



## BRIEFING

### Budget 2024: Ministry of Business, Innovation and Employment – initial baseline exercise and process for capital initiatives

|                                 |                    |                         |           |
|---------------------------------|--------------------|-------------------------|-----------|
| <b>Date:</b>                    | 5 February 2024    | <b>Priority:</b>        | Urgent    |
| <b>Security classification:</b> | Budget - Sensitive | <b>Tracking number:</b> | 2324-1847 |

| Action sought   |  |                 |
|---|--|-----------------|
|   | Action sought  | Deadline        |
| Hon David Seymour<br><b>Associate Minister of Finance</b>   | <b>To inform</b> your upcoming discussions with MBIE portfolio Ministers | 5 February 2024 |
| Hon Melissa Lee<br><b>Minister for Economic Development</b> | For your information   |                 |

| Contact for telephone discussion (if required) |  |                            |             |
|--|--|----------------------------|-------------|
| Name   | Position   | Telephone                  | 1st contact |
| Paul Stocks                                    | Deputy Secretary<br>Building, Resources and<br>Markets | Privacy of natural persons | ✓           |
| Privacy of natural persons                     | Policy Director  |                            |             |

| The following departments/agencies have been consulted |
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|  |

Minister's office to complete:

Approved

Declined

Noted

Needs change

Seen

Overtaken by Events

See Minister's Notes

Withdrawn

Comments



# BRIEFING

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### Purpose

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To provide financial information to support your bilateral meetings with Ministry of Business, Innovation and Employment portfolio Ministers on the initial baseline exercise for the Ministry as part of Budget 2024. This briefing also sets out an overview of reprioritisation options for that review.

### Executive summary

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*One of the priorities for Budget 2024 is delivering effective and fiscally sustainable public services*

The Minister of Finance has agreed that you, as the Associate Minister of Finance, will be the lead Minister for the Initial Baseline Exercise outlined for the Ministry of Business, Innovation and Employment (MBIE) as part of Budget 2024. You are responsible for co-ordinating across portfolio Ministers with responsibilities in MBIE.

In the week beginning 5 February 2024 you will separately meet with MBIE's portfolio Ministers. To support those meetings, you and the relevant portfolio Ministers have received briefings<sup>1</sup> outlining expenditure and FTE growth and financial information addressing the key Budget 2024 components required by the Minister of Finance.

*Significant savings have already been returned*

In Budget 2023 and the Pre-election Economic and Fiscal Update (PREFU) rapid savings exercise, MBIE returned funding of \$343.78 million. The pre-Christmas mini Budget identified \$910 million in savings over the forecast period. A further \$647 million was returned following the discontinuation of the Government Investment in the Decarbonising Industry Fund.

*Budget 2024: MBIE's initial baseline exercise and savings target*

You have been asked to identify options to meet MBIE's savings target of \$233.9 million per annum from 2024/25 across MBIE's eligible base.

There is a mismatch between the type of funding that makes up MBIE's eligible base from which the target is derived, and which savings can count towards meeting that target. The Treasury advises that departmental third-party funding from levies and fees is not included in MBIE's target, but non-departmental third-party funding is. They also advise that savings from all levy sources, including non-departmental levies, will not count towards MBIE's savings target.

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<sup>1</sup> Refer briefings 2324-1755; 2324-1674; 2324-1868; 2324-1888; 2324-1739; 2324-1718; 2324-1913; 2324-1819; 2324-1744; 2324-1831; 2324-1758; 2324-1897; 2324-1802; 2324-1773; 2324-1828; 2324-1850; 2324-1816.

In portfolios, for example Workplace Relations and Safety, with a large proportion of non-departmental levy-funded expenditure there is a mismatch between the savings target based on the eligible base and the savings that count. To meet a target calculated in this way would require significant savings from other eligible expenditure types which is likely to result in a significant impact on front line services and their ability to deliver against Government priorities.

*MBIE is on track to meet the savings target while delivering on Government priorities*

The initial savings provided by MBIE to the Treasury Assurance Panel on 30 January 2024 included annual average savings across portfolios of \$204.743 million.

The majority of portfolios have put forward savings packages that allow them to return significant funding to the Crown while delivering against the Government's Budget priorities. However, cost pressures, the impact of previous savings exercises and substantial new initiatives mean a number of portfolios have not been able to identify savings that meet the target without impacting frontline services or Government priorities. All currently funded services can be ceased if the services they provide are no longer needed.

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*Targeted savings in addition to the initial baselines exercise target*

The savings target of \$233.9 million is a minimum target. The Minister of Finance is also asking MBIE to identify targeted savings in three key areas in the order of \$100 million over the forecast period – the International Visitor Conservation and Tourism Levy (IVL) (Tourism and Hospitality); Warmer Kiwi Homes (WKH) (Energy); and Efficiency and financial sustainability of ACC.

MBIE has identified \$103 million of savings over the forecast period from the Warmer Kiwi Homes programme. We consider that these savings from the Warmer Kiwi Homes programme should partially offset our initial baselines exercise savings target. This is consistent with the Minister of Finance's letter to you of 22 December.

Savings from the IVL and ACC have been identified but cannot be delivered in time for Budget 2024 as they require significant policy work.

*Future plans for efficiency and effectiveness will help manage cost pressures*

Alongside cost savings, MBIE has revenue levers that could be adjusted to meet current costs and future pressures. MBIE is also looking at future initiatives to deliver ongoing efficiency and effectiveness across enablement services (such as IT and human resources); regulatory simplification and other strategic initiatives

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## Recommended action

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

- a **Note the** contents of this briefing to inform your upcoming discussion to seek agreement on savings options from MBIE portfolio Ministers for Budget 2024.

*Noted*



Paul Stocks  
**Deputy Secretary**  
Building, Resources and Markets, MBIE

05 / 02 / 2024

Hon David Seymour  
**Associate Minister of Finance**

..... / .... / 2024

## Background

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1. On 11 December 2023, Cabinet agreed to establish a fiscal sustainability programme. This multi-year programme is aimed at embedding a culture of expenditure restraint and fiscal discipline across the public sector. This programme will focus on generating sufficient reprioritisation, savings, and revenue (or cost recovery where appropriate) to fund the Government's priorities and deliver enduring improvements in the operating balance before gains and losses (OBEGAL) position.
2. The Minister of Finance has agreed that you, as the Associate Minister of Finance, will be the lead Minister for the initial baseline exercise outlined for the Ministry of Business, Innovation and Employment (MBIE) as part of Budget 2024.
3. You have been asked to provide the Minister of Finance with a coordinated response across MBIE portfolio Ministers on:
  - Baseline reduction savings opportunities to achieve the target of \$233.9 million per annum from stopping or reducing low value programmes, programmes that do not align with the new Coalition Government's priorities, and non-essential back-office functions.
  - Targeted policy savings and revenue options beyond the baseline reduction savings
  - A plan for reprioritisation
  - Invited new spending
  - A review of capital investment.
4. In the week beginning 5 February 2024 you will separately meet with MBIE's portfolio Ministers. To support those meetings you and the relevant portfolio Ministers have received briefings outlining expenditure and FTE growth since 2017 and financial information addressing the bullets in paragraph 3.
5. This briefing provides a consolidated overview of the portfolio briefings and provides comment on contextual or strategic issues to inform those discussions.

## MBIE's funding context

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### **MBIE's large number of portfolios and appropriations make for complex financial and operational management**

6. MBIE's responsibilities and activities span 20+ interconnected portfolios, 17 regulatory systems, over 25 Crown entities, and oversight of other bodies.<sup>2</sup>
7. MBIE's departmental and non-departmental funding spans three votes (Building and Construction; Business, Science and Innovation; and Labour Market), a range of revenue sources, and around 200 appropriations (equating to roughly one fifth of all Government appropriations).
8. The majority (83%) of MBIE's funding is non-departmental – channeled through grants and investments across a range of portfolios and for 25 Crown Entities.<sup>3</sup>

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<sup>2</sup> Such as Licensing Boards, Advisory Boards, Ministerial Advisory Committees, Dispute Resolution Boards, Charitable Trusts, Incorporated Societies, Authorities, and Statutory Boards.

<sup>3</sup> MBIE monitors The Accreditation Council, Callaghan Innovation, Commerce Commission, Commission for Financial Capability (headed by the Retirement Commissioner), Energy Efficiency and Conservation Authority, External Reporting Board, Financial Markets

9. The remaining 17% relates to MBIE's departmental operations and capital expenditure, including the provision of services to people and businesses. It is funded through a combination of Crown revenue and third-party revenue. MBIE's departmental Crown revenue funds a range of services, including:
- Immigration services
  - Policy advice
  - Employment relations services
  - Tenancy and unit title Services
  - Science contract management
  - The Crown mineral estate
  - All-of-Government Procurement
  - Regional development operational support
  - Emergency telecommunications capability
  - MBIE Enablement (for example, human resources and IT)
  - Cyber security services.
10. MBIE's departmental third-party revenue comes from a range of sources, primarily in Immigration (immigration fees), Commerce and Consumer Affairs (companies annual return fees, personal property securities register fees, patent and trademark fees, sale of standards) and Building and Construction (building levies, occupational licensing fees). The funding from these sources can only be used for a narrow range of purposes specified in legislation.
11. Organisation structure and accounting is aligned to business units which may service multiple portfolios. This can make it challenging to attribute growth to individual portfolios. The estimates below represent MBIE's best effort to categorise the 2017 expenditure and FTE against existing portfolios.

### **Growth in MBIE FTE and operating expenses have four main drivers**

12. As noted in the Minister of Finance's letter to you on 22 December, MBIE's FTE has increased by 87 per cent and expenditure by 49 per cent since 2017. The growth supported Government priorities, with progressive shifts in funding, and can be attributed to four main factors:
- Growth in demand for existing MBIE functions, for example, significant increases in demand for visa processing has necessitated employing additional staff.
  - Substantive new portfolios have been added to the range of government services and initiatives MBIE administers, for example, the Kānoa Regional Economic Development & Investment Unit.

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Authority, New Zealand Tourism Board, New Zealand Trade and Enterprise, Takeovers Panel, WorkSafe New Zealand, AgResearch, Institute of Environmental and Scientific Research, GNS Science, Landcare Research, NIWA, Plant and Forest Research, Scion, New Zealand Growth Capital Partners, Research and Education Advanced Network New Zealand.

- Growth in existing portfolios to manage new policy initiatives, for example, \$14.5 million for Small Business Enabling Services to support a platform for businesses to interact with central and local government, implement invoicing, and other Better for Business initiatives.
- 'On paper' growth due to changes in reporting requirements e.g., the onshoring of visa processing increasing FTE but not expenditure. This does not impact OBEGAL.

These are summarised in **Annex 1**.

### **Growth in demand for services and new Government initiatives are the main drivers of increased departmental expenditure**

13. Portfolios that have seen the largest growth in annual departmental expenditure between 2017 and 2023 include:
- Immigration (\$261 million, corresponding to an 82 per cent increase)
  - Economic Development (\$129 million, 103 per cent increase)
  - Housing (\$63 million, the portfolio has changed significantly therefore a percentage change is not meaningful).

These are summarised in **Annex 2**. Changes in non-departmental expenditure is provided for context.

14. Some of the increases in departmental expenditure do not impact OBEGAL because they are partially or fully offset by increases in revenue. For example, revenue from fees and levies in the immigration portfolio has increased by \$159 million per annum from 2016/17 to 2022/23.

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### **Corporate functions that enable work across multiple portfolios have largely grown in line with the wider growth in portfolio activities**

16. Enabling functions accounted for 17 per cent of MBIE's FTE in 2017, increasing to 19 per cent in 2023 (after taking into account some reclassification of roles). This is consistent with the average proportion of corporate and enabling functions across other public sector agencies.
17. Additional growth in enabling functions has occurred when new functionality has been added, for example to support the growing demand for digital, data and insights.

## **MBIE hosts a range of cross-government functions**

18. MBIE is responsible for a range of government-wide functions. Many of these functions are 'club-funded', which means they are hosted by MBIE and funded by the contributions of a collection of government departments.<sup>4</sup>

## **Significant savings have been identified over the last eight months**

19. MBIE has taken measures to respond to the tight fiscal environment. These include returning savings to the Crown, absorbing new functions without additional funding, and reducing the use of contractors and consultants.
20. In Budget 2023 and the Pre-election Economic and Fiscal Update (PREFU) rapid savings exercise, MBIE returned funding of \$343.78 million from the Tourism and Hospitality; Science, Innovation and Technology; Economic Development; and Energy portfolios.
21. The pre-Christmas mini Budget identified \$910 million in savings over the forecast period. A further \$647 million was returned following the discontinuation of the Government Investment in the Decarbonising Industry Fund. These savings will not count as savings in the current baseline exercise but the eligible baselines for portfolios and the resulting savings targets for the current exercise have been reduced to adjust for those changes.

## **Savings to date have not impacted portfolios uniformly**

22. These savings initiatives have impacted portfolios inconsistently across MBIE and have resulted in some portfolios seeing significant reductions compared to 2022/23. For example, the Employment portfolio expenditure has already been reduced by 66 per cent as a result of the rapid savings exercise and the mini Budget. In these areas there may be limited scope for further savings without significant impact on frontline services or the ability to deliver Government priorities.

## **MBIE's initial baseline exercise**

### **Calculation of MBIE's eligible baseline**

23. The eligible base has been calculated by the Treasury using the average yearly forecasted appropriations (2024/25 to 2027/28) for in-scope departmental and non-departmental operating spend (excluding capital). This includes funding made available through MBIE to Crown Entities and other Crown-owned companies (and third parties) for operational activity. It also includes the PREFU savings.
24. The eligible baseline is smaller than MBIE's total funding of around \$8.7 billion (as at OBU 2023). This difference reflects exclusions including:
  - the ACC non-earners account
  - departmental third-party revenue and revenue from other departments
  - savings already realised against the Government's 100-day plan and Coalition agreements
  - savings decisions taken in the pre-Christmas mini Budget.

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<sup>4</sup> The most significant functions include the New Zealand Government Procurement, Government Property Group, the Government Regulatory Practice Initiative (G-REG), and the Language Assistance services (enables translation services to help clients with limited English access public services and information).



25. In some portfolios large proportions of expenditure are out of scope for the initial baseline exercise based on the methodology used by the Treasury. The portfolios include: ACC, Building and Construction, Employment and Immigration.

**There is a mismatch between expenditure considered for the savings target and savings eligible to meet that target**

26. MBIE receives substantial funding in the form of levies and fees. Much of the funding from these sources can only be used for a narrow range of purposes specified in legislation. All levies and fees collected by MBIE are used to fund departmental expenditure.
27. The Treasury advises that departmental third-party funding from levies and fees is not included in MBIE’s 7.5 per cent savings target, but non-departmental third-party funding is. They also advise that savings from all levy sources, including non-departmental levies, will not count towards that target.
28. This creates a mismatch between the type of funding that makes up MBIE’s eligible base from which the target is derived and savings that can count towards meeting that target. In some portfolios with significant levy-funded expenditure, following this advice results in limited eligible expenditure from which to find savings that count against the target.
29. If those portfolios are required to meet their savings target from non-levy funded expenditure alone there would be a significant impact on front line services and their ability to deliver against Government priorities.
30. To illustrate the point, in the Workplace Relations and Safety portfolio, there is \$203.15 million appropriated in the portfolio in 2024/25, of which \$196.30 million is in scope for the savings exercise. This results in a 7.5% target of \$14.72 million. Of the \$196.30 million, \$133.96 million is levy funded. To achieve 7.5% savings in the portfolio, savings of \$14.72 million are required from a base of \$62.34 million (made up of MBIE’s Employment Relations Services and employment relations and employment standards (ERES) policy teams, and several small non-departmental areas). This equates to a target of **23.62%** for these areas and is illustrated in the table below.

Table 1 Workplace Relations example of savings rules in relation to levies

|                     | Eligible base from which savings required (\$m) | Savings (\$m) | Savings that count (%) |
|---------------------|---|---------------|------------------------|
| Total eligible base | \$196.30  | \$14.723      | 7.5%                   |
| Levy-funded         | \$133.96  | 0             | 0                      |
| Crown funded        | \$62.34   | \$14.72       | <b>23.62%</b>          |

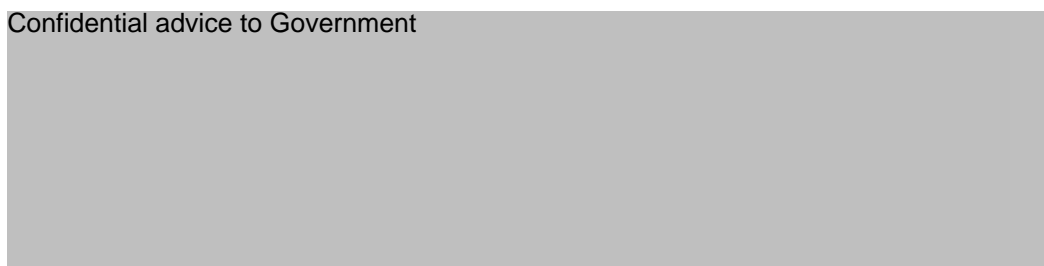
31. In practice this means making significant cuts to the policy and regulatory functions in the Employment Relations and Employment Services system to subsidise the Health & Safety system.

**Uncertainty about eligible savings measures may determine whether MBIE can meet the target**

32. We have brought these issues to the attention of the Treasury Assurance Panel and are working with the Treasury for clarification before submitting final savings measures to the Minister of Finance.

33. There are other potential savings initiatives or revenue options where we are uncertain (based on advice from Treasury) of their eligibility to count towards MBIE's savings targets. The four largest initiatives of this type are listed below (total estimated savings over forecast period listed in brackets), with further initiatives listed in the relevant portfolio briefings:

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34. We consider that these initiatives, and other uncertain initiatives identified in the portfolio briefings, should be counted towards MBIE's savings target because they meaningfully reduce MBIE's Crown-funded expenditure.

### Other areas have been identified for additional MBIE targeted savings

35. The Minister of Finance has indicated that MBIE has the potential to find significant targeted policy savings or revenue options beyond the baseline reductions savings. These targeted policy savings must be in the order of \$100 million over the forecast period.

36. As lead Minister, you should provide targeted policy savings and/or revenue options associated with, but not limited to, the following initiatives (relevant portfolios in brackets):

- **International Visitor Conservation and Tourism Levy (IVL) (Tourism and Hospitality)** - the IVL has a legislative purpose to fund (or contribute to the funding of) conservation, tourism infrastructure, or initiatives related to tourism. The IVL cannot currently be used for general Crown purposes. The rate of the IVL is due for review by MBIE in 2024. Estimated additional annual IVL revenue from a \$15 and \$35 dollar increase respectively (and factoring in volatility of international visitor numbers) ranges from \$23 million to \$97 million.
- **Warmer Kiwi Homes (WKH) (Energy)** - \$103 million of savings over the forecast period have been identified from the Warmer Kiwi Homes programme. Savings are from the core grant programme, discontinuing new elements added to the programme in Budget 2023, and reducing the operational costs of running the programme. More significant reductions are not recommended to the core programme. Benefit cost ratios for the programme are 4.4 overall and 1.9 on a health and energy basis alone.



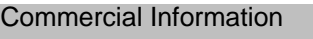



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37. As outlined in the letter to you, these targeted savings and revenue options *could* help partially offset some of MBIE's final baseline reduction target, subject to the nature and quantum of targeted policy savings and revenue options.

38. We consider that the Warmer Kiwi Homes targeted savings should offset some of MBIE's baseline target because:

- The targeted savings impact OBEGAL which is one of the objectives of the fiscal sustainability programme (refer paragraph 1).
- There is a mismatch between expenditure considered for the savings target and savings eligible to meet that target (see section below).
- Further policy work is required on the IVL and ACC portfolio options.

## **Significant cost pressures have been absorbed and more are forecast.**

39. MBIE's current collective agreement has been in place since 1 July 2022 and expires 1 July 2024. Our negotiation comes after the Public Sector Pay Adjustment,   
Commercial Information 
40. A review of MBIEs property footprint and anticipated rental costs has been completed. It is estimated that there is a cost pressure in the range of  Commercial Information 
41. Rising cost of maintaining IT upgrades and licencing, and functional support requirements with an anticipated cost pressure in the range of  Commercial Information  in FY24/25.
42. The other substantial cost pressure is the operational costs for regional development. Currently, Kānoa – the Regional Economic Development and Investment Unit – has no funding from 2024/25 (but has been invited to submit a bid in Budget 2024). Departmental funding in the Regional Development portfolio peaked at \$41.8 million in the 2021/22 financial year and is due to continue to reduce through to the 2025/26 financial year and cease from 2026/27. By comparison, the value of funds under management has risen from \$3 billion in 2018/2019 financial year to \$4.67 billion in 2023/24.
43. MBIE has absorbed several functions in recent years without new funding. In addition, MBIE is expected to deliver new initiatives from within current baselines arising out of Coalition agreements or the 100-day plan without new funding. These include:

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## **Savings in the range of the 7.5 per cent target have been identified.**

44. MBIE is on track to achieve its saving target of \$233.9 million per annum, or 7.5 per cent of eligible operating expenses. All currently funded services can be ceased if the services they provide are no longer needed, The table below summarises the savings provided by MBIE to the Treasury Assurance Panel on 30 January. **Annex Four** identifies the full list of initiatives impacted.
45. Portfolios have not been provided with individual savings targets. This provides flexibility to trade-off savings between different portfolios to meet the Ministry-wide target while maintaining frontline service provision and MBIE's ability to deliver the Government priorities.
46. However, we have provided information on a portfolio basis as much as possible to support you in your discussions with Portfolio Ministers and to enable you to assess the extent and impact of savings initiatives across the various portfolios that MBIE administers. The values provided to you on 30 January and those summarised in the table below are subject to moderate adjustments resulting from ongoing discussions with Portfolio Ministers. Work is continuing on identifying further savings measures but some of the initiatives that were proposed as savings have been withdrawn because of their negative impact on MBIE's ability to deliver against the Government's priorities.
47. For some portfolios, the annual amounts may not be available from the beginning of the 24/25 financial year as they require legislative changes or other significant work before the funding can be returned to the Crown. We will continue to refine the timing of savings as discussions with Ministers progress.

Table Two – Summary of proposed eligible annual average savings by portfolio as at 30 January (excluding potential revenue options)

| Vote                             | Name of Portfolio                  | Departmental \$m | Non-Departmental \$m | Total \$m      |
|----------------------------------|------------------------------------|------------------|----------------------|----------------|
| Building and Construction        | Building and Construction          | 0.975            | 0.500                | 1.475          |
|                                  | Health                             | 0.000            | 0.000                | 0.000          |
|                                  | Housing                            | 0.000            | 0.000                | 0.000          |
|                                  | <b>Total</b>                       | <b>0.975</b>     | <b>0.500</b>         | <b>1.475</b>   |
| Business, Science and Innovation | Commerce and Consumer Affairs      | 4.573            | 5.325                | 9.898          |
|                                  | Economic Development               | 5.196            | 27.028               | 32.224         |
|                                  | Emergency Management               | 0.000            | 0.000                | 0.000          |
|                                  | Energy**                           | 1.080            | 23.165               | 24.245         |
|                                  | Infrastructure                     | 0.000            | 0.000                | 0.000          |
|                                  | Media and Communications           | 2.000            | 0.000                | 2.000          |
|                                  | Māori Development                  | 0.000            | 0.000                | 0.000          |
|                                  | Public Service                     | 0.000            | 0.000                | 0.000          |
|                                  | Regional Development               | 0.000            | 0.000                | 0.000          |
|                                  | Resources                          | 0.000            | 0.000                | 0.000          |
|                                  | Small Business and Manufacturing   | 2.094            | 0.864                | 2.957          |
|                                  | Science, Innovation and Technology | 1.100            | 88.750               | 89.850         |
|                                  | Tourism and Hospitality            | 1.370            | 8.598                | 9.968          |
| <b>Total</b>                     | <b>17.412</b>                      | <b>153.730</b>   | <b>171.142</b>       |                |
| Labour Market                    | ACC                                | 0.225            | 0.000                | 0.225          |
|                                  | Employment                         | 0.407            | 0.000                | 0.407          |
|                                  | Health                             | 0.000            | 0.000                | 0.000          |
|                                  | Immigration                        | 6.250            | 0.000                | 6.250          |
|                                  | Workplace Relations and Safety     | 0.694            | 0.000                | 0.694          |
|                                  | <b>Total</b>                       | <b>7.576</b>     | <b>0.000</b>         | <b>7.576</b>   |
| Enabling Services                | Multiple*                          | 24.550           | 0.000                | 24.550         |
| <b>Total for all portfolios</b>  |                                    | <b>50.512</b>    | <b>154.230</b>       | <b>204.743</b> |

\* The options provided for enabling services are before being allocated out to appropriations. We estimate approximately 50% of the savings would be allocated to Crown-funded areas.

\*\* Savings identified from the Warmer Kiwi Homes programme of \$103 million over the forecast period are in addition to the savings identified in the Energy category.

## The effects of the proposed savings initiatives will vary by portfolio

48. The portfolio briefings you have been provided to support your discussions with individual Ministers contain our current best understanding of the agreed savings initiatives and the potential impacts.
49. The majority of portfolios have put forward savings packages that allow them to return significant funding to the Crown while delivering against the Government's priorities. Priorities for individual portfolios have been identified by Portfolio Ministers and are to be agreed with the Prime Minister. Portfolio priorities are summarised in **Annex Three**.

50. Cost pressures, the impact of previous savings exercises and substantial new initiatives in response to the Coalition agreements mean a number of portfolios have not been able to identify savings that meet the target without impacting frontline services or Government priorities.

51. Potential impacts on Government priorities and frontline service delivery include:

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52. The table below categorises portfolios based on whether they have been able to meet their savings targets without impacting delivery of Government priorities or public service delivery. We also categorise portfolios where there is uncertainty as to the eligibility of their savings initiatives.

Table Three – Overview of portfolio savings and impact on Government priorities

|            | Savings target met or exceeded<br>No impact on Government priorities  | Savings target met or close to being met<br>Uncertainty over eligible baseline or targeted initiatives | Savings target met<br>Potential impact on Government priorities or public service delivery | Savings target not met or met through potentially ineligible measures             |
|------------|---|--|--|---|
| Portfolios | Building and Construction<br>Employment<br>Energy (excl. WKH)<br>Public Service<br>Small Business and Manufacturing<br>*Regional Development<br>**Enabling Services | ACC<br>Housing<br>Immigration<br>Workplace Relations and Safety<br>Tourism and Hospitality (excl. IVL) | Resources<br>Science, Innovation and Technology  | Commerce and Consumer Affairs<br>Economic Development<br>Media and Communications |

\* The Regional Development portfolio baseline will decline to \$0 in 2025/26 and a 30 per cent reduction in operational spend has already been achieved in this portfolio since the 2020/2021 financial year. Some funds are proposed as options for reprioritisation.

\*\* Savings to central Enabling Services are covered in the MBIE Enabling Services briefing (2324-1850 refers).

## Alongside cost savings, MBIE has revenue levers that could be adjusted to meet current costs and future pressures

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53. MBIE's revenue base has fluctuated over time, reflecting the change and mix of work that the Government of the day has asked MBIE to lead. In 2015/16, for example, MBIE's revenue was approximately two-thirds third-party funded. More recently, the balance has shifted in favour of more Crown-funded revenue.
54. Ministers have choices around providing more flexibility around the use of existing third-party funding. This could involve recovering a wider range of costs for services from users/beneficiaries, such as compliance activities, as well as taking a longer-term view to enable cost-saving investment.
55. We have identified a range of potential new/extended revenue opportunities, including in:
- Tourism and Hospitality – new charging tools which could be considered individually or as a package to ensure visitors make a fair contribution, support regions to manage tourism, provide potential revenue streams to offset under-investment, and increase government revenue. Charging tools could all be set at a level that did not affect demand or access for New Zealanders (i.e. could apply only to international visitors).
  - Immigration – Moving to a more fully user-pays system would generate Crown savings options. Advice on immigration savings options is being prepared for Cabinet consideration in March 2024. Savings options include Crown subsidies for some visa types (this would achieve immediate Crown savings of \$19.547 million in 2024/25) and shifting a greater proportion of existing Crown-funded costs to users of the immigration system (the final amount of Crown savings is to be finalised, Confidential advice to Government). One option being considered is funding the costs of ESOL programmes in schools through the Immigration levy.

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56. Work in some portfolios is underway to review the settings for levies and fees to ensure that cost-recovered functions are right-sized. These could result in longer-term savings.
57. While it is difficult to predict future funding requirements or longer-term reprioritisation options until immediate savings decisions have been made, and work programmes for the current term of Government have been established and progressed, a number of options can be progressed. Some options require significant development and time for implementation, including changes to legislative frameworks.

## Capital investment pipeline options

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58. Cabinet agreed that Budget 24 will include a review of funded capital investments to ensure they are aligned with the Coalition Government's priorities, have a strong focus on value for money and better match fiscal, agency and market capacity.

Confidential advice to Government

61. No further initiatives were put forward for the Capital Pipeline Review, however an ongoing review of capital initiatives in the Immigration portfolio may yield capital savings in the medium term.
62. Officials also conducted a review of the cash reserves held by Crown Entities that are covered by MBIE Portfolio Ministers.

Confidential advice to Government

## **Plans for future prioritisation, efficiencies and effectiveness**

63. MBIE is looking at future initiatives to deliver ongoing efficiency and effectiveness including:
- Enablement services
  - Regulatory work
  - Strategic initiatives

### *Enablement Services*

64. The briefing *Progress against fiscal objectives and budget 24 expectations for Enablement Services (2324-1850)* updates Ministers on progress against the fiscal sustainability programme for MBIE 'Enablement Services' (e.g. information technology, data and insights, legal services, HR, finance, communications, and strategy) and options for better alignment of service delivery. MBIE is progressing a programme of strategic investment in digital technologies, to increase automation and realise efficiencies in operational systems including Tenancy Services and Immigration. Options for reducing contractor and consultancy costs continue to be a focus.
65. A reduction in FTE will be achieved through the closure of aged vacancies, the response to Government decision to cease functions and programmes, and a limited voluntary redundancy process. MBIE expects to realise fiscal and FTE savings from these specific activities by the end of 2023/24 financial year.

### *Regulatory work*

66. As MBIE oversees 17 regulatory systems, a key function relates to, regulatory stewardship to support strong performing systems in order to reduce the risk of regulatory failure and reduce the cost for businesses.
67. Regulatory stewardship is a core component of plans for efficiencies and effectiveness. For example, since 2017 there have been a range of new functions added within the Building and Construction portfolio, which are designed to address issues with the building consent system. The Government has signalled that a key priority is streamlining the building consent system and MBIE is developing a package of legislative and non-leg changes to deliver this. This will include measures designed to reduce regulatory barriers and remove red-tape, and make consenting quicker and easier for low-risk activities.

Confidential advice to Government



68. MBIE has a role in promoting international regulatory cooperation to enhance the quality of its domestic regulation and international trade and investment. Building on our Single Economic Market arrangement with Australia, there is an opportunity to examine the divergence in standards developed between our two countries to assess the economic implications and whether or not this divergence is hampering trade. There may also be opportunities to provide for greater recognition of standards from other jurisdictions to enable competition and ease barriers to cross-border trading through our work in APEC, OECD and other multilateral and bilateral relationships.

#### *Strategic initiatives*

69. MBIE is also responsible for a range of government-wide functions. Many of these functions are 'club-funded', which means they are hosted by MBIE but funded by the contributions of a collection of government departments. These functions contribute to the scale of MBIE. They also offer opportunities for savings across government. In particular, this briefing notes opportunities in:

- **New Zealand Government Procurement** – there is a government-wide opportunity to achieve savings in procurement through increased use of All-of-Government contracts.

Commercial Information

70. MBIE will also be working with portfolio Ministers on advice around consolidating Crown entities to achieve efficiency and effectiveness.

### **Next steps**

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71. You are meeting MBIE portfolio Ministers in the week beginning 5 February for bilateral discussions.
72. You are required to write to the Minister of Finance by 16 February 2024 outlining the savings proposals and invited Budget initiatives for MBIE portfolios to be considered for Budget 2024. We will provide a draft letter following your discussions and decisions with portfolio Ministers next week.

73. Confidential advice to Government

74. MBIE is responsible for considering Immigration savings and abolishing Regional Skills Leadership Groups as set out in the Government's Coalition agreements. MBIE is required to submit a relevant budget template for these options by 16 February 2024. The savings generated from these policy changes do not count towards MBIE initial baselines reduction target.

## **Annexes**

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Annex One: Summary of main additions to MBIE functions and initiatives since 2017

Annex Two: Summary of growth in MBIE's departmental expenditure between 2017 and 2023

Annex Three: Summary of portfolio priorities

Annex Four: Initiatives impacted through proposed savings.



## Annex One: Summary of main additions to MBIE functions and initiatives since 2017

| Portfolio/area                                | Amount (\$million) | Comment   |
|---|--------------------|---|
| Immigration                                   | 144                | For initiatives including addressing Temporary Migrant Worker Exploitation, addressing non-compliance in the Immigration System, Maritime Mass Arrival Prevention, Employer Assisted Work Visa System, improving the system for Refugee Family Reunification, Refugee Quota Programme cost pressures, and Immigration cost pressures associated with reopening the border. Funded through a mix of Crown and third-party funding. |
| Temporary Accommodation Services              | 16                 | For the 2023 North Island Weather Events (including \$8 million in 2023/24).  |
| Workplace Relations and Safety                | 21                 | For initiatives including the Fair Pay Agreement System and addressing Temporary Migrant Worker exploitation.   |
| Small Business Enabling Services              | 14.5               | To accelerate and strengthen Business Connect, implement invoicing, and other Better for Business initiatives.  |
| Commercial Information                        |                    |   |
| Shard Services provided to other agencies     | 11.8               | To provide back-office services to WorkSafe New Zealand and the Ministry of Housing and Urban Development (\$10 million in 2023/24).  |
| Emergency Caller Location Information service | 16.1               | Allows emergency services to locate people calling 111 from their mobile phones, received permanent Crown departmental funding of \$16.1 million per annum in Budget 2020. It had previously been third-party funded via the Telecommunications Development Levy, but with the reduction in amount recovered by that levy, it required permanent Crown funding.   |
| Crown Mineral Estate                          | 14                 | To manage risks in petroleum and mineral permitting, and improved iwi engagement.   |

## Annex Two: Summary of growth in MBIE's departmental expenditure between 2017 and 2023

| VOTE                             | PORTFOLIO                          | Actuals 30 June 2017             |                  | Budget (OBU) 2023/24 |                  |        |
|----------------------------------|------------------------------------|----------------------------------|------------------|----------------------|------------------|--------|
|                                  |                                    | DEPARTMENTAL                     | NON-DEPARTMENTAL | DEPARTMENTAL         | NON-DEPARTMENTAL |        |
|                                  |                                    | \$000                            | \$000            | \$000                | \$000            |        |
| Business, Science and Innovation | Economic Development               | 125,865                          | 350,379          | 255,953              | 424,294          |        |
|                                  | Auckland                           | -                                | -                | -                    | 400              |        |
|                                  | Commerce and Consumer Affairs      | 93,989                           | 74,254           | 149,017              | 189,318          |        |
|                                  | Conservation                       | -                                | 320              | -                    | -                |        |
|                                  | Emergency Management and Recovery  | -                                | -                | -                    | 31,800           |        |
|                                  | Energy                             | -                                | -                | 32,491               | 680,897          |        |
|                                  | Resources                          | -                                | -                | 38,044               | 104,537          |        |
|                                  | Energy and Resources               | 25,736                           | 116,784          | -                    | -                |        |
|                                  | Maori Development                  | -                                | 3,288            | -                    | 2,850            |        |
|                                  | Media and Communications           | -                                | -                | 52,536               | 264,742          |        |
|                                  | Communications                     | 20,135                           | 15,502           | -                    | -                |        |
|                                  | Public Service                     | -                                | -                | 39,847               | -                |        |
|                                  | Police                             | -                                | -                | 1,105                | 14,400           |        |
|                                  | Regional Development               | -                                | -                | 24,237               | 782,769          |        |
|                                  | Science, Innovation and Technology | -                                | -                | 39,735               | 1,901,075        |        |
|                                  | Space                              | -                                | -                | -                    | -                |        |
|                                  | Science and Innovation             | 29,287                           | 951,464          | -                    | -                |        |
|                                  |                                    |                                  |                  |                      |                  |        |
|                                  |                                    | Small Business                   | 1,931            | -                    | -                | -      |
|                                  |                                    | Small Business and Manufacturing | -                | -                    | 20,966           | 19,895 |
|                                  | Sport and Recreation               | -                                | -                | -                    | 20,375           |        |
|                                  | Tourism                            | 6,823                            | 125,567          | -                    | -                |        |
|                                  | Tourism and Hospitality            | -                                | -                | 19,781               | 233,375          |        |

|  |                                   |                |                  |                  |                  |
|--|-----------------------------------|----------------|------------------|------------------|------------------|
| <b>Labour Market</b>   | ACC                               | 2,296          | 1,231,404        | 2,366            | 2,219,820        |
|  | Health                            | -              | -                | 21,151           | 150              |
|  | Immigration                       | 316,940        | -                | 578,303          | -                |
|  | Social Development and Employment | -              | -                | 20,607           | -                |
|  | Employment                        | 6,643          | -                | -                | -                |
|  | Workplace Relations & Safety      | 51,709         | 95,274           | 74,772           | 150,849          |
| <b>Building and Construction<br/>(formerly Building and Housing)</b> | Building and Construction         | 93,097         | 89,817           | 86,751           | 21,632           |
|  | Housing                           | -              | -                | 65,924           | 106,483          |
|  | Housing NZ Corporation            | -              | 98               | -                | -                |
|  | Social Housing                    | 3,011          | 130,763          | -                | -                |
| <b>TOTAL</b>   |                                   | <b>777,462</b> | <b>3,184,914</b> | <b>1,523,586</b> | <b>7,169,661</b> |

 Includes third party operating funding  
 Includes significant third party operating funding

Note: Third-party funding includes funding from other departments













