

The Treasury and Office of the Minister of Finance

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Treasury Report: Budget 2019 Multilateral with Pacific Ministers

Date:	11 March 2019	Report No:	T2019/614
		File Number:	BM-2-4-2019

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	<p>Note the contents of this report</p> <p>Note the suggested speaking points for your discussion with Pacific Ministers on 13 March 2019</p>	Wednesday 13 March 2019

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[34]	Analyst, Education and Population Agencies	[39] (wk)	N/A (mob) ✓
Andrew Rutledge	Manager, Skills, Employment, and Enterprise	[39] (wk)	N/A (mob)

Actions for the Minister's Office Staff (if required)

Return the signed report to the Treasury.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Budget 2019 Multilateral with Pacific Ministers

Executive Summary

You are meeting with Ministers Sepuloni, Salesa and Sio for a multilateral discussion on the Budget 2019 Pacific package. This report provides advice to inform your discussion, including wellbeing analysis for context. We have provided a full list of Pacific-related initiatives (Annex A), and suggested talking points for your discussion (Annex B).

Of the ^[1] initiatives considered in Priority C (Lifting Māori and Pacific incomes, skills and opportunities) after triaging, ^[1] initiatives are directly targeted to Pacific peoples. This represents ^[33] of the funding sought in Priority C. Through package formation, the proportion has increased to ^[33] of the draft Priority C package, which corresponds to ^[33] Pacific-targeted initiatives.

There are some risks associated with the draft package, including that the Ministry for Pacific Peoples (MPP) may not be able to recruit the capability to deliver all of its initiatives successfully. We have provided some advice on mitigating these risks, such as the possibility of holding funds for some initiatives in tagged contingencies.

We understand you are interested in highlighting a small number of anchor projects within each priority, including several Māori-specific anchor projects in Priority C. You may wish to consider whether any of the Pacific-targeted initiatives should be framed in this way.

Based on your recent feedback on Priority C focus areas, we have provided a fiscally neutral option to change the mix of initiatives in the draft package. However, if you want to increase the proportion of total funding for Pacific-related initiatives, there are other options available.

Recommended Action

We recommend that you:

- a **note** the contents of this report, and
- b **note** the suggested speaking points for your discussion with Pacific ministers on 13 March 2019 (Annex B).

Andrew Rutledge
Manager, Skills, Employment and Enterprise

Hon Grant Robertson
Minister of Finance

Treasury Report: Budget 2019 Multilateral with Pacific Ministers

Purpose of Report

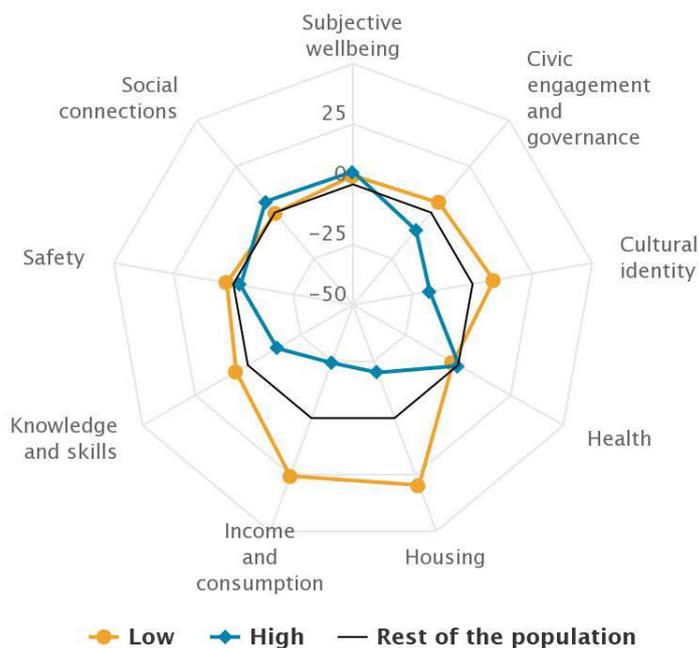
1. The purpose of this report is to provide background information and advice for your discussion with Ministers Sepuloni, Salesa and Sio at 5:45 p.m. on Wednesday 13 March 2019 in your office.
2. This report covers initiatives across a range of portfolios that demonstrate targeted or disproportionate impacts on Pacific peoples. Most of these initiatives were submitted under Budget 2019 Priority C: Lifting Māori and Pacific incomes, skills and opportunities. However, a number of initiatives in other priority areas, while not specifically targeted to Pacific peoples, are also likely to have disproportionate impacts on these groups.
3. Our advice in this report includes:
 - Contextual information on the wellbeing of Pacific peoples in New Zealand, which has helped to frame our Priority C advice to date.
 - An overview of Pacific-related initiatives in current draft packages.
 - Issues to consider if you wish to change the mix or level of Pacific-related initiatives.
 - A brief explanation of key risks to consider, including possible delivery risks within the Ministry for Pacific Peoples (MPP).
4. Annex A lists Priority C initiatives following triaging that are targeted to Pacific peoples, alongside a selection of more general initiatives that are likely to disproportionately benefit Pacific peoples. These initiatives have been included for context, but they could aid discussions about where to direct any additional investment in Pacific-related initiatives, should this be something Ministers are interested in. We have provided a brief comment on each initiative for your information.
5. Annex B provides some suggested talking points for your multilateral discussion.

Wellbeing Context

6. The Living Standards Framework (LSF) and the LSF Dashboard have informed the development of draft packages for Priority C. The 'Pacific ethnicity' spider chart below summarises the high-level differences across the current wellbeing domains between Pacific peoples' wellbeing outcomes and average wellbeing outcomes across the rest of the New Zealand population.
7. The chart indicates that while Pacific peoples are more likely to report better social connections and a greater sense of subjective wellbeing than the rest of the population, they are more likely to experience poorer wellbeing outcomes in the domains of civic engagement and governance, safety, knowledge and skills, income and consumption, housing, and cultural identity. Of those domains, the chart suggests Pacific peoples face particularly poor housing and income and consumption outcomes.

Pacific ethnicity

Survey Year: Combined years
Unit: Percentage point difference



Source: Stats NZ, General Social Survey

Income and consumption

8. While Pacific peoples are not overrepresented in MSD benefit recipient figures, the Pacific unemployment rate has remained higher than the national unemployment rate. Of those employed, there is a substantial and persistent gap between the average hourly wages of Pacific and Pākehā employees – Stats NZ estimated that the average hourly wage of Pacific employees was 77% of the average Pākehā wage in 2017.¹
9. The Treasury published an analytical paper in September 2018 that investigated the extent to which various factors contributed to this Pacific-Pākehā wage gap.² The results implied that initiatives focused on Pacific peoples' educational attainment and occupational status could deliver the largest reductions in the ethnic wage gap.

Housing

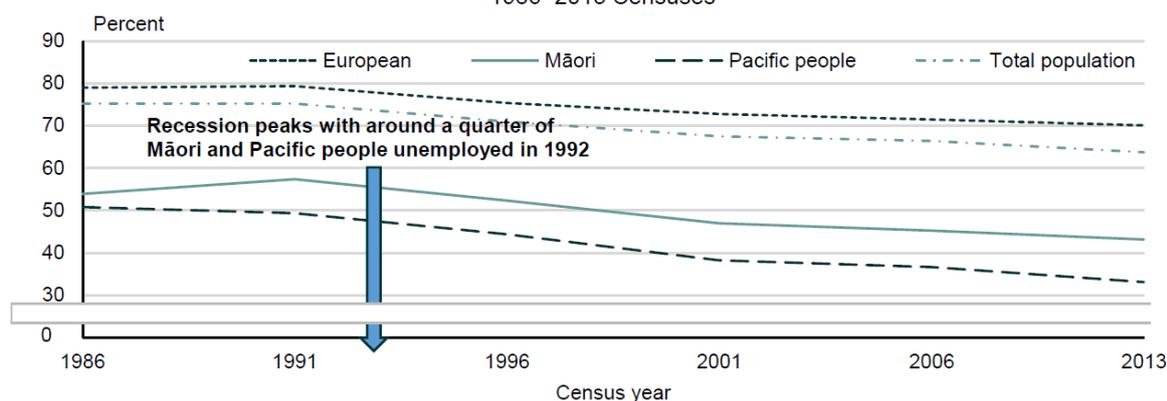
10. The proportion of New Zealanders living in an owner-occupied dwelling has been falling since the early 1990s, but it has fallen at a faster rate for Pacific peoples (as shown in the chart below).³ As a result, the proportion of Pacific peoples exposed to private rental markets is higher than for any other major ethnic group. This links to a number of other problems affecting Pacific peoples, including lower quality housing, overcrowding, the need to move house more frequently, and increased barriers to accumulating household wealth. These issues are also faced by Māori, although to a somewhat lesser extent.

¹ Source: Household Labour Force Survey, Stats NZ published estimates

² New Zealand Treasury (2018) *Statistical Analysis of Ethnic Wage Gaps in New Zealand*. Available from <https://treasury.govt.nz/publications/ap/ap-18-03>

³ Statistics New Zealand (2016). *Changes in home-ownership patterns 1986–2013: Focus on Māori and Pacific people*. Available from www.stats.govt.nz.

Percentage living in an owner-occupied dwelling
European, Māori and Pacific ethnicity and total population
1986–2013 Censuses



Note: Ethnicity is a total response variable. Owned dwelling relates to the situation of the household and there may be people with more than one ethnicity within a household.

Source: Statistics New Zealand

Lalanga Fou

11. The Ministry for Pacific Peoples (MPP) held a Pacific Aotearoa Vision Summit in 2018 where you launched the Treasury's New Zealand Pacific Economy report and Minister Sio launched MPP's Lalanga Fou report (a shared vision for Pacific peoples in Aotearoa).
12. A theme that emerged in MPP's consultation with Pacific communities during the development of Lalanga Fou was the view that:
 - there are synergies between wellbeing domains (for example, initiatives to lift economic outcomes of Pacific peoples will be less effective if cultural identity is not addressed at the same time), and
 - outcomes will only improve if solutions are informed by Pacific values and strengths, and are designed within Pacific communities to have impact across multiple wellbeing domains.
13. MPP's engagement with Pacific communities also informed four overarching priority goals for the Pacific Peoples portfolio, which seek to achieve:
 - Thriving Pacific languages, cultures and identities;
 - Prosperous Pacific communities;
 - Resilient and healthy Pacific communities; and
 - Confident, thriving and resilient Pacific young people.

These four goals have informed the six initiatives that the Minister for Pacific Peoples submitted for Budget 2019.

Pacific Peoples and Budget 2019

Overview of initiatives

14. For Budget 2019, agencies sought \$7.5 billion operating per annum and \$14.5 billion total capital. The Treasury has assessed individual initiatives and moderated these assessments across teams to ensure a consistent approach. Overall, Treasury Vote

teams support initiatives totalling \$3.4 billion of operating per annum, and \$7.6 billion total capital.

15. In Priority C, [] initiatives were considered after triaging, seeking [33] operating per annum and [33] total capital. Of those [] initiatives, [33] initiatives (seeking a total of [33] operating per annum) are directly targeted to Pacific peoples, which represents [33] of the funding sought for Priority C after triaging (refer to Annex A).
16. The draft package considered by the Cabinet Māori Crown Relations: Te Arawhiti Committee (MCR) on Tuesday 5 March included [] initiatives, totalling [33] operating per annum and [33].
 - Of those [] initiatives, [33] of the Pacific-targeted initiatives were included totalling [33] operating per annum after scaling, which represents [33] of the funding in the MCR package.
 - These include one Education initiative submitted by Minister Salesa, three Pacific Peoples initiatives submitted by Minister Sio [33]
 - Three other initiatives included in the draft MCR package have a more general focus but are likely to have a disproportionate impact on Pacific peoples. These include two Social Development initiatives and a Whānau Ora initiative.

All Pacific-related initiatives that were included in the draft package for MCR are listed on the first page of Annex A.

Potential changes to the Pacific package

17. At the MCR discussion on the draft package, Ministers requested that the three priority C focus areas should be reframed as follows:
 - Empowering Māori and Pacific peoples to take up economic opportunities.
 - Supporting Māori and Pacific peoples to deliver improved services in their communities, and the wider public sector.
 - Recognising the importance of language, culture and identity for successful Māori and Pacific social and economic development.
18. We understand you are interested in highlighting a small number of anchor projects within each priority, including several Māori-specific anchor projects. You may wish to consider whether any of the Pacific-targeted initiatives – such as MPP's Pacific Languages initiative – should be framed in this way.

Achieving a desired level of Pacific-related initiatives

19. The funding for Pacific-targeted initiatives made up [33] of the draft package that went to MCR on 5 March. However, the share of Pacific-targeted initiatives submitted was relatively low ([33] of total Priority C funding sought after triaging).
20. Of the Pacific-targeted initiatives that were not included in the draft package, [33] are supported by the Treasury ([33] are listed on the second page of Annex A for your consideration). A small number of strong Pacific-related initiatives from outside Priority C have also been included in Annex A.
21. If you wish to increase the proportion of funding or change the mix of Pacific initiatives in the draft package, you could:
 - Fund a Treasury-supported initiative that was not included in any draft packages due to fiscal constraints, and/or

- Scale up the amount of funding provided for certain initiatives in the draft packages, where the current funding recommendation is lower than the Treasury-supported amount.

Ministry for Pacific Peoples delivery risks

22. There is a risk that MPP may not be able to recruit the level of capability needed to deliver all of their Budget 2019 initiatives successfully. Across its six Budget 2019 initiatives, MPP is seeking to double the size of the Ministry and ^[33] e its annual baseline.⁴ This section provides options for mitigating this risk.

23. ^[34]

24. In the draft package considered by MCR on 5 March:

- MPP's new FTE total in out-years would increase over the forecast period from 51 to ^[33] ^[33]
- MPP's annual baseline would ^[33] from its current level of \$10.449 million (with new funding and FTEs peaking in 2021/22), and
- ^[33]

^[33]

25. The Treasury does not support any additional funding in Budget 2019 for initiatives delivered by the Ministry for Pacific Peoples beyond what is included in the draft

⁴ ^[33]

package. ^[34]
 [34]

Mitigation options

26. You may wish to discuss these capability risks with Minister Sio. You could also discuss the possibility of Priority C enduring for future budgets, which would provide further opportunities for the Ministry for Pacific Peoples to develop quality initiatives that are strongly priority aligned.
27. Even if you retain the new funding for Vote Pacific Peoples in the Budget 2019 package, you may want to hold funding for some or all of these initiatives in tagged contingencies. This would allow MPP to develop detailed business plans and ensure it has the capability to be able to deliver these initiatives successfully. Funding MPP's initiatives through tagged contingencies would also ensure that the Pacific component of the Priority C package does not diminish in proportion to the wider package.
28. Alternatively, you may want to rebalance the Pacific-targeted initiatives in the draft package towards a mix of other portfolios by deferring one of MPP's initiatives. If you wanted this change to be fiscally neutral, our recommended option is set out in the table below.

Initiatives to fund	Funding suggested for draft package (opex total, \$million)
Housing and Urban Development: Financial capability services to support Pacific households into home ownership	2.640
[33]	
Economic Development: Senior Diverse Leaders: Specialised Pacific skills, leadership and talent pipeline capability-building pilot	1.600
Total	[33]
Initiatives to defer	Funding to remove from draft package (opex total \$million)
Enhance Pacific Economic Development	11.150

29. There is a range of options available for changing the mix and level of Pacific-related initiatives. Annex A includes comments on each initiative if you are interested in discussing this further with Pacific Ministers.

Annex A: Initiatives that target or relate to Pacific peoples

Pacific-related initiatives												
Status	Portfolio	Title	Directly targeted to Pacific peoples	Funding sought by agency			Funding included in packages			Treasury Comment		
				Opex Ave p.a. (\$m)	Opex total (\$m)	Capex total (\$m)	Opex Ave p.a. (\$m)	Opex total (\$m)	Capex total (\$m)			
In draft packages	Education	Improving and accelerating education outcomes for Pacific Learners	Yes	[33]		-	3.430	[33]		-	[33] - we support three of these (Power Up, Tapasa and DMIC programs) [33] [33]	
	Employment/ Pacific Peoples	Pacific Employment Support Service (This was submitted as a joint bid with He Poutama Rangatahi, which is seeking PGF funding).	Yes			-	3.623	14.490		-	There is strong evidence from an evaluation of the existing PESS programme to continue and expand the program in urban areas. Note that a regional expansion of this initiative has recently been funded through the Provincial Growth Fund.	
	Pacific Peoples	Ensuring Pacific languages survive within New Zealand's Pacific communities	Yes			-	5.011	20.042		-	Cabinet agreed this initiative in principle in 2018. Recommended funding scaled to 75% to mitigate the Ministry for Pacific Peoples' delivery/capability risks.	
	Pacific Peoples	Enhance Pacific Economic Development	Yes			-	2.788	11.150		-	Evidence of robust options analysis and research. 50% scaling recommended to mitigate delivery risks.	
	[33]											
	Social Development	Expansion of community-based collective impact programme to improve social outcomes of families and whānau	No	1.152	4.607		-	1.152	4.607		-	Expansion of a multi-agency programme based on the current Kainga Whānau Ora pilot in Palmerston North.
	Social Development (Employment)	Support sustainable employment through expanding Mana in Mahi (Strength in Work)	No	[33]			-	TBC	TBC		-	This initiative could benefit Pacific jobseekers. [34]
	Whānau Ora	Expanding the coverage and impact of Whānau Ora commissioning	No	[33]							-	Strong priority alignment and is implementation ready. There are options to scale up the funding included in the package.
	[33]											

Pacific-related initiatives outside draft packages											
Status	Portfolio	Title	Directly targeted to Pacific peoples	Funding Sought by Agency			Funding supported by Treasury Vote team			Treasury Comment	
				Opex Ave p.a. (\$m)	Opex total (\$m)	Capex total (\$m)	Opex Ave p.a. (\$m)	Opex total (\$m)	Capex total (\$m)		
Vote team supported but not in draft packages	Economic Development	Senior Diverse Leaders: Specialised Pacific skills, leadership and talent pipeline capability-building pilot	Yes	[33]						Strong priority alignment and is implementation ready, as it scales up a current programme.	
	Health	Increasing the Pacific Provider and Workforce Development Fund (PPWDF) to support a Pacific workforce pipeline	Yes							This initiative was informed by comprehensive evaluation. Strong priority alignment. However, may not be a high value investment area based on LSF dashboard results for Pacific peoples.	
	Health	Increased investment in Pacific Innovation Funds	Yes	2.442	9.768	-	2.442	9.768	-	High quality, investment ready. This is an existing initiative that has demonstrated positive wellbeing impacts. As above regarding the LSF.	
	Housing and Urban Development	Financial capability services to support Pacific households into home ownership	Yes	0.660	2.640	-	0.660	2.640	-	Strong priority alignment and is implementation ready.	
	[33]										
	Health	Reducing the incidence and the improving the management of rheumatic fever	No	[33]						-	This initiative is not strongly aligned to priority C but has some targeting towards Pacific peoples.
	[33]										
[33]											
Not supported by Vote team	[33]										
	[33]										

Background

- Budget 2019 provides an opportunity to target investment towards lifting Pacific peoples' wellbeing across several key domains, including income and consumption, housing, and cultural identity, where Pacific peoples face poorer than average outcomes.
- Funding for Pacific-targeted initiatives made up ^[33] of the draft Priority C package considered by MCR on Tuesday 5 March. A relatively low level of Pacific-targeted bids were submitted (^[33] of Priority C after triaging), and five of the twelve Pacific-targeted initiatives received some level of funding in the draft package.

Pacific-targeted initiatives in the draft package

- Education: Improving and accelerating education outcomes for Pacific Learners ^[33]).
 - ^[33] we have only supported the three components that demonstrate evidence of wellbeing outcomes and are implementation ready.
- Pacific Peoples: Ensuring Pacific languages survive within New Zealand's Pacific communities (\$20.042m opex total in draft package)
- Pacific Peoples: Enhance Pacific Economic Development (\$11.150m opex total in draft package)
- ^[33]
- Pacific Peoples: Pacific Employment Support Service (\$14.490 opex total in draft package). This initiative was submitted as a joint bid with Employment: He Poutama Rangatahi, which is now seeking funding through the PGF.

Pacific initiatives not in the draft package

- A number of strong initiatives have not been funded due to fiscal pressures. However, there are options for changing the mix of Pacific-focused initiatives in the Priority C package, particularly if Ministers want to include initiatives from other portfolios.

Ministry for Pacific Peoples (MPP) delivery risks

- MPP may not be able to recruit the level of capability needed to deliver all of their Budget 2019 initiatives successfully. ^[34]
^[34]
- Options for mitigating this risk include:
 - Asking Minister Sio whether MPP has developed detailed plans for its future growth
 - Holding some of the Budget 2019 funding for MPP initiatives in tagged contingencies
 - Deferring one or more of MPP's initiatives.

Anchor projects

- Which Pacific-targeted initiatives, if any, would Ministers support as anchor projects for Budget 2019?