



## BRIEFING

### Further advice on fiscal sustainability options for Economic Development portfolio

<b>Date:</b>	7 December 2023	<b>Priority:</b>	High
<b>Security classification:</b>	Sensitive	<b>Tracking number:</b>	2324-0979

Please note that the tracking number should read:  
2324-1264

Action sought		
	Action sought	Deadline
Hon Melissa Lee <b>Minister for Economic Development</b>	<b>Discuss</b> proposed fiscal sustainability options in the Economic Development portfolio.	11 December 2023

Contact for telephone discussion (if required)			
Name	Position	Telephone	1 <sup>st</sup> contact
Dean Ford	General Manager, Economic Development and Transitions		✓
Iain Southall	Policy Director, Economic Development and Transitions		

The following departments/agencies have been consulted

- 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 Withdrawn |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



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### Purpose

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This briefing provides further advice on reprioritisation options in the Economic Development portfolio across three broad themes of efficiency savings, Major Events Fund options, and Crown Entities.

### Recommended action

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

- a **Note** that MBIE has identified options for fiscal reprioritisation in the Economic Development across three broad themes.

*Noted*
  
- b **Discuss** the contents of this briefing with officials at your meeting with MBIE on 11 December.

Yes / No
  
- c **Note** that your portfolio and MBIE ownership decisions should be made in the context of Cabinet direction from the mini-Budget.

*Noted*

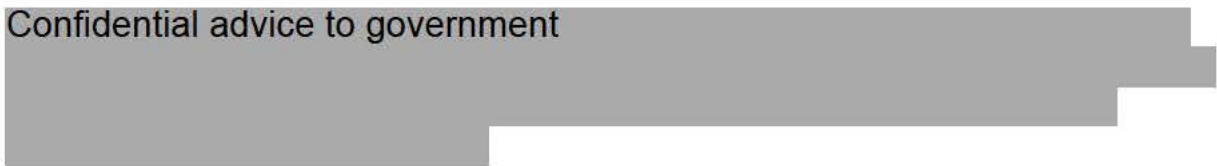
Dean Ford  
General Manager, Labour, Science and  
Enterprise  
MBIE

07 / 12 / 2023

Hon Melissa Lee  
Minister for Economic Development

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## Opportunities for reprioritisation in Economic Development

1. You have asked for further advice on reprioritisation options for the Economic Development portfolio presented in briefing 2324-0979, excluding Industry Transformation Plans (ITP) and Just Transitions programme which have their own separate advice stream.
2. Confidential advice to government  

3. Note that the extent of savings sought from the Economic Development portfolio will be dependent on Cabinet decisions on 11 December, and that we have recommended a collective approach by MBIE Ministers that delivers on the Government's priorities. As MBIE Ownership Minister, you have a lead role in coordinating this process.
4. On 11 December, Cabinet will also agree the return of uncontracted ITP funding, with approx. \$75.07 million being returned from the Economic Development portfolio over the five-year baseline (including approx. \$22 million for the Advanced Manufacturing ITP).
5. The table below summarises what MBIE has identified for fiscal reprioritisation in the Economic Development portfolio.

Initiative	Total 5-Year Baseline Savings (\$m)	FTE	Alignment with Priorities	Recommended for Return
NZ Government Procurement efficiencies	2.500	0.0	Internal efficiencies	✓
Close Government Centre for Dispute Resolution	3.808	6.5	Internal efficiencies	✓
Evidence and Insights efficiencies	1.315	2.0	Internal efficiencies	✓
Tupu Tai Programme efficiencies	1.000	0.0	Internal efficiencies	✓
Scale Development of Circular and Bioeconomy work programme	0.944	0.0	Internal efficiencies	✓
Stop Senior Diverse Leaders: Capability Building Pilot	1.400	0.0	Internal efficiencies	✓
Stop Future of Work Forum operations	3.100	0.0	Internal efficiencies	✓
Scale Auckland Pacific Skills Shift / Alo Vaka (\$8.25m option)	8.250	0.0	Internal efficiencies	✓
Scale Major Events Fund (\$5m option)	5.000	0.0	Major Events Fund	\$5-\$20m scaling options
Scale New Zealand Trade & Enterprise by 2%	17.020	TBC	Crown Entity	Option dependent on Government priorities
Scale NZGCP's market development funds by 2%	0.075	0.0	Crown Entity	No material efficiency gain
<b>Total Proposed Fiscal Savings (\$ million)</b>	<b>44.337</b>			

6. Broadly the savings identified fall into three categories: efficiency savings, options for the Major Events Fund, and Crown Entity funding.
7. We recommend all internal efficiency and at least \$5m of savings from the Major Events Fund can be returned to the Crown without adverse impact to the achievement of

Government objectives, but that decisions about NZTE will need to be considered in the context of the Government's public sector expenditure reduction commitments and its objective to work towards New Zealand becoming an export powerhouse.

## **Efficiency Savings**

8. The following savings, totalling \$22.317m across five years can be made across the portfolio without adverse impact to the achievement of Government objectives.
  1. NZ Government Procurement efficiencies (\$2.5m)
  2. Close Government Centre for Dispute Resolution (\$3.8m)
  3. Evidence and Insights efficiencies (\$1.3m)
  4. Stop Senior Diverse Leaders: Capability Building Pilot (\$1.4m)
  5. Tupu Tai programme efficiencies (\$1.0m)
  6. Stop Future of Work operations (\$3.1m)
  7. Scale Auckland Pacific Skills Shift / Alo Vaka (\$8.25)
  8. Scale Development of Circular and Bioeconomy work programme (\$0.94).

### *NZ Government Procurement efficiencies*

9. MBIE runs the Government procurement functional leadership programme which aims to improve procurement capability, the business environment, and deliver Government's objectives through procurement activity. Officials have identified approximately \$0.5 million per annum of savings that would not have a detrimental impact on the delivery of the programme. This involves removal of consultancy budget earmarked for system capability development and reduction in ICT expenditure.

### *Close Government Centre for Dispute Resolution*

10. The Government Centre for Dispute Resolution (GCDR) works across government to support regulatory systems to deliver fair, effective, and people-centred dispute resolution services for individuals and businesses. There are at least 56 different dispute resolution services provided or overseen by government. MBIE considers that this function has effectively delivered the lift in practice it set out to achieve and could now be closed. This would save approximately \$0.85 million per annum and would reduce FTE numbers by approx. 6.5.

### *Evidence and Insights efficiencies*

11. MBIE has a data, evidence and insight function and has identified savings of approximately \$0.460 per annum. This essentially closes current vacancies and deprioritises lower value activities.

### *Stop Senior Diverse Leaders: Capability Building Pilot*

12. This pilot project was intended to ensure that Pacific peoples in New Zealand's public sector workforce are supported to play an active role in the stewardship and delivery of policy and services. The appropriation is approximately \$0.350 million per annum. Feedback from programme participants is mixed. While some participants find value in the programme,

others have indicated the program may not align well with the needs of Pacific leaders and their agencies.

#### *Tupu Tai programme efficiencies*

13. MBIE manages the Tupu Tai programme which offers summer internships across the public sector to Pacific tertiary students and recent graduates interested in a career in the public sector. MBIE has identified savings in the order of \$200,000 per annum that would not materially impact delivery of the programme.

#### *Stop Future of Work operations*

14. The existing approach to address future of work matters is through the Future of Work tripartite forum, which includes Ministers, Business New Zealand (BNZ) and the Council of Trade Unions (CTU). The forum meets 3–4 times a year to progress the Future of Work programme, supported with regular governance group meetings.
15. Funding for the forum comes from the Economic Development appropriation but the work is led out of the Employment portfolio. MBIE administers \$700,000 of non-departmental funding each year to support the forum work, with \$300,000 each going to BNZ and CTU to fund capacity to contribute to the tripartite work. The remaining \$100,000 is used to procure relevant research. MBIE also has around 2 FTEs providing secretariat support to the forum through the Employment portfolio. Removal of this ongoing funding would essentially mean the disestablishment of the tripartite relationship and ending the work programme around the Future of Work. For the 2023/24 year, \$300,000 can be returned to the centre if decisions were made in 2023. The remaining \$400,000 is already committed in contracts.

#### *Circular and Bioeconomy Work Programme*

16. Reducing work on the Circular and Bioeconomy work programme would save \$0.94m across FY23/24 and FY24/25. This approach would cease work on developing a strategy but continue to deliver underlying research to inform future policy work. The underlying research has been investigating the economic opportunity of developing various bioeconomy sectors, providing market opportunity analysis that could be used in a variety of applications.
17. Note that this work relates to an action under the Emissions Reduction Plan to meet New Zealand's climate obligations and was funded through the Climate Emergency Response Fund. **Legal professional privilege**  
Nonetheless, we recommend consulting the Minister for Climate Change before taking a final decision on this programme.
18. We will brief you next week with more detail on your responsibilities under the Emissions Reduction Plan, including the Circular Economy and Bioeconomy work programme.

#### *Auckland Pacific Skills Shift / Alo Vaka*

19. The Auckland Pacific Skills Shift is a programme to support Auckland Pacific peoples in low-skilled work to transition into quality employment by providing wrap-around support to impacted Pacific households, and programmes to build the capability of Pacific communities. While longer-term outcomes from this programme will take some time to eventuate, initial evaluation findings suggest a positive impact on labour productivity from in-work training, and wraparound support and brokering have been identified as important elements in for workplace progression.

20. There is opportunity to reduce contract value by 50 per cent once the current contract lapses after FY24/25 (\$2.75m from FY25/26 ongoing). If the programme is cancelled entirely, an additional \$2.75m savings p.a. from FY25/26 is available.
21. The impact of these options would be to focus Alo Vaka on the highest value components, reduce the number of people the service is delivered to, and/or stop the programme entirely. To date, the programme has delivered over 3,600 micro-credentials for individuals working with 283 employers.

## Contestable Funds

### *The Major Events Fund*

22. The Major Events Fund (MEF) is a \$50m multi-year appropriation for five years to FY26/27. In Budget 2023, this was increased by \$16.65m (\$3.3m p.a.). There is \$9.1m that is not committed or subject to an application in train. The applications currently in train relate to four events, three of which have Government letters of support for the bidding phase. If these were halted, there is a potential \$20.4m available for savings.
23. Evidence for the benefits of MEF investment is mixed depending on the specific events. Events tend to return modest economic benefits, although they can bring social and/or cultural benefit, though this can be difficult to quantify.
24. Overall, the MEF aims to fund a mix of:
  - a. International one-off events e.g. World Choir Games 2024, **Commercial information**
  - b. Recurring anchor events that are regionally and seasonally spread e.g. Crankworx, SailGP, ITM Supersprints.
  - c. Homegrown events e.g. NZ Winter Games, **Commercial information**.
  - d. Creative and Cultural Incubator – Seeding to grow new homegrown events (\$5m over the Multi-Year Appropriation).
25. Mega events (roughly one every five years) are funded separately via a Cabinet decision. A recent example is the FIFA Women's World Cup 2023 (approx. \$60m).
26. There are currently 22 events that are contracted for 2024 (with one current application under consideration) and 15 events contracted in 2025. There are eight active events in the prospecting pipeline in various stages of feasibility/application through to 2027.
27. We consider that returning \$5m of the MEF for savings, which leaves \$15.4m for investment into events over the next four years is feasible without significantly impacting the Fund's ability to deliver benefits. More funds could be returned (potentially up to \$20m), which would leave less funds for investment, but this would have significant implications for the ability for the Fund to deliver results.

## Crown Entities

### *New Zealand Trade and Enterprise*

28. From FY24/25, NZTE's total funding will be around \$212m p.a., which represents a drop of around \$14m p.a. from the previous four years. This is because:

- a. In 2020, NZTE was allocated an additional time-limited \$54m p.a. for four years to support economic recovery from COVID-19.
  - b. This additional \$54m p.a. expires at the end of June 2024, but NZTE will receive an additional \$9.9m p.a. over its pre-2020 baseline, leaving an overall reduction of \$44m.
  - c. Of NZTE's time-limited \$54m p.a. funding, \$30m was allocated to supplement the International Growth Fund (IGF), which co-funds international expansion for customers. From July 2024, the IGF will reduce by \$30m, bringing NZTE's reduction in funding to \$14m p.a.
29. To give effect to the conclusion of the time-limited COVID-19 funding, NZTE is undergoing an organisational change process. To deliver the \$14m p.a. reduction, key changes include:
- a. A reduction of 70 roles, which is about 10% of NZTE's total workforce.
  - b. Going forward, NZTE plans to intensively support around 1,000 Focus customers. With the 2020 funding, NZTE doubled the number of export customers in its intensively supported Focus portfolio from 700 to 1,400. There will be lower cost support options for the more than 5,000 export customers outside of the Focus portfolio.
  - c. Several services initiated during the pandemic (such as freight advisory service, digital commerce assistance, and international food and beverage branding) will either be retired, delivered through digital channels, offered through private providers, partially funded by cost recovery, or funded from elsewhere.
  - d. NZTE will consolidate its global resourcing to ensure that its capacity is where exporters need it to be, **International relations** .
30. If savings are required, 2% or around \$4.2m a year of savings could be sought from NZTE's new baselines from FY24/25 to ensure consistency across Crown Entities.
31. While cost savings could be sought from NZTE to meet the Government's public sector expenditure reduction commitments, we note that the Government has identified strengthening international connections as a key priority, with a target to double the value of exports in ten years.

#### *New Zealand Growth Capital Partners (NZGCP)*

32. NZGCP's operations are overall funded through proceeds from their investments. However, an Economic Development portfolio appropriation of \$0.75m p.a. funds NZGCP to do market development. A scaling of 2 per cent, consistent with the scaling of other Crown Entities, would see a minimal saving of \$0.015m p.a. Given this is such a small amount, we do not recommend this option being pursued.

## **Next steps**

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33. We suggest discussing this briefing with you on Monday 11 December, when we will also have visibility of the Cabinet paper on the mini-Budget.