



## BRIEFING

### Budget 2024: Workplace Relations and Safety - Summary portfolio information for your discussion

<b>Date:</b>	2 February 2024	<b>Priority:</b>	High
<b>Security classification:</b>	Budget - Sensitive	<b>Tracking number:</b>	2324-1802

Action sought		
	Action sought	Deadline
Hon David Seymour <b>Associate Minister of Finance</b>	To inform your upcoming discussion and seek agreement on savings options to enter into the Budget 2024 process.	7 February 2024
Hon Brooke van Velden <b>Minister for Workplace Relations and Safety</b>	To inform your upcoming discussion and seek agreement on savings options to enter into the Budget 2024 process.	7 February 2024
Hon Melissa Lee <b>Minister for Economic Development</b>	For your information	

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Anna Clark	General Manager, Workplace Relations and Safety Policy	Privacy of natural persons	✓
Privacy of natural persons	Senior Policy Advisor, Health and Safety Policy		

The following departments/agencies have been consulted
WorkSafe New Zealand

Minister's office to complete:

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 Withdrawn           |

**Comments**



# BRIEFING

## Budget 2024: Workplace Relations and Safety - summary portfolio information for your discussion

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### Purpose

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To provide financial information about the Workplace Relations and Safety portfolio for your upcoming discussion in early February 2024.

### Executive summary

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The Workplace Relations and Safety portfolio covers both the Employment Relations and Employment Services (ERES) and Health and Safety (H&S) regulatory systems and is funded through Voted Labour Market.

Total portfolio expenditure for the 2024/25 financial year is forecast to be \$203.148m with a total of 296 departmental (MBIE) FTE and 644 non-departmental (WorkSafe) FTE, alongside other non-FTE costs. There has been a 48.45% growth in portfolio funding driven primarily by investment in WorkSafe New Zealand and MBIE's Employment Relations Service.

In contribution to the Government's savings process, MBIE has identified:

- i. up to \$3.935m in departmental savings in 2024/25 and outyears
- ii. up to \$15.092m in non-departmental savings in 2024/25 and \$10.941m in outyears.

As both WorkSafe (up to \$14.439m of savings in 2024/25, and \$9.788m in outyears) and MBIE's Health and Safety Policy team (up to \$0.216m in savings in 2024/25 and outyears) are funded through the Health and Safety at Work Levy, any savings in these areas will be returned to the Health and Safety at Work Levy Memorandum Account, rather than the Crown.

The Treasury has advised that while Levy-funded activities (WorkSafe and MBIE Health and Safety Policy) are included in the portfolio denominator for savings, any savings realised from these areas cannot be counted towards the savings target. To meet the portfolio's target the ERES policy teams and Employment Services would need to identify approximately 23% in savings. The impact of this would be a significant reduction in ERES policy advice and regulation in order to subsidise the H&S system.

In addition to the identified savings there is also potential in the longer term to develop revenue generating options in the Employment Relations system, and potentially realign expenditure as a result of the upcoming first principles review of the health and safety system. We will continue to advise Ministers on these options as work progresses, but they will not be in place for Budget 2024 consideration.

## Recommended actions

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

- a **Note** that the Ministry for Business Innovation and Employment has identified the following savings from within the Workplace Relations and Safety portfolio:
- i. up to \$3.935m in departmental savings from a 2024 baseline of \$62.350m
  - ii. up to \$15.092m in non-departmental 2024/25 savings from a baseline of \$133.952m, and up to \$10.941m in outyears

*Noted*

- b **Note** that the following elements of these savings proposals relate to third party funded activities, specifically from the Health and Safety at Work Levy, and that savings yielded from this expenditure will be returned to the Levy Memorandum account, rather than the Crown account:
- i. up to \$0.216m in departmental savings from MBIE Health and Safety Policy in 2024/25
  - ii. up to \$14.439m in non-departmental savings from WorkSafe New Zealand in 202/25

*Noted*

- c **Agree** that the following Workplace Relations and Safety portfolio departmental baseline savings of up to \$3.935m being entered into the Budget 2024 savings process:

\$ million	Total Savings 2024/25 and outyears	Consult with Ministers off/for	Decision
<b>Departmental Expenditure Savings Options</b>			
Saving from MBIE ERES policy teams	0.694		<i>Yes/No</i>
Savings from MBIE Health and Safety Policy ( <i>savings returned to the Health and Safety at Work Levy Memorandum Account</i> )	0.216		<i>Yes/No</i>
<b>Confidential advice to Government</b>			
Savings from MBIE Employment Relations Service: Stop non-statutory Labour Inspectorate activities related to immigration e.g. Recognised Seasonal Employer (RSE) scheme and visa eligibility assessments	0.800	Immigration	<i>Yes/No</i>

Note: Work not ceased - Budget 2024 savings yielded by transfer to fee-funding instead.

## Confidential advice to Government, Negotiations

Total Departmental Savings Options by Financial Year	3.935		
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## Confidential advice to Government

- e **Agree** that the following Workplace Relations and Safety portfolio non-departmental baseline savings of up to \$10.761m being entered into the Budget 2024 savings process:

\$ million	Total Savings 2024/25	Total Savings 2025/26 and outyears	Consult with Ministers off/for	Decision
<b>Non-Departmental Expenditure Savings Options</b>				
Baseline savings from WorkSafe New Zealand (preferred phased option) or; Baseline savings from WorkSafe New Zealand (immediate savings in 2024/25 (Savings returned to the Health and Safety at Work Levy Memorandum Account)	5.651 or 14.439	9.788 (Either option)		Yes/No  Yes/No
Remove funding for Screen Bargaining	0.244	0.744	Economic Development Culture and Heritage	Yes/No
Reduce or Cease funding to Diversity Works New Zealand	0.394	0.394	Public Service	Yes/No
Wind-up the Industrial Relations Foundation	0.015	0.015		Yes/No
Total Departmental Savings Options by Financial Year	6.304 or 15.092	10.941		

- f **Note** that further departmental savings attributable to this portfolio may be achieved through the MBIE corporate savings process

Noted

g **Note** that in the medium-term further savings options may become available as a result of upcoming work on Ministerial priorities and consideration of potential revenue options within the portfolio.

Noted

h **Note** that additionally there may be savings available relating to the Public Service's Equal Pay Taskforce, which was jointly funded by the Public Service Commission, MBIE, and the Ministry for Women.

Noted

*amclark*

Anna Clark  
**General Manager, Workplace Relations and  
Safety Policy**  
Labour, Science and Enterprise, MBIE

02 / 02 / 2024

Hon David Seymour  
**Associate Minister of Finance**

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*BNV*

Hon Brooke van Velden  
**Minister for Workplace Relations and  
Safety**

*13 / 02 / 24*

## Background

1. The Workplace Relations and Safety portfolio covers both the Employment Relations and Employment Services (“ERES”) and Health and Safety (“H&S”) regulatory systems and is funded through Vote Labour Market.
2. The Treasury has advised that while Levy-funded activities (WorkSafe and Health and Safety Policy) are included in the denominator for portfolio savings, we cannot count savings found in these areas against our target.
3. There is \$203.148 appropriated in the portfolio in 2024/25, of which **\$196.302m** is in scope for the savings exercise (the Employment Relations Authority, funded through a permanent legislative authority is excluded). This results in a 7.5% target of **\$14.723m**.
4. Of this \$196.302m, **\$133.962m** is levy funded (\$3.400m Health and Safety Policy, \$129.693m WorkSafe, \$0869m levy collection costs).
5. To achieve 7.5% savings in the portfolio, savings of \$14.723m are required from a base of \$62.340m (MBIE’s Employment Relations Services and ERES policy, and several small non-departmental areas). This equates to a target of **23.62%** for these areas.
6. In practice this means making significant cuts to the policy and regulatory functions in the ERES system to subsidise the H&S system. We have advised the Treasury of the challenges their approach presents.

## Funding in the Portfolio

7. Total portfolio expenditure for the 2024/25 financial year is forecast to be \$203.148m. This consists of six broad areas of expenditure as follows:

Function	Departmental	Non-departmental
MBIE Workplace Relations and Safety Policy	\$11.713m	
MBIE Employment Relations Services	\$50.637m (following return of FPA funding at MBU)	
Employment Relations Authority (ERA)		\$6.846m
WorkSafe New Zealand		\$129.693m <sup>1</sup>
Health and Safety at Work Levy Collection Services		\$0.869m
Support for Fair Pay Agreements and Screen Industry Bargaining		\$0.244m in 2024/25 and \$0.744m in outyears (remaining screen industry elements of this fund after FPA funding is returned at MBU.)

<sup>1</sup> Excludes Contingencies due for consideration – only one of which (PSPA funding of up to \$6.188m) impacts 2024/25 and outyears.

Participation in the International Labour Organisation		\$2.405m
Equal Opportunities Trust (Diversity Works New Zealand)		\$0.396m
Remuneration Authority		\$0.330m (Members' salaries and allowances)
Industrial Relations Foundation		\$0.015m (to provide grants to promote better industrial relations)

8. Our understanding for the current process is that ERA member salaries are funded through a permanent legislative authority, and are therefore out of scope, but all other items, including third party levy funding, are in scope, creating a total of \$196.302m against which we are proposing savings.

9. Detail of this expenditure is attached as **Annex One**.

### FTEs in the Portfolio

10. 2023 FTE counts across the portfolio are as follows:

- MBIE Workplace Relations and Safety Policy: 34 (June 2023)
- MBIE Employment Relations Service: 262 (September 2023)
- WorkSafe New Zealand: 644 (December 2023)

## Activity within the Portfolio

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11. The following provides high-level detail of funded activity in the main areas of the portfolio.

### MBIE Workplace Relations and Safety Policy Work Programme

12. A detailed policy work programme is being developed as priorities are confirmed. However, at a high level, policy deliverables are expected to include:

- **Ministerial servicing** – including Ministerial correspondence, management of Official Information Act Responses, Event Briefings, and provision of portfolio Private Secretaries.
- **Delivery of Government priorities** – this will include the policy work underpinning delivery of Ministerial priorities relating to Health and Safety, Pay Equity, the Holidays Act and Employment Relations Act, as well as contributing advice relating to the effectiveness and efficiency of operational expenditure and frontline performance in both the ERES and H&S systems. This is a portfolio that also has a significant amount of reactive work (for example responding to Court cases).

**Specific policy work likely to continue across government** – for example, advice in relation to system funding and New Zealand's engagement in international forums and second opinion advice to support other agencies and Ministers to effectively incorporate ERES and H&S information and perspectives into their policy initiatives.

- **Stakeholder engagement** with key non-Governmental participants in the ERES and H&S systems.

## MBIE Employment Relations Services Operational Activities

13. The Employment Services Branch is MBIE's operational arm for the ERES system aspects of the portfolio. Its key roles include:
  - **Ensuring compliance** with, and enforcement of, minimum employment standards. Known externally as the *Labour Inspectorate*.
  - **Providing dispute resolution services** for employment relationship problems. Known externally as *Employment Mediation Services*.
  - **Providing guidance and building capability** for employers, workers, and other actors in the ERES system.
  - **Providing other regulatory services** such as operational support for the Employment Relations Authority, Labour Inspectorate and Employment Mediation Services; triaging complaints and reports and assisting the Chief Executive of MBIE in performing their statutory functions.
  - **Generating advice, insights, and analysis** on the performance of the regulator.

## Employment Relations Authority

14. The Employment Relations Authority is a tribunal established under the Employment Relations Act. Members of the Authority make binding determinations to resolve employment relationship problems. Members are appointed by the Governor-General on the recommendation of the Minister for Workplace Relations and Safety. MBIE provides operational support for the Employment Relations Authority.

## WorkSafe New Zealand New Zealand

15. As the primary health and safety regulator, WorkSafe gives effect to its statutory functions under the WorkSafe New Zealand Act 2013 through the regulatory tools provided by the Health and Safety at Work Act 2015 ("HSWA").
16. The organisation has a range of regulatory tools at its disposal aimed at helping to prevent harm and monitor and enforce compliance, including providing guidance documents, using exemption powers, and developing Safe Work Instruments.

## Breakdown of expenditure and FTE growth since 2017

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17. Appropriated funding for the Workplace Relations and Safety portfolio grew from \$136.842mm in 2016/17 to \$203.148m in 2024/25, driven primarily by new funding for WorkSafe New Zealand and MBIE's Employment Relations Service (some of the latter having been unwound following cessation of the Fair Pay Agreements work programme).
18. While shifts in organisational structure over that period mean direct comparisons are imperfect, this equates to an approximate increase of 48.45%.
19. Over the same timeframe, MBIE FTEs rose from 188 to 296, and WorkSafe FTEs rose from 504 to 753 before reducing to 644 following recent restructuring decisions.
20. Detail of these increases are provided by spending category below and summarised in **Annex Two**.



## MBIE Workplace Relations and Safety Policy

### Funding Growth

21. Appropriated funding for the four policy teams (one H&S policy and three ERES policy) that service this portfolio is detailed in **Table 1** below. This is funded through the Vote Labour Market Multi Category Appropriation (MCA).

**Table 1: MBIE WRS Policy Appropriation: 2016/18 – 2024/25 (\$m)**

2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
7.651	7.294	8.297	9.367	8.620	10.291	11.200	11.541	11.713

22. This shows increase in appropriation of \$4.062m, or 53.09% from 2016/17 to 2024/25.
23. The smaller peaks in 2019/20 and 2021/22 were driven by fixed term funding for specific activities<sup>2</sup>, while the sustained increase from 2022/23 onwards is a result of a government decision to fund health and safety policy advice from the Health and Safety at Work Levy. Cabinet agreed that the Crown funding could remain in the portfolio to reflect increasing costs of delivery and an expanding work programme in the ERES elements of the portfolio (with a review of these decisions in 2024/25). The combination of these factors had resulted in an operating deficit of \$0.539m in 2020/21, which was forecast to grow in out years.
24. As the Health and Safety Policy Team is funded through the Health and Safety at Work Levy any savings will be returned to the Levy Memorandum Account, rather than the Crown account, and as per current Treasury advice will not count towards MBIE's savings target.

### FTE Growth

25. As a comparatively small unit, FTE numbers across the four policy teams fluctuate dependent on prioritisation across the Vote Labour Market policy advice MCA, turnover, work programme and labour market conditions, so any FTE snapshot is likely to be of only short-term relevance. From 2017 to 2023 the FTE count fluctuated between 25 and 34. These numbers exclude funded vacancies which similarly fluctuate. MBIE has held recruitment within the portfolio's policy function and some funded vacancies will be disestablished to help meet the savings requirements.

## MBIE Employment Relations Services

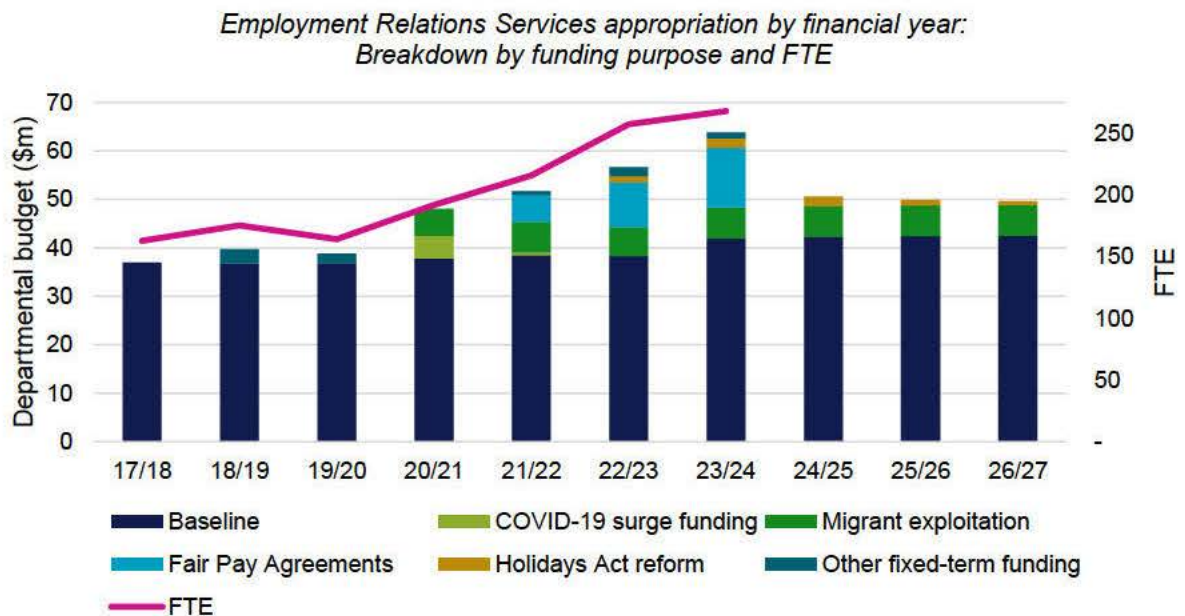
26. MBIE's operational activities relating to employment relationships are funded through the Employment Relations Services appropriation in Vote Labour Market. This appropriation is \$50.637m in 2024/25 after Fair Pay Agreements ("FPA") funding is returned. Accounting for inflation, 2024/25 funding is around \$40m in 2017 terms, a small increase on the 2017/18 appropriation of \$36.994m.
27. Most of MBIE's operational services for employment relationships are delivered through the Employment Services branch. In September 2023, there were 262 FTE in Employment Services, compared to 163 FTE in 2017<sup>3</sup>. This reflects new and ongoing responsibilities such as for preventing and responding to migrant exploitation (36 FTE in Employment Services branch), running the FPA system (56 FTE), and additional support for an expanded Employment Relations Authority (9 FTE). Other funding creating new positions since 2017 has generally been time-limited, with no net increase in FTE. Employment

<sup>2</sup> This included single year funding for: delivery of Future of Work priorities; meeting costs associated with delays in the Migrant Worker Exploitation work programme; undertaking a realignment of sector agreements; undertaking Adventure Activities regulatory reform; a Matariki advisory group; and a strategic baseline review of WorkSafe New Zealand.

<sup>3</sup> This includes 2 FTE outside Employment Services branch but directly funded from the appropriation, who support the Remuneration Authority.

Services' FTE is expected to reduce significantly from 2024/25, reflecting the return of FPA funding and any additional funding needed to meet MBIE's 7.5% savings target.

28. The following chart shows changes in expenditure and FTE over time.



29. Over the past decade, demand for employment relations services has risen. The main service units are the Labour Inspectorate, which responds to breaches of minimum employment standards; dispute resolution, which mediates employment relationship problems and provides related services; and operational frontline support services for the Employment Relations Authority, the tribunal for the employment system. The number of Labour Inspectorate interventions and dispute resolution services provided since 2017 has grown.

### Employment Relations Authority Member Salaries and Allowances

30. Appropriated funding for Employment Relations Authority member salaries and allowances has increased 62.96% from \$3.980M in 2016/17 to \$6.846m in 2024/25, reflecting an increase in salaries and the addition of seven new members over that period.

### WorkSafe

31. WorkSafe New Zealand has experienced considerable growth since the 2016/17 financial year, with core funding rising from \$87.863m to \$140.256m in 2022/23 (an increase of \$52.439m) before decreasing to \$129.693m in 2024/25<sup>4</sup> – an increase of \$41.830m or 47.61%. Additionally, WorkSafe received an increase in revenue from ACC for harm prevention activities – rising from \$2.079m to \$10.055m, although this agreement has now ceased.
32. Over the same period the organisation's FTE count rose from 504.6 to 753.3 before dropping to 644 in December of 2023 as part of a WorkSafe restructure aimed at streamlining its activities and better managing within its funding envelope.

<sup>4</sup> This decrease was primarily a product of fixed-term funding for activities such as COVID Response, the Whakaari response, and Plant and Structures reform implementation work scaling back or ceasing.

33. Key drivers of the growth since 2016/17 have been as follows:

- **Targeted Funding** (\$18.8m, 36% of the \$52.4m increase since 2016/17): In 2022/23 WorkSafe received funding for significant events such as Whakaari White Island, COVID-19 Enforcement and Plant and Structures Regulation implementation, that were not in existence in 2016/17. However, much of this funding will have ceased by the 2024/25 financial year.
- **Organisational Independence/Decoupling from MBIE** (\$12.7m, 24% of the \$52.4m increase since 2017): In 2016/17 WorkSafe began to establish itself as a stand-alone entity and develop its own corporate support functions in lieu of a shared service arrangement with MBIE. This included functions such as ICT infrastructure and services, HR, and Finance support. Additionally, WorkSafe increased its regional presence throughout New Zealand, resulting in an increase in WorkSafe's asset base (reflecting the development of the ICT and premises infrastructure and additional depreciation funding).
- **Additional Services** (\$11.3m, 22% of the \$52.4m increase since 2017): Since 2016/17 WorkSafe has introduced additional services across all three categories of Health and Safety risk (acute, chronic, and health-related) broadening from the initial focus on reducing safety-related deaths. Funding was received to support the additional services of better regulatory enforcement, high hazards & non-acute harm prevention.
- **Inflationary and other Cost Pressures** (\$9.6m, 18% of the \$52.4m increase since 2017): This funding was provided for remuneration and retention initiatives for the Inspectorate and other staff, and to address inflationary pressures.

#### Other Areas of Funding

34. There has been some growth in other areas of the portfolio from 2016/17 to 2024/25 as follows:

- **Funding for New Zealand's ILO participation** has risen 60.33% from \$1.500m to \$2.405m - reflecting externally driven increases in subscription costs (membership fee increases and exchange rate fluctuations)
- **Funding for Remuneration Authority** Salaries and Allowances increased 10% from \$0.300m to \$0.330m.

#### Alignment of current expenditure with Government priorities

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35. The Minister for Workplace Relations and Safety has identified five key Government priorities for the portfolio:

- Passing legislation that will address the long-standing issues with the Holidays Act.
- Undertaking a first principles review of the H&S System with a view to reducing unnecessary regulation and compliance costs.
- Updating the Employment Relations Act to restore balance between the parties to an employment relationship and ensure that the legislation is fit for purpose.
- Place a focus on effectiveness and efficiency of frontline services.
- Participating in cross-Government work to ensure that pay equity settlements are fiscally sustainable and that a consistent approach is taken across government.

36. Current expenditure is well-aligned with delivery of these priorities from a policy perspective, with the four policy teams able to realign resources to prioritise delivery of work in these five areas while still delivering the proposed savings to the Crown.
37. Expenditure on frontline services delivered through Employment Relations Services and WorkSafe should also be flexible enough to support the delivery of these new priorities. The outcomes of both the Health and Safety and Effectiveness and Efficiency priority work programmes will likely drive changes in roles, responsibility, and resourcing, which could realise further savings in the future. We will advise on this as the work progresses.

## Revenue and expenditure options

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### Savings options

38. Notwithstanding The Treasury's advice on levy funded functions, the approach we have taken is to target savings of approximately 7.5% across the full portfolio expenditure, including seeking savings from levy-funded activity. We have identified \$4.372m in potential savings for 2024/25 (7.01% of the non-levy funded baseline before any savings in corporate appropriations are taken into account), rising to 4.872m in outyears (7.8%). We have also identified savings to levy funded activities of up to approximately \$10 million in outyears, depending on options selected.
39. Detail on these savings is provided below and summarised in **Annex Three**.

#### *Proposed Policy Savings*

40. We have targeted a 10% saving in appropriated funding for personnel, contractor, and consultancy costs across the portfolio. This would result in savings of \$0.694m in 2024/25 which could be returned to the Crown from the three ERES policy teams, and \$0.216m that could be returned to the Health and Safety at Work Levy Memorandum Account.
41. These savings would be delivered through:
  - **Removal of held vacancies across the four teams** – limiting flexibility across the policy branch but retaining sufficient capacity to effectively deliver the Government's work programme, undertake work to maintain the regulatory system (for example, the minimum wage review), respond to arising issues like Court cases and meet day-to-day expectations for Ministerial servicing.
  - **A substantial reduction in contractor and consultancy expenditure** (budgeted at approximately \$0.459 in actual expenditure in 2022/23 across the four teams), while retaining necessary resource for non-discretionary aspects of this expenditure, such as the engagement of both internal MBIE legal advice, and Crown Law advice which is essential for the effective operation of regulatory policy teams.
42. Further savings, which would enable these totals to reach 10% of the full appropriated funding for these teams, will be yielded through a centrally run MBIE process to reduce corporate overheads – see paragraph 60.

#### *Potential Employment Relations Service Savings*

43. **Table 2** below details options we have identified to reduce expenditure on MBIE's Employment Relations Services from 2024/25. Some of these involve stopping or scaling back statutory activities, changing service delivery modes, or shifting activities to other regulatory partners.

**Table 2: MBIE Employment Relations Services Savings Options**

Item	Estimated 2024/25 savings (\$m)	Dependencies and implications
<p><b>Confidential advice to Government</b></p>		
<p>Stop non-statutory Labour Inspectorate activities related to immigration e.g. Recognised Seasonal Employer (RSE) scheme and visa eligibility assessments</p>	<p>0.800</p>	<p>This requires discussion with the Minister of Immigration and potential Cabinet agreement. The Labour Inspectorate ceasing these activities would mean Immigration New Zealand needing to assess requirements under the RSE and other schemes. <small>Note: Work not ceased - Budget 2024 savings yielded by transfer to fee-funding instead.</small></p>
<p><b>Confidential advice to Government</b></p> <p><b>Negotiations</b></p>		
<p>Total</p>	<p>3.025</p>	

44. Preliminary calculations show the potential savings that can be realised from the items above is \$3.025m annually from 2024/25. This is just short of 7.5% (or \$3.798m) of the Employment Relations Services appropriation and is in addition to the Fair Pay Agreement funding which was returned in the mini-Budget. These figures are subject to further refinement. For example, some of them incorporate assumptions about MBIE overheads, which fluctuate within and between financial years based on overall staffing levels.
45. The Employment Services Branch is already anticipating needing to reduce roles and FTE as a result of returning Fair Pay Agreement funding from 2024/25 (around \$13m). These reductions will mainly apply to frontline roles such as those in the Labour Inspectorate,

<sup>5</sup> This service provides some advantages by providing a broad incentive effect to ensure settlements are compliant and in a small number of cases it provides an ability for the Employment Relations Authority to impose a penalty for non-compliance. However, it serves as just an extra compliance check for the majority. If you would like to explore this option, we can provide further advice.

dispute resolution and the Employment Relations Authority. [REDACTED]

Confidential advice to Government [REDACTED]

46. There are risks associated with reducing service delivery to meet the savings requirements:
- Reduction in Employment Services' FTE from 2024/25 will mean longer wait times<sup>6</sup> and decreasing service levels, in line with capacity reductions. Reductions at this scale will mean regulatory underperformance across functions.
  - There is greater risk of legal challenge on the basis of deteriorating levels of statutory services provided by MBIE. Employer and employee stakeholders are already raising delays in access to justice and resolution of issues through mediation, the Labour Inspectorate, and the Employment Relations Authority. The cost of defending such legal challenges will be significant and could further reduce resources available for frontline services.

*Support for Fair Pay Agreements and Screen Industry occupational bargaining appropriation (non-departmental)*

47. Following the return of FPA bargaining support funding in the March Baseline Update, this non-departmental appropriation will have \$0.244m in 2024/25 and \$0.744m in outyears to support occupational bargaining under the Screen Industry Workers Act 2022. There have been no calls on this funding to date. Parties have been told that the offering of this funding is discretionary, and no commitments have been made about offering it on an ongoing basis. This funding could therefore also be returned as savings.

*Potential WorkSafe Savings*

48. WorkSafe has been asked to identify savings of 7.5% from within its baseline. As noted, the Treasury has advised that savings yielded from WorkSafe would not count towards MBIE's savings target. Savings from WorkSafe's appropriated funding would however provide more headroom within the Levy Memorandum Account to fund current government priorities, manage unexpected pressures, or potentially lower the Levy rate, returning savings to levy payers. It will also likely have an impact on FTE and the size of the broader public service.
49. WorkSafe has recently undergone a restructure which has resulted in FTE reductions, and is anticipating further FTE reductions following the cessation of its injury prevention funding agreement with ACC.
50. WorkSafe has identified three opportunities from which to yield further savings:
- The return of previously appropriated Plant and Structures funding (\$1.000m in outyears)
  - The surrender of a previously agreed contingency to fund Public Sector Pay Adjustment cost pressures (\$6.188m in outyears)
  - General cost-cutting across other aspects of the business (\$2.600m in outyears)
51. Additionally, a further single year saving for 2024/25 of \$4.331m is possible through return of previous years' plant and structure funding held in reserve.

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<sup>6</sup> For example, current wait times for mediation for the highest priority (Priority 1) matters is 4 weeks, and 8 weeks on average for Priority 2 and 3 matters. These could increase to 6 weeks for Priority 1 and 12 weeks for Priority 2 and 3 matters as a result of capacity reductions.

52. WorkSafe has proposed two phasing options for achieving this, as detailed in **Table 3** below. Given the scale of WorkSafe's organisational changes already underway and the recent reduction of 128 roles in late 2023, it is WorkSafe's preferences that savings be phased over two years to allow for the design of WorkSafe's core functions to be completed to enable the refreshed strategy to be properly embedded.
53. MBIE supports this option. WorkSafe has undergone significant change over a short period of time, including the appointment of a new Board Chair, Chief Executive and Executive Leadership Team. Together they are making meaningful change to the way the organisation runs and performs its regulatory role. We consider that WorkSafe needs time to bed in its new structure and strategy before undertaking further change. To do so now would create risk around its ability to deliver its core regulatory functions.
54. In the longer term, the first principles review of the system, and a planned 2024/25 review of the Health and Safety at Work Levy settings, could yield opportunities for efficiencies, realignment, or savings either to the Crown or levy payers. It is too early to indicate whether, or to what extent, this might eventuate, and this work will not be complete in time for Budget 2024.

**Table 3: Proposed WorkSafe Savings Options**

<b>Option 1: Revenue reductions – Phased (Preferred Option)</b>	<b>2024/25 (\$m)</b>	<b>2025/26 &amp; outyears (\$m)</b>
Return Plant and Structures Reserves	4.331	
Return Plant and Structures funding	1.320	1.000
Return PSPA contingency funding		6.188
Reduction of other funding streams		2.600
<b>Option 1: Total Levy funding reduction (\$m)</b>	<b>5.651</b>	<b>9.788</b>
<b>Option 2: Revenue reductions - Immediate</b>	<b>2024/25 (\$m)</b>	<b>2025/26 &amp; outyears (\$m)</b>
Return Plant and Structures Reserves	4.331	
Return Plant and Structures funding	1.320	1.000
Return PSPA contingency funding	6.188	6.188
Reduction of other funding streams	2.600	2.600
<b>Option 2: Total Levy funding reduction (\$m)</b>	<b>14.439</b>	<b>9.788</b>

55. In outyears, these reductions would be enabled by a mixture of non-personnel savings on fleet, premises, and internal training (approx. \$2.6m) and the reduction of approximately 80 roles. These options do not take into account redundancy costs, which would need to be provisioned for in 2023/24. WorkSafe would need to request support for these costs from the operating contingency agreed by Cabinet on 4 September 2023 [CAB-23-MIN-0420]. Phasing the reductions over two years would spread these costs and consideration could be given to whether year two redundancy provisions could then be absorbed by WorkSafe.
56. Either approach to savings would necessitate a reduction in frontline staffing which could impact:
- The number of inspections, investigations and prosecutions undertaken annually.
  - The extent of public, sector, business, and iwi engagement.
  - The ability to respond to unanticipated major events, such as Whakaari, or significant weather events.
  - Timeliness in responding to issues.

### *Other Potential Savings*

57. There is limited scope for other savings within the portfolio without fundamental policy decisions about the Employment Relations Authority (currently funded through a Permanent Legislative Authority and out of scope of the current exercise), Remuneration Authority and New Zealand's participation in the International Labour Organisation.
58. We do consider there may be options to: Cease funding for the Industrial Relations Foundation (savings of \$0.015m) and reduce funding for the Equal Opportunities Trust (operating as Diversity Works New Zealand).
59. MBIE (along with the Ministry for Women) makes a contribution towards the funding of the Public Service Commission's Equal Pay Taskforce. The Taskforce has a focus on reducing pay gaps within the public service. There is the potential for savings, which agencies are exploring.

### *Additional Detail on MBIE-Wide Corporate Savings*

60. All policy and operational areas of MBIE are initially targeting the 7.5% savings from their baselines. They are on track to achieve the approximately \$45m in savings that this represents. All corporate and technology functions are included in this work (HR, IT, and other corporate functions). In addition, a 15% reduction target has been set for discretionary spending, for example travel, conferences, training, and recruitment. Once Ministers have made final decisions, these corporate and technology functions will seek further operational efficiency savings to support these decisions.

### **Revenue options**

61. In December 2023, the Minister of Immigration received advice about fiscal sustainability options for the immigration system. These options include shifting from Crown to fee/levy funding for Employment Services' non-statutory work on migrant exploitation and the Recognised Seasonal Employer (RSE) scheme. This would help address funding shortfalls expected to be \$1.013m and \$1.017m annually respectively from 2024/25. These cost pressures are currently being met within the Employment Relations Services baseline. However, shifting from Crown to fee/levy funding for cost pressures is not an option that can be implemented quickly, and addresses cost pressures rather than finding savings.
62. As part of the Government's priorities MBIE will undertake work to determine if any services in this portfolio can be offered on a cost recovery basis.

Confidential advice to Government

### **Future funding requirements and plans for reprioritisation**

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63. The first principles review of New Zealand's work health and safety system could result in fundamental changes to the regulatory environment and alignment of system participants, which could result in savings and realignment opportunities that cannot yet be determined. We expect that we will have an initial view on this by the end of 2024 with more detailed options likely to begin to form in the first half of 2025.
64. Concurrently work to assess the efficiency and effectiveness of frontline service delivery across the portfolio may also yield further targeted savings and reprioritisation.
65. We intend to incorporate a strong lens of fiscal sustainability and responsibility across the portfolio throughout this work and will report to the Minister as and when opportunities arise.



## **Next steps**

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66. You are scheduled to meet to discuss options for savings and revenue generation in the week commencing 5 February 2024. Further information can be provided to support this discussion upon your request.
67. Following your discussion, we will then provide more detailed advice with a view to developing Budget proposals for those savings you elect to progress.

## **Annexes**

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**Annex One:** Workplace Relations and Safety Portfolio Appropriated Funding 2024/25

**Annex Two:** Expenditure and FTE Growth in the Workplace Relations and Safety Portfolio

**Annex Three:** Savings Options in the Workplace Relations and Safety Portfolio

## Annex One: Workplace Relations and Safety Portfolio Appropriated Funding 2024/25

Appropriation		Funding Type	Funding Source	2024/25 Baseline (\$m)	Notes
Employment Relations Services	MBIE Operational Funding	Dept	Crown	50.637	Mini-Budget Savings resulting from cessation of FPA regime already deducted.
Policy Advice and Related Services to Ministers MCA	MBIE ERES Policy Advice	Dept	Crown	8.313	3 Policy Teams: Employment Relations, Employment Standards, and International Labour
	MBIE H&S Policy Advice	Dept	3rd Party	3.400	Health and Safety Policy Team Funded through the Health and Safety at Work Levy - any savings will be returned to the Levy Memorandum Account.
Support for Fair Pay Agreements and Screen Industry bargaining	Grants to support Bargaining Participants	Non-Dept	Crown	0.244	Mini-Budget Savings resulting from cessation of FPA regime already deducted.
Non-Departmental 'Other Expenditure'	International Labour Organisation Participation	Non-Dept	Crown	2.405	ILO Subscription Fee
	Equal Opportunities Trust	Non-Dept	Crown	0.396	Funds Diversity Works New Zealand
	Remuneration Authority	Non-Dept	Crown	0.330	Funds Remuneration Authority Members
	Industrial Relations Foundation	Non-Dept	Crown	0.015	Funds grants for research into the betterment of industrial relations.
Workplace Health and Safety	WorkSafe New Zealand Operational Funding	Non-Dept	3rd Party	129.693	Funded through the Health and Safety at Work Levy - any savings will be returned to the Levy Memorandum Account.
WRS - Levy Collection services	Costs of collection the H&S Levy	Non-dept	3rd Party	0.869	Funded through the Health and Safety at Work Levy - any savings will be returned to the Levy Memorandum Account.
WRS - Employment Relations Authority Members' Salaries and Allowances PLA	ERA Member Salaries and allowances	Non-Dept	Crown	6.846	Out of Scope – Permanent Legislative Authority Mini-Budget Savings resulting from cessation of FPA regime already deducted.
<b>Total In-Scope Dept Funding</b>				<b>62.350</b>	\$3.400m is third party
<b>Total In-Scope Non-Dept Funding</b>				<b>133.952</b>	\$130.562m is third party
<b>Total In-Scope Funding</b>				<b>196.302</b>	\$133.962m is third party

## Annex Two: Expenditure and FTE Growth in the Workplace Relations and Safety Portfolio

Appropriation (\$m)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	% Increase	Primary Drivers of Change
Employment Relations Services	34.268	36.994	39.736	41.876	48.905	52.578	57.984	63.231	50.637	47.77%	New responsibilities relating to migrant exploitation, supporting an expanded ERA, and running the Fair Pay Agreement System (funding removed as of December 2023). Further Detail in Annex 3.
Support for Fair Pay Agreements and Screen Industry bargaining	-	-	-	-	-	.744	1.494	1.494	0.244	N/A	Introduction of funding to Support Fair Pay Agreement and Screen Industry Bargaining Cessation of the Fair Pay Agreement Work Programme (December 2024).
Non-dept 'Other': ILO	1.500	1.459	1.465	1.715	1.855	1.855	1.855	2.105	2.405	60.33%	Increases in costs associated with ILO subscription (fees and exchange rate variance).
Non-debt 'Other': Remuneration Authority	0.300	0.300	0.300	0.459	0.300	0.300	0.330	0.330	0.330	10.00%	
Non-Dept 'Other': Equal Opportunities Trust	0.396	0.396	0.396	0.396	0.396	0.396	0.396	0.396	0.396	0.00%	N/A
Non-dept 'Other': Industrial Relations Foundation	0.015	0.015	0.015	0.015	0.015	0.015	0.015	0.015	0.015	0.00%	N/A
WRS - Workplace Health and Safety (WorkSafe New Zealand)	87.863	92.968	93.288	107.021	119.804	131.980	140.256	133.369	129.693	47.61%	Targeted funding for activities like COVID Response, Plant and Structures. Mostly no longer in baseline by 2024/25. Organisational independence - Funding to separate ICT HR and Finance Services from MBIE and build regional presence. Introduction of additional services, including in areas of health and non-acute injury that had not previously been a focus. Inflationary and other cost pressures.
WRS - Policy Advice and Related Services to Ministers MCA	7.651	7.294	8.297	9.367	8.620	10.291	11.200	11.541	11.713	53.09%	Fixed term investments for specific initiatives in 2019/20 and 2021/22 (no longer in baseline). Decision to fund H&S policy from the H&S levy while retaining existing Crown funding for use across the portfolio's policy function (2022).
WRS - Levy Collection services	0.869	0.869	0.869	0.869	0.869	0.869	0.869	0.869	0.869	0.00%	N/A
WRS - Employment Relations Authority Members' Salaries and Allowances PLA	3.980	4,180	4,340	4,819	4,361	5,699	6,710	7,621	6,846	72.01%	A mixture of cost pressures and membership increases.
<b>Total</b>	<b>136.842</b>	<b>138.536</b>	<b>142.601</b>	<b>159.544</b>	<b>178.609</b>	<b>196.129</b>	<b>210.720</b>	<b>209.421</b>	<b>203.148</b>	<b>48.45%</b>	

FTE Movement and Change Drivers - 2017 - 2023		2017	2018	2019	2020	2021	2022	2023	% Increase
	FTE Count	25	28	37	35	35	38	34	36.00%
<b>MBIE Workplace Relations and Safety Policy</b>	Change Drivers	While the WRS portfolio has had a fixed nominal baseline, FTE figures reflect the movement of resources to manage workload pressures across the MCA. Other movements before/after 2019 are primarily due to turnover, and the snapshot nature of a June FTE count.							
	FTE Count	163	175	164	192	216	258	262	60.74%
<b>MBIE Employment Relations Services</b>	Change Drivers	Establishment of the ERS Branch, and investment for pay equity dispute resolution and to resolve Holidays Act		Funding for frontline FTE as mediators and ERA members.	COVID surge-funding to meet demand for employment services. Funding to respond to Migrant Exploitation.	Funding in 2021 and 2022 for the Fair Pay Agreement work programme, as well as funding in 2022 to implement Holidays Act Reforms.		Funding departmental support to the increasing number of ERA members.	(Decrease expected from 2024 following FPA decisions)
	FTE Count	504	516	575	615	645	755	745/644	47.8% / 27.78%
<b>WorkSafe New Zealand</b>	Change Drivers	WorkSafe FTE growth was funded by a mixture of: Targeted funding for activities like COVID Response, Plant and Structures reform implementation, work to deliver Organisational independence, the introduction of additional services (including in areas of health and non-acute injury), and growth funded through use of reserves.						2023 totals capture in-year decreases in FTEs resulting from the cessation of fixed term funding, and an organisational restructure.	(Additional decreases planned for 2024 following cessation of ACC injury prevention funding agreement)

### Annex Three: Savings in the Workplace Relations and Safety Portfolios

Savings Source	Savings Item	2024/25 Savings	2025/26 and Outyears Savings	Notes
MBIE Workplace Relations and Safety Policy	Savings from ERES Policy	0.694	0.694	10% of personnel, contractor, and consultant savings - excludes potential corporate savings.
MBIE Employment Relations Service	Confidential advice to Government			
	Stop non-statutory Labour Inspectorate activities related to immigration	0.800	0.800	Note: Work not ceased - Budget 2024 savings yielded by transfer to fee-funding instead.
	Confidential advice to Government			
Support for Fair Pay Agreements and Screen Industry occupational bargaining appropriation	Negotiations			
	Remove the remaining Screen Bargaining element of this funding	0.244	0.744	
Non-Departmental Other Expenditure	Reduce or Cease funding to Diversity Works New Zealand	0.394	0.394	
	Wind-up the Industrial Relations Fund	0.015	0.015	
<b>TOTAL</b>		<b>4.372</b>	<b>4.872</b>	
<b>Levy-Funded Savings Options</b>				
MBIE Workplace Relations and Safety Policy	Savings from Health and Safety Policy	0.216	0.216	10% of personnel, contractor, and consultant savings - excludes potential corporate savings.
WorkSafe New Zealand	Return of Plant and Structures funding, surrender of PSPA contingency and other operational savings.	5.651 – 14.439	9.788	Dependent on phasing option selected - \$9.778m from 2025/26 onwards under either option.
<b>Total</b>		<b>5.867-14.655</b>	<b>10.004</b>	