



## COVERSHEET

Date	Document Title	Tracking #
27 Nov 23	Fiscal sustainability options for SDE portfolio	2324-0974

**Information redacted** Yes / No [select one]

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## BRIEFING

### Fiscal sustainability options for Social Development and Employment portfolio

<b>Date:</b>	27 November 2023	<b>Priority:</b>	High
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	2324-0974

Action sought		
	Action sought	Deadline
Hon Louise Upston <b>Minister for Social Development and Employment</b>	<b>Discuss</b> with officials.  <b>Meet</b> with MBIE portfolio Ministers to consider options.	At your earliest convenience

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Jivan Grewal	General Manager, Employment Skills and Immigration Policy	Privacy of natural persons	✓
Kay Read	General Manager, Regions		
Privacy of natural persons	Manager, Employment Skills and Immigration Policy		
	Manager, Employment Skills and Immigration Policy		

The following departments/agencies have been consulted
The Treasury, ACC

- Minister's office to complete:
- |  |   |                                    |
|--|---|------------------------------------|
| <input type="checkbox"/> Noted               | <input type="checkbox"/> Approved             | <input type="checkbox"/> Declined  |
| <input type="checkbox"/> Overtaken by Events | <input type="checkbox"/> Needs change         | <input type="checkbox"/> Seen      |
|  | <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn |

#### Comments



# BRIEFING

## Fiscal sustainability options for Social Development and Employment portfolio

<b>Date:</b>	27 November 2023	<b>Priority:</b>	High
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### Purpose

This briefing sets out reprioritisation options in the Social Development and Employment portfolio to support the Government's fiscal objectives. It deals with the Employment aspects of the portfolio that are administered by MBIE.

### Executive summary

#### *Current portfolio baseline*

The Social Development and Employment portfolio is largely made up of funding from Vote Labour Market. Funding for the MBIE portions of the portfolio total \$20.70 million per annum which funds policy advice, labour market modelling and monitoring, alongside two operational functions that support sectors and regions with skills issues.

\$m	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyears	FTEs
Departmental Crown Revenue	\$20.607	\$20.638	\$20.639	\$20.639	\$20.639	74

#### *Maximum savings possible from the portfolio*

MBIE has a multi-category appropriation in each of its Votes, these all cover a range of policy functions to provide flexibility in delivering against government priorities. We are proposing a 10 percent reduction to policy functions as a whole. This includes stopping work on Income Insurance and reallocating the remaining resource to other priorities, achieving your Coalition Agreement commitment related to that work programme. The current allocation of resourcing reflects existing work programmes, therefore we recommend that MBIE Ministers discuss how best to allocate the remaining 90 percent across portfolios, given the incoming Government's priorities. Further advice on this matter is covered in the Fiscal Omnibus Briefing.

You have further choices relating to the non-policy functions within the portfolio: the Sector Workforce Engagement Programme (SWEP), and Regional Skills Leadership Groups. If you were to choose the maximum possible savings option for RSLGs and SWEP, alongside the 10 percent reduction to policy, the remaining funding and resource for the portfolio would be approximately \$11.9m per annum, supported by 34 FTE. This option presents a substantial **reduction of almost 42 percent** of the funding of Social Development and Employment portfolio. This will significantly reduce your ability to provide system leadership, and limited opportunity to reallocate resources to support the incoming Government's labour market objectives.

Possible savings <sup>1</sup>	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyears	FTE
Departmental Crown Revenue	-	-8.611	-8.611	-8.611	-8.611	-45

An alternative option would see a smaller reduction of **\$3.111m or 15 percent**, by scaling funding available for workforce planning, policy advice, and labour market modelling and monitoring. This would maintain greater optionality to support your priorities.

*Options to support your portfolio priorities*

We would value an early opportunity to discuss the Coalition Agreement commitments, your portfolio objectives and their relative priority. This direction will help us support your portfolio work programme, and provide further advice on the trade-offs of any options relating to fiscal sustainability.

Your manifesto includes priorities to boost productivity and incomes, ensure the labour market is dynamic and flexible, and ensure that sectors have the skills they need to grow. The Social Development and Employment portfolio can support these aims and the growth of the economy with a flexible and skilled labour force, that meet the needs of firms. A skilled workforce can improve matching to make the most of human capital and improve productivity. Within the portfolio there are also options to introduce buffers against future shocks to improve the resilience of the labour market and the wider economy.

We recommend that you forward this briefing to the Ministers of Finance and for ACC given those portfolios' previous roles in the Income Insurance work.

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<sup>1</sup> Note this assumes a 10% reduction to policy functions associated with the Social Development and Employment portfolio.

## Recommended action

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The Ministry of Business, Innovation and Employment (MBIE) recommends that you:

- a **Note** that MBIE has undertaken a fiscal sustainability and efficiency programme to support the government to achieve its fiscal objectives and ensure value for money in government spend. *Noted*
- b **Note** that we have identified choices in how you invest in the MBIE aspects of the Social Development and Employment portfolio that could amount to savings in the order of \$8.611 million *Noted*
- c **Note** that there are additional options identified in the MBIE ownership fiscal briefing (2324-0917 refers) and these savings will be apportioned to your portfolio(s) *Noted*
- d **Discuss** the contents of this briefing with officials at your initial meeting with MBIE *Yes/No*

### *Next steps*

- e **Agree** to attend a meeting for MBIE portfolio Ministers to discuss the reprioritisation options presented in this paper and how best to achieve your respective portfolio priorities as well as overall fiscal objectives *Agree / Disagree*
- f **Note** that we will provide further advice on options you would like to progress, including phasing, costs of change, and risk management *Noted*
- g **Forward** this briefing to the Ministers of Finance and for ACC *Yes/No*



Jivan Grewal  
**General Manager, Employment, Skills and  
Immigration Policy**  
Labour, Science and Enterprise, MBIE

27 / 11 / 2023

Hon Louise Upston  
**Minister for Social Development and  
Employment**

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## Strategic choices for reprioritisation in the Social Development and Employment portfolio

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1. This paper sets out options available to you to reprioritise and realise savings within MBIE aspects of the Social Development and Employment portfolio. A number of these options present choices and trade-offs, depending on your priorities within the portfolio.
2. You have indicated, through your Coalition Agreements, to remove funding for the Regional Skills Leadership Groups and to stop work on Income Insurance. In addition, we have identified further savings options by reducing other policy resource by 10 percent.
3. You have choices relating to these savings options, including what proportion of these savings are returned to the centre and what proportion could be reallocated to achieve other objectives.
4. Your manifesto includes priorities to boost productivity and incomes, ensure the labour market is dynamic and flexible, and ensure that sectors have the skills they need to grow. We think there are opportunities within the portfolio to support these priorities, including by addressing the productivity impacts of involuntary displacement and poor skills matching. In particular, we are keen to discuss whether you wish to retain some of the funding and capability to continue to explore solutions to the address some of these issues. Some context on these issues follows.

### *Wage scarring from involuntary displacement remains a significant issue for productivity*

5. New Zealand's employment protection settings are less stringent than in any other OECD country<sup>2</sup>, and this flexibility enables fluid movements of workers to more productive firms and as economic conditions change. This improves productivity, incomes and economic growth.
6. While a key strength, this does result in involuntary job losses, which can sometimes result in significant periods of lost income and worsening health outcomes that can have flow on impacts for labour productivity. Studies estimate that economic displacement results in approximately 40,000 New Zealanders at any one time experiencing extended periods of joblessness<sup>3</sup>. While income replacement is available through both private insurance and self-insurance, there are a range of market failures that can inhibit access. For example:
  - a. Income protection insurance can be high-cost due to adverse selection,
  - b. Compulsory savings (such as KiwiSaver) and broader budgetary pressures can result in not having enough savings to fall back on, and
  - c. Redundancy provisions are not evenly distributed due to bargaining imbalances.
7. Welfare support is often unable to overcome these issues, as many New Zealanders either do not qualify or take it up, and it is intended as a minimum safety net to alleviate poverty rather than an income smoothing intervention.
8. This can result in strong incentives to secure a job quickly, even if it is a poor match for a person's skills and experience. Lost productivity and income as a result of this poor matching is called "wage scarring" and the OECD has observed that this appears more pronounced in

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<sup>2</sup> OECD, (2017). [Back to Work New Zealand: Improving the Re-employment Prospects of Displaced Workers](#), p.51.

<sup>3</sup> Household Labour Force Survey (HLFS) 2007 – 2020. These figures undercount the actual level of job loss, as they do not identify people who are displaced and then re-employed within the same three-month survey quarter; nor does it identify people who have more than one job and are displaced from one but not all of them.

New Zealand. Indicative estimates of the net-present value of wages lost as a result of economic displacement are \$3.3 billion (in a year of economic upswing) and up to \$15.4 billion in a year of very severe economic downswing.<sup>4</sup>

9. As per the Government's Coalition Agreement, we have stopped work on an Income Insurance Scheme. If you wish to continue to explore the issues caused by involuntary displacement, you have a broader set of choices for tackling this issue in the New Zealand context.

*Skills shortages and poor matching can create drags on economic growth*

10. Your Coalition Agreement proposes to investigate an "Essential Workers" workforce planning mechanism. You also have several manifesto priorities focused on relieving workforce pressures that are constraining sector growth – for example, in tourism, aerospace, tech, construction and the primary sector. More generally, some sectors continue to report skill and labour shortages even with the recent influx of migration.
11. Effective workforce planning is the process of identifying current and future skills needs, and acting to meet those needs. In practice, many sectors and regions are already doing this. But that work is sometimes hampered by two key market failures:
  - a. Coordination problems. Adopting new business models, technologies and techniques can require firms and workers to simultaneously invest in new things, where the payoff from that investment depends on the behaviour of the other party. This leads to weak incentives to invest in change, even where that change benefits both parties.
  - b. Information problems. It can be hard for students and workers to know what skills are (or will be) in demand, and hard for firms to know what skills are (or will be) available in the labour market they can make use of. This can be particularly pronounced in the thin, geographically-dispersed regional labour markets that characterise New Zealand. This can lead to underinvestment, or investment in the wrong skills and/or technologies.
12. The previous government sought to resolve these challenges with a variety of institutions with workforce planning as either a core or secondary purpose, including Regional Skills Leadership Groups, Workforce Development Councils, Industry Transformation Plans, and Just Transition Partnerships. The result was an overly complex system that users found difficult to navigate. Some entities did not mature in the way that was intended.
13. Your Coalition Agreements will remove funding for a number of these functions. Removing entities could leave unfulfilled some functions that were intended to make the skills system more responsive to the needs of industries and regions. You have a broader set of options for the role the Government plays in achieving that purpose (including improving the overall coherence of the workforce planning system), and we would like to understand your priorities for further advice on those.

*We would like to discuss what appetite you have for further work on either of these issues*

14. We will provide you with further advice on both these issues and would value an early opportunity to discuss your manifesto commitments and your broader priorities, as well as unpack the trade-offs involved in the different fiscal choices articulated below. This direction will help us develop a portfolio work programme to best support your priorities.

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<sup>4</sup> Hyslop, D; Maré, D; Noy, S; and Sin, I (2021). [Involuntary job loss: welfare effects, earnings impacts and policy options](#).

## Background to funding within the Social Development and Employment portfolio

### *Current funding for the activity within the Social Development and Employment portfolio*

15. The Social Development and Employment portfolio is largely made up of funding from Vote Labour Market. Funding for the MBIE portions of the portfolio total \$20.60 million per annum and are made up of:
- a. As part of the broader Vote Labour Market Multi Category appropriation for *Policy Advice and Related Services to Ministers*:
    - i. \$4.07 million per annum for *Policy Advice and Related Services to Ministers - Employment* for the Social Development and Employment portfolio.
    - ii. \$2.04 million per annum for *Policy Advice and Related Services to Ministers - Income Insurance*.
  - b. \$3.03 million per annum for *Employment Sector Analysis and Facilitation*, which funds:
    - i. The Sector Workforce Engagement Programme (SWEP) provides a coordinated government response in partnership with industry to address labour market issues and develop local workforces in sectors heavily reliant on low-skilled migration.
    - ii. Supporting activities such as labour market modelling and the development of labour market tools.
  - c. \$11.47 million per annum for *Regional Skills Leadership Groups*, which supports the 15 RSLGs to identify local skills needs, coordinate local action to resolve those needs, and provide insights to central government to inform labour market policy.

### *Current portfolio baseline*

\$m	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyears	FTEs
<b>Departmental Crown Revenue</b>	\$20.607	\$20.638	\$20.639	\$20.639	\$20.639	74

### *Recent changes to funding and activity within the portfolio*

16. RSLGs were established in 2020 as a cross-portfolio initiative funding the establishment and ongoing operation of 15 Regional Skills Leadership Groups. RSLGs' purpose is to facilitate local dialogue to ascertain regional labour market needs, and develop Regional Workforce Plans. This work is intended to provide insights into economic development and skills investment needs, informing the vocational education, immigration and welfare systems.
17. RSLGs comprise members from local industry, union, iwi and broader community representatives, with the support of a local RSLG secretariat. This network is supported by a central secretariat that was intended to provide data analytics, policy and governance support to RSLGs to develop strong intelligence and planning. Budget 2020 provided funding of \$11.5 million per annum which supports the 15 RSLGs and 42 FTE.



18. In 2023 the staff supporting the RSLGs were transferred into Kānoa-Regional Development Unit to bring together MBIE’s regional economic investment and labour market functions into a single group to support MBIE to:
  - a. Identify (and capitalise on) opportunities to leverage both its labour market planning and its economic investment levers in ways that maximise the labour market and broader economic benefits to the region; and
  - b. Improve engagement with the regions by creating a single point of access.
19. Time limited funding was also received in 2020 to support labour market monitoring and performance within MBIE. This funding supports regular reporting to Ministers on the state of the labour market, insights and coordinating labour market levers across the employment system (for example, following the 2023 North Island Weather Events). As the initial funding was time-limited, this puts pressure on the capacity to continue providing this support.
20. In 2019 MBIE began work on involuntary displacement, resulting in the previous Governments’ proposals for an Income Insurance Scheme. In Budget 2022 funding was provided to establish a permanent policy team to provide advice and services to support decision-making by Ministers on government policy matters relating to income insurance. Following the previous Government’s decision to stop work on the Income Insurance proposal, funding was returned. Further detail is provided from paragraph 36 below. Due to the pace and scale of the work programme, contractor and consultant resource was used to progress NZII at different stages. All work on the Income Insurance Scheme has now stopped.
21. Typical contractor and consultant resource has only been used in the portfolio to provide additional resource on a temporary basis to supplement capacity or skillset (where specific expertise was required) to deliver priority projects.

## Opportunities for reprioritisation

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### Reprioritisation options for the Social Development and Employment portfolio

#### *Stopping work on the Regional Skills Leadership Groups*

22. MBIE staff supporting the 15 Regional Skills Leadership Groups is around 42 FTE (44 staff), comprising:
  - a. approx. 2-3 FTE per group of regionally-based analytical support
  - b. an additional central secretariat of approx. 5 FTE that supports the groups to develop their intelligence and planning.
23. MBIE is funded at the following level to provide that support:

\$m	2023/24	2024/25	2025/26	2026/27	2027/28 &Outyears
Employment – Regional Skills Leadership Groups	11.465	11.482	11.483	11.483	11.483
<b>Total Operating</b>	<b>11.465</b>	<b>11.482</b>	<b>11.483</b>	<b>11.483</b>	<b>11.483</b>

24. You have made the commitment to stop work on the Regional Skills Leadership Groups. By ending the Regional Skills Leadership Groups, you have choices about the treatment of

funding: you can return all funding to the centre to support fiscal initiatives, or return a significant portion of funding and reallocate the remainder to other priorities.

**Table Two: Options to return funding associated with regional skills initiatives**

Option	Savings	Comment
<b>Remove all funding</b>	<p><b>\$8.000m</b> per year for 2024/25 onwards</p> <p><i>*Note this represents direct costs only. You are receiving separate advice on MBIE's enablement functions.</i></p>	<p>Consistent with your Coalition Agreement commitment. This would stop funding for the 15 Regional Skills Leadership groups, associated regional labour market insights and local coordination. Any future skills anticipation and development capability would need to be built from scratch.</p> <p>Reduces headcount by 42 FTE (44 staff).</p>
<b>Reduce resource by 20% and reallocate towards other priorities</b>	<p><b>\$2.500m</b> per year for 2024/25 onwards</p> <p><i>*Note this represents direct costs only. You are receiving separate advice on MBIE's enablement functions.</i></p>	<p>This would be achieved by removing all 15 Regional Skills Leadership groups, and the costs associated with them (fees, travel etc), and reducing the resource for the regional insights functions.</p> <p>This allows you to retain limited regional insights and local coordination functions, and retain optionality for further work to relieve workforce pressures.</p> <p>Reduces headcount by 22 FTE.</p>

25. We have not included options for the return of funding for the (current) 2023/24 year, but can provide this if requested.
26. You could also make the funding time-limited, which could be applied to any of the options to reduce resource above. This allows you to return funding in future, while retaining expertise and optionality while you consider upcoming advice. It would increase uncertainty for staff and is likely to result in increased attrition.

Strategic choices to support an effective workforce planning system

27. Your Coalition Agreement commits to investigating an “Essential Workers” workforce planning mechanism. We think that is an opportunity to support your broader manifesto priorities to ease workforce constraints on sector growth and make the skills system more responsive to the current and future needs of the economy.
28. If you wish to progress some work on a future workforce planning system, we recommend maintaining some core capability while that work progresses. Our recommendation would be to maintain SWEP at current levels and reduce RSLG resource by 20%. This would preserve some ability to maintain local insights and coordinate local responses to local skills issues, making some continued progress on the information and coordination problems noted above. It would also mean any future capability would not need to be built from scratch.

29. You could also choose to return all funding. This would see the local insights and local coordination functions cease, subject to you deciding to set in train new work on either of these areas. That capability could be built at a future date, though it would be more difficult to do so with local relationships being lost.
30. We plan to provide you with further advice on this matter and some potential choices to address it. We would like to discuss the options for reprioritising funding from Regional Skills Leadership Groups once you have received this further advice, so you can consider the trade-offs in the context of your other portfolio and Government priorities.

*Reductions to policy resource: Income Insurance and Policy Advice and Related Services for Employment*

31. You have two appropriations for policy resource; *Policy Advice and Related Services to Ministers – Employment* and *Policy Advice and Related Services to Ministers - Income Insurance*. Together, these total \$6.120m per annum.
32. MBIE has a multi-category appropriation in each of its Votes, these all cover a range of policy functions to provide flexibility in delivering against government priorities. We are proposing a 10 per cent reduction to policy functions as a whole. This includes the reduction from stopping work on Income Insurance and provides the option to reallocate the remaining resource to other priorities. The current allocation of resourcing reflects existing work programmes, therefore we recommend that MBIE Ministers discuss how best to allocate the remaining 90 per cent across portfolios, given the Government's priorities. Further advice on this matter is covered in the Fiscal Omnibus Briefing.

Strategic choices to use your policy resource to achieve your portfolio and system objectives

33. The Social Development and Employment portfolio can play an important role providing leadership across labour market systems. You can achieve this through:
  - a. bringing a labour market and firm perspective to the education, immigration and welfare systems alongside your Ministerial colleagues
  - b. ensuring the settings for these systems are working together to ensure workers have the skills that businesses need, to lift productivity and economic growth and to deliver good employment outcomes for New Zealand
  - c. advising on improvements to labour market performance, based on labour market trends, and
  - d. delivering initiatives to promote better labour market planning and skill-matching of labour supply to demand.
34. With limited resource, there is a need to prioritise your work programme according to your priorities. Key areas that warrant consideration, include:
  - a. Taking a more strategic and coordinated approach to assessing and responding to skill shortages and planning for future workforce needs.
  - b. Introducing settings to improve income resilience to job loss and wage scarring, to support a flexible and productive economy that can weather future crises
  - c. Taking a cross-agency approach to achieve improvements in persistent labour market disadvantage
  - d. Addressing the impact of global megatrends on New Zealand's labour market to prepare for the changing nature of business and employment.

35. We plan to shortly provide you with further advice on opportunities to improve labour market performance. We would like to discuss the options for reprioritising funding from Employment policy advice once you have received this further advice, so you can consider the trade-offs in the context of your other portfolio priorities.

#### Income Insurance policy resource

36. The Coalition Agreement commits to stop all work on the previous government's Income Insurance Scheme. We have now stopped all work on the scheme.
37. The New Zealand Income Insurance (NZII) proposal of the previous government aimed to provide financial support to people who lose their job (due to redundancy or a health condition or disability) to smooth the transition back into productive and sustainable work. In Budget 2022 baseline funding was provided for MBIE for an ongoing policy function to support the development NZII, as well as time-limited implementation funding for ACC and other agencies.
38. Following the previous Government's decision not to progress the NZII proposal, a lower level of policy resource was maintained to ensure there was capacity and flexibility to continue to provide ministers with policy advice on broader issues relating to income resilience arising from involuntary displacement.
39. We will shortly provide you with further advice on the impact of wage scarring on the economy, and possible options to improve income resilience. As signalled above, we think there is an opportunity to support your broader manifesto priorities by repurposing the existing capability to tackle the underlying issues in a different way. Broadly speaking, returning more of this capability would mean choosing to do less work on tackling the underlying issues, or trading it off against other priorities across the portfolio.
40. We would like to discuss the options for reprioritising funding from Employment policy advice once you have received this further advice, so you can consider the choices and trade-offs in the context of your other portfolio priorities.

#### Related return of funding from ACC

41. Time-limited funding of \$1.40m for 2023/24 was provided to ACC to enable it to contribute to the policy work on the income protection options, albeit at a significantly slower pace and without the depth of detail. ACC's perspective was required on the advice requested to explore alternatives that could improve affordability. As the AC Scheme and levy appropriation funding cannot be used for funding non-AC activity, additional funding was required to ensure access to relevant expertise (for example, actuarial support).
42. ACC have confirmed that the \$1.40m allocated for 2023/24 has remained unspent, and can be returned. They have also identified an underspend of \$0.20m from 2022/23, from expected costs not eventuating. This means a total of \$1.60m can be returned to the centre. While this reduction of cost does not impact the resource available to support your portfolio, the connection to the broader Income Insurance workstream is a key dependency. Due to this connection, this briefing has also been provided to the Minister for ACC for their information.

### **Summary of portfolio reprioritisation options**

43. The table below sets out the maximum potential savings presented above:

\$ m	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyears	FTEs
Departmental Crown Revenue	-	-8.611	-8.611	-8.611	-8.611	-45

\$ m	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyears	FTEs
<b>Total</b>	-	-8.611	-8.611	-8.611	-8.611	-

44. The remaining funding and resource for the portfolio would be approximately \$11.9m per annum, supported by 34 FTE. This option presents a substantial **reduction of almost 42 percent** of the funding of Social Development and Employment portfolio. This will significantly reduce your ability to provide system leadership, and limited opportunity for any reallocation of resource to support the Government's labour market objectives.

\$ m	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyears	FTEs
Departmental Crown Revenue	-	-3.111	-3.111	-3.111	-3.111	-25
<b>Total</b>	-	-3.111	-3.111	-3.111	-3.111	-

45. The remaining funding and resource for the portfolio would be approximately \$17.499m per annum, supported by 54 FTE. This option still presents **reduction of 15 percent** of the funding of Social Development and Employment portfolio. This will significantly reduce your ability to provide any system leadership, and limited opportunity for any reallocation of resource to support the Government's labour market objectives.

### Reprioritisation options in stewardship and enablement functions

46. MBIE has considered a wide range of options for reprioritisation. This includes stewardship (such as economic strategy), enablement functions (such as human resources and finance) and shared services (such as call centre services).
47. The financial impact of these options on the Social Development and Employment portfolio will depend on the scale of changes progressed, and the relative change in sizes of each portfolio (for example, property costs are allocated as a share based on head count in each location). Further savings will likely emerge based on decisions Ministers take in portfolios. MBIE will provide final advice on re-sizing its enablement functions and financial implications by portfolio as part of the upcoming savings process.

#### *Shared services relevant to the Social Development and Employment portfolio*

48. Some MBIE functions are provided as a shared service, rather than portfolio-specific functions, as this is more efficient. Examples include the MBIE service centre which provides contact centre services across a large number of functions.
49. Final figures are subject to relative changes in the size of portfolios.

## Next steps

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#### *An All-of-MBIE approach to reprioritisation*

50. MBIE operates a number of functions that operate across portfolios, as well as working to realise synergies between them. We therefore recommend considering the portfolios as a suite, this enables:
- Consideration of enablement and stewardship functions as part of the whole (which will have proportional savings for each portfolio)
  - Opportunities to align and consolidate related functions between portfolios, including Crown Entities
  - Enabling trade-offs across functions in order to calibrate/equalise impacts, such as directing policy resource.

51. We therefore recommend that MBIE Ministers meet to consider their portfolios jointly.

*Progressing options*

52. We will provide you with further advice on areas you indicate you would like to reprioritise. This advice will include how fast savings can be realised, any costs associated, and further information on the likely impacts of those changes.

53. We also expect to receive advice from Treasury shortly about the process for submissions for the Fiscal Sustainability Payment, and/or Budget processes. We will take direction from Ministers on which of the potential reprioritisation options in this briefing should be included in those submissions.

*Upcoming advice*

54. We plan to provide you with advice on Income Resilience and Workforce Planning. We would like to meet to discuss your level of appetite for further work in either of these areas in considering reprioritisation choices.

55. We also recommend that you forward this briefing to the Ministers of Finance and for ACC given those portfolios' previous roles in the Income Insurance work.

## **Annexes**

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Annex One: Reprioritisation Options

# Fiscal Summary for the Social Development and Employment portfolio



## Current Baseline

The following table sets out the appropriated funding for the aspects of the Social Development and Employment portfolio administered by MBIE, by funding source. Departmental funding is received by MBIE to directly provide services.

Changes to Crown funded activities will have a direct impact on the Government's financial position.

Baseline \$million	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyrs	Current FTE
Dept.	\$20.607	\$20.638	\$20.639	\$20.639	\$20.639	74
<b>Total Crown</b>	<b>\$20.607</b>	<b>\$20.638</b>	<b>\$20.639</b>	<b>\$20.639</b>	<b>\$20.639</b>	<b>74</b>

The Employment portfolio is largely made up of funding from Vote Labour Market. Funding for the MBIE portions of the portfolio are made up of:

- As part of the broader Vote Labour Market Multi Category appropriation for *Policy Advice and Related Services to Ministers*:
  - \$4.07 million per annum for *Policy Advice and Related Services to Ministers - Employment*.
  - \$2.04 million per annum for *Policy Advice and Related Services to Ministers - Income Insurance*.
- \$3.03 million per annum for *Employment Sector Analysis and Facilitation*, which funds:
  - The Sector Workforce Engagement Programme (SWEP), which provides a coordinated government response in partnership with industry to address labour market issues and develop local workforces in sectors heavily reliant on low-skilled migration.
  - Supporting activities such as labour market modelling and the development of labour market tools.
- \$11.47 million per annum for *Regional Skills Leadership Groups*, which supports the 15 RSLGs to identify local skills needs, coordinate local action to resolve those needs, and provide insights to central government to inform labour market policy.

## People Resources in MBIE

The Social Development and Employment portfolio is supported by 74 MBIE FTE, which is 1.2 per cent of the total MBIE workforce. In the Social Development and Employment portfolio, 56% is

## Fiscal Sustainability

The following table summarises options identified for reprioritisation within the Social Development and Employment portfolio (either within the portfolio, or for return to the centre). This includes programmes that could be stopped, and others that can be scaled.

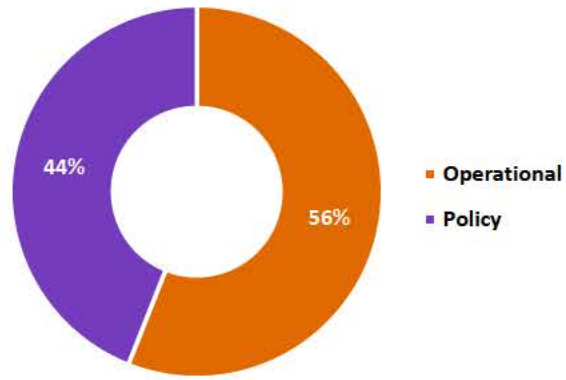
Option for reprioritisation	Fiscal implication \$million pa	FTE implication	Implementation	Comment
<b>Remove all funding for RSLGs**</b>	\$8.000m	42	Timing would depend on required change processes, to meet requirements of employment obligations.	We recommend an alternative option to maintain some core capability while you consider the future of the workforce planning system. Our recommendation would be to maintain SWEP at current levels and reducing RSLG resource by 20%. This would preserve some ability to maintain local insights and coordinate local responses to local skills issues, and means any future capability would not need to be rebuilt from scratch.
<b>Reduce policy funding by 10%*</b>	\$0.611m	3	Timing would depend on required change processes, to meet requirements of employment obligations.	MBIE has a multi-category appropriation in each of its Votes, these all cover a range of policy functions to provide flexibility in delivering against government priorities. We are proposing a 10 percent reduction to policy functions as a whole. This would also involve stopping work on Income Insurance and the option to reallocate the remaining resource to other priorities, achieving your manifesto commitment related to that work programme. Further advice on this matter is covered in the Fiscal Omnibus Briefing.
A share of cross-MBIE reprioritisation options	To be determined	To be determined	These savings will be apportioned to portfolios, following discussions with Ministers.	The MBIE ownership fiscal briefing includes options for reductions in core services (both immediate efficiencies, and further "right-sizing" following portfolio decisions), 15% reduction in specified discretionary spend, and 10% reduction in policy capacity with resources to be redirected based on Government priorities.
<b>Total</b>	<b>\$8.611m</b>	<b>45</b>		This option presents a substantial reduction of <b>42 percent</b> of the funding of Social Development and Employment portfolio, leaving you with <b>\$11.99m</b> per annum.

\*The Fiscal Briefing has further details on options and the implications of these choices. Items marked \*are drawn from, or consistent with, Manifesto Commitments and/or the Coalition Agreements. Options with FTE implications will need to be phased, and may incur transition costs.

\*\* Note that this represents direct costs only. You are receiving separate advice on MBIE's enablement functions.

Alternatively, we suggest you consider a more balanced approach that still delivers significant savings but provides you with the capacity, capability and options to support the Government's objectives to boost productivity and lift incomes, ensure the labour market is dynamic and flexible, and alleviate skills shortages that are constraining sector growth. The remaining funding and resource for the portfolio would be approximately \$17.49m per annum, supported by 54 FTE. This option still presents reduction of 15 percent of the funding for the portfolio.

operational and 44% is policy. Enablement functions\* have not been included. This is broken down as follows:



### Manifesto Commitments/Coalition Agreement

The Government has made two manifesto commitments with fiscal implications in the Social Development and Employment Portfolio. The high-level costing estimates (which all present savings, rather than new expenditure) are set out below:

Source	Manifesto Commitment/Coalition Agreement	High level <u>savings</u> estimate \$million pa	FTE implication	Implementation	Comment on estimates
Coalition Agreement	Stop all work on Income Insurance Scheme.	See comment.	See comment.	N/A	Note this is in the 100 Day Plan. See comment above about approach to MBIE's policy resource.
National Party Fiscal Plan	End funding for Regional Skills Leadership Groups.	11.465 million (all costs) 8.00 million (direct costs)	42	Timing would depend on required change processes, to meet requirements of employment obligations.	We recommend an alternative option to maintain some core capability while you consider the future of the skills anticipation and development system. Our recommendation would be to maintain SWEP at current levels and reducing RSLG resource by 24%. This would preserve some ability to maintain local insights and coordinate local responses to local skills issues, and means any future capability would not need to be built from scratch.