



BRIEFING

Budget 2024: Small Business and Manufacturing portfolio

Date:	2 February 2024	Priority:	High
Security classification:	In Confidence	Tracking number:	2324-1819

Action sought		
	Action sought	Deadline
Hon David Seymour Associate Minister of Finance	To inform your upcoming discussion	5 February 2024
Hon Andrew Bayly Minister for Small Business and Manufacturing	To inform your upcoming discussion	5 February 2024
Hon Melissa Lee Minister for Economic Development	For your information	5 February 2024

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Andrew Hume	General Manager, Small Business, Commerce and Consumer Policy Branch	Privacy of natural persons	✓
Privacy of natural persons	Policy Director, Small Business, Commerce and Consumer Policy Branch		
	Manager, Small Business Policy		

The following departments/agencies have been consulted
n/a

Minister's office to complete:

Approved

Declined

Noted

Needs change

Seen

Overtaken by Events

See Minister's Notes

Withdrawn

Comments



BRIEFING

Budget 2024: Small Business and Manufacturing portfolio

Date:	2 February 2024	Priority:	High
Security classification:	In Confidence	Tracking number:	2324-2819

Purpose

To provide financial information about the Small Business and Manufacturing portfolio for your upcoming discussion.

Executive summary

The Associate Minister of Finance is shortly to meet with the Minister for Small Business and Manufacturing to discuss the financial position of this portfolio. The portfolio is new. Funding and identified savings for this portfolio comprise:

- \$38.483 million baseline funding under the *Small Business Enabling Services* Multi Category Appropriation (MCA) which funds a range of support services for small businesses. Hon Bayly has identified savings of 7.5% (around \$3 million annually).
- \$6 million one off funding for already contracted advanced manufacturing initiatives under the *Industry Transformation Plans* MCA. Hon Minister Lee is responsible for this appropriation as Minister for Economic Development. \$30 million had been allocated to the then Advanced Manufacturing Industry Transformation Plan in Budget 2022, and \$23.4 million was returned through the mini-Budget in December 2023. There is another group of four contracts totalling to ~0.6 million which have been completed and spent (in the period March 2023 to September 2023).

Recommended action

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

- a **note** the information set out in the briefing, to inform a ministerial discussion about current funding and savings in the Small Business and Manufacturing portfolio.

Noted

- b **agree** to the proposed savings of 7.5% (around \$3 million annually) from within the *Small Business Enabling Services* Multi Category Appropriation (MCA) as detailed in **Annex Five** and set out below.

Departmental and Non-Departmental Expenditure savings options (\$ million)		2024/25	2025/26 & outyears	Decision
Regional Business Partner (RBP): Reduce funding for the Management Capability Development Fund (which subsidises management capability upskilling).	Non-Dep	0.92	0.83	Yes / No
Regional Business Partner: Reduce training and support for RBP Business Growth Advisors, and MBIE administrative support.	Dep	0.82	0.81	Yes / No

business.govt.nz: Scale ICT platform maintenance, customer research and content creation.	Dep	0.47	0.41	Yes / No
Better for Business: Stop support for the <i>Better Rules, Better Outcomes</i> framework and some stakeholder engagement activity.	Dep	0.32	0.31	Yes / No
Business Connect: Scale ICT development.	Dep	0.28	0.22	Yes / No
eInvoicing: Scale promotional activity.	Dep	0.32	0.31	Yes / No
Digital Boost: Time limited initiative due to end in 2024. Savings achieved through closing vacancy.	Dep	0.03	-	Yes / No
TOTAL		3.160	2.89	

c **note** that \$23.4 million out of \$30 million for the then Advanced Manufacturing Industry Transformation Plan have been returned through the mini-Budget.

Noted

d **indicate** if further information is required (if yes, please specify what).

Yes / No


 Andrew Hume
General Manager
 Small Business, Commerce and Consumer
 Policy, MBIE

21.2.24

Hon David Seymour
Associate Minister of Finance

..... / /

Hon Andrew Bayly
**Minister for Small Business and
 Manufacturing**

..... / /

Background

1. The Minister of Finance has requested that portfolio ministers work with Hon David Seymour, Associate Minister of Finance, to identify where savings are appropriate. Hon Seymour is meeting with each MBIE portfolio minister to discuss fiscal sustainability in their portfolio.
2. On 30 January 2024 Hon Seymour wrote to MBIE portfolio ministers requesting information about expenditure and revenue options. In particular, he has asked portfolio ministers to identify where expenditure and FTE numbers have risen since 2017, set out the reasons for this, and identify areas of expenditure that are low value or do not align with government priorities. This briefing provides the information requested to support the upcoming discussion.
3. 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 \$45 million 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% 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. MBIE's departmental base (which is a portion of MBIE's eligible base) for the savings target has been reduced to approximately \$570 million as Immigration New Zealand and other functions were removed through the Treasury calculations.

Current funding for the portfolio

4. The Ministerial portfolio is new. While the Small Business portfolio existed previously, it is now paired with Manufacturing. Resourcing for manufacturing used to be under the Economic Development portfolio.
5. This is reflected in the current funding for the portfolio:
 - The **Small Business Enabling Services Multi Category Appropriation (MCA)** was established in 2023 and combined several existing appropriations to enable more efficient administration of the funding. The MCA includes ongoing and time-limited services. The MCA's total funding for 2025/26 onwards (i.e. only including services with baseline funding) is **\$38.483** million. Hon Bayly is the minister responsible.
 - The **Industry Transformation Plans MCA** (Non-departmental Output Appropriation: Development, Delivery, and Management of Industry Transformation Plans by Partners) allocated \$30 million in Budget 2022 to fund initiatives identified by then Advanced Manufacturing Industry Transformation Plan Steering Group. Hon Melissa Lee is the minister responsible as Minister for Economic Development. Out of the 30 million, 23.4 million was returned in the mini budget. There are six contracts totalling **6 million** which are ongoing. Of this, \$4.4 million will have been spent by the end of June 2024 with the remainder to be spent in Financial Year 2025. There is another group of four contracts totalling to ~0.6m which have been completed and spent (this was in the period March 2023 to September 2023). There is no other manufacturing related funding available to the portfolio.
6. As all un-contracted manufacturing related funding from the *Industry Transformation Plans MCA* was returned via the mini-Budget in December 2023, this paper focuses on the *Small Business Enabling Services MCA* and the small business portion of the portfolio.

Fiscal sustainability under *Small Business Enabling Services MCA*

Services funded under this MCA

7. Through the MCA MBIE delivers a range of support services for small businesses. The services, which are all Crown funded, have been put in place by successive governments to provide information, build capability, and support faster and easier transactions for small businesses.
8. **Annex One** provides more detail on each.

Expenditure and FTE growth since 2017

9. The MCA was established in 2023 and combines several appropriations. As summarised below and detailed in **Annex One**, prior to 2017 the services now funded under the MCA either did not exist in their current form or were dispersed across appropriations within the Economic Development and Commerce and Consumer Affairs portfolios.
10. As detailed in **Annex Two**, as a whole baseline funding for support services now under the MCA increased from \$18.850 million in 2017 to \$38.483 million in 2025 (which is the current baseline excluding all time-limited funding).
11. As detailed in **Annex Three**, FTEs administering and delivering the services now under the MCA increased from 15.5 FTE in 2017 (noting that this figure does not include Regional Business Partner FTE that sat with New Zealand Trade and Enterprise (NZTE) at this date as detailed below) to 41 in June 2023.
12. Key drivers for growth were the:
 - **Regional Business Partner** (RBP) programme which was transferred to MBIE from NZTE in 2021 bringing with a budget of \$15 million. The RBP was established in 2010 to support around management capability and training subsidies. It received \$0.8 million cost pressure funding in 2022/23, after no previous funding increase since 2015/16. As detailed in Annex Three, four FTE were transferred from NZTE in 2020 and are now integrated into the wider Small Business Services team.
 - **Better for Business** was established in 2012 to provide insights on businesses' experiences and pain points interacting with government. It was originally club-funded by the range of agencies that businesses deal most with. It received baseline funding within MBIE of \$2.4 million in 2021/2022. As detailed in Annex Three, in 2017/2018 there were eight FTE supporting this function. Now resourcing for this function is part of the wider Small Business Services team.
 - **Business Connect** digital services platform for businesses was tested as part of the Better Public Service programme in 2016 to enable businesses to apply for a range of licences, permits and registrations through a single form. It received baseline funding of \$9 million in 2020/2021. As detailed in Annex Three, in June 2023 there were seven FTE supporting this function.
 - **eInvoicing** is the direct exchange of invoices between supplier and purchaser finance systems. eInvoicing work is developed together under a joint framework with Australia. It was launched in 2019 and received baseline funding of \$3.2 million in 2020/2021. As detailed in Annex Three, in June 2020 there were five FTE supporting this function, and in June 2023 there were nine FTE.
13. Prior to the establishment of the MCA all these services were funded under the Economic Development portfolio.

14. The MCA also funds:

- **Business.govt.nz** established in 2007 to provide a one-stop-shop for small business information and tools. It was previously funded under the Commerce and Consumer portfolio. In 2023 it received additional funding to maintain its current IT capability.
- **Digital Boost** and **First Steps** received time limited funding in 2020/2021 and 2021/2022, respectively and will conclude this year.

Alignment with Government objectives and portfolio priorities and assessment of value of services funded

15. The Government aims to foster a dynamic, competitive and growing economy. Hon Bayly's priority letter to the Prime Minister, attached as **Annex Four**, set out priorities for how the small business portion of the portfolio contributes to achieving the government's objectives.
16. The services funded under the MCA can support the delivery of the following key priorities for the small business - related portion of the portfolio:

Make it easier to do business – in particular with government:

- Increasing uptake of *eInvoicing* can speed and standardise the process of submitting and receiving invoices with government agencies and could deliver \$400 million annually in productivity benefits. New Zealand is at an early stage in adoption. Overseas experience indicates that sustained government intervention in the short-term to set the necessary standards and achieve the network effects is required to make *eInvoicing* mainstream.
- *Business Connect* could be used by all government agencies to quickly put in place user-friendly online forms. Greater uptake by government agencies would reduce the time it takes businesses to interact with government online by making it easier and requiring businesses to only submit their information once.
- *Business.govt.nz* provides information and resources businesses need to do business including with government, such as employment forms and knowing their rights.

Reduce red tape:

- *Better for Business* identifies small business compliance burdens via direct feedback from businesses. This feedback informs how to alleviate operational and regulatory pain points.
- As noted above, the online forms created through *Business Connect* only require businesses to provide their information once where previously they may have had to deal with multiple government agencies.
- *eInvoicing* and *Business Connect* functionality is underpinned by the *New Zealand Business Number*, which is a unique business identifier. The NZIER estimates the benefits of programmes that utilise the NZBN to be around \$550 million per annum to the economy through more reliable and efficient business interactions.

Increase the level of small business digitalisation:

- Once the time-limited *Digital Boost* programme ends, in the absence of new funding to support this priority - *business.govt.nz* and the *Regional Business Partner* programme would in practice be the main mechanisms for government to support small business to increase digitalisation. New Zealand is slipping down the international rankings for business digital capability, with many of our comparator countries making significant investments in supporting small businesses.
- Greater uptake of *eInvoicing* would also support increasing the level of small business digitalisation.

Table One: High level summary of small business services contribution to portfolio priorities

	Regional Business Partner	Business.govt.nz	Better for Business (B4B)	eInvoicing	Business Connect
Make it easier to do business	✓	✓	✓✓	✓✓✓	✓✓✓
Reduce red tape	✓	✓	✓✓	n/a	✓✓
Increase the level of small business digitalisation	✓	✓✓	✓	✓	✓

17. In addition to supporting Ministerial priorities, services funded under the MCA have been used to deliver rapid response solutions, or standing up new initiatives quickly (e.g. using *Business Connect* to deliver online functions such as restaurants liquor licences applications for World Cup events within days).

Proposed savings to support the Government’s fiscal sustainability programme

18. To support the Government’s fiscal sustainability programme, Hon Bayly identified 7.5% baseline savings from the MCA. The proposed savings above include stopping contractors and consultants unless for critical delivery. **Annex Five** details how the 7.5% savings could be made, and the impacts.

Next steps

19. MBIE can provide any further information or advice required on your direction. Savings proposals for submission as part of Budget 2024 are due on 16 February.

Annexes

Annex One: Services with ongoing funding under the Small Business Enabling Services Multi Category Appropriation (MCA)

Annex Two: Funding for small business services now within the Small Business Enabling Services MCA from 2017/18

Annex Three: Actual FTE for provision of direct small business services now within the MCA from 2017/18

Annex Four: Minister for Small Business and Manufacturing’s priorities letter to the Prime Minister – Small Business portion

Annex Five: Proposed savings to achieve a 7.5% baseline reduction.

Annex One: Services with ongoing funding under the Small Business Enabling Services MCA

business.govt.nz

1. Business.govt.nz is an online hub for small business and was launched in 2007. It provides content, tools and expert guidance for businesses starting up, taking on staff, wanting to increase productivity and grow profits. Content ranges from guidance on daily business operations to specific information responding to crises (such as COVID-19 and Cyclone Gabrielle).
2. Usage of business.govt.nz has increased from 2.5 million user sessions per year in 2015 to nearly 11.7 million unique page views in 2022.
3. Business.govt.nz's funding in 2023/24 is **\$5.337** million (rising to **\$5.870** million in 2026/27 and outyears). Prior to the creation of the MCA funding used to be under the Commerce and Consumer Affairs portfolio.

Regional Business Partner (RBP) programme

4. The RBP programme was established in 2010, and is jointly administered by MBIE and Callaghan Innovation. Contracted RBPs across New Zealand (usually business chambers and economic development agencies) employ Business Growth Advisors, who work with small business owners to identify priorities for development and develop action plans.
5. RBP Business Growth Advisors administer the Management Capability Development Fund (MCDF), which subsidises training for small business owners. The RBPs support about 5,000 businesses annually. 78% of business owners who responded to an RBP survey in 2022/23 said they would recommend the service to other business owners.
6. The RBP programme's non-departmental funding in 2023/24 is **\$14.796** million (of which **\$5.8** million is set aside for training subsidies through the MCDF). The departmental administration budget is **\$3.296** million. Prior to the creation of the MCA funding used to be under the Economic Development portfolio.

Better for Business

7. Better for Business (B4B) was established in 2012. It provides insights on business experiences interacting with government. Insights from its regular surveys are used to identify opportunities to improve regulatory design and service delivery. The annual Customer Experience Index consistently gauges the business experience with 11 government agencies, including MBIE.
8. B4B research has informed government on the specific impacts of COVID-19 and severe weather events on businesses.
9. The B4B baseline is **\$2.436** million in 2023/24. Prior to the creation of the MCA funding used to be under the Economic Development portfolio.

Business Connect

10. Business Connect was first piloted in 2016, and after further development received permanent funding in 2020. It gives core and local government agencies an option to deliver services online at no cost.
11. Business Connect has created FormBuilder.govt to reduce time to digitalise a service (such as an application) from weeks, down to hours.

- An example of this is the extension of trading hours service for the Rugby World Cup. This produced a cross agency service (Ministry of Justice, Police and every local council around the country) which was delivered at no cost to government agencies and local councils (through the centrally funding provided to Business Connect) and launched within a month of the legislation passing. If this service had been established as a standalone project, the delivery timeline would have been 9-12 months with the costs upwards of \$500,000.
12. Business Connect's baseline is **\$9.046** million in 2023/24, rising to \$9.055 million in 2024/25. Prior to the creation of the MCA funding used to be under the ED portfolio.

eInvoicing

13. eInvoicing is the direct exchange of invoices between supplier and purchaser finance systems. This service was established in 2017. New Zealand is rolling out eInvoicing in alignment with Australia and in consultation with a number of other countries across Asia and Europe.
14. eInvoicing removes the requirement for manual invoice processing, saving significant time and money. By increasing the speed of invoice payments, it can improve cashflow for individual businesses and across the economy. eInvoicing also helps businesses (especially small businesses) participate in digital trading and protects them from invoice fraud. Invoice fraud is increasing year on year (it is currently circa \$250 million annually across Australia and New Zealand). eInvoicing stops this fraud by having invoices directly exchanged system to system – unlike PDF invoices which can be intercepted through email.
15. New Zealand is one of 42 countries involved in the implementation of eInvoicing and MBIE co-chairs this initiative for Australia and New Zealand with the Australian Tax Office. A Trans-Tasman Australia New Zealand eInvoicing Board helps ensure that we collaborated on areas of mutual benefit – these are Ministerial appointments. New Zealand and Australia have jointly established Peppol Authorities to maintain common standards and provide technical support. This includes managing software updates and responding to queries.
16. eInvoicing's annual baseline funding is **\$3.038** million. Prior to the creation of the MCA funding used to be under the ED portfolio.

Annex Two: Funding for small business services now within the MCA from 2017/18

		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28 and outyear	Reason for change
business.govt.nz	Dep	3.669	3.669	4.023	5.699	4.869	4.169	5.337	5.366	5.857	5.870	5.870	Cost pressure
Regional Business Partner	Non Dep	15.181	15.181	44.181	78.707	65.442	13.872	14.796	14.796	14.796	14.796	14.796	Cost pressure and Covid- time limited
	Dep	-	-	-	3.300	3.935	3.935	3.296	3.298	3.298	3.298	3.298	
Better for Business	Dep	-	-	-	-	2.420	2.420	2.436	2.439	2.439	2.439	2.439	New Initiative
Business Connect	Dep	-	-	-	9.000	9.000	9.592	9.046	9.055	9.055	9.055	9.055	New initiative
eInvoicing	Dep	-	-	-	3.259	3.108	3.308	3.038	3.038	3.038	3.038	3.038	New initiative
Digital Boost	Non Dep	-	-	-	12.600	22.816	16.527	7.460	3.760	-	-	-	Covid – time limited
	Dep	-	-	-	900	1000	995	1.000	500	-	-	-	
First Steps	Non Dep	-	-	-	-	7.280	2.000	1.000	-	-	-	-	Covid – time limited
	Dep	-	-	-	-	720	150	150	-	-	-	-	
TOTAL		18.850	18.850	48.204	113.465	120.590	56.968	47.559	42.252	38.483	38.496	38.496	

Annex Three: Actual FTE for provision of direct small business services now within the MCA from 2017/18*

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
business.govt.nz	7.8	12	12	12	12	23
Regional Business Partner (Joined MBIE from NZTE 2021/22)	-	-	-	-	4	
Better for Business	7.7	12.7	15	15	8	
Small Business	-	-	-	-	2	
Business Connect	-	-	-	6	8	
eInvoicing	-	-	7	10	10	9
Digital Boost	-	-	-	-	6	2
TOTAL	15.5	22.7	34	43	50	41

*Permanent and Fixed Term employees only are included. Contractors, casual staff, staff on parental leave, staff on extended leave without pay, and staff seconded in externally are excluded. Due to the changes outline from the ED portfolio to Small Business portfolio, and in light of organisational changes since 2017/18 the FTE data is a reconstruction of multiple datasets, and we have endeavoured to be as accurate as possible for FTE prior to June 2021.

Annex Four: Minister for Small Business and Manufacturing's priorities letter to the Prime Minister – Small Business portion

Annex Five: Proposed savings to achieve a 7.5% baseline reduction (proposed savings in red)

		2023/24	2024/25	2025/26	2026/27	2027/28 & outyear	Total savings for each service	Impact
Regional Business Partner	Non Dep	14.796	13.875 (0.92)	13.962 (0.83)	13.962 (0.83)	13.962 (0.83)	3.42	Reduce funding for the Management Capability Development Fund (which subsidises management capability upskilling).
	Dep	3.296	2.476 (0.82)	2.492 (0.81)	2.492 (0.81)	2.492 (0.81)	3.24	Reduce training and support for RBP Business Growth Advisors, and MBIE administrative support.
business.govt.nz	Dep	5.337	4.894 (0.47)	5.444 (0.41)	5.457 (0.41)	5.457 (0.41)	1.71	Scale ICT platform maintenance, customer research and content creation.
Better for Business	Dep	2.436	2.121 (0.32)	2.134 (0.31)	2.134 (0.31)	2.134 (0.31)	1.23	Stop support for the <i>Better Rules, Better Outcomes</i> framework and some stakeholder engagement activity.
Business Connect	Dep	9.046	8.779 (0.28)	8.834 (0.22)	8.833 (0.22)	8.833 (0.22)	0.94	Scale ICT development.
eInvoicing	Dep	3.038	2.714 (0.32)	2.731 (0.31)	2.731 (0.31)	2.731 (0.31)	1.25	Scale promotional activity.
Digital Boost	Non Dep	7.460	3.728	-	-	-	0.00	
	Dep	1.000	0.496 (0.03)	-	-	-	0.03	Closing vacancy.
First Steps	Non Dep	1.000	-	-	-	-		
	Dep	0.150	-	-	-	-		
TOTAL		47.559	39.083 (3.160)	35.597 (2.89)	35.609 (2.89)	35.609 (2.89)	11.83	