wages and incomes grow in the medium to long-term and our past productivity performance has been poor. Significant productivity levers, such as innovation and investment, will also be important for addressing other long-term wellbeing objectives, such as mitigating climate change.

40. The next phase of productivity-enhancing reforms could target areas such as the research, science, and innovation system, industry policy, urban development and migration settings. The Productivity Commission's report on Frontier Firms and the agreed upcoming inquiry on immigration, once completed, could be used to identify opportunities in some of these areas.

41. We would need to do further work to advise in more detail on opportunities for productivity-enhancing reform. We could come back to this in a later report if helpful.

An alternative means of advancing your economic work programme

s9(2)(f)(iv)

s9(2)(f)(iv)

43. This approach would provide a high degree of visibility and steering for Ministers and officials, and (if public reporting was introduced) a high level of public visibility of the Government's economic work programme. However, it would also divert scarce resources away from policy work toward administrative activities, especially while the work programme continues to evolve. We therefore think the light-touch "by exception" approach we propose above is a better fit for your current needs.

Next steps

s9(2)(f)(iv)

45. Subject to your agreement, we will talk with DPMC and MBIE about how best to provide you with regular reporting (either three- or six-monthly) to support advancing your economic work programme.

Annexes withheld under s9(2)(iv)

TE TAI ŌHANGA
THE TREASURY

Reference: T2021/751 SE-2-10-1

Date: 15 April 2021

To: Minister for State Owned Enterprises (Hon Dr David Clark)

Cc: Minister of Finance (Hon Grant Robertson)
Associate Minister of Finance (Hon Dr Megan Woods)

Deadline: None

Background to the weather forecasting market in New Zealand

On 10 March 2021, the Minister for State Owned Enterprises held a relationship meeting with the Chair and Chief Executive of the Meteorological Service of New Zealand Limited (MetService). MetService raised its concerns about the impact that increasing competition in the weather forecasting market, particularly between MetService and the National Institute of Water and Atmospheric Research (NIWA), might have on public safety outcomes. Minister Clark wanted to understand more about this issue, and commissioned advice from the Treasury on the competitive landscape between MetService and NIWA.

The purpose of this briefing is to provide:

- background to the formation of MetService and NIWA,
- a summary of the reviews that have been undertaken to date,
- an overview of some of the potential issues cited in the current landscape,
- the Treasury's suggested next steps.

We note that this briefing does not make any assessment of competitive or anti-competitive behaviour in the current settings, as that type of assessment is more properly within the mandate of the Commerce Commission.

Background to the formation of MetService and NIWA

The establishment of MetService and NIWA in 1992 separated the operational and research components of New Zealand's weather function, performed by the Ministry of Transport (MoT) at the time.

MetService was formed as a State-owned enterprise (SOE) taking over the weather forecasting function

The rationale to create MetService as a commercial entity was to leverage its expertise in weather forecasting to support its operations, reduce the cost of weather services to taxpayers, and pay dividends to the Crown.[1]

MetService helps people stay safe and make informed decisions, based on the weather. MetService supports the Minister of Transport in meeting statutory and regulatory requirements associated with the Meteorological Services Act 1990 and New Zealand's obligations to the United Nations with respect to meteorology. It does this through a contract with the Minister of Transport. The contract includes providing severe weather forecasts and warnings for New Zealand land and marine areas, supporting search and rescue, and representing New Zealand at the World Meteorological Organisation (WMO).

Alongside the MoT contract 9(2)(b)(ii) 9(2)(b)(ii) MetService provides services to the aviation sector, marine sector, media sector and a range of other clients in industries such as transportation, energy and agriculture, both in New Zealand and internationally.

NIWA was formed as a Crown Research Institute (CRI), taking over the climate and atmospheric research components

NIWA was created as part of a government initiative to restructure the science sector, when the CRIs were established to undertake scientific research for the benefit of New Zealand.[2] This framework was set up to incentivise CRIs to develop commercial revenue streams and reduce the reliance on core Crown funding and contestable research funding.

NIWA's purpose is to enhance the economic value and sustainable management of New Zealand's aquatic resources and environments, to provide understanding of climate and the atmosphere and increase resilience to weather and climate hazards to improve safety and wellbeing of New Zealanders.

NIWA's revenue of $159m is made up of research (58%) and commercial revenue (42%). Research revenue includes funds from the Ministry of Business, Innovation and Employment (MBIE) through the SSIF and contestable research funding through the Endeavour Fund. Commercial revenue is made up of contracts with the private sector, central government (e.g. the Ministry for Primary Industries) and local government.

Summary of reviews into the settings of MetService and NIWA

Since the establishment of MetService and NIWA, the nature and extent of the relationship between the companies have been a recurrent subject of advice. There have been a number of independent reviews.

1 Under section 4 of the SOE Act 1986 MetService, as an SOE, has the mandate to operate as a successful business. This includes being as profitable and efficient as comparable businesses that are not owned by the Crown; to be a good employer; and to exhibit a sense of social responsibility.

2 Under the Crown Research Institute Act 1992 (CRI Act), NIWA should operate in a financially responsible manner so that it maintains its financial viability

A series of reviews led to the establishment of a Memorandum of Understanding

In 2001, an independent review panel sought to understand if there were any material risks to the long term future capability of New Zealand's weather forecasting and climate services arising from the continued separation of MetService and NIWA. The panel found that in the short term there was low risk of two separate entities, but risk was elevated in the longer term.[3] At the time, shareholding Ministers encouraged closer collaboration between the entities.[4]

Another review was conducted in 2006, as the desired level of collaboration between the entities did not materialise. The objective of the review was to identify the combination of organisational and purchasing arrangements for New Zealand's national weather and climate functions that was likely to deliver the greatest benefit. The review panel initially recommended a merger, however Ministers agreed to continue with the separation of the two entities with the agreement of a National Benefit Objective[5] and the introduction of a Memorandum of Understanding (MOU). An MOU on the scope and processes for ongoing collaboration between the two entities was signed in 2007 spanning 10 years.

After the signing of the MOU, it appears that NIWA's strategy shifted towards further developing a commercial weather forecasting business. MetService has advised that it began encountering NIWA as an active competitor in the late 2000s. In 2013, it launched the NIWA Weather division and in 2015 partnered with the UK MetOffice to develop weather and climate forecasting systems. Most recently it upgraded its high-performance computer, which improved its capability to generate weather forecasting data. MetService has also moved more in to the research space, for example winning a contract from the Endeavour Fund in its MetOcean subsidiary. The MOU expired in 2017 without renewal, as the expected collaboration between the entities had not materialised.

While CRIs do not have the same commercial mandate as SOEs, the revenue that NIWA receives to support its operations (from the SSIF) is not sufficient to fully cover its operating costs and has not increased in recent years. At the same time, CRIs are expected to be financially viable. This has encouraged CRIs to look for additional sources of funding. NIWA has focused on increasing its commercial revenue and has been successful with this strategy.

Reviews have also been undertaken on the open access to, and pricing of, weather data

The weather forecasting market in New Zealand is an open market and there are no regulatory restrictions for new competitors to enter. However, the infrastructure required for a weather data collection network is costly to set up, therefore the

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3 The panel analysed the risk profile of various capability attributes, based on both probability and impact of each risk materialising, including: operational capability, scientific capacity, societal, economic and business competencies (financial viability, revenue generation, and production efficiency).

4 Recommendations arising from the review included for NIWA to become the preferred supplier of R&D to MetService, MetService to become the preferred commercialization partner of NIWA, and to maintain two common board directors across the two entities.

5 The National Benefit sought was: *Enhanced safety and wellbeing of New Zealanders, protection of property and infrastructure, and economic benefit to the nation, through reliable and timely forecasting of weather, climate and associated environmental events and impacts.*

economic barriers for new entrants to the market are high. In 2018, MBIE and the Treasury commissioned a review into open access weather data in New Zealand.[6] The review found that access to observational weather data in New Zealand is more restricted compared with some other countries, due to the commercial drivers of MetService and NIWA who collect the data. However it found that the costs of opening up more access to data would likely outweigh any wider benefits for New Zealanders.

In September 2019, the Commerce Commission opened an investigation into MetService and NIWA's pricing for weather data and the investigation is ongoing. 9(2)(b)(ii) [redacted]

9(2)(b)(ii)
[redacted]

MBIE has undertaken a review of the CRIs, and is considering further review of the science and r5esearch system in New Zealand

In October 2019, MBIE as the science policy agency and primary monitor of CRIs, commissioned Te Pae Kahurangi, a review by an independent panel, to assess how well the CRIs are positioned to meet New Zealand's current and future needs. The report made a range of recommendations including changes to the operating model, organizational form[7], funding, and approach to investments. Based on the recommendations of this review, MBIE is now considering a wider assessment of the science and research system in New Zealand.

s9(2)(f)(iv)
[redacted]

Potential issues in the current landscape

While both entities' revenues have been growing over recent years, the factors that have driven the numerous reviews over the years may still be persistent, with some new concerns being raised recently by MetService.

MetService is concerned safety could be negatively impacted

MetService has recently expressed its concerns about the impact that competition and the growing media presence of other weather service providers may have on public safety outcomes, specifically in the instance of severe weather events.

Specifically, MetService is concerned that products offered by NIWA may not provide an appropriate level of accuracy required to keep the public safe and may conflict with official weather warnings issued by MetService. Recently the Department of Conservation (DOC) selected NIWA for its contract for weather forecasting services at

6 Weather Permitting: Review of open access to weather data in New Zealand, 2017. MBIE and PWC.

7 The panel recommended that CRIs remain as Crown Entities (with a mandate to deliver public benefit through collaboration) but that they should no longer be subject to the Companies Act.

national parks. MetService has written to MoT, voicing its concerns that the service provided by NIWA relies on automated forecasts with no intervention from professional meteorologists which, in MetService's opinion, is inappropriate for a public safety service. MetService has also raised these concerns directly with DOC. s9(2)(g)(i)

s9(2)(g)(i)

MetService also has concerns that competition with NIWA for media presence during severe weather events may increase risks to public safety through conflicting narratives. The WMO highlights[8] the importance of the 'single authoritative voice' for public safety during hazardous weather events. Through its contract with the Minister of Transport, MetService is designated as the Crown's authorised provider of severe weather warnings, and hence is the 'single authoritative voice' for public information about severe weather in New Zealand. The purpose of this designation is to minimise confusion amongst the public during severe weather events and ensure warnings are provided at an appropriate standard. MetService is exploring ways to strengthen its brand and protect its role as the 'single authoritative voice' in New Zealand.

From a Crown perspective, there are various lenses to apply when considering potential issues

As set out above, since MetService and NIWA's inceptions, various issues have been raised and various solutions have been considered and actioned. While their form and interaction continues to attract discussion, there are currently no plans to undertake further review at this time. The Crown has a number of different interests, and issues might be identified and categorised from those interests:

- As a shareholder, the Crown owns 100% of both entities, and therefore has an ownership interest in the performance of both companies.
- As a customer, the Government is the largest purchaser of services from both entities so wants the best value for money from its procurement of services from these entities.
- From a whole of Government perspective, the Crown has an interest in ensuring the current settings and policies in the weather forecasting market allow for the best outcomes for New Zealanders.

Suggested next steps

s9(2)(b)(ii) and s9(2)(g)(i)

8 The WMO's GENEVA DECLARATION 2019: BUILDING COMMUNITY FOR WEATHER, CLIMATE AND WATER ACTIONS calls on all Governments to "Safeguard and strengthen the authoritative voice of NMHSs [National Meteorological and Hydrological Services] for the issuance of warnings and relevant information to support critical decisions related to natural hazards and disaster risks, in collaboration with national disaster management authorities".

Taking a wider lens, over the last 20 years the same broad questions have persisted around the system settings and institutional arrangements for New Zealand's national weather forecasting and climate services. That is, whether these settings provide optimal value, benefits and long-term capability and ultimately lead to the best outcomes for New Zealand. From a Crown perspective, there is a shared interest from relevant policy agencies in having optimal system settings for weather and climate services, with MBIE as the lead agency for science policy and MoT as administrator of the Meteorological Services Act 1990. From a shareholding perspective, the Treasury as monitoring agency has an interest in MetService's performance (as MBIE does in NIWA's).

s9(2)(g)(i) . Relevant reviews that are currently being undertaken (or planned) may inform priorities and the timing of any next steps. s9(2)(f)(iv) . Further, the findings from the Commerce Commission investigation may prompt questions for agencies to consider.

The Treasury will provide you with updates s9(2)(f)(iv) when relevant to MetService. We will also continue to work with MetService to understand the nature and drivers of, and proposed mitigations to, any current or emerging risks to company performance, both financial and in fulfilling its core purpose.

Alice Courtney, Senior Analyst, Commercial Performance, s9(2)(k)
Shelley Hollingsworth, Manager, Commercial Performance

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Indemnity Extension Request: ACC Cover for Representatives at International Financial Institutions

Date:	16 April 2021	Report No:	T2021/947
		File Number:	IM-0-0

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Agree** to extend the indemnity providing Accident Compensation Act 2001 equivalent cover for our representatives working at the International Monetary Fund, World Bank, Asian Development Bank, and their dependants. **Sign and date** the attached deed of indemnity.	22 April 2021 (this is a hard deadline because the current indemnity expires on that day).

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Rebecca Mountfort	Analyst, International	s9(2)(k) (wk)	N/A (mob)	✓
Thomas Parry	Manager, International	s9(2)(k) (wk)	s9(2)(g)(ii) (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury. **Sign and date** the attached deed of indemnity.

Note any feedback on the quality of the report	

Enclosure: Yes (deed of indemnity)

Treasury Report: Indemnity Extension Request: ACC Cover for Representatives at International Financial Institutions

Executive Summary

This report seeks your approval to extend the indemnity, signed in 2018, that provides Accident Compensation Act 2001 (the Act) equivalent cover to our representatives at the International Monetary Fund (IMF), World Bank (WBG) and Asian Development Bank (ADB) and their dependants.

This indemnity lasted three years and expires on 22 April 2021.

The 2018 indemnity also covered dependants of staff from NZ Inc agencies, who were posted offshore for more than six months. In 2019, an amendment to the Act provided cover to the majority of the dependants of staff posted offshore. However, for technical reasons, our representatives at the IMF, WBG, ADB and their dependants, are not eligible for this cover. Their primary employment relationship is with these institutions and not NZ Inc because these institutions prefer to have direct employment relationships with each countries' representatives.

We are seeking your permission to extend the indemnity for this group, for a further three years. The indemnity would fill any gaps in the cover that is provided by the above institutions or through personal insurance arrangements, relative to that provided by the Act. The indemnity would also ensure that the staff have access to cover under the Act for any injuries incurred while overseas once they return to New Zealand (because the Act is not normally accessible for such injuries).

We consider that this indemnity is necessary or expedient in the public interest, as required under the Public Finance Act 1989 and recommend that you approve and sign the attached deed of indemnity. These representatives do very valuable work for New Zealand of a similar nature to overseas NZ Inc staff who are now covered under the Act and, if not for the technicality in their employment status, these representatives would also receive cover under the Act.

Given that this group is very small, we expect any exposure for the Crown to be low. Under section 65ZD(3) of the Public Finance Act, you are required to present a statement to the House of Representatives, after signing an indemnity for a contingent liability of more than NZ$10 million. This indemnity would not trigger this requirement.

While we currently consider that there are no viable alternatives to this indemnity, we will continue to engage these institutions on alternatives and we will report back to you before the indemnity expires.

Recommended Action

We recommend that you:

a **agree** to extend the indemnity providing equivalent Accident Compensation Act 2001 cover to staff posted offshore, signed in 2018, for a further three years, but to limit it to our representatives working at the International Monetary Fund (IMF), World Bank (WBG) and Asian Development Bank (ADB), and their dependants.

Agree/disagree.

b **note** that we consider that this indemnity meets the public interest test in the Public Finance Act 1989, given the crucial work that these representatives do on behalf of New Zealand.

c **note** that the indemnity will apply to current and future representatives, for the duration of their contracts with these institutions, during this three year period.

d **note** that we would expect likely exposure to the Crown to be low, given the that the indemnity would now only apply to a handful of people. The indemnity will also only fill any gaps in the cover that is provided by other insurance arrangements, relative to that provided by the Act.

e **note** that as the contingent liability is expected to be well below the $10 million threshold, therefore the requirement in section 65ZD(3) of the Public Finance Act 1989 to provide a statement to the House of Representatives, does not apply.

f **note** that while we currently consider that there are no viable alternatives to this indemnity, we will continue to engage these institutions on alternatives and we will report back to you before the indemnity expires.

g **sign and date** the attached deed of indemnity

Signed/not signed.

Thomas Parry
Manager, International

Hon Grant Robertson
Minister of Finance

Treasury Report: Indemnity Extension Request: ACC Cover for Representatives at International Financial Institutions

Purpose of Report

1. This report seeks your approval to extend the indemnity providing Accident Compensation Act 2001 (the Act) equivalent cover, signed in 2018, for our representatives working at the International Monetary Fund (IMF), World Bank (WBG) and Asian Development Bank (ADB) and their dependants.

Background

2. In 2018, (T2018/811 refers), you signed an indemnity, to allow access to equivalent personal injury cover to that under the Act, for:

   - dependants of staff from NZ Inc agencies, who were posted offshore for more than six months, and
   - our representatives, and their dependants, at the IMF, WBG and ADB.

3. This was necessary because, generally speaking, to be covered under the Act a person must be ordinarily resident in New Zealand- a condition they will fail if they are, or intend to be, outside of New Zealand for longer than six months. However, in 2019, Parliament amended section 17(4) (the definition of ordinarily resident in New Zealand) of the Act, so that the majority of staff and their dependants posted offshore, are covered under the Act, provided workers meet certain conditions, such as that they are absent from New Zealand primarily in connection with the duties of his or her employment.

4. Our representatives and their dependants at the IMF, WBG, and ADB are not covered under the amendment because their primary employment relationship is with these institutions and not New Zealand. This employment arrangement is the preference of these institutions, given concerns about representative's loyalty to the institution if they were seconded from their countries of origin. The indemnity will only fill any gaps in the cover that is provided by these institutions or private insurance arrangements, relative to that provided under the Act, both while these representatives are offshore and once they return to New Zealand.

5. It is worth noting that it was not intended that these representatives and their dependants, be covered under the amending legislation because their primary employment relationship is not with New Zealand. s9(2)(g)(i)
s9(2)(g)(i)
s9(2)(g)(i)

Details of the Proposed Indemnity

6. Because our representatives at the IMF, WBG, ADB and their dependants are not covered under the Act. We are seeking your approval for an indemnity that will provide equivalent cover, to the Act. The scope and details of the proposed indemnity are outlined below.

Scope of the indemnity

7. The scope of this indemnity, is the same as the original indemnity, which covers costs incurred:

   a while offshore, to fill any gaps in the cover that is provided by the IMF,WBG and ADB or through personal insurance arrangements relative to that provided by the Act, and

   b after their return to New Zealand, for ongoing treatment and rehabilitation costs, because the Act is unable to contribute to treatment costs incurred outside of New Zealand.[1]

8. This would primarily relate to any medium to high-severity claims which are severe enough to require elective surgery or ongoing care in New Zealand.

9. While the population of this group will depend on who is in the role and how many dependants they have brought with them to their posting, this number is expected to be very low (likely less than 15 people total).

Potential fiscal impact and exposure

10. Due to the small population covered, the Crown's financial exposure is expected to be low.[2] We expect that most costs would be able to be met by the institutions themselves or other private insurance arrangements.

11. The indemnity will apply to current and future representatives, for the duration of their contracts with these institutions, during the three year period. We are only seeking to extend the indemnity for three years, as we are continuing to investigate viable long term solutions.

Managing claims

12. In order to asses and manage claims under the indemnity, the Treasury intends to contract a Third Party Administrator- similar to those used by New Zealand employers who opt in to the Accredited Employers Programme.

13. The Administrator would provide gatekeeping and management functions, therefore removing the administrative and capability issues for the Treasury associated with managing claims. The administrative costs of using the Third Party Administrator are not covered by the indemnity and would remain Treasury's responsibility.

[1] We understand that cover would also include permanent disability and accidental death.
[2] In 2018, it was estimated that the average cost (liability) per person per annum would be around four hundred dollars, so exposure would be in the low thousands per annum (depending on the number of dependants accompanying these representatives).

Public Interest Test

14. In order to approve the indemnity, you need to be satisfied that it is 'necessary or expedient in the public interest'. This means you have to be convinced that the indemnity is an effective and efficient use of public resources and that you are satisfied the proposal is worthwhile.

15. We consider that the indemnity is necessary or expedient in the public interest, based on the following factors:

    - These representatives provide an essential role, supporting the governance of these institutions, providing information to support policy-making in New Zealand and facilitating effective engagement with these institutions
    - The indemnity is consistent with the policy intent of the 2019 amendments to the Act but this group cannot be drafted to be included in the Act itself (see para 5 for more information)
    - Without the indemnity, we are concerned that future representatives may be unwilling to accept these offshore roles, limiting our ability to perform this essential role and that their dependants may have concerns about accepting a lower level of healthcare solely due to accompanying these representatives offshore.
    - The liability for the Crown is likely to be low, given the very small population size, and
    - For the majority of claims (for example, low severity events) the costs will be able to be met by the institutions themselves or through personal insurance arrangements.

16. The indemnity will be in force for three years, but will only apply where the employee intends to resume a place of residence in New Zealand, and the injury occurs:

    - during the period of the employee's contract with the named offshore institution, or
    - while they are absent from New Zealand primarily in connection with their NZ Inc employment duties (the remuneration for which is treated as income derived in New Zealand for New Zealand income tax purposes), or
    - for up to six months following the completion of their employment contract with the named offshore institution.

17. While we currently consider that there are no viable alternatives to this indemnity, we will continue to engage these institutions on alternatives and we will report back to you before the indemnity expires.

Fiscal treatment of the indemnity

18. The indemnity will continue to be disclosed in the Crown accounts as a contingent liability. If the indemnity is called upon it would result in an expense to the Crown that would be incurred under the Permanent Legislative Authority (PLA), under 65ZD of the Public Finance Act.

19. The cost of using a Third Party Assessor will continue to be met within the existing PLA and scope statement established in Vote Finance for the original indemnity (T2018/811 refers).

You do not need to provide a statement to the House

20. Under section 65ZD(3) of the Public Finance Act, you are required to present a statement to the House of Representatives, after signing an indemnity for a contingent liability of more than NZ$10 million. This indemnity would not trigger this requirement, as likely exposure would be low.

Next Steps

21. The proposed Deed of Indemnity is attached for your signing. It is important that this is signed before 22 April, as this when the previous indemnity expires and we do not wish to create a gap in cover for our representatives and their dependants.

Annex One: Draft Statement for NZ Inc Chief Executives

Commitment to NZ Inc staff and their dependants of posted offshore

1. Preamble

1.1. The mandate for this commitment to create a legally binding obligation is set out in the Minister of Finance's indemnity dated [date] given under section 65ZD of the Public Finance Act 1989 for loss that An NZ Inc staff or their dependant suffers through a personal injury while absent from New Zealand to the same extent that would have been provided had the dependant been entitled to Accident Compensation Corporation (ACC) cover for that personal injury under the Accident Compensation Act 2001 (the Act).

2. Purpose

2.1. The purpose of this commitment is to create a legally binding framework that holds NZ Inc staff and dependants harmless against loss that is caused by a personal injury, to the same extent that would have been provided had the dependant been entitled to ACC cover for that personal injury.

3. Obligation

3.1. The [name of agency] shall provide ACC-equivalent cover for dependants who suffer a personal injury.

4. Scope of Application

4.1. The application of the obligation applies to [name of agency] employees and their dependants, who are appointed to positions offshore for longer than six months that require them to take leave of absence from their employment with a NZ Inc agency to be employed directly by The Asian Development Bank, The International Monetary Fund and The World Bank (**the offshore institution(s))** in the following roles:

4.1.1. World Bank: Senior Advisor to the Executive Director (Representing New Zealand)

4.1.2. International Monetary Fund: Alternate Executive Director (Representing New Zealand)

4.1.3. Asian Development Bank: Alternate Executive Director (Representing New Zealand)

4.2. A dependant is defined as a spouse or a partner, child, or other dependant of a person absent from (and intends to be absent from) New Zealand primarily in connection with the duties of his or her [name of agency] employment, and who generally accompanies (and intends to accompany) that person, for longer than six months.

5. Operation

5.1. The [name of agency] obligations created by this commitment will be managed on the [name of agency] behalf by a selected Third Party Administrator. In providing ACC-equivalent coverage, a Third Party Administrator will use services that are already publicly funded where this is both feasible and the ACC-equivalent standard can be maintained, prior to incurring additional expenditure. While this commitment will meet the non-funded costs of all goods and services identified by a Third Party Administrator as necessary to allow ACC-equivalent coverage to be provided, it does not extend to covering the administrative costs charged by a Third Party Administrator which will remain the responsibility of [name of agency].

6. Period of Application

6.1. In respect of NZ Inc employees and their dependants on a leave of absence to be employed directly by an offshore organisation (for example, The Asian Development Bank, The International Monetary Fund, and The World Bank), the commitment made in this communication is limited to ACC-equivalent costs for injuries that occur,

6.1.1. During the period of the employee's contract with the offshore institution(s); or

6.1.2. While they are absent from New Zealand primarily in connection with their NZ Inc employment duties (the remuneration for which is treated as income derived in New Zealand for New Zealand income tax purposes); or

6.1.3. For up to 6 months following the completion of their employment contract with the offshore institution(s); or

6.1.4. Three years from the date of this indemnity (whichever is the sooner).

6.2. The obligation created by this commitment will continue to apply to meet the on-going costs associated with ACC equivalent cover for a personal injury event during the period between the commencement of the Act (1 April 2002) and the Act being amended and coming into force to provide ACC coverage for dependants or three years from the date of the Minister of Finance’s signature (whichever is the sooner).

Deed of Indemnity

Deed of Indemnity dated the day of 2021

The Minister of Finance on behalf of Her Majesty the Queen in right of New Zealand

To the Chief Executives of NZ Inc Agencies

Background

A. The staff of NZ Inc agencies[3] posted offshore for periods extending beyond six months that require them to take leave of absence from their employment with a NZ Inc agency to be employed directly by The Asian Development Bank, The International Monetary Fund and The World Bank are not covered by Accident Compensation Corporation (ACC) insurance cover under the Accident Compensation Act 2001. Their partners and children (dependants) are also not covered. This means that if a staff member or dependant suffers a personal injury when they are offshore (or intend to be offshore) for more than six months, they will not qualify for ACC funded medical and rehabilitation services upon their return to New Zealand.

B. At the date of this indemnity, officials are a developing a long term solution to the gap in ACC insurance cover.

C. This indemnity has been developed under section 65ZD of the Public Finance Act 1989, in favour of the above NZ Inc staff and their dependants, for whom there is no ACC insurance cover under the Accident Compensation Act.

D. As Minister of Finance, I am authorised to give this indemnity under section 65ZD of the Public Finance Act 1989.

[3] The following agencies have staff posted offshore: Te Manatū Aorere Ministry for Foreign Affairs and Trade and Te Tai Ōhanga The Treasury.

Scope of the indemnity

E. This indemnity applies to NZ Inc employees and their dependants, who are appointed to positions offshore for longer than six months that require them to take leave of absence from their employment with a NZ Inc agency to be employed directly by The Asian Development Bank, The International Monetary Fund and The World Bank (**the offshore institution(s)**) in the following roles:

E.1. World Bank: Senior Advisor to the Executive Director (Representing New Zealand)

E.2. International Monetary Fund: Alternate Executive Director (Representing New Zealand)

E.3. Asian Development Bank: Alternate Executive Director (Representing New Zealand) (together, **the indemnified parties**).

F. A dependant is defined as a spouse or a partner, child, or other dependant of a person absent from (and intends to be absent from) New Zealand primarily in connection with the duties of his or her NZ Inc agency employment, and who generally accompanies (and intends to accompany) that person, for longer than six months.

Operation

G. The NZ Inc agencies' obligations created by this indemnity will be managed on the behalf of each NZ Inc agency by a selected Third Party Administrator. In providing ACC-equivalent coverage, a Third Party Administrator will use services that are already publicly funded where this is both feasible and the ACC-equivalent standard can be maintained, prior to incurring additional expenditure. While this indemnity will meet the non-funded costs of all goods and services identified by a Third Party Administrator as necessary to allow ACC-equivalent coverage to be provided, it does not extend to covering the administrative costs charged by a Third Party Administrator which will remain the responsibility of the relevant NZ Inc agency.

Period of application of the indemnity

H. This indemnity is limited to ACC-equivalent costs for injuries incurred by the Indemnified Parties and will only apply where the employee intends to resume a place of residence in New Zealand, and the injury occurs,

H.1. During the period of the employee's contract with the offshore institution(s); or

H.2. While they are absent from New Zealand primarily in connection with their NZ Inc employment duties (the remuneration for which is treated as income derived in New Zealand for New Zealand income tax purposes); or

H.3. For up to 6 months following the completion of their employment contract with the offshore institution(s); or

H.4. Three years from the date of this indemnity (whichever is the sooner).

____

Hon Grant Robertson
Minister of Finance

Witnessed by

____

(name)

____

(Signature)

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Indemnity Request from the Ministry of Business, Innovation and Employment for Stage Three of the Tui Oil Field Decommissioning Project

Date:	19 April 2021	**Report No:**	T2021/921
		File Number:	SH-10-9

Action Sought

	Action Sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Agree** to provide indemnities to contractors for the purpose of completing Stage Three of the Tui Decommissioning Project. **Sign** a delegation of your powers under section 65ZD to the Secretary to the Treasury, to be sub-delegated to MBIE's Chief Executive, to negotiate and execute each indemnity in line with the scope outlined in this paper. **Note** that, once each indemnity has been negotiated and granted, you will need to sign and date a Statement of Indemnity for each indemnity (for presentation to the House of Representatives) when provided to you in due course.	21 April

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Ashley Stuart	Analyst, Transitions Regions and Economic Development	s9(2)(k)	N/A (mob)	✓
Taylor Farr	Graduate Analyst, Transitions Regions and Economic Development		N/A (mob)	
Jean Le Roux	Manager, Transitions Regions and Economic Development		N/A (mob)	

Actions for the Minister's Office Staff (if required)

Return the signed report and delegation to Treasury by **21 April 2021**

Once each indemnity has been negotiated and granted in due course, **present** a signed and dated Statement of Indemnity for each indemnity to the House of Representatives.

Note any feedback on the quality of the report	

Enclosures: Delegation to the Secretary to the Treasury

Treasury Report: Indemnity Request from the Ministry of Business, Innovation and Employment for Stage Three of the Tui Oil Field Decommissioning Project

Executive Summary

This report seeks your agreement to provide indemnities in favour of approved contractor(s) for the purpose of completing Stage Three (Phases 1 and 2) of the Tui oil and gas field (Tui field) decommissioning project, at the request of the Ministry of Business, Innovation and Employment (MBIE).

To date, s9(2)(j) has been committed to enable decommissioning of the Tui field. Cabinet agreed to appropriate $154.6 million in February 2020 and the Budget 2021 package includes additional funding of s9(2)(j) to complete decommissioning. MBIE has also taken out insurance up to s9(2)(j) to cover oil spill clean-up costs for Phase 1 and Phase 2 and intends to obtain an additional s9(2)(i) of insurance to cover damage to the wells.

The project consists of three stages:

- **Stage One - Planning and Compliance**. This has already been completed.
- **Stage Two - Demobilisation**. This is expected to be completed by June 2021.
- **Stage Three - Decommissioning**. This will involve two phases of work – removal of the subsea infrastructure (Phase 1) and plugging and abandonment of the wells (Phase 2).

MBIE is undertaking a two-step, competitive procurement process for Stage Three - Decommissioning. The first step involved seeking Registrations of Interest (ROI) to execute the work. Following an evaluation of the ROI process, the team will invite appropriate contracting parties to submit proposals under a closed Request for Proposal (RFP) process. This will include draft contracts for the two major phases of work (Phase 1 and Phase 2).

MBIE would like to have the ability to include knock for knock indemnities in these contracts. Knock for knock indemnities are a standard feature of contracts in the oil and gas industry. While the indemnities are not yet available for signing, MBIE is seeking your approval now so that they can include them in the draft contracts to be attached to the RFP.

Officials' preferred option is for you to agree to the indemnities now, within the scope outlined in this paper, and delegate your powers under section 65ZD of the Public Finance Act 1989 to the Secretary to the Treasury to negotiate and execute the agreement within this scope, with such powers to be sub-delegated to MBIE's Chief Executive. s9(2)(j)
s9(2)(j)

An alternative option is to wait until the end of the negotiation processes for Phases 1 and 2 to agree to the final negotiated indemnities. s9(2)(j)
s9(2)(j)

Recommended Action

We recommend that you:

1. **note** that MBIE is undertaking a procurement process for Stage Three (Phases 1 and 2) of the Tui field decommissioning project s9(2)(j)
s9(2)(j)

2. **note** that the Treasury considers that providing knock for knock indemnities for Stage Three (Phases 1 and 2) of the Tui field decommissioning project is necessary or expedient in the public interest;

3. **note** that the indemnity is not within the permitted categories of indemnity that MBIE can give under section 65ZE of the Public Finance Act 1989 and the Public Finance (Departmental Guarantees and Indemnities) Regulations 2007;

4. **note** that, under section 65ZD of the Public Finance Act 1989, the Minister of Finance may, on behalf of the Crown, give an indemnity if it appears to the Minister to be necessary or expedient in the public interest to do so;

5. **agree** to provide indemnities relating to Phase 1 and Phase 2 of Stage Three - Decommissioning of the Tui field under section 65ZD of the Public Finance Act 1989 s9(2)(j)

s9(2)(j)

6. **agree** to delegate your powers under section 65ZD to the Secretary to the Treasury to execute the final indemnity in line with the agreed scope in recommendation 5 above, and approve such powers being sub-delegated to MBIE's Chief Executive;

   Agree/disagree.

7. **sign** and **date** the attached delegation instrument in order to effect this delegation;

8. s9(2)(j) [redacted]

9. **note** that the alternative option to delegating your powers under section 65ZD to the Secretary of the Treasury would be for you to consider the final indemnities once negotiations with the contractor(s) are complete;

10. **agree**, under this alternative option, to consider the final indemnities once negotiations with the contractor(s) are complete;

    Agree/disagree.

    [*Note that this decision is only required in the event that you disagree with recommendations 6 and 7 above*]

11. **note** that as the contingent liability of each indemnity is over $10.0 million, section 65ZD(3) of the Public Finance Act 1989 requires you to present as soon as practicable a statement to the House of Representatives that each indemnity has been granted; and

12. **note** that a draft statement to the House of Representatives for each indemnity will be provided to your office for signing and presentation at the time each indemnity is granted, following the conclusion of negotiations with contractors for Phases 1 and 2 of Stage Three of the Tui field decommissioning project.

s9(2)(k) [redacted]

Jean Le Roux
Manager, Transitions, Regions and Economic Development

Hon Grant Robertson
Minister of Finance

Treasury Report: Indemnity Request from the Ministry of Business, Innovation and Employment for Stage Three of the Tui Oil Field Decommissioning Project

Purpose of Report

1. This report seeks your agreement to provide indemnities in favour of approved contractor(s) for the purpose of completing Stage Three (Phases 1 and 2) of the Tui oil and gas field (Tui field) decommissioning project, at the request of the Ministry of Business, Innovation and Employment (MBIE).

Background

2. The Tui field is located off the Taranaki coast. The previous operator, Tamarind Taranaki Limited, was placed into liquidation in December 2019. The Crown is now the owner of the Tui assets through the common law principle of *bona vacantia* and has responsibility for decommissioning the Tui field.

3. To date, s9(2)(j) has been committed to enable decommissioning of the Tui field. Cabinet agreed to appropriate $154.6 million in February 2020 [CBC-20-MIN-0008 refers] for decommissioning. The Budget 2021 package includes additional funding of s9(2)(j) to complete the decommissioning process.

4. In December 2020 [T2020/3798 refers], you sent a letter of assurance to Maritime New Zealand stating that the Crown will meet liabilities up to s9(2)(j) in the event of an oil spill, to meet the Crown's obligations under the Maritime Transport Act 1994. s9(2)(i)

5. The project consists of three stages:

- **Stage One - Planning and Compliance**. This has already been completed.

- **Stage Two - Demobilisation** of the FPSO (Floating Production Storage and Offloading vessel) Umuroa. This is expected to be completed by June 2021.

- **Stage Three - Decommissioning**. This will involve two phases of work – removal of the subsea infrastructure (Phase 1) and plugging and abandonment of the wells (Phase 2).

6. MBIE is undertaking a two-step, competitive procurement process for Stage Three - Decommissioning. The first step involved seeking Registrations of Interest (ROI) to execute the work for both phases.

7. Following an evaluation of the ROI process, the team will invite appropriate contracting parties to submit proposals under a closed Request for Proposal (RFP) process. This will include two draft contracts for the two major phases of work; Phase 1 and Phase 2.

The proposed indemnity

8. MBIE would like to have the ability to include knock for knock indemnities in the contracts for both phases of Stage Three - Decommissioning. Knock for knock

indemnities are a standard feature of service contracts in the oil and gas industry. While the indemnities are not yet available for signing, MBIE is seeking your approval in advance, so that they can include the indemnities in the draft contracts to be attached to the RFP.

9. Knock for knock indemnities typically have the following features:

- Each party accepts liability for all claims, losses or liabilities to its personnel, its property, and the personnel and property of third parties to the extent such claims, losses or liabilities are caused by such a party.

- Each party indemnifies the other (on a reciprocal basis) for any claims against the other for such losses and liabilities.

10. Under knock for knock indemnities, the Crown would indemnify the contractors engaged to undertake Phase 1 and Phase 2 of the Stage Three - Decommissioning work. This may be the same contractor for both phases or different contractors for each. This will be determined during the procurement process.

The rationale for knock for knock indemnities

11. s9(2)(j) [redacted]

12. The rationale to include knock for knock indemnities is set out below:

- each party should be responsible for its own personnel and assets and the risk of loss or damage associated with them;

- a party that does not own particular assets is not well placed to make an assessment of the risks associated with them or to manage those particular risks in the offshore environment;

- it gives clarity and certainty to each party about how particular liabilities are to be dealt with;

- it avoids lengthy and expensive disputes (including the costs of litigation or arbitration) about who may be at fault or who might have caused the loss, as it is usually a straightforward exercise to determine which party's assets the losses relate to or emanated from; and

- it assists the parties to efficiently manage their insurance arrangements.

s9(2)(j) [redacted]

s9(2)(j)

[redacted]

Officials' assessment is that approving a knock for knock indemnity is 'necessary or expedient in the public interest'

16. It is a matter for you to decide whether you are satisfied that it is necessary or expedient in the public interest to approve the inclusion of knock for knock indemnities in the contracts in respect of Phase 1 and Phase 2 of Stage Three - Decommissioning of the Tui oil field.

17. **The following paragraphs set out factors** that officials consider are relevant to this assessment. You may decide to ignore these factors, or take into account other factors you consider relevant, and you may give such weight to the factors referred to below as you deem fit. You should make an independent decision and are not bound to accept the assessment below.

18. In brief, we consider that, under the circumstances, granting the requested indemnities within the scope outlined in this paper to carry out the necessary work to decommission the Tui field satisfies the "public interest test" in section 65ZD of the Public Finance Act 1989 (PFA).

Public interest

19. The PFA does not define 'the public interest'. However, it is generally accepted that the public interest is broadly equivalent to the concept of the public good and can cover a wide range of values and principles relating to the public good, or what is in the best interests of society. In the context of the PFA, the public interest should be viewed in a New Zealand context, that is, in the interest of the New Zealand public.

20. Officials consider that granting these indemnities is in the public interest, due to the need to ensure that the Tui field is decommissioned in an efficient, timely and cost-effective manner. There is significant public interest in this project due to the environmental concerns over hydrocarbon pollution in the Taranaki region.

21. There is a risk of hydrocarbon leakage if the wells are not permanently plugged before being abandoned. In the worst case, if the decommissioning work was not done, the wells were left as is and an oil leak occurred later, the cost of rectifying that situation is estimated to be at least s9(2)(i) .

22. Not completing decommissioning would also run counter to the Crown's expectations of the oil and gas industry and contravenes international conventions and domestic law. Taranaki iwi have expressed their opposition to leaving subsea infrastructure on the seabed and MBIE has provided public statements indicating the intent of the Crown to decommission the Tui field.

23. Given the necessity of decommissioning the Tui field, it is in the public interest to ensure that this is done in an efficient and cost-effective manner. s9(2)(j)
s9(2)(j)

Necessary or expedient

24. Efficient, timely and cost-effective decommissioning of the Tui field is an important priority for the Government. It is therefore critical that the Crown attracts a high-quality operator to minimise any environmental or health and safety risks and to ensure a positive long-term outcome.

25. s9(2)(j)

26.

Risks and mitigations

27. The usual risks associated with indemnifying a party, particularly in uncertain times, are present. Our preferred course of action requires you to give your agreement to an indemnity where the beneficiary (or beneficiaries) of the indemnity have not been determined yet. This risk is mitigated s9(2)(j)
s9(2)(j)

28.

s9(2)(j)

Assessment / mitigation of the risks mentioned above

29. MBIE has taken out insurance up to s9(2)(i) for Phase 1 of decommissioning to cover oil spill clean-up costs for Phase 1 and Phase 2. MBIE intends to obtain an additional s9(2)(i) of well control cover for costs associated with any damage to the wells.

30. s9(2)(i) and 9(2)(j)

31.

32. s9(2)(i) and 9(2)(j) s9(2)(i) and 9(2)(j) However, other monitoring of the project by MBIE personnel will be mostly carried out from an onshore office. s9(2)(j) .

33. s9(2)(j) . MBIE's assessment is that, while exposure could exceed $10 million, s9(2)(j) .

Benefits

34. s9(2)(j)

35. The Crown will also receive the benefit of reciprocal indemnities from the contractor.

36. s9(2)(j)

s9(2)(j) [redacted]

s9(2)(j) [redacted]

37. s9(2)(j) [redacted]

38. MBIE has taken out insurance that it considers is more than adequate to cover pollution-related losses. s9(2)(j) [redacted]

Assessment of risks and benefits against the public interest threshold

39. In light of the above, officials consider that:

- there is a public interest in giving an indemnity to Stage Three - Decommissioning contractors;
- s9(2)(j) [redacted]
- [redacted]

Your power under section 65ZD of the Public Finance Act 1989 to give an indemnity on behalf of the Crown

40. Section 65ZD of the PFA empowers you, as the Minister responsible for the administration of the PFA, to give an indemnity to a person, organisation or government if it appears to you to be 'necessary or expedient in the public interest' to do so, and to give such an indemnity on any terms and conditions that you think fit.

41. Section 65ZG of the PFA provides that any money paid by the Crown under a guarantee or indemnity given under section 65ZD and any expenses incurred by the Crown in relation to the indemnity may be incurred without further appropriation, and must be paid without further authority, than that section.

Options for indemnity process

42. Your approval is sought prior to negotiations and agreement of the final wording of the indemnity. s9(2)(j) [redacted]

43. Our **preferred option** is for you to agree to the indemnities now, within the scope outlined in paragraph 14 of this paper, and delegate your powers under section 65ZD (as set out above) to negotiate and execute the agreement within this scope to the Secretary to the Treasury, with such powers to be sub-delegated to MBIE's Chief Executive.

44. An **alternative option** is to wait until the end of the negotiation process to agree to the final negotiated indemnity. s9(2)(j) [redacted]

s9(2)(j) [redacted]

Other Relevant Information

45. This indemnity request has been prepared in consultation with MBIE. The MBIE legal team is comfortable with the wording of the proposed scope of the indemnity approval.

Next Steps

46. If you agree to this indemnity and delegation, s9(2)(j) [redacted]

47. We note that section 65ZD(3) of the PFA provides:

 If the contingent liability of the Crown under a guarantee or an indemnity given by the Minister under subsection (1) exceeds $10 million, the Minister must, as soon as practicable after giving the guarantee or indemnity, present a statement to the House of Representatives that the guarantee or indemnity has been given.

48. The total maximum value of the indemnity is unable to be quantified. We therefore recommend that, if you decide to grant the indemnities, a statement to the House will be required for each of the two indemnities (Phase 1 and Phase 2). A draft form is attached for your consideration as Appendix 2. A final statement for each of the two indemnities will be provided to your office for signing and presentation to the House in due course, at the time of entry into the relevant indemnity.

s9(2)(j)

Appendix 2: Draft form of Statement of Indemnity for presentation to the House

STATEMENT OF INDEMNITY GIVEN UNDER SECTION 65ZD OF THE PUBLIC FINANCE ACT 1989

On ______, I, Grant Robertson, Minister of Finance, on behalf of the Crown, gave an indemnity to [name of contractor] in relation to phase [1/2] of the Tui oil and gas field decommissioning project.

Dated at this day of 20

Grant Robertson
Minister of Finance

<u>DELEGATION BY THE MINISTER OF FINANCE TO THE SECRETARY TO THE TREASURY TO ENTER INTO INDEMNITIES IN CONNECTION WITH TUI FIELD DECOMMISSIONING WORKS</u>

As the Minister of Finance:

1. Delegation

I delegate, under clause 5 of schedule 6 of the Public Service Act 2020, to the Secretary to the Treasury (and any person acting in that position from time to time) the power in section 65ZD of the Public Finance Act 1989 to grant indemnities relating to Phase 1 and Phase 2 of Stage Three (Decommissioning) of the Tui oil and gas field, in favour of each contractor undertaking that work.

2. Conditions

The exercise of the delegated authority is subject to the following conditions:

s9(2)(j)

[redacted]

2.2 The exercise of the powers must be consistent with all legal requirements including those in the Public Finance Act 1989. In particular, the Secretary to the Treasury and any person exercising those powers under a sub-delegation (including any person acting in those positions from time to time) must consider whether each loan is necessary or expedient in the public interest, when exercising the power in section 65ZD.

2.3 A copy of each signed indemnity must be provided to the Minister of Finance.

3. Consent to sub-delegation

I consent to the sub-delegation of all or any of the authority and powers delegated in this instrument, to the Chief Executive of the Ministry of Business, Innovation and Employment (and any person acting in that position from time to time). I do not consent to any further sub-delegation.

4. Term of delegation

This delegation comes into effect on the date of signing and continues in force until it expires or is revoked in writing.

SIGNED by the Honourable Grant Murray Robertson
as **MINISTER OF FINANCE**

Signature

Date

Relevant authority:

- **Public Service Act 2020**
- **Public Finance Act 1989**

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Education Payroll Ltd: Update after Due Diligence for 2021 Appointment Round

Date:	19 April 2021	**Report No:**	T2021/817
		File Number:	CM-0-2-19-2021

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	For your information	None
Minister of Education (Hon Chris Hipkins)	**Agree** to preferred candidates	As soon as practicable

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Stella Kotrotsos	Senior Advisor, Governance and Appointments	s9(2)(k) [redacted]	s9(2)(g)(ii) [redacted]	✓
Gael Webster	Manager, Governance and Appointments			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: **Yes (attached)**

Treasury Report: Education Payroll Ltd: Update after Due Diligence for 2021 Appointment Round

Executive Summary

The interview and the due diligence process to identify two new directors for the EPL board is now complete, and you are asked to agree the preferred candidates. We recommend the appointment of two new directors, Liz Maguire and David Skinner for a term of three years each, commencing 1 July 2021.

If you agree to the proposed candidates, we will provide APH documentation for a Committee meeting in early June (target APH 9 June).

Recommended Action

We recommend that you:

a **agree** to the appointment of Liz Maguire as a director for a term of three years from 1 July 2021

Agree/disagree.

b **agree** to the appointment of David Skinner as a director for a term of three years from 1 July 2021.

Agree/disagree.

Gael Webster

Gael Webster
Manager, Governance and Appointments

Hon Grant Robertson
Minister of Finance

Hon Chris Hipkins
Minister of Education

Treasury Report: Education Payroll Ltd: Update after Due Diligence for 2021 Appointment Round

Purpose of Report

1. This report asks you to agree to the appointment of Liz Maguire and David Skinner as directors on the board of Education Payroll Ltd (EPL).

Background

2. The membership of the EPL board is summarised in the table below.

Table 1: EPL board composition (terms under consideration are shaded)

Director	Gender	Location	Skills/sector	Term end
Sandi Beatie (Chair)	F	Wellington	Public policy, government relations, management large scale complex IT projects	30 June 2021 (to be reappointed)
Colin MacDonald	M	Wellington	CEO, CIO, IT, business transformation, government	30 June 2022
Cathy Magiannis	F	Wellington	Management (education and government sectors), finance, payroll	30 June 2021
Marcel van den Assum	M	Wellington	CIO, IT sector, emerging technologies and IT architecture	30 June 2022
Additional director				

3. You agreed to the retirement of Cathy Magiannis on 30 June 2021 and to reappoint the Chair Sandi Beatie for a shortened term of 16 months ending 31 October 2022. You called for nominations for two positions, to replace retiring director Cathy Magiannis and to identify an additional fifth director for the board [*T2020/2310 refers*].

4. You agreed that the skills requirements needed would include some or all of the following: governance, management, commercial and business acumen, finance management, audit and risk, education or government sector knowledge. You agreed that the board would also benefit from candidates with a background in IT, in particular IT change, and those with strong Iwi connections, as well as an understanding of the interrelationships between schools and service providers.

5. Following the call for nominations you agreed to a short-list of candidates, including two candidate nominations from the Ministry of Education, to progress to interviews and due diligence [*T2021/165 refers*].

6. Candidate interviews were held on 31 March 2021 in Wellington. The interview panel comprised of EPL Chair Sandi Beatie and Treasury representative Stella Kotrotsos. Following completion of the interviews, the panel determined that Liz Maguire and David Skinner are the preferred candidates (CVs attached as Annex I). A summary of the panel's assessment of each of the candidates is set out below.

Candidates recommended for appointment

7. Liz Maguire is a management consultant, adviser and independent director in the digital space. She has held several senior executive roles at ANZ, most recently Chief Digital Officer. Ms Maguire is adept at solving complex problem, is commercially savvy and known in her field as a futurist. She has experience in digital solutions, automation and simplification, transformational change, open data, compliance and risk management and governing in modern technology environments using Agile at Scale and DevOps. It is recommended Liz Maguire is appointed as a director on the EPL board for a term of three years from 1 July 2021.

8. David Skinner was nominated by the Ministry of Education. He is a consultant, previous General Manager of Electronics Business at NZ Post and is a director on REANNZ and member of its Strategy and Risk Subcommittee. His skills include essential infrastructure, risk mitigation, economics and cyber security. Mr Skinner has strong personal networks and is well connected. He has significant management experience being a previous CEO and COO in Telco related companies, with a high commercial acumen and would bring a good blend of specialist and strong commercial skills to the board table. It is recommended David Skinner is appointed as a director on the EPL board for a term of three years from 1 July 2021.

Not recommended for appointment

s9(2)(a)

Diversity

14. The current representation of gender across the board is 50% female and 50% male and all members identify as New Zealand European.

15. If you agree to the new appointments, the board composition would be 40% female and 60% male reflecting the additional fifth member prevents equal gender representation. All members would identify as New Zealand European.

Appointment Timeline

16. If you agree to the proposed appointments, documentation will be provided to confirm the new appointments alongside the reappointment of Sandi Beatie through APH and Cabinet, with a target APH date of 9 June 2021.

17. Background and reference checks will proceed along with other elements of the Cabinet appointments process in the usual way.

18. The proposed timeline for appointments is as follows:

Table 2: Indicative timeline for appointment round

Action	Date
Ministers agree to preferred candidates	Late April 2021
APH paper for new candidates	Early May 2021
Consultation period for coalition partners	Late May 2021
APH and Cabinet	Early June 2021 (target APH 9 June 2021)
New terms start	**1 July 2021**

Consultation

19. In preparation of this report, the Treasury has undertaken its usual range of interactions with Treasury's monitoring team, the company Chair and the Ministry of Education. The Ministry of Education have agreed the recommended candidates.

Attachments

20. Attached to this report is:

- s9(2)(a) .

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Clarifying the Fiscal Management of Public Sector Pay Equity Settlements

Date:	20 April 2021	**Report No:**	T2021/1015
		File Number:	SH-2-0

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Note** the responses to your questions about the fiscal management of Public Sector pay equity settlements **Indicate** whether you require further advice on any of the content in this report	None

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Richard Baird	Senior Analyst, Skills and Work	s9(2)(k) (wk)	N/A (mob)	✓
Nick Carroll	Manager, Skills and Work	s9(2)(k) (wk)	s9(2)(g)(ii) (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Clarifying the Fiscal Management of Public Sector Pay Equity Settlements

Executive Summary

The fiscal management of Public Sector pay equity settlements has developed over time to account for the uncertainty and materiality of these costs to the Crown. The resulting approach:

- enables operating allowances to be set consistent with the Government's fiscal strategy after allowing for any expected costs from future pay equity settlements,
- sensitively incorporates fiscal information that could prejudice the government's bargaining position,
- provides maximum funding and planning certainty for Public Sector employers, enabling them to focus on investigating and negotiating on live claims.

We consider that the overall approach remains appropriate for directly employed workforces, although Ministers have choices about whether and how the ongoing costs of settlements should be offset.

However, there is considerably more uncertainty about the fiscal impacts of pay equity settlements that affect workforces where the Crown is a funder or purchaser of services. This uncertainty relates to both the estimation of costs, and practical management of these costs – which intersects with other work underway, such as Social Sector Commissioning.

Further work is required in these areas, and we expect that the various works underway will provide a way forward.

Recommended Action

We recommend that you:

a **Note** the responses to your questions about the fiscal management of Public Sector pay equity settlements

Noted

b **Indicate** whether you require further advice on any of the content in this report

Nick Carroll
Manager

Hon Grant Robertson
Minister of Finance

Treasury Report: Clarifying the Fiscal Management of Public Sector Pay Equity Settlements

Purpose of Report

1. This report provides information on the fiscal management of Public Sector pay equity settlements in response to questions you raised at the Weekly Finance Priorities discussion on 11th February, in the context of managing Public Sector wage pressures:

    a. What is the estimated fiscal cost of future pay equity settlements as a proportion of total new spending over the forecast period?

    b. What is the Treasury's approach to managing and disclosing the estimated fiscal cost of future pay equity settlements? What are the rationales for this approach? How are the estimates prepared, and what are their key limitations? How does the fiscal management of a specific pay equity claim track over the "life-cycle" of that claim?

    c. What are the current mechanisms to manage the fiscal impacts of pay equity settlements, and what further options could be considered?

2. In addition, following the 14 April Ministerial Oversight Group for State Sector Employment Relations discussion on funded sector pay equity issues, your Office also requested that we provide an estimated order-of-magnitude of anticipated private sector claims. An initial response is provided below.

Question One: Scale of Forecast Fiscal Costs

What is the estimated fiscal cost of future pay equity settlements, as a proportion of total new spending over the forecast period?

3. The Treasury has recently finalised the estimated fiscal cost of future pay equity settlements for inclusion in the final fiscal forecasts for the 2021 Budget Economic and Fiscal Update. s9(2)(f)(iv)

4. s9(2)(f)(iv)

[1] s9(2)(f)(iv)

Question Two: Approach to Estimating Forecast Costs

What is the Treasury's approach to managing and disclosing the estimated fiscal cost of future pay equity settlements?

5. s9(2)(f)(iv)

6. In addition, the Treasury includes a Specific Fiscal Risk that reflects the variance risk that the actual cost of current and future settlements may be greater or less than the Treasury's estimate.

7. Examples of the information published in HYEFU 2020 are included in Appendix One.

What are the rationales for this approach?

8. s9(2)(f)(iv)

9.

10.

    i Affordability is not a relevant consideration during negotiation of a claim.

    ii Settlement outcomes are legally binding.

    iii Settlements to date have represented significant increases to the cost of affected workforces (approx. 30%), s9(2)(f)(iv) n s9(2)(f)(iv) .

s9(2)(f)(iv)

11.

s9(2)(f)(iv) [redacted]

How does the fiscal management of a specific pay equity claim track over the "life-cycle" of that claim?

Claim is raised

16. When a pay equity claim for a Public Sector workforce is raised and accepted as "arguable"[2], the Treasury adds the claimant workforce information into the model – assuming it was not already included as an expected claim or "flow-on" claim. This information will then be updated as part of each forecast round, reflecting any further progress of the claim through the legislative process.

17. As noted in paragraph 5, s9(2)(f)(iv) [redacted]

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[2] *Equal Pay Act 1972, s.13F:*
"A pay equity claim is arguable if—
(a)the claim relates to work that is or was predominantly performed by female employees; and
(b)it is arguable that the work is currently undervalued or has historically been undervalued."

s9(2)(f)(iv) [redacted]

Question Three: Managing the Fiscal Impacts

What are the current mechanisms to manage the fiscal impacts of pay equity settlements?

20. As outlined in previous advice, the ability for the Crown to manage the fiscal impacts of pay equity settlements is limited [T2019/1813 refers]. Once a claim has been made, there is a legal obligation for an employer to participate in the legislative process, and affordability is not directly considered within this process.

21. However, the following mechanisms exist in relation to claims for workforces employed in the Public Sector:

- **State Sector Governance Framework** – Cabinet agreed to a milestone-based governance process [GOV-19-MIN-0050 refers] that provides oversight of Public Sector claims. This is not explicitly about fiscal cost. However, supporting and testing the quality/defensibility of assessment against the legislative requirements is intended to prevent bargained outcomes that lack supporting evidence/analysis.
- s9(2)(f)(iv) [redacted]
- s9(2)(f)(iv) [redacted] s9(2)(f)(iv) [redacted] However, this is a relatively weak lever as parties are free to agree to back-dating. Although the Employment Relations Authority cannot rule on back-dating during mediation, it can consider the appropriateness of back-dating if required to 'make a determination' on a claim – the legislation sets out what the Authority must consider in that case.

22. For workforces that are not directly employed by the Crown, but where the Crown is a funder or purchaser of services:

- **Funded-sector Governance Framework** – Cabinet agreed to a similar milestone-based governance process for pay equity claims where the Crown has a funding role [GOV-20-MIN-0033 refers]. Similarly, participation in this process (which cannot be mandated of private sector employers) should provide visibility of claims in these workforces (with potential funding policy decisions for Ministers) as well as support the quality of the claims assessment against the legislative requirements. This is especially important because private sector capability and understanding of pay equity is expected to be limited.

- s9(2)(f)(iv)

The following work is underway to support future advice in this space:

a. The Treasury is supporting work on funding principles for Social Sector Commissioning, s9(2)(f)(iv) . While not directly focused on pay equity, it could provide a relevant approach for guiding funding negotiations where pay equity claims are present.

b. The Social Wellbeing Agency is investigating how to fund pay equity settlements in the funded sector across the plethora of funding approaches and relationships that exist. An initial report on findings is expected by the end of June 2021.

s9(2)(f)(iv)

s9(2)(f)(iv)

[redacted]

Additional Question: Private Sector Claims

Can you provide an estimated order-of-magnitude of anticipated private sector claims?

30. The Treasury focuses less on estimating private sector claims because the workforce data and live claim information (where these exist) are not as readily available, and flow-on costs to the Crown as funder are less clear.

31. The regulatory impact statement prepared by MBIE in support of policy decisions on the Equal Pay Amendment Act includes a summary of occupations with female-dominated workforces[3]. Based on Census 2013 data, they estimated that approximately 500,000 employees work in female-dominated occupations, of which approximately 400,000 are primarily private sector employed. We might expect that only a proportion of these workforces will raise successful claims, because:

    a. Pay equity claims typically rely on unions to raise and progress claims on behalf of workers, and the private sector is generally less unionised

3 https://www.mbie.govt.nz/assets/a046adb9fd/regulatory-impact-statement-pay-equity.pdf

b. Pay equity claims are typically associated with characterisation of caring or nurturing work as “women’s work”, which is not the case for all female-dominated occupations, and

c. Pay equity issues are considered more likely to persist over time where there is one main employer or funder of the workforce, which is not the case for all female-dominated occupations.

32. The Treasury maintains some estimates of private sector workforces that may be considered comparable to live claims. This data is indicative and based on a number of different sources – primarily Census 2013 and information provided in sector plans prepared within the tripartite pay equity steering group. This information suggests that there are approximately 170,000 employees in female-dominated, private sector workforces that may be comparable to live claims, predominantly: administration and clerical work (110,000), early childhood teaching (27,000), nursing (17,000) and social work (4,000) – the latter three being more likely to have implications for the Crown as a funder or purchaser of services.

Appendix One: Examples from HYEFU 2021

s9(2)(j)

Figure Two: Specific Fiscal Risk for pay equity disclosed in HYEFU 2020

Pay Equity Claims (Cost Pressure or Variance – Expenses)

A number of claims have been raised in relation to the Equal Pay Act 1972 providing for pay equity (equal pay for work of equal value) and further claims may be raised following commencement of the Equal Pay Amendment Act 2020 in November 2020. The forecasts include an estimate of the expected cost to settle current and future claims; however, there is a risk that the costs may differ depending on the number of further claims that are raised, and the outcomes reached from applying the pay equity principles to each particular claim, and any subsequent funding decisions. In the *Pre-election Update*, this risk was published as 'Pay Equity Claims Following the Care and Support Worker Settlement'.

TE TAI ŌHANGA
THE TREASURY

Treasury Report: NZ Post: Briefing to the Acting Minister for State Owned Enterprises

Date:	20 April 2021	**Report No:**	T2021/948
		File Number:	SE-2-12-1

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Note** the contents of this briefing	None
Acting Minister for State Owned Enterprises (Hon Dr Megan Woods)	**Note** the contents of this briefing **Indicate** if you would like to meet with Treasury officials to discuss the matters raised in this briefing	None
Associate Minister of Finance (Hon David Parker)	**Note** the contents of this briefing	None

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Alice Courtney	Senior Analyst, Commercial Performance	s9(2)(k) [redacted]	N/A (mob)	✓
Lars Piepke	Principal Advisor, Commercial Performance	[redacted]	s9(2)(g)(ii) [redacted]	
Shelley Hollingsworth	Manager, Commercial Performance	[redacted]	[redacted]	

Minister's Office actions (if required)

All offices: Return the signed report to the Treasury.

Minister Woods' office: Schedule a meeting with Treasury officials if required.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: NZ Post: Briefing to the Acting Minister for State Owned Enterprises

Executive Summary

This briefing provides you with relevant information for your new role as a shareholding Minister of New Zealand Post Limited (NZ Post), in your capacity as the Acting Minister for State Owned Enterprises.

NZ Post has three major business components: mail, parcels, and a 53% ownership interest in Kiwi Group Holdings Limited (KGH).

NZ Post's mail volumes are in decline and policy work is underway

Due to falling volumes and relatively fixed costs, continued delivery of mail services under the current settings is no longer commercially viable for NZ Post. $130m was appropriated in Budget 2020 as transitional funding for NZ Post to maintain the current level of mail services. The Ministry of Business, Innovation and Employment (MBIE) is now leading a programme of work (with input from the Treasury) to canvass options for a future sustainable mail service.

s9(2)(f)(iv)

Parcel volumes are growing and NZ Post is investing significantly in its network

With strong growth in eCommerce activity expected to continue, NZ Post is investing $158m in its parcel network. It considers the investment is vital to achieving its strategic plan to secure its future as a major parcel and courier business. It proposes the investment will deliver economies of scale in line with parcel volume growth, and the platform to deliver to global customer standards. s9(2)(b)(ii) and s9(2)(g)(i) s9(2)(b)(ii) and s9(2)(g)(i). Shareholding Ministers have set an expectation that NZ Post provides regular updates to the Treasury on the progress of the investment, and signals significant risks and planned responses to risks at an early stage.

s9(2)(f)(iv) and s9(2)(i)

Capital structure considerations for NZ Post and shareholding Ministers

$150m of equity capital funding was appropriated for NZ Post in Budget 2020, in light of expected negative impacts from COVID-19. The first tranche of $80m was transferred to NZ Post in June 2020, and a further $70m is available as an uncalled capital facility. Ministers set an expectation that any surplus capital from the equity injection be returned to the Crown. NZ Post has performed much better than it expected through COVID-19, but at this stage is not signalling the intention to return any capital to the Crown. s9(2)(f)(iv) and s9(2)(i)

s9(2)(f)(iv) and s9(2)(i)

Governance matters

There are two vacancies on the board and the terms of five directors expire in 2021. We are seeking shareholding Ministers' views on the reappointment of directors with expiring terms. This will help us to consider how up to five current directors coming off the board would impact board committee work, and what that would mean for the board recruitment process we have commenced.

Recommended Action

We recommend that you:

a **note** the contents of this briefing

And

b **indicate** if you would like to meet with Treasury officials to discuss the matters raised in this briefing.

Agree/disagree.
Acting Minister for State Owned Enterprises

Shelley Hollingsworth
Manager, Commercial Performance

Hon Grant Robertson
Minister of Finance

Hon Dr Megan Woods
Acting Minister for State Owned Enterprises

Hon David Parker
Associate Minister of Finance

Treasury Report: NZ Post: Briefing to the Acting Minister for State Owned Enterprises

Background and Purpose of Report

1. On 24 March 2021, the Minister for State Owned Enterprises transferred his responsibilities as a Crown shareholder in New Zealand Post Limited (NZ Post) to the Acting Minister for State Owned Enterprises. This was to avoid a perceived conflict of interest with his responsibilities as the Minister for the Digital Economy and Communications, where he is responsible for policy and other decisions that impact pricing and market structure of mail services.

2. The purpose of this briefing is to provide you with relevant information for your new role as a shareholding Minister of NZ Post, in your capacity as the Acting Minister for State Owned Enterprises. Compared to the role you hold for other SOEs, in which you have been delegated responsibility for some day to day functions, this role encompasses all shareholder responsibilities relating to NZ Post.

3. This initial briefing first covers the role of a shareholding Minister of a State-owned enterprise (SOE). It then provides a summary of NZ Post's business before highlighting specific issues and work streams relating to NZ Post.

Shareholder Responsibilities

4. SOEs are companies set up under the State Owned Enterprises Act 1986 and are expected to operate as successful businesses, including being as profitable and efficient as comparable businesses not owned by the Crown.

5. SOEs are also subject to the Companies Act 1993 and to other public legislation such as the Official Information Act 1982, the Public Audit Act 2001, and the Ombudsmen Act 1975. They are also subject to public scrutiny through the select committee process and parliamentary questions addressed to Ministers.

Shareholding Ministers have broad ownership oversight and a range of levers, however boards operate at arm's length

6. Shareholding Ministers have broad ownership oversight for their entities. However, governance is the responsibility of boards appointed by shareholding Ministers, subject to Cabinet approval. Boards operate at arm's length from Ministers to develop the overall strategy for their company and appoint a chief executive officer, to whom they delegate management decisions.

7. Given the arm's length model, the **two most important levers** available to Ministers to influence the performance of companies are the:

    a *appointment of effective boards*: shareholding Ministers are responsible for appointing directors to the board. The Treasury provides advice and administrative and nomination support throughout the appointments process, and prepares the Cabinet documentation to confirm appointments; and

    b *annual business planning and reporting process*, during which shareholding Ministers:

        i set performance expectations through a Letter of Expectations (LOE);

        ii have the opportunity to comment on the Statement of Corporate Intent (SCI); and iii are provided with quarterly, half-yearly and annual reports outlining progress against the entities' plans and broader performance. We use these reports to analyse company performance and to brief shareholding Ministers.

8. Other levers available to Ministers include:

a *Shareholder approval for transactions*: shareholding Ministers must be consulted or, in certain circumstances, give approval, when a board proposes a transaction with a value above certain thresholds.[1]

b *Amendment of company constitutions*: Shareholding Ministers can amend constitutions when they wish to change the purpose or objectives of a company.

c *Contracts for purchase*: Ministers can enter into contracts to provide funding for a company to deliver certain goods or services.

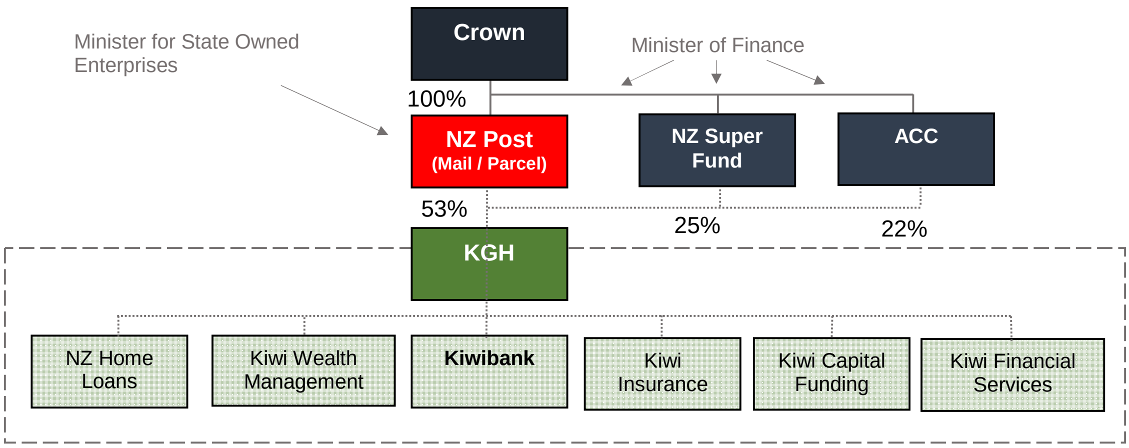
d *Information requests*: shareholding Ministers can request information from a board, for example if there are concerns regarding a company's performance.

e *Directions*: shareholding Ministers can issue directions to SOEs where it is specifically provided for in legislation, however this is very limited. Under the SOE Act shareholding Ministers can direct SOEs to include or exclude specified matters from their SCI, or to pay a dividend or provide certain information. Ministers cannot direct SOEs to carry out (or not carry out) particular actions.

Overview of NZ Post's Business

9. NZ Post has three major business components: mail, parcels, and a 53% ownership interest in Kiwi Group Holdings Limited (KGH, parent company of Kiwibank Limited). The ownership and group structure of NZ Post is set out in Figure 1 below.

Figure 1: NZ Post's Group Structure



[1] Consultation thresholds are normally set through shareholder expectations while shareholder approvals are less common and are based on a particular transaction, or series of transactions, being a 'major transaction' under the Section 129 of the Companies Act 1993.

The trajectories of NZ Post's three business components are divergent

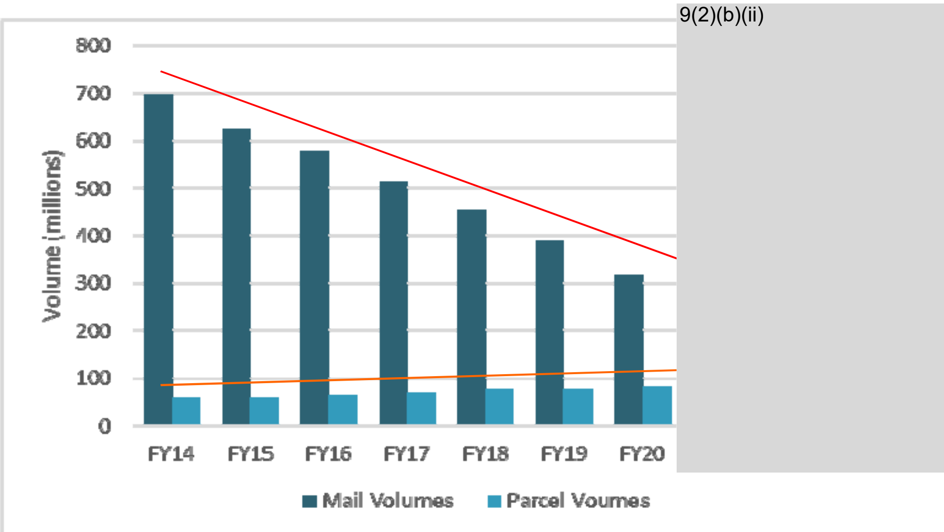
10. **Mail** volumes are in decline. NZ Post has the Universal Service Obligation (USO) for mail in New Zealand, which is imparted to NZ Post through its Deed of Understanding (the Deed) with the Crown (through the Minister for the Digital Economy and Communications). Due to falling volumes and relatively fixed costs, delivery of mail services under current settings is no longer commercially viable for NZ Post.

11. **Parcel** volumes are increasing as a result of growing eCommerce markets, both in New Zealand and internationally. However, strong competition in the parcels market, s9(2)(b)(ii) and s9(2)(g)(i)

12. **Kiwibank**, which comprises around 80% of the value of KGH, is experiencing strong lending growth 9(2)(b)(ii)
9(2)(b)(ii)

13. Figure 2 illustrates the trajectories of NZ Post's mail and parcel volumes. Mail volumes have declined from a peak of 1.1b items in FY02, to 317m in FY20 (a 71% decline). Since FY14, mail volumes have been falling by 12% per year on average, while parcel volumes have been climbing by around 5% per year.

Figure 2: Mail and Parcel Volumes FY14 - FY23(f)



14. Despite the growth in parcel volumes and overall steady revenue, NZ Post has struggled to achieve positive earnings results. Overall NZ Post's core business earnings (excluding earnings from KGH) have been low or loss making for the last decade. Core business EBIT for FY20 was $4m, after including a $30m Wage Subsidy Scheme (WSS) payment (EBIT would have otherwise been a loss of around $26m). NZ Post's core business EBIT was last positive in FY14 (at $10m).

Mail Operations

Transitional funding for mail operations was provided in Budget 2020

15. As noted earlier, mail volumes are in decline and it is no longer commercially viable for NZ Post to provide mail services at Deed service levels. Following work undertaken by MBIE, the Treasury and NZ Post during 2019, it was concluded that there were likely ongoing social benefits associated with senders and receivers of mail who are not yet ready to transition to digital alternatives.

16. As an interim response to NZ Post's mail business revenue shortfalls, $130m in transitional funding (for up to a three year period) was allocated to NZ Post in Budget 2020 and, in June 2020, MBIE entered into a contract for services with NZ Post.

s9(2)(b)(ii) and s9(2)(g)(i) [redacted]

MBIE is currently leading work on what a future mail service might look like

17. MBIE, with input from the Treasury, and in consultation with NZ Post, have been working on what a future mail service might look like once the $130m funding is exhausted. s9(2)(f)(iv) [redacted]

18. s9(2)(f)(iv) [redacted]

19. To support this work, shareholding Ministers have set an expectation that NZ Post considers how it can reduce the net costs of the mail service, and provide a reasonable representation of mail costs. We have been engaging with management on this matter and requested a workshop with NZ Post to understand its cost allocation methodology – this was held in March 2021. 9(2)(b)(ii) [redacted]

9(2)(b)(ii) [redacted]

20. We will continue to work with NZ Post to understand the progress it is making in this regard and provide advice as required. 9(2)(b)(ii) [redacted] t

s9(2)(b)(ii) and s9(2)(f)(iv) [redacted]

s9(2)(b)(ii) and s9(2)(f)(iv) [redacted]

21. s9(2)(b)(ii) and s9(2)(f)(iv) [redacted]

22. s9(2)(b)(ii) and s9(2)(f)(iv) [redacted]

Parcel Operations

NZ Post is making a significant investment in its parcels network

23. Strong growth in eCommerce activity over the last decade is expected to continue and with that, the throughput volume of parcel delivery and freight forwarding activities. NZ Post is investing $158m in its parcel network, focusing on its Auckland and Christchurch operations and in enabling technologies. NZ Post considers this investment (termed 'Te Iho') is vital to achieving its strategic plan to secure its future as a major parcel and courier business. Te Iho includes the components set out below.

Table 1: Components of Te Iho

Component	Cost	Operational	Description
Auckland Processing Centre (APC)	9(2)(b)(ii) [redacted]	June 2023	The APC will replace the current international operations from the International Mail Centre (IMC) and International Freight Services (IFS), and the national sorting for medium to large parcels, as well as sorting small parcels for all of the urban North Island.
Christchurch Parcel Centre (CPC)	[redacted]	April 2022	Comprises updates to existing infrastructure in Christchurch, which is the gateway to NZ Post's South Island network.
Enabling network capabilities and technology	[redacted]	Fully by July 2023	Upgrades sorting capability, item identification, and network management and control initiatives.
Programme costs and contingency	[redacted]	-	Comprises project management, other project costs, and $12m of contingency.
Total	[redacted]		

24. Key drivers for the investment include:

    a. the existing core network infrastructure is mostly at available volume capacity[2] 9(2)(b)(ii) [redacted] 9(2)(b)(ii) [redacted] The need to address capacity constraints and efficiencies was highlighted during COVID-19 Alert Level 3 in April 2020, where NZ Post's processing function failed to operate efficiently and to cost-effectively manage large increases in volume.

    b. NZ Post expects growth in eCommerce to fuel its parcel volume growth by around 9(2)(b)(ii) [redacted] per annum for the next 15 years, with the step-change increase in demand fuelled by the impact of COVID-19 on online shopping. s9(2)(b)(ii) and s9(2)(g)(i) [redacted]

25. NZ Post proposes that the network investment will deliver economies of scale in line with parcel volume growth, and will deliver to global customer standards, both of which will strengthen NZ Post's competitive advantage.

9(2)(b)(ii) [redacted]

Ministers were consulted on the network investment and set a number of expectations

26. Initial consultation with shareholding Ministers on the business case for the network investment took place in December 2019 following the board's approval of the investment, with NZ Post at that time planning to fund the investment programme from its available cash and cash equivalents.

27. However, due to the board's concerns (based on management's forecasts) that COVID-19 would significantly negatively impact on NZ Post's balance sheet, NZ Post requested, and was provided with, $150m of COVID-19-related equity support. The first tranche of $80m was transferred to NZ Post in June 2020, and a further $70m is available as an uncalled capital facility. The board and shareholding Ministers at that time recognised that NZ Post's request for support was in part related to having sufficient certainty to be able to continue with its parcels network investment, as a key infrastructure project to support the economy in a post COVID-19 environment.

28. At the time the equity support was allocated there was uncertainty regarding the impact of COVID-19 on the economy (and accordingly the assumptions in NZ Post's business case). Shareholding Ministers set an expectation that they be re-consulted on a revised business case for the investment, if NZ Post was to continue with the investment, once the impacts of COVID-19 on the parcel market were better understood.

29. In December 2020, NZ Post consulted with shareholding Ministers on its revalidated business case for the network investment. We noted that while the investment case has a positive net present value, s9(2)(b)(ii) and s9(2)(g)(i)

s9(2)(b)(ii) and s9(2)(g)(i)

30. Shareholding Ministers therefore set an expectation that NZ Post provides regular updates to the Treasury on the progress of the investment, signals significant risks and planned responses to risks at an early stage, and conducts a post-investment review. NZ Post has now signed a contract (understood to have a value of circa 9(2)(b)(ii) with a supplier for the materials handling systems (automation) element of the investment.

9(2)(b)(ii)

31. 9(2)(b)(ii)

Kiwi Group Holdings

32. s9(2)(f)(iv) and s9(2)(i)

s9(2)(f)(iv) and s9(2)(i)

33. KGH is the parent company of Kiwibank which represents around 80% of the value of KGH group's operating activities.[3] It was established, and wholly owned, by NZ Post until a transaction in October 2016 brought New Zealand Superannuation Fund (NZSF) and the Accident Compensation Corporation (ACC) into the ownership structure with NZ Post, NZSF, and ACC holding 53%, 25%, and 22% respectively. The intention was that the two Crown-owned financial institutions would provide commercial investment disciplines and expertise, and that they would be better positioned to provide further capital to KGH, should it be required.

s9(2)(f)(iv) and s9(2)(i)

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3 The other significant subsidiaries are Kiwi Wealth, NZ Home Loans, Kiwi Insurance, Kiwi Capital Funding, and Kiwi Financial Services.

4 The change announced by the RBNZ earlier this month will allow banks to pay up to a maximum of 50% of their earnings as dividends to their shareholders. A restriction preventing banks from paying any dividends was put in place in April 2020, and extended in November 2020, to support financial stability and the provision of credit in the economy due to the impacts of the COVID-19 pandemic on the New Zealand economy.

Capital Structure Considerations

39. As set out earlier in the report, $150m of equity capital funding was appropriated for NZ Post in Budget 2020, in light of expected negative impacts from COVID-19. The equity was split into two traches, with $80m being transferred to NZ Post in June 2020, and $70m remaining in an uncalled capital facility.[5] Given the uncertainty around the negative impacts on NZ Post at the time the funding was appropriated (which was enacted quickly based on significant negative impacts forecast by NZ Post), shareholding Ministers expressed an expectation that any surplus capital from the equity injection be returned to the Crown.

40. NZ Post has performed much better than it expected through COVID-19. 9(2)(b)(ii) 9(2)(b)(ii) 2020, however NZ Post finished September 2020 with 9(2)(b)(ii) (including $80m of equity injected by the Crown). 9(2)(b)(ii) 9(2)(b)(ii)

NZ Post acknowledged shareholding Ministers' expectation for the return of any excess capital, but also indicated there are a number of risks to consider

41. In their 2021/22 LOE, shareholding Ministers maintained the expectation that the board considers the ability for NZ Post to return any surplus capital to the Crown. In its response to shareholding Ministers on 18 March 2021, the board acknowledged the Crown's desire for the return of any surplus capital. However, the board also noted that in the planning period, the board needs to consider a number of significant sources and potential uses of capital that could impact on NZ Post's capital structure.

42. Based on current cash flow forecasts from NZ Post it is unlikely NZ Post will meet the conditions to utilise the second tranche of uncalled equity. Accordingly, the board stated it has no immediate plans to draw on the uncalled capital facility. However, the board also noted that this is finely balanced and there are a number of risks that are sitting outside of current planning. The board provided examples of these risks such as 9(2)(b)(ii) further investment requirements in the parcel network, and the unknown costs of any further or continued COVID-19 business interruptions. The board indicated that should one or more of these eventuate then additional shareholder funding (through calling the second tranche of the equity injection or otherwise) may be required.

43. We note the intent of the equity facility was to support the business through the negative impacts of COVID-19, and we would expect any use of the equity facility to be consistent with that intent. We will continue to monitor the situation and engage with the company on this matter. We will provide you with advice if the company raises any plans to draw on the uncalled equity.

44. s9(2)(b)(ii) and s9(2)(f)(iv)

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5 NZ Post can draw down on the facility if its three-month rolling cash balance is forecast to fall below 9(2)(b)(ii)

Governance

45. There are currently two vacancies on the board and the terms of five directors expire in 2021. s9(2)(f)(iv) the four directors with terms expiring on 30 April 2021 have not yet been reappointed. Ministers asked Jignasha Patel, Nagaja Sanatkumar, and John Sproat to extend their terms to 31 October 2021, and Richie Smith to extend his term to 31 July 2021.[6] The four directors have agreed to extend their terms as requested. Chair Rodger Finlay was appointed in August 2019 with his term due to expire in April 2022.

46. The chair appears to be assuming that Jignasha Patel, Nagaja Sanatkumar, Richie Smith, and John Sproat will be reappointed, s9(2)(f)(iv) s9(2)(f)(iv) s9(2)(f)(iv) We would appreciate a discussion with shareholding Ministers about reappointment of some or all of those four directors. Understanding shareholding Ministers' views on this will help us to consider how losing current directors would impact board committee work, and what that would mean for the director recruitment process.

47. Nominations for new directors closed on 26 March 2021. To allow for filling the vacancies and uncertainty about reappointments, shareholding Ministers agreed to seek candidates with an understanding of large complex corporations, experience in SOE governance, logistics network infrastructure, digital business transformation, significant business restructuring, and strong audit and risk committee exposure. There are 100 nominations (56% male and 44% female) and advice will be provided in late April 2021 on a recommended shortlist for due diligence interviews.

48. Richie Smith is chair of the board's transformation committee and a small additional fee has been sought to recognise the extra work he is doing in this area. Advice was provided to the shareholding Ministers on 25 February 2021 and the Minister of Finance has agreed to support this request. This advice will be provided to you soon for your consideration.

Next Steps

49. We would appreciate the opportunity to meet with you to discuss the matters in this briefing, particularly regarding governance, and to provide you with any further background or context regarding NZ Post.

50. NZ Post is due to provide shareholding Ministers with its draft SCI at the end of April, and shareholding Ministers will have the opportunity to comment on this draft document before it is finalised. We will provide shareholding Ministers with advice on the draft SCI and s9(2)(b)(ii) and s9(2)(f)(iv) s9(2)(b)(ii) and s9(2)(f)(iv)

6 Richie Smith's term cannot be extended beyond 31 July 2021 under NZ Post's constitution.

TE TAI ŌHANGA
THE TREASURY

Reference: T2021/1044 AC-6-7 (Controller)

Date: 21 April 2021

To: Minister of Finance (Hon Grant Robertson)

Deadline: None

Aide Memoire: Unappropriated expenditure – process for identifying and remedying

Your office has requested a summary of the unappropriated expenditure process – specifically how unappropriated expenditure is identified, what the Treasury then does about it, and a summary of the process to remedy this through legislation.

Key messages

- All instances of unappropriated expenditure or unauthorised capital injections must be reported to Parliament in the Financial Statements of the Government, in the annual report of the department concerned, and in a report the Minister of Finance is required to present to the House on the introduction of the annual Appropriation (Confirmation and Validation) Bill. This Bill seeks validation by Parliament of all unappropriated expenditure incurred in the previous financial year.
- Departments are responsible for reporting to the Treasury any expenditure that is in excess of the amount or outside the scope of an appropriation or is without appropriation. Treasury has a similar responsibility to report to the Controller and Auditor-General.
- Expenditure in advance of appropriation by Parliament requires approval by joint Ministers, their agreement to include the expenditure in the Supplementary Estimates for appropriation by Parliament before the end of the financial year, and their agreement to incur the expenditure against Imprest Supply already authorised by Parliament.
- All expenditure by the Crown must be in terms (amount, scope, period) of an appropriation by Parliament. All capital injections to departments must be authorised by Parliament.
- Note that, if an agency does not ensure unappropriated expenditure is dealt with in accordance with the PFA, as set out above, the Controller and Auditor-General may direct the responsible Minister to report to Parliament on a breach, and stop payments out of a Crown or Departmental Bank Account.

Public Finance Act requirements

Under the Public Finance Act 1989 (PFA), expenses and capital expenditure must not be incurred, and capital injections must not be made, unless they are authorised by an appropriation or other statutory authority. All expenditure must have an appropriation, must be within the scope of the appropriation, must not exceed the authorised amount, and must be within the period of the appropriation.

In addition, funding from Imprest Supply is required to provide interim parliamentary authority for expenditure until it has been authorised through an Appropriation Act (either the Main Estimates or the Supplementary Estimates). Imprest Supply provides flexibility to the Government to take spending decisions throughout the financial year, while still meeting parliamentary requirements. This requirement is covered by a standard Imprest Supply recommendation in Cabinet Minutes and Joint Minister's approvals.

How unappropriated expenditure is identified

The approved funding for each Vote is made up of amounts as set out in the Budget main estimates plus any decisions taken by Cabinet (which includes delegations to Joint Ministers) or by Joint Ministers[1] that will then be incorporated into Supplementary Estimates. These additional approvals will take effect from the date of the Cabinet Minute or in the case of Joint Minister approvals from the date of the last minister's signature provided it is covered by the Imprest Supply recommendation.

It is the department's responsibility to ensure that recommendations for Cabinet and Joint Minister decisions are drafted correctly, and that Ministers have agreed to expenditure prior to it being incurred. The Treasury has issued guidance, including standard financial recommendations, to departments to help ensure all required approvals are included in Cabinet and Joint Minister papers. If a department has identified unappropriated expenditure, then they should advise the Treasury.

Types of unappropriated expenditure can include: in excess of the amount of an appropriation, outside the scope of an appropriation, without appropriation or in advance of an appropriation.

The Treasury has a Memorandum of Understanding with the Office of the Controller and Auditor-General (OAG) to run a process on behalf of OAG which monitors actual expenditure against approved expenditure. This monitoring process is run monthly by the Treasury three working days after all the departments submit their monthly actual results to the Treasury, and the results of this process are provided to OAG. The Treasury will also engage with the department that has potential unappropriated expenditure.

[1] As per Cabinet Office circular CO(18)2 - Baseline changes.

Following the receipt of the report, OAG will discuss with the Treasury its contents and follow up action with regards to each potential unappropriated item. The OAG will then formally report back to the Treasury each month and provide a copy of the report to all appointed auditors to ensure they are aware of any instances of unappropriated expenditure and what needs to be done, which may also include items the Treasury were not aware of (including possible scope issues). Once the appointed auditors are made aware of a potential unappropriated item, they will then discuss this directly with the department.

What the Treasury does when we find there is unappropriated expenditure

Any instances where the department has indicated they have spent more than has been approved, or spending is outside the scope, or without an appropriation, is raised with the OAG as potential unappropriated expenditure. An explanation from the relevant department for why the issue has arisen is also included.

The Treasury will work with departments to ensure that the items of unappropriated are fixed as soon as possible (this could be through Joint Minister's approvals, Cabinet or inclusion in the Supplementary Estimates), however this will not remedy the identified breach only the ongoing spending (i.e. this cannot be backdated).

All instances of unappropriated expenditure are required to be published in the *Financial Statements of the Government of New Zealand (FSG)* – refer pages 153 to 162 of the 30 June 2020 FSG[2] and also within the relevant department's annual report.

The legislative process to remedy unappropriated expenditure

The PFA provides a range of remedies if expenses or capital expenditure are incurred, or capital injections are made, without being authorised by an appropriation:

PFA Section	Mechanism	Type of Approval
26A	Provides for fiscally neutral transfers of up to 5% between output expense appropriations (including MCAs that include only categories of output expenses) within a Vote.	*Order in Council* (made prior to 30 June) and subsequently confirmed by Parliament in the *Appropriation (Confirmation and Validation) Act* – this mechanism *avoids* unappropriated expenditure
26B	Allows the Minister of Finance to approve expenses or capital expenditure in the last 3 months of any financial year up to the greater of $10,000 or 2% in excess of an existing appropriation, but within the scope of that appropriation.	Minister of Finance approval, confirmed by Parliament in the *Appropriation (Confirmation and Validation) Act*

2 https://www.treasury.govt.nz/publications/year-end/financial-statements-2020

PFA Section	Mechanism	Type of Approval
26C & 26CA	Any expenditure incurred in excess of, or without, appropriation or other authority is unlawful unless it is subsequently validated by Parliament in an Appropriation Act. Capital injections made without authority or approval require validation by Parliament.	Validation by Parliament in the *Appropriation (Confirmation and Validation) Act*

Alongside the introduction of the Appropriation (Confirmation and Validation) Bill each March, the B.15 Report on Unappropriated Expenses and Capital Expenditure[3] is required, under section 26C of the PFA, to be presented to the House of Representatives by the Minister of Finance. This report sets out:

1. summary tables of unappropriated expenses and capital expenditure across the past three years (by both department and appropriation type); and

2. statements of unappropriated expenses and capital expenditure by type of breach (e.g. in excess of appropriation or out of scope; with or without Imprest Supply authority). Included in this report are explanations by the responsible Minister of each reported breach.

The Appropriation (Confirmation and Validation) Bill confirms and validates all known[4] instances of unappropriated expenses and capital expenditure for the previous financial year. On occasion, the Appropriation (Confirmation and Validation) Bill will confirm and/or validate unappropriated expenditure from prior years. This occurs when such unappropriated expenditure was not identified before the reporting deadline for inclusion in that year's Appropriation (Confirmation and Validation) Bill.

Note that, if an agency does not ensure unappropriated expenditure is dealt with in accordance with the PFA, as set out above, the Controller and Auditor-General may direct the responsible Minister to report to Parliament on a breach, and stop payments out of a Crown or Departmental Bank Account.

s9(2)(k)

Jayne Winfield, Manager, Fiscal Reporting
Paul Helm, Acting Deputy Secretary, Budget and Public Investment

[3] And capital injections, if relevant.

[4] I.e. As reported by agencies through the process set out in the relevant Treasury circular.

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Potential Economic Impacts of High Wholesale Electricity Prices

Date:	23 April 2021	Report No:	T2021/1026
		File Number:	SH-11-5-1-1

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Agree** to meet with the Minister of Energy and Resources, and officials at the Treasury and the Ministry of Business, Innovation and Employment in early May 2021 to discuss the ongoing issues in the wholesale electricity market. **Refer** this report to the Minister of Energy and Resources.	23 April 2021

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
George Wibberley	Senior Analyst, Transitions Regions and Economic Development	s9(2)(k) (wk)	N/A (mob)	✓
Jean Le Roux	Manager, Transitions Regions and Economic Development	s9(2)(k) (wk)	N/A (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Refer a copy of this briefing to the Minister of Energy and Resources.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Potential Economic Impacts of High Wholesale Electricity Prices

Executive Summary

Wholesale electricity prices have been higher than average since the beginning of 2021, due primarily to constrained gas supply and low hydro inflows.

Thermal electricity generators, such as Contact and Nova, are currently building gas storage volumes to help meet demand over winter. This places them in competition with major gas users for gas supply. As such, the issues with gas supply and electricity prices are highly linked.

In the short term, most consumers are unlikely to experience a significant increase in their electricity bills, as only a very small proportion of households are on spot price exposed contracts (0.5% of household consumers).

The majority of small and medium enterprises (SMEs) are not directly exposed to high wholesale prices. However, SMEs who are re-contracting new 2-3 year electricity contracts are experiencing much higher contracted prices.

Some large commercial and industrial consumers, especially those that are grid connected, are likely to be more exposed. There have been several recent decisions that are at least partly attributed to high wholesale electricity prices or constrained gas supply:

- Methanex has responded to the current gas supply shortage by mothballing it's Waitara Valley Plant, with the loss of an estimated 75 jobs. (February 2021)
- Whakatāne Mill, a paper and packaging product manufacturer, has confirmed that it will close at the end of June 2021, with high energy costs being one contributing factor. 210 job losses are expected. (March 2021)
- NZ Steel has reportedly shut down parts of its operations for temporary periods due to unaffordable wholesale electricity prices. (April 2021)
- Norske Skog's Tasman Mill, which produces paper and pulp, are operating at reduced capacity to curb their exposure to current spot prices. (April 2021)

Given the size of these firms, it is possible that there will be flow on impacts for regional economies and employment. The potential implications for steel customers are particularly notable, as there is a global steel shortage. Any reduction in NZ Steel production is therefore likely to increase costs for the building, infrastructure and manufacturing sectors.

Over the medium to long term, spot prices are likely to remain high until there is significant rain that will increase hydro storage, but there is a low risk of storage reaching the emergency level.

The longer term economic impacts are harder to predict. If wholesale prices revert to long-term averages, it is unlikely there will be significant long-term impacts for most household consumers.

However, if dry weather continues or worsens and wholesale prices remain high, then it is possible that retailers will seek to recover costs from consumers. There may be impacts to retail pricing in the future, but the significant retail competition in the electricity sector may help to guard consumers against large price increases.

Recommended Action

We recommend that you:

a **note** the contents of this briefing, which outlines some potential impacts of recent high wholesale electricity prices on the economy;

b **note** that the Ministry of Business, Innovation and Employment and the Electricity Authority are preparing further advice for the Minister of Energy and Resources on wholesale prices and electricity futures prices up to 3 years out, which is expected in early May 2021;

c **agree** to meet with the Minister of Energy and Resources, and officials at the Treasury and the Ministry of Business, Innovation and Employment, in early May 2021 to discuss the ongoing issues in the wholesale electricity market; and

Agree/disagree.

d **refer** this report to the Minister of Energy and Resources.

Refer/not referred.

Jean Le Roux
Manager, Transitions Regions and Economic Development

Hon Grant Robertson
Minister of Finance

Treasury Report: Potential Economic Impacts of High Wholesale Electricity Prices

Purpose

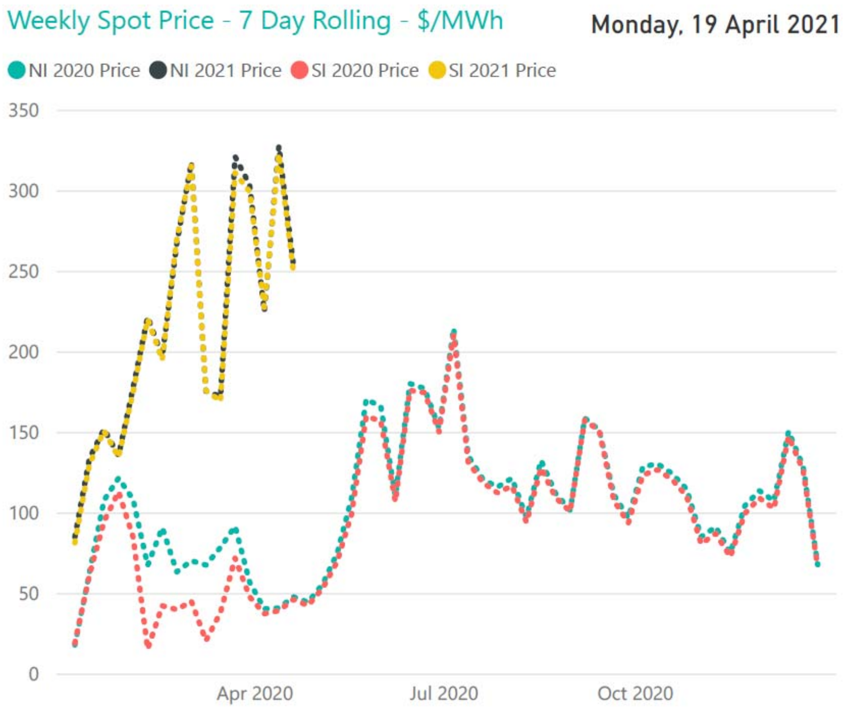
1. This report provides an overview of some of the potential impacts of recent high wholesale electricity prices on the economy, in response to your request for further advice on this issue.
2. The report covers: background information on recent wholesale electricity prices; short term economic impacts on consumers; short term economic impacts on firms; potential long term economic impacts; and next steps including future advice to Ministers.

Background

Wholesale electricity prices have been significantly higher than average since the beginning of 2021, primarily due to scarce gas supply and low hydro inflows.

3. February and March 2021 had average prices of $241/MWh and $250/MWh respectively. These prices compare with annual averages of $118/MWh for 2019 and $105/MWh for 2020, and peak monthly averages of $294/MWh for October 2018 (during the Pohokura outage) and $309/MWh for June 2008 (during a dry year).
4. Electricity retailers purchase wholesale electricity from generators at spot prices, which reflect the price of wholesale electricity every half-hour. Recent wholesale electricity spot prices have, at times, been averaging over $300/MWh per day, with several spikes over $600/MWh. Some price spikes were sustained for several hours.
5. Figure 1 shows that wholesale prices for both the North Island and South Island were significantly higher for the first quarter of this year compared to the same period in 2020.

Figure 1: Weekly wholesale electricity spot prices (source: Transpower)



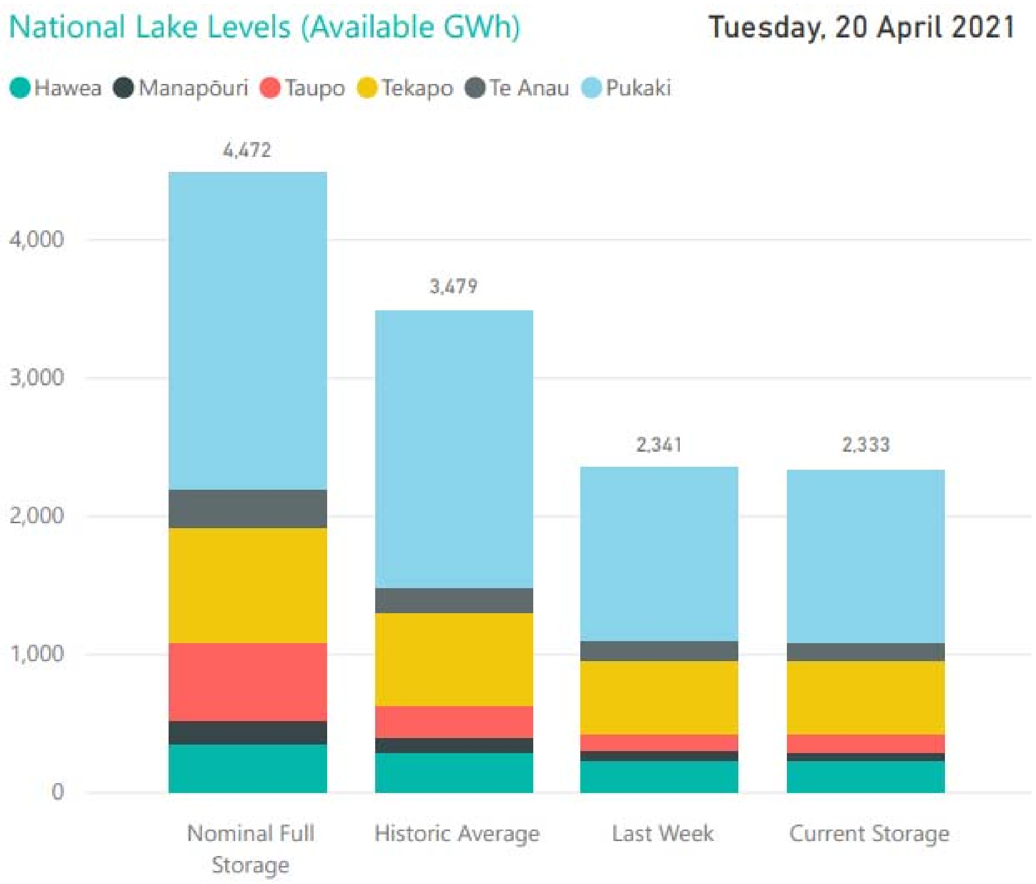
6. Current wholesale prices are higher than normal due to a confluence of four unusual factors: constrained gas supply; low rainfall reducing inflows into hydro storage lakes; higher carbon prices; and low wind generation.

7. Generators tend to conserve water in years of low lake inflows as they anticipate an increase in demand for electricity during winter. As a result, they tend to increase the amount of thermal generation, which is more expensive. This means that wholesale electricity prices usually respond more strongly to low hydro storage at this time of the year (prior to winter).

8. Gas supply is currently constrained in New Zealand, particularly as production from the Pohokura gas field is slowly reducing. Thermal electricity generators, such as Contact and Nova, are currently building gas storage volumes to help meet demand over winter. This places them in competition with major gas users for gas supply. As such, the issues with gas supply and electricity prices are highly linked.

9. Transpower indicated that national storage was at 67% of the historic average for this time of year in its most recent security of supply report on 22 April 2021.

Figure 2: Hydro lake storage capacity (source: Transpower)



10. The Ministry of Business, Innovation and Employment (MBIE) and the Electricity Authority have been providing regular briefings to the Minister of Energy and Resources on the wholesale market (BR-21-0010 and BR-21-0017 refer).

Impacts on consumers

11. High wholesale electricity prices could be directly passed through to consumers in the form of higher electricity bills, which may lead to an increase in Consumer Price Index inflation. Firms that are experiencing high wholesale electricity prices may also decide to increase their own prices in order to maintain profits.
12. It is not certain that high wholesale prices will feed through to higher consumer prices. The extent of these impacts will depend on the level and duration of the increase in wholesale prices, the contract types and level of exposure of consumers and firms and the level of competition in the electricity sector.
13. Retail electricity prices are only a relatively small component of the Consumer Price Index (CPI), the main measure of inflation. The weighting of consumers' expenditure on electricity is 3.2% in the CPI. This means that a 10% increase in retail electricity prices would only result in a direct increase in inflation of around 0.3 percentage points.
14. It is worth noting that housing and related costs, such as electricity bills, make up a larger proportion of lower income households' expenditure. As a result, low income households are likely to be disproportionately impacted by an increase in retail electricity prices.

In the short term, most consumers are unlikely to experience a significant increase in their electricity bills.

15. The wholesale electricity price typically comprises just 32% of a residential consumer's energy bill. As such, retail electricity prices may not necessarily adjust in proportion to changes in wholesale electricity prices.
16. Figures provided by the Electricity Authority indicate that 74.2% of household connections are on an open contract, 23.6% are on fixed price and term contracts and the remainder are on prepaid or spot-price exposed contracts [BR-21-0017 refers].
17. The small proportion of households on spot price exposed contracts (0.5% of households) are particularly exposed to high wholesale prices.
18. Households on open contracts are somewhat protected from higher prices – while their contracts are reviewed more frequently, they are able to switch providers with no break costs.
19. Households on fixed price and term contracts are generally protected from high wholesale prices and, should wholesale prices return to normal levels this year, they are unlikely to be affected by current spot prices. If wholesale prices remain high for an extended period of time, retailers may incorporate this cost into their prices for future years.
20. Prepaid contacts provide fixed prices, with no fixed time frame. This type of contract is concentrated among lower income households and these consumers may have limited ability to switch contracts due to poor credit history.

Impacts for SMEs and large industrial firms

21. SMEs and larger industrial firms that are particularly exposed to high wholesale electricity prices could have to reduce or cease production. If this occurred, it could lead to direct job losses and reductions in economic activity and potential flow on impacts throughout the supply chain.

The majority of SMEs are not directly exposed to high wholesale prices, but some large commercial and industrial consumers have significant exposure.

22. The material from paragraphs 23 to 25 contains information which is Commercial In-Confidence and, if released, could have material impacts on firms. It is based on Electricity Authority modelling of the number of firms that are likely to be most exposed to recent high wholesale electricity prices (BR-21-0017 refers).

23. Only 0.9% of SMEs are directly exposed to high wholesale prices through spot price exposed contracts. However, MBIE has reported that discussions with electricity market stakeholders indicate that some SMEs are experiencing a price ‘shock’ when they renegotiate new 2-3 year contracts. The number of SMEs impacted in this way is not known at this stage.

24. Large commercial and industrial consumers that are connected to distribution networks are more exposed, with 21% having spot exposed contracts (11,581 connections). This group represents around 5% of total annual demand by all consumers. The Electricity Authority estimates that approximately 35% of the volume sold through retail spot contracts is hedged externally, so some consumers in this group may be partially protected against high wholesale prices.

25. The largest grid-connected industrial consumers are likely to be most exposed to high wholesale prices. Electricity Authority modelling of eight grid-connected consumers[1] shows that approximately 60% of this group’s electricity demand volume is exposed to wholesale spot prices. The level of spot exposure has increased significantly since July 2020, when only 40% of the group’s electricity demand volume was spot price exposed. It is unclear what has driven this change in behaviour, but as a result these large industrials are potentially more exposed to recent high prices.

Several large industrial firms have reported short term impacts of high wholesale electricity prices and constrained gas supply, most notably Methanex, NZ Steel and several firms in the pulp and paper product manufacturing sector.

26. The following sections provide further detail on large industrial electricity consumers that might be impacted. This assessment is not exhaustive and is based on limited publicly available data.

Methanex New Zealand Limited (Methanex)

27. Methanex produces methanol from natural gas and consumes around 40% of New Zealand’s gas supply. Methanex has three plants in New Zealand; two at Motunui and one at Waitara Valley.

28. Methanex has a significant impact on Taranaki’s regional economy. According to an economic impact report commissioned by Methanex in 2018, the company generates $634 million for Taranaki's GDP and $834 million for New Zealand annually. This represents approximately 10% of Taranaki’s total output. Methanex directly employs 270 staff when producing at capacity and supports an estimated 3,171 jobs indirectly.

29. Historically, Methanex has provided flexibility by reducing its demand when natural gas is constrained. Methanex has already responded to the current gas supply shortage by mothballing it’s Waitara Valley Plant. This was announced in February 2021 and will lead to the loss of an estimated 75 jobs.

30. Methanex announced in 2018 that it had agreed gas supply contracts to cover “more than half” of its New Zealand operations through to 2029. Given these long term contracts, there is uncertainty over the extent to which Methanex will further reduce production to respond to market conditions. Currently, its two production plants at Motunui will continue to operate, but it is undertaking an organisational review.

[1] This group are responsible for around 5.4% of total annual demand by all consumers. The group excludes New Zealand Aluminium Smelters Limited (NZAS).

31. Several factors are likely to be important in determining Methanex's future production levels, including international demand for Methanol, gas production and carbon prices. Any further reduction in production would likely lead to further job losses and reductions in economic output for Taranaki as well as flow on impacts for the gas production sector in New Zealand.

New Zealand Steel (NZ Steel)

32. NZ Steel operates the Glenbrook Steel mill near Auckland. It is a major consumer of electricity with consumption of 440GWh annually from the grid. This is approximately 1.1% of New Zealand's total electricity demand.

33. According to NZ Steel's own data, it contributes more than $600 million annually to the New Zealand economy and directly employs 1,400 people, whilst supporting a further 2,500 people indirectly through the supply chain.

34. NZ Steel appears particularly exposed to high wholesale prices. On 1 March 2021, it sent a letter to the Minister of Energy and Resources detailing the "unsustainable spike in electricity prices" that the company is facing. In the last month, some of NZ Steel's operations have temporarily shut down due to unaffordable wholesale electricity prices.

35. The company is currently reviewing its operations in New Zealand. It has recently exited pipe and hollows steel production and will cease producing cold-rolled annealed products in April 2021.

36. If high wholesale prices continue, it is likely that there will be further temporary production pauses and the company may permanently scale down elements of its operations. This could cause direct job losses.

37. This would also have impacts on the wider economy, particularly as there is a global shortage of steel due to increased global infrastructure spending in response to COVID-19. A reduction in NZ Steel production would mean that New Zealand firms would have to import greater quantities of steel. Where steel is available for import, the current lead-in time is estimated to be over eight months, compared to the previous lead-in time of approximately eight weeks.

38. As such, if NZ Steel scales down production, this would likely cause increased costs and delays for the building, infrastructure and manufacturing sectors. Furthermore, the increased reliance on imports would represent a loss of value for New Zealand. NZ Steel estimates that $80 of every $100 spent on local steel stays in the New Zealand economy, compared to only $5 for imported steel.

Pulp and paper plants

39. The pulp and paper sector appears to be particularly exposed to high wholesale electricity prices and gas supply issues:

- Whakatāne Mill, which has produced paper and packaging products for the last 80 years, confirmed that it would close at the end of June 2021, though negotiations with potential buyers are reportedly ongoing. High energy costs have been cited as a contributing factor to the mill's closure, although the trigger was the mill's main customer switching to an alternative supplier. The mill employs 210 staff who are all expected to lose their jobs.

- Norske Skog's Tasman Mill in Kawerau usually accounts for about 1% of New Zealand's electricity demand. The plant currently employs 156 staff. The plant is currently under strategic review, due to be completed in early 2021. They have stated that current power prices are "problematic" for their business and are operating at reduced capacity to curb their exposure to current spot prices.
- Oji Fibre Solutions have three mills (in Kawerau, Penrose and Tokoroa) which produce pulp and paper products. The company met with the Minister of Energy and Resources and have raised the issue of constrained gas supply and high prices.

40. There is the potential for direct job losses and the loss of regional economic activity, particularly in the Bay of Plenty, if the Whakatāne Mill closes as expected and there is continued reduced production at other mills. As these issues appear to be affecting several businesses in the sector, there might be broader economic implications, particularly for local retail customers who purchase the packaging. There may also be impacts for other local mills and wood processors that provide raw materials and share overheads.

41. It is worth noting that the wider wood processing and manufacturing sector is struggling to remain internationally competitive for several reasons which go beyond just energy prices. For example, the majority of New Zealand's raw logs are exported, which means that many sawmills struggle to maintain a consistent supply of affordable logs. This can cause further problems in the supply chain, including in pulp and paper plants.

New Zealand Aluminium Smelter (NZAS)

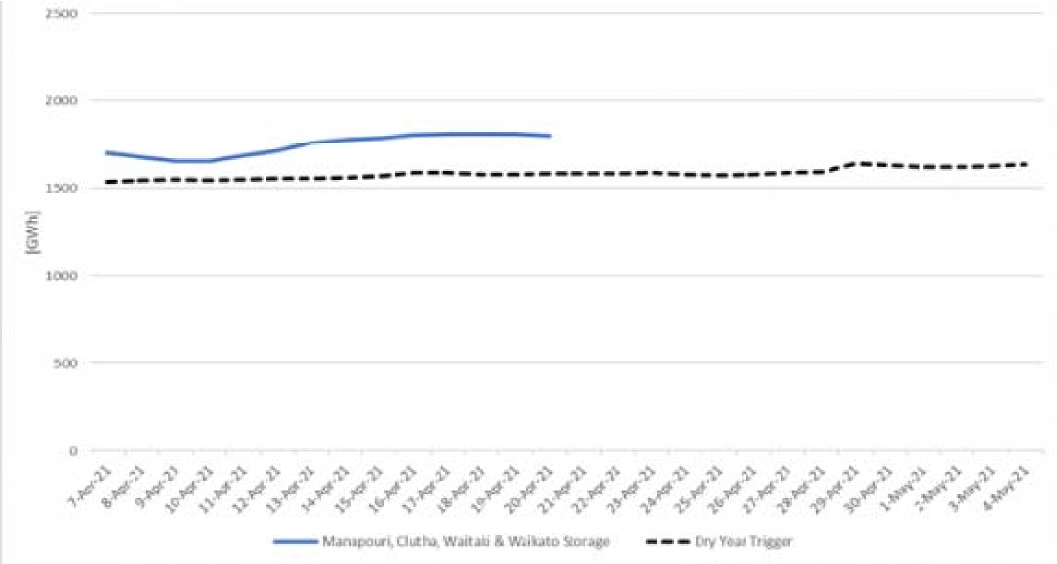
42. NZAS is the single largest consumer of electricity in New Zealand. It uses about 13% cent of total electricity demand.

43. NZAS is less directly exposed to high wholesale electricity prices, as it has a hedging arrangement under its electricity supply agreement with Meridian Energy Limited (MEL). NZAS reached a deal with MEL in January 2021, under which NZAS will continue operations until the end of 2024 with electricity supplied at a set price proportional to NZAS' electricity consumption.

44. Under the contract, MEL can require a Smelter Demand Response (SDR) when the relevant hydro storage is less than the Dry Year Trigger Level. If MEL gives NZAS an SDR notice, NZAS must start to reduce electricity consumption to achieve a reduction in electricity consumption of 250GWh over the period of 130 days.

45. Figure 3 shows that the difference between current hydro storage and the Dry Year Trigger Level has increased slightly over the past two weeks, although an SDR event is still possible if dry conditions continue.

Figure 3: Hydro Storage Versus Dry Year Trigger Threshold (20 April 2021) (Source: Meridian Energy Limited)



Refining NZ

46. Refining NZ operates the Marsden Point oil refinery. It consumes approximately 341GWh of electricity annually from the grid. This is approximately 0.9% of New Zealand's total electricity demand. Refining NZ employs around 300 employees directly and has previously been assessed as contributing about 7% of Northland's GDP.

47. In February 2021, Refining NZ reported that operating costs were down significantly in the 2020 financial year compared to 2019, with savings achieved in electricity costs. However, the company posted a significant net loss after tax of $198.3 million for the 2020 financial year. This was primarily due to the impacts of low profit margins and demand in the wake of COVID-19. The company cut 90 jobs in December 2020.

48. Refining NZ is currently undertaking a strategic review, with one of the primary options being to convert the oil refinery to an import terminal. Such a change in operation would reduce the refinery's electricity consumption by an estimated 85%.

49. It is unclear whether Refining NZ is particularly exposed to high wholesale electricity prices, as there have been no public statements on this issue specifically.

50. Despite this, it is likely that sustained high wholesale prices would increase the relative costs of maintaining current operations, compared to the option of switching to an import terminal with significantly lower electricity requirements and costs.

51. MBIE has assessed that a terminal operation would likely employ less than 20% of the current 300 employees, with a different mix of skill sets. If Refining NZ decides to convert to a terminal operation, it is likely there would be a significant reduction in jobs and economic activity in Northland.

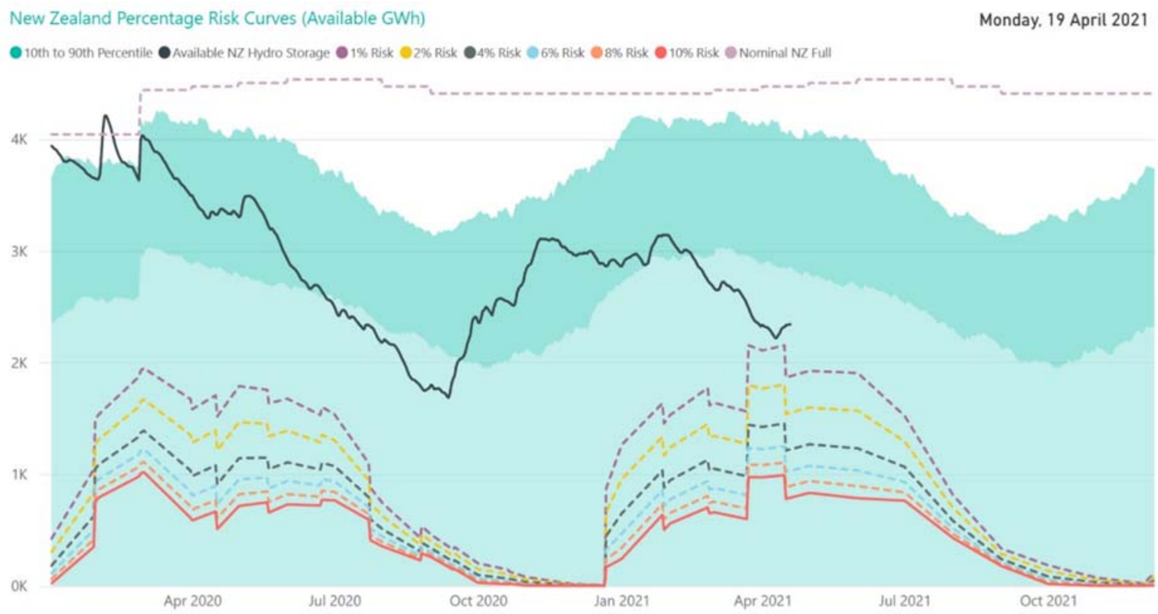
Potential long term impacts

Spot prices are likely to remain high until there is significant rain that will increase hydro storage, but there is a low risk of storage reaching the emergency level.

52. Future hydro storage scenarios are often described in terms of percentage risk curves, which are produced by Transpower as a measure of the probability that current hydro storage will be insufficient to meet electricity demand.

53. Figure 4 shows that current hydro storage is above the 1% risk threshold, which means that there is a less than 1% probability than current hydro storage will be insufficient to meet electricity demand.

Figure 4: New Zealand Electricity Storage Percentage Risk Curves (Source: Transpower)



54. Should national storage levels reach the emergency level (10% probability that hydro storage is not sufficient to meet demand), an Official Conservation Campaign (OCC) would commence. This requires retailers to pay qualifying consumers $10.50 per week and would see generator-retailers paying consumers approximately $18.9 million per week.

55. MBIE considers that, while the risk of storage reaching the emergency level is higher in 2021 than in a normal hydrological year, the risk is still low.

56. However, even if hydro storage levels improve to normal levels, there may still be uncertainty over future gas supply. If this risk, both real and perceived, continues to be assessed as significant by market traders, then prices may remain elevated above previous years.

The longer term impacts are harder to predict, but there is high competition in the electricity retail sector which could protect consumers from significant price increases.

57. Assuming that wholesale prices revert to long-term averages, there are unlikely to be significant long-term impacts for most household consumers. Consumers on spot price-linked contracts will continue to be exposed to high wholesale prices.

58. However, if dry weather continues or worsens, it is possible that retailers will seek to recover costs from consumers. This may affect retail pricing in the future. Industrial electricity users may also reduce production to curb their exposure to continuing high wholesale prices.

59. The extent to which high wholesale prices will feed through to higher retail prices in the long run is uncertain. Retailers are more likely to be able to absorb high wholesale prices in the short run without passing through price increases to consumers. Over time, sustained high wholesale prices may put upward pressure on retail prices, but there is significant retail competition in the electricity market which could dampen potential price increases.

60. There are also a number of other components that make up consumers' final bills. For example, consumer bills also incorporate network and distribution costs and any reduction in these elements would offset an increase in the wholesale electricity component.

Next steps

61. MBIE and the Electricity Authority are preparing further advice for the Minister of Energy and Resources on wholesale spot prices and futures prices up to 3 years out. The advice will also provide a more detailed analysis of the impacts on large industrial firms. This advice is expected in early May 2021 and we have requested that MBIE also forward the advice to you.

62. Following this, we recommend a joint meeting between you, the Minister of Energy and Resources and officials from the Treasury and MBIE to discuss the advice.

63. MBIE is leading the establishment of a Security of Supply Response Team (SSRT). This will be made up of members from the Electricity Authority, Transpower and the Gas Industry Company. The SSRT is being established to plan for a dry-year event. The group will be responsible for providing timely and consistent information and advice to Ministers.

64. Subject to near term storage trajectories, DPMC may establish an inter-agency working group including MBIE, Treasury and DPMC in early May 2021. The group will be used for information-sharing, but could move to a more active state if the risk escalates.

65. MBIE and the Electricity Authority will be producing weekly situation reports for Cabinet, with the first report due on 3 May 2021.

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Finance Priorities Meeting - Hypothecation of ETS Proceeds

Date:	29 April 2021	**Report No:**	T2021/1005
		File Number:	SH-10-8

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Discuss** this report with officials. **Indicate** if you would like the Treasury to develop any of the options for further consideration.	Before the Finance Priorities Meeting on Thursday 6 May 2021.

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Callum Lo	Graduate Analyst, Transitions, Regions, and Economic Development	s9(2)(k) (wk)	N/A (mob)	✓
Udayan Mukherjee	Team Leader, Transitions, Regions, and Economic Development	s9(2)(k) (wk)	N/A (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Refer the report to the Minister for Climate Change.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Finance Priorities Meeting - Hypothecation of ETS Proceeds

Executive Summary

You have expressed an interest in exploring how the fiscal proceeds of the Emissions Trading Scheme (ETS) could support the funding and financing of the Government's overall climate policy objectives. This is an issue that the Treasury has provided you with advice on recently through the Budget 2021 process, and also throughout the past 18 months as Ministers have considered various proposals that would seek to underpin a long-term funding strategy for the climate transition.

This report summarises some of the Treasury's previous advice, with a focus on the fiscal treatment of ETS proceeds. It also presents four stylised options on how a link could be created between these proceeds and climate policy objectives. At the Finance Priorities Meeting on 6 May, we are interested in understanding your priorities for the development of these options.

You will be taking a paper to Cabinet in June 2021 with the Minister for Climate Change setting out the scope of a work programme on 'Funding and Financing the Climate Transition'. Following our discussion on 6 May, the Treasury will focus on further policy work on ETS hypothecation as part of advancing that overall work programme throughout the rest of 2021.

Recommended Action

We recommend that you:

a. **discuss** the contents of this report with Treasury officials at the Finance Priorities Meeting on Thursday 6 May;

Fiscal treatment of ETS hypothecation

b. **note** that the revenue and cash received from the ETS currently have a net positive effect on OBEGAL and net core Crown debt respectively, and so influence the Government's overall fiscal strategy and expenditure decisions;

c. **note** that several different streams of ETS proceeds could be hypothecated, including non-cash revenue from NZU surrenders and cash received from NZU auctions;

d. s9(2)(f)(iv) [redacted]

s9(2)(f)(iv)

f. **refer** this report to the Minister for Climate Change.

Referred / Not referred

s9(2)(k)

Udayan Mukherjee
Team Leader, Transitions, Regions and Economic Development

Hon Grant Robertson
Minister of Finance

Treasury Report: Finance Priorities Meeting - Hypothecation of ETS Proceeds

Context and Purpose of Report

1. You are meeting with Treasury officials on Thursday 6 May for a fortnightly Finance Priorities Meeting to discuss hypothecating Emissions Trading Scheme (ETS) proceeds. This report provides background for the meeting, and sets out the current fiscal treatment of proceeds from the ETS, as well as four potential stylised options around how those proceeds could be hypothecated. This provides an initial response to your request for advice on how the fiscal proceeds of the ETS could support the funding and financing of the Government's overall climate policy objectives.

2. The Treasury and the Ministry for the Environment are leading a work programme to develop an approach for funding and financing the climate transition. You and the Minister for Climate Change are intending to present a work programme to Cabinet in June 2021. The treatment of ETS proceeds will be a key plank of this work programme, and is a major long-term fiscal choice for the Government. The Climate Change Commission also recommended that the Government consider this issue in its draft advice published in early 2021.

3. All of the options outlined in this report would need considerable further detailed policy design before final decisions could be taken. Therefore, we would welcome an indication of which of these options you are interested in developing further. This will inform the Treasury's ongoing work, with a view to being able to seek clear decisions later in 2021 on an agreed approach, in time for implementation from Budget 2022.

4. As part of the Government's overall Emissions Reduction Plan, the Treasury is preparing a chapter on 'Funding and Financing' which will need to be released for public consultation later in 2021 and agreed by the end of the year. There is an option to use that chapter as a way to signal the Government's intended direction on ETS hypothecation.

5. This report does not focus on the main arguments for and against hypothecation of ETS proceeds in principle, which we have covered in previous reports to you. In general, establishing a clear link between the revenues and expenditure from an externality tax can enhance public trust in it. Hypothecating ETS proceeds could also create a more firm public commitment to complementary climate-related expenditure. However, the decision to hypothecate ETS proceeds needs to be weighed against the significant loss of fiscal flexibility. The Treasury has provided a number of reports over the last 18 months which discuss these trade-offs in more depth.[1]

Fiscal treatment of ETS hypothecation

The current fiscal treatment of the ETS

6. Table 1 below sets out the forecast fiscal impacts from the ETS, based on current policy settings and a market price of $37/tonne.

7. The timing and amount of future ETS proceeds is highly uncertain. The price and volume of NZ Units surrendered may vary on a year-to-year basis, and the behaviour of firms will change in response to the carbon price. The fiscal forecasts are based on

[1] For example, T2019/3646 and T2020/2569 refers.

an NZU price of around $37/tonne. However, if the NZU price continues to rise, ETS proceeds could significantly exceed the forecasts in Table 1.

Table 1: Forecast Fiscal Impacts of the ETS at BEFU 2021 ($million)

	Fiscal Impact	**2019/20 Actual**	**2020/21 Forecast**	**2021/22 Forecast**	**2022/23 Forecast**	**2023/24 Forecast**	**2024/25 Forecast**
1. Non-cash revenue (when firms surrender NZ Units to the Government)	Increases OBEGAL	1,043	1,366	1,467	1,527	1,726	1,807
2. Non-cash expenses (when the Government allocates NZ Units to firms for free)	Decreases OBEGAL	(650)	(856)	(844)	(842)	(838)	(802)
3. Cash received (when new NZ Units are sold by auction)	Reduces core Crown net debt. No OBEGAL impact as this transaction is revenue neutral.	215	1,375[2]	707	699	661	603
4. Revaluation of NZU stockpile (when the market carbon price changes)	Increases or decreases Operating Balance. No OBEGAL impact as this is a change in net worth.	(1,097)	(586)	-	-	-	-

8. The fiscal proceeds of the ETS currently form a part of the core Crown revenue base. These underpin the Government's overall fiscal strategy decisions, such as the size of the operating and capital allowances. The overall prioritisation of expenditure from these proceeds, including towards climate change policy objectives, are considered as part of the normal Budget process.

9. Hypothecating ETS proceeds would change this default treatment. It would mean that the Government has less flexibility to prioritise its expenditure across all of government, because part of the core Crown revenue base would be set aside for specific climate change policy objectives.

10. If the Government made a long-term decision to hypothecate ETS proceeds, this may lead to a structural increase in expenses, and would therefore flow through to the fiscal aggregates, and all else being equal this would decrease OBEGAL and increase net core Crown debt.

11. However, the Government could also choose to manage the fiscal impact of ETS hypothecation by ring-fencing a portion of the existing Budget allowances. Under this treatment, hypothecating ETS proceeds would not have a direct impact on the Treasury's overall fiscal forecasts, but it would significantly reduce the amount available from the allowances for other spending.

12. Note that the government has a substantial liability arising from the stockpile of outstanding NZUs generated through the ETS. The change in that liability is represented in Line 4 of Table 1 above.

[2] This figure is significantly higher than the following years because it includes cash from the Fixed Price Option, which will not be available from 2022 onwards.

s9(2)(f)(iv) [redacted]

13. s9(2)(f)(iv) [redacted]

Options for using hypothecated ETS proceeds

14. Table 2 below provides an initial sketch of four stylised options Ministers could pursue to hypothecate ETS proceeds. These represent options that you have previously considered through earlier advice or Budget processes. The options are:

    i. s9(2)(k) [redacted]

    ii. [redacted]

    iii. [redacted]

    iv. [redacted]

15. These options are not mutually exclusive, and the Government could choose to pursue more than one of these as part of its overall strategy for ETS hypothecation. Each of these options creates a link between ETS proceeds and climate policy objectives. But the type of expenditure can vary, consistent with the wide range of emissions mitigation, adaptation, and distributional objectives that governments will have as part of a long-term transition strategy.

[3] Table 1: Line 1.
[4] Table 1: Line 1 minus Line 2.
[5] Table 1: Line 3.

16. s9(2)(f)(iv)

17. Subject to your views on these stylised options, the Treasury will provide further advice on the more detailed policy design parameters in due course throughout the rest of 2021.

s9(2)(f)(iv)