



BRIEFING

Budget 2024: Summary of Economic Development Portfolio Submissions for Budget 2024

Date:	28 March 2024	Priority:	High
Security classification:	Budget - Sensitive	Tracking number:	2324-2747

Action sought		
	Action sought	Deadline
Hon Melissa Lee Minister for Economic Development	<p>Note the status of Budget 2024 initiatives in the Economic Development portfolio.</p> <p>Agree to discuss with Officials on 8th April if you would like clarification on any of the information provided.</p>	8 April 2024

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Dean Ford	General Manager, Economic Development and Transitions	Privacy of natural persons	✓
Privacy of natural persons	Manager EDT Policy Projects		

The following departments/agencies have been consulted

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 Withdrawn |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



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Purpose

To respond to your request for a status report on Budget 2024 initiatives in the Economic Development portfolio.

Recommended action

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

- a **Note** the summary information provided on the status of Budget 2024 initiatives in the Economic Development portfolio following the Budget Bilateral between Minister of Finance and Associate Minister of Finance on 18 March 2024

Noted

- b **Agree** to discuss with Officials on 8th April if you would like clarification on any of the information provided.

Agree/Disagree

Dean Ford
**General Manager Economic Development
and Transitions**
Labour, Science and Enterprise, MBIE

28 / 03 / 2024

Hon Melissa Lee
Minister for Economic Development

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Contents of this Briefing

1. You have asked for a status report on Economic Development portfolio initiatives submitted for consideration in Budget 2024, with particular interest in:
 - a. The submissions for the Economic Development portfolio, including final figures,
 - b. An outline of how savings will be implemented, especially where there are contracts with third parties, and
 - c. Expected impacts on service delivery.
2. This briefing also provides information regarding the Budget Bilateral held between the Minister of Finance and Associate Minister of Finance on 18 March 2024, regarding Budget initiatives submitted by MBIE Ministers. For transparency, we also provide short notes on three minor technical adjustments to final submission figures which have been made through the process.

Key Developments

3. The Minister of Finance has agreed to the proposal of the Associate Minister of Finance to seek savings from NZTE and the IGF of \$50.17m over four-years.
4. The Minister of Finance has indicated a preference for not cancelling contracts. Consistent with our previous advice, we have advised Treasury of the negative consequences of such a preference (particularly for the Just Transitions programme given the long-term nature of some of the contracts) and they are proposing to reflect that advice in their overall advice to the Minister of Finance seeking final Budget decisions.
5. The Minister of Finance has noted the significant expenditure on New Zealand

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Departmental Savings Initiatives

6. The following departmental savings have been submitted for the Economic Development portfolio as part of MBIE's Initial Baseline Exercise:

Table 1: Summary of Departmental Savings Submissions

Departmental Expenditure Savings Options					
\$ million	2024/25	2025/26	2026/27	2027/28 & Outyears	Total
Stop the Just Transitions Programme	1.71	0.81	0.20	0.20	2.92
Stop Government Centre for Dispute Resolution	0.84	0.84	0.84	0.84	3.37
Scale Policy Advice and Related Services by 10%	2.36	2.21	2.05	2.05	8.66
Scale NZ Government Procurement	0.50	0.50	0.50	0.50	2.00
Scale Evidence and Insights by 10%	0.26	0.26	0.26	0.26	1.05
Stop Development of Circular and Bioeconomy Strategy	0.30	0.00	0.00	0.00	0.30
Stop Senior Diverse Leaders: Capability Building Pilot	0.35	0.35	0.35	0.35	1.40
Scale Tupu Tai Programme	0.20	0.20	0.20	0.20	0.80
Total Departmental Savings Options by Financial Year	6.52	5.18	4.40	4.40	20.50

Stop the Just Transitions Programme.

7. The Minister for Energy was the lead Minister for this programme under the previous Government, though you hold funding and accountability responsibilities. This programme identifies ways to coordinate and align regional activity in order to extract New Zealand from intractable economic situations over the medium–long term, including in Southland, Taranaki and Tairāwhiti. This includes, for example, working with businesses and entities in Southland to diversify its economy and reduce reliance on Tiwai Smelter, having positive economic impact on both the regional economy and the wholesale electricity market.
8. Just Transition activities are governed by regional groups, carried out by contracted entities such as businesses and iwi, and supported by departmental staff. This departmental funding is used for FTE for the Regional Hydrogen Transition and contractor / consultant spend such as legal advice.
9. You can discontinue this departmental funding even if you choose to keep contracts. If you wish to retain contracts related to the Just Transitions Programme (see non-departmental section), MBIE will allocate resource for contract management, Ministerial and Parliamentary reporting, and financial accountability from baseline Policy Advice and Related Services resource.

Stop Government Centre for Dispute Resolution (GCDR)

10. The GCDR works across government to support regulatory systems to deliver fair, effective, and people-centred dispute resolution services for individuals and businesses. There are at least 56 different dispute resolution services provided or overseen by government. MBIE considers that this function has effectively delivered the lift in practice it set out to achieve and could now be closed.
11. The \$0.84m p/a savings come from funding the GCDR team, and therefore the work of GCDR will stop if this initiative proceeds. The team of 4 FTE will be disestablished, and the work will cease.

12. While we consider that the GCDR has delivered lift in practice, closure of the GCDR will result in there not being second opinion advice to improve dispute resolution as future policy is developed. There will not be additional guidance on dispute resolution schemes, updates to the tools available, or reviews to ensure effectiveness.

Policy Advice and Related Services to Ministers, and Sectoral and Data Analysis

13. Government has increased departmental funding for Economic Development's *Policy Advice and Related Services to Ministers* by 36% over the previous six years. The greatest spike is in 2020/21 because of Government funding for Industry Transformation Plans (now returned to the Crown).
14. A 10% decrease in funding for this appropriation has been submitted, reflecting the all-of-MBIE approach to policy advice. That would reduce the budget for 2024/25 from \$23.56m to \$21.2m p/a, and \$19.69m in outyears, effectively taking it back to 2017/18 levels.
15. Economic Development Sectoral and Regional Data Analysis funding is used to ensure robust data and insights are available to MBIE and the public to support economic development, with an emphasis on regions and industries. This includes funding provided to StatsNZ for the Business Operations Survey, regional GDP statistics, Modelled Territorial Authority GDP, MBIE's regional and sectoral dashboards and factsheets; as well as economic, statistical, or mathematical modelling of aspects of the economy and bespoke data and insights analysis for initiatives. Funding for this appropriation is proposed to reduce by 10%.

Procurement Functional Leadership

16. The New Zealand Government Procurement (NZGP) branch is responsible for implementing the government's procurement priorities. It is hosted in MBIE and set up to provide system-wide benefits. NZGP is largely funded by an administration fee charged on the purchases made by government agencies from centrally managed contracts. Savings of \$0.5 million have been proposed for this appropriation, realised from the transfer of contractors to permanent positions. These savings will not impact service delivery of NZGP's system leadership.

Stop development of the Circular and Bioeconomy Strategy

17. This work programme supports the Government's priority of reducing greenhouse gas emissions. You have agreed to not produce a Circular and Bioeconomy Strategy, which provides for around \$0.3 million of savings in 2024/25.

Stop Senior Diverse Leaders: Capability Building Pilot

18. This pilot project was intended to ensure that Pacific peoples in New Zealand's public sector workforce are supported to play an active role in the stewardship and delivery of policy and services. Feedback from programme participants is mixed. While some participants find value in the programme, others have indicated the programme may not align well with the needs of Pacific leaders and their agencies. Savings of \$0.35 million have therefore been proposed which will stop this pilot.

Tupu Tai Internship Programme

19. MBIE manages the Tupu Tai programme which offers summer internships across the public sector to Pacific tertiary students and recent graduates entering in a career in

the public sector. Savings identified (\$0.2m p/a) do not materially impact delivery of the programme.

Implementation of Departmental Savings Initiatives

20. As decisions on departmental initiatives are made, MBIE will work to implement savings to give effect to Cabinet's decisions. This will involve closing vacancies, reducing contractor and consultant spend, and some redundancies. Overall, these savings initiatives will reduce MBIE's capacity to provide services for Ministers, regions, professional groups, and the public.
21. MBIE has undertaken a number of steps to manage permanent and fixed term full-time equivalent (FTE) since November 2023 in light of the fiscal environment and to align our people resource with Government work programme priorities.
22. These steps have included a voluntary redundancy process (the first of which is now complete, with a second underway), stopping work and closing positions associated with areas where the Government wanted work to cease (for example the Onslow Battery Project and the Construction Sector Accord), closing vacancies, ceasing external recruitment in all but exceptional cases and converting contractors to permanent and fixed term where appropriate.
23. In addition, MBIE has a number of formal change processes underway that will in reduce the size of our permanent and fixed term FTE, and vacancies.
24. Where these savings will require to end contractor / consultancy spend earlier than planned, we will work with providers to give effect to this.

Non-Departmental Savings Initiatives

25. Table 2 summarises departmental savings have been submitted for the Economic Development portfolio as part of MBIE's Initial Baseline Exercise.

Table 2: Summary of Non-Departmental Savings Submissions

Non-Departmental Expenditure Savings Options					
\$ million	2024/25	2025/26	2026/27	2027/28 & Outyears	Total
Stop the Just Transitions Programme	3.50	2.50	2.50	2.50	11.00
Stop Auckland Pacific Skills Shift / Alo Vaka	2.20	5.50	5.50	5.50	18.70
Stop Pacific Procurement Support Service	1.25	1.25	1.25	1.25	5.00
Stop Future of Work Forum operations	0.60	0.60	0.60	0.60	2.40
Scale Major Events Fund	1.60	1.60	1.60	1.60	6.40
Scale New Zealand Trade & Enterprise and International Growth Fund	18.50	14.67	8.50	5.80	47.47
Total Non-Departmental Savings Options by Financial Year	27.65	26.12	19.95	17.25	90.97

Implementation of Non-Departmental Savings Initiatives that are Contracted to Third-Parties

26. Typically, MBIE's standard contracts include a 10-day notice period for termination of contracts. We send written notice of termination, and work with providers to confirm a final invoice, which may include covering costs that the provider cannot exit. This gives effect to the principle that third parties should not be left worse off as a result of having entered into the contract.
27. Alongside the legal process to exit the contract, we also have a focus on maintaining strong and construction relationships with third parties as MBIE often works with third parties across multiple areas.
28. Because the Just Transitions Programme was a partnership-based programme, it requires a process similar to Industry Transformation Plans to close. This includes the closure of Governance arrangements, communication with key stakeholders (including potentially responding to media requests), and termination of contracts with third parties. Once final decisions are taken with respect to the termination of contracts, we will provide an update on our plan to communicate with third party providers and to key stakeholders more generally.

Stop the Just Transitions Programme

29. We have previously advised that Just Transitions contracts should be terminated as the Government no longer wishes to progress the Just Transitions programme (see Annex A for list of contracts). We have also previously advised that the contracts are long-term in nature, with two extending to mid-2028. If the contracts were retained, these contracts would result in long-term accountabilities, public finance and contract management obligations for Ministers and MBIE without the full benefits of the partnership programme able to be realised. You and the Minister of Energy therefore agreed to retain only one contract that extends a few months into FY2024/25.
30. The Minister of Finance indicated at her bilateral a preference for not cancelling contracts. Honouring contracts through to their completion will reduce savings by \$3.38m and extend the life of the programme to 2028.
31. We have advised Treasury of our advice in relation to this programme and the long-term nature of some of the contracts and informed them of the decisions agreed by yourself and the Minister of Energy, and with the Associate Minister of Finance with respect to the termination of contracts. They are proposing to reflect that in their overall advice to the Minister of Finance seeking final Budget decisions.

Auckland Pacific Skills Shift / Alo Vaka

32. The Auckland Pacific Skills Shift is a programme to support Auckland Pacific peoples in low-skilled work to transition into quality employment by providing wrap-around support to impacted Pacific households, and programmes to build the capability of Pacific communities. To date, the programme has delivered over 3,600 micro-credentials for individuals working with 283 employers.
33. To implement these savings, MBIE will terminate four contracts for Auckland Pacific Skills Shift, which is \$2.2m in 2024/25. Some residual funding has been retained for 2024/25 to enable negotiation of final invoices with providers. Any additional savings following these negotiations would be returned through the October Baseline Update. Savings of \$5.5m p/a from 2025/26 do not require any contracts to be terminated.

Pacific Procurement Support Service (PPSS)

34. PPSS promotes greater growth of Pacific businesses by enhancing their capability in bidding for contracts, primarily in the construction and professional services industries. Evaluation indicates that this programme has had positive impacts on Pacific firms' success in bidding for contracts and firms involved have increased revenue as a result. Savings of \$1.25m per annum are available from discontinuing this programme.
35. To implement these savings, MBIE will terminate the contract for Pacific Procurement Support, which is \$1.25m in 2024/25. Future years' savings do not require any contracts to be terminated.
36. The service delivery impact of closing the Auckland Pacific Skills Shift / Alo Vaka and Pacific Procurement Support is that MBIE will no longer be directly funding third-party programmes that lift the business capability and quality employment outcomes of Pacific businesses and people on behalf of the Government. It is likely that third parties will raise this with Ministers and/or the media. We will provide communications support for you if this occurs.

Future of Work Forum

37. The Minister for Social Development and Employment is responsible for the Future of Work Forum, though operational funding for the Forum sits within your portfolio.
38. Contracts with the Council of Trade Unions and Business New Zealand will be brought to an end before the end of 2023/24.
39. From FY24/25 onwards, out of \$0.7m per year funding:
 - \$0.6m per year was proposed to be returned as part of the baseline savings exercise
 - \$0.1m per year was proposed to be retained by the Minister for Social Development and Employment to focus on understanding impacts of mega trends on the labour market.
40. In response to the Minister of Finance request for confirmation that all Future of Work Funding is being returned in the savings process, MBIE has noted to Treasury that, if agreed by Ministers, this \$0.1m funding per year could be returned.

Implementation of Scaling Major Events Fund by 12%

41. Overall, the MEF aims to fund a mix of international one-off events, recurring anchor events that are regionally and seasonally spread, homegrown events, the Creative and Cultural Incubator, and Mega events.
42. The Major Events Fund (MEF) is a \$50m multi-year appropriation for five years to FY26/27. The 12% reduction you have previously agreed to means that all committed funding and applications in train can proceed across the remainder of the multi-year appropriation, a residual amount of approx. \$5m is available to fund future major events. It also enables for capability to be retained in this area of the portfolio.

Implementation of Scaling New Zealand Trade and Enterprise and the International Growth Fund

43. NZTE's operational funding from FY 2024/25 is currently around \$176.46m p/a, with an additional \$104.48m remaining in the MYA for the International Growth Fund to 2026/27.
44. At their Budget bilateral, the Minister of Finance and Associate Minister of Finance requested confirmation from MBIE that the savings submitted for the International Growth Fund are as proposed by Minister Seymour following the Budget bilateral with the Ministers Economic Development and Trade. We can confirm that the savings submitted for NZTE reflect those directed by the Associate Minister of Finance.
45. The table below summarises the difference between the proposal taken to the Budget bilateral meeting between the Associate Minister of Finance, yourself, and the Minister of Trade, and the submission following direction from the Associate Minister of Finance following the bilateral:

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New Zealand Screen Production Rebate

46. At the Budget bilateral, the Minister of Finance and Associate Minister of Finance agreed to the proposed scaled funding bid for the New Zealand Screen Production Rebate – International for Budget 2024.
47. During that meeting, they noted the significant expenditure on this initiative.

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Technical Changes Made through the Submissions Process

48. Three technical changes were made during the submissions process:
 - a. Savings for *Policy Advice and Related Services* were reduced by \$0.143m per year in 2026/27 and 2027/28. This technical change was made to reflect time-

limited funding that had incorrectly been entered into CFISNet as baselined funding.

- b. Non-departmental savings for the Just Transitions Programme reduced by \$1.94m to \$2.5m in 2025/26. This is the full amount of non-departmental funding available in the appropriation that year.
- c. The Major Events Fund submission has also been updated to reflect that \$9.97m was tagged to the Multi-Year Appropriation in CFISNet in error. Savings remain at 12% of the Fund, and are now \$1.6m p/a.

Next steps

- 49. We understand that Treasury are providing omnibus advice to the Minister of Finance, seeking final Budget decisions. As referenced above, we have inputted into that advice specifically on the issue of terminating contracts (particularly with respect to the Just Transitions) and providing confirmation of submissions for other initiatives.
- 50. We understand that the Independent Reviewer is scheduled to submit his report on 3rd April and that Budget Ministers are scheduled to meet again on 8th April.
- 51. We will continue to engage with Treasury on these processes and to understand the implications for the ED portfolio and to understand the coordinated next steps with respect to the termination of contracts.
- 52. In response to the direction from the Minister of Finance with respect to the NZSPR, we intend to provide you with advice regarding:
 - a. Any recommended technical changes to the 5 percent Uplift to ensure the test is appropriately calibrated to maintain a high bar for this additional rebate (to be completed as part of the planned 12-month check-in on the new settings introduced from 1 November 2023), and

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- 53. Officials are able to discuss any points of clarification on any of the information provided above.

Annex One: Just Transitions Programme Contracts

1. There are six projects currently contracted for the Just Transitions programme that extend into 2024/25 and beyond.
2. You have agreed to retain the contract with the Murihiku Regeneration Collective (contract C below), and we have sought retain \$200,000 for this in 2024/25). We now expect the contract with to terminate others. We expect that the contract with Te Tōpuni Ngārahu (contract F below) will finish by end of this financial year as deliverables have been completed early.
3. The six contracts held under the Just Transitions Programme are:
 - a. Southland Chamber of Commerce to design and implement a Southland Manufacturing and Engineering Cluster to prepare the sector for emerging industries including clean energy, hydrogen and aquaculture. The total value of this project is \$3.4m and it expires 30 June 2028.
 - b. Southland Chamber of Commerce for an Innovation Ecosystem Project, which is designed to accelerate business growth, scalability and productivity within Southland through additional capability building tools and services to support SMEs focusing on innovation for business growth. The total value of this project is \$1.3m and it expires 30 June 2028.
 - c. Murihiku Regeneration Collective to ensure iwi participation and leadership in the Southland Just Transition, and the Clean Energy workstream. Iwi involvement is critical to the overall work plan and they are key stakeholders for increasing renewable energy generation / projects, with strong relationships across industry and government. The total value of this contract is \$500,000 and it expires 30 November 2024.
 - d. Thriving Southland to deliver the Southland Food and Fibre Investment Acceleration Project, designed to identify opportunities for sustainable growth in Southland's primary sector. The total value of this contract is \$206,000 and it expires on 30 June 2025.
 - e. E Tū to deliver the Job Match Programme in Southland, working with employers, employees and the Ministry of Social Development. This programme is designed to provide preemptive pathways for a potential 200 directly impacted employees that would be affected by a potential downsizing or closure of New Zealand Aluminum Smelter to transition into new jobs. This would reduce the regional economic impact of the Smelter's withdrawal from Southland. This contract is valued at \$415,000 and expires 31 December 2024.
 - f. In Taranaki, Te Tōpuni Ngārahu have nearly completed their contract, which supports Ngā iwi o Taranaki participation in the region's ongoing energy transition and development of a Taranaki Iwi Energy Strategy. This project involves the eight post-settlement iwi of Taranaki, energy industry stakeholders and government agencies. This contract is valued at \$1.0m and it expires 26 August 2024.