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- | | | |
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- | | | |
|------|--|-------------|
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Treasury Report: Budget 2019 Bilateral with Minister Lees-Galloway

| | | | |
|--------------|---------------|---------------------|-----------|
| Date: | 19 March 2019 | Report No: | T2019/771 |
| | | File Number: | SH-2-0 |

Action Sought

| | Action Sought | Deadline |
|---|---|-----------------------|
| Minister of Finance (Hon Grant Robertson) | Note the contents of this report | None |
| Associate Minister of Finance (Hon Dr David Clark) | Discuss the contents of this report with Minister Lees-Galloway at your bilateral on 19 March 2019 | 5.30pm, 19 March 2019 |

Contact for Telephone Discussion (if required)

| Name | Position | Telephone | 1st Contact |
|------------------|---|-----------|-------------|
| Richard Baird | Senior Analyst, Skills, Employment and Enterprise | [39] (wk) | N/A (mob) ✓ |
| Elizabeth Gerard | Team Leader, Employment and Enterprise | [39] (wk) | N/A (mob) |

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

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No.

Treasury Report: Budget 2019 Bilateral with Minister Lees-Galloway

Executive Summary

For Budget 2019, Ministers sought \$7.5 billion operating per annum and \$14.5 billion capital funding. 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 of capital funding.

Minister Lees-Galloway submitted 10 spending initiatives across three portfolios...

The Minister submitted initiatives totalling [33] operating per annum and [33] [33] capital funding for Budget 2019 across his ACC, Immigration and Workplace Relations and Safety portfolios. The Treasury only classified one initiative as aligning with Budget priorities.

Of these 10 initiatives, four initiatives totalling [33] operating per annum and [33] [33] capital funding were triaged out of the Budget process.

... but only two of these initiatives were included in the draft Budget package...

The draft Budget package presented to the Economic Development Cabinet Committee (DEV) on 6 March 2019 [T2019/359 refers] included:

- [33] operating per annum (from levy) and [33] capital funding for WorkSafe NZ to reduce work-related harm, and
- placeholder funding to further reduce the risk of maritime mass arrivals (i.e. asylum seekers).

... and the Minister is concerned that this represents underinvestment in the regulatory integrity of the labour market and immigration systems.

We understand that Minister Lees-Galloways' priority for this bilateral meeting is making a case for additional regulatory capability for the labour and immigration systems. [33]
[33]
[33]

This follows a joint letter to the Minister of Finance that outlined the potential risks and consequences of the Minister's decision to triage-out an initiative for additional tools and resources to support the implementation of the new pay equity regime. The letter was jointly prepared by the Ministers for Workplace Relations and Safety and Women.

Treasury vote teams support some regulatory initiatives that are outside the draft Budget package.

[34] . We recommend you could ask the Minister to outline his regulatory capability priorities, particularly relative to the maritime mass arrivals prevention initiative that has placeholder funding in the draft Budget package.

We also understand that the Minister of Finance directed Minister Lees-Galloway and Minister Woods (as Minister of Energy and Resources) to agree the policy capability resources required within the Ministry of Business, Innovation and Employment (MBIE) to deliver the Government's Future of Work and Just Transitions policy work programmes.

Recommended Action

We recommend that you:

- a **note** the contents of this report

- b **note** the suggested talking points at the end of this report for your bilateral discussion with Minister Lees-Galloway, and

- c **agree** to ask Minister Lees-Galloway to outline his regulatory capability priorities, relative to the maritime mass arrivals prevention initiative that has placeholder funding in the draft Budget package.

Agreed / not agreed

Elizabeth Gerard
Team Leader, Employment and Enterprise

Hon Dr David Clark
Associate Minister of Finance

Treasury Report: Budget 2019 Bilateral with Minister Lees-Galloway

Purpose of Report

1. This report provides you with background information and advice for your Budget bilateral discussion with Minister Lees-Galloway on the Workplace Relations and Safety, Immigration and ACC portfolios at 5:30 pm on Tuesday 19 March 2019.
2. This report primarily covers the Workplace Relations and Safety (WRS) and Immigration portfolios, as we understand these are the portfolios that the Minister wishes to discuss. ACC initiatives are included for the sake of completeness.
3. The report includes:
 - an overview of the initiatives submitted across these portfolios
 - information on specific initiatives that the Minister is likely to raise
 - an update on the Minister's baseline prioritisation initiatives, and
 - suggested talking points for your bilateral discussion.
4. Annex A covers the individual initiatives sought across the three portfolios and the Vote Team's assessment of these initiatives.

Overview

Minister Lees-Galloway submitted 10 spending initiatives across three portfolios...

5. Minister Lees-Galloway submitted ^D operating per annum and ^D ^D capital funding across 10 spending initiatives for Budget 2019. A summary of these bids and their current status in the Budget process is outlined in Table One, and described in more detail below.
6. While most of these initiatives were classified as priority-aligning by the Ministry of Business, Innovation and Employment (MBIE), the Treasury assessment was that only one of these initiatives (Future of Work policy capability) had a sufficiently direct link to the Budget priority areas. The rest were classified by the Vote Team as out-of-scope.
7. Of the 10 initiatives submitted:
 - [33]
 - the Immigration portfolio sought ^D operating per annum and ^D ^D capital funding across four initiatives, and
 - the WRS portfolio sought ^D operating per annum and ^D ^D capital funding across five initiatives.
8. Of these 10 initiatives, four totalling ^D operating per annum and ^D ^D capital funding were triaged out of the Budget process, based on lack of alignment with Budget priorities, and an insufficient case to be considered as high value spending.

9. Of the six remaining spending initiatives, Vote teams supported two initiatives totalling [33] operating per annum and [33] capital funding¹.

Table One: Summary of Budget initiatives submitted by Minister Lees-Galloway

| Status | Initiative | Opex avg per annum (\$m) | Capex (\$m) | Comment |
|--|---|--------------------------|-------------|---|
| In Draft Package | Immigration: Enhancing New Zealand's ability to prevent a maritime mass arrival | TBC | TBC | Decisions outstanding. Ministers have yet to make a decision on the revised proposal. |
| | Immigration: Prioritisation - Immigration | (0.019) | - | Scaled to reprioritise travel related to migrant attraction. |
| | WRS: Funding WorkSafe to reduce the risk of acute, chronic and catastrophic harm for New Zealand workers | [33] | | Supported. Operating funded from levy. Tagged contingency proposed, with split of up-front funding still to be confirmed. |
| | WRS: Prioritisation - Workplace Relations and Safety | | | Scaled to reprioritise policy capability (at the Minister of Finance's request). |
| Immigration: Investment in an integrated, sector based approach to address non-compliance in the Immigration system | Supported, with scaling for INZ to trial the proactive, sectoral approach in three sectors, instead of the six proposed. | | | |
| Supported by the Vote Team but not in Draft Package | WRS: Policy capability to facilitate the design and implementation of the Government's future of work activities | [33] | | Triaged out of Budget process. Decisions outstanding Ministers were directed to come to an agreed view on priorities across MBIE policy pressures, including the Future of Work and Just Transitions. |
| | WRS: Tools and resources to support the implementation of the new pay equity regime | | | 0.167 |
| Not Supported by the Vote team | [33] | [33] | - | Triaged out of Budget process [33] |
| | [33] | [33] | - | [33] |
| | [33] | [33] | [33] | [33] |

¹ Capital is higher because we have not included WorkSafe's proposal to return all [33] capital funding within 10 years.

... but only two of these initiatives were included in the draft Budget package...

10. The draft package considered by the Economic Development Cabinet Committee (DEV) on 6 March 2019 included [T2019/359 refers]:
 - [33] operating per annum (from levy) and [33] capital funding for the WorkSafe to reduce work-related harm (supported by the Vote Team), and
 - placeholder funding to reduce the risk of maritime mass arrivals.

... and the Minister is concerned that this represents underinvestment in the regulatory integrity of the labour market and immigration systems.

11. [33]
The two initiatives that were included in the draft package represent about half of the annual operating funding the Minister sought for maintaining regulatory capability and capacity, assuming full funding is allocated for the mass arrivals initiative.
12. The Vote Team supported a number of regulatory initiatives that were triaged or otherwise didn't make the draft Budget package. This bilateral provides an opportunity to ask the Minister to outline his priorities, particularly relative to the maritime mass arrivals prevention initiative that has placeholder funding in the draft Budget package.

The Minister identified more than one per cent of spending to be prioritised, but only a fraction of this is likely to be accepted for prioritisation.

13. For the prioritisation process, Minister Lees-Galloway submitted prioritisation initiatives for the Immigration and WRS portfolios sufficient to meet the one per cent target. Total funding of only [33] per annum is likely to be accepted, due to policy and service delivery risks posed by reducing some of the activities.
14. The proposed prioritisation initiative for ACC was greater than the one per cent target, but none of the [33] per annum identified is likely to be accepted, [33]
[33]

Information on spending initiatives

15. This section covers information, by portfolio, on particular spending initiatives that we consider Minister Lees-Galloway may want to discuss with you.
16. [33]

Immigration

[33]

[33]

Enhancing New Zealand's ability to prevent a maritime mass arrival

[4]

23. [34]

24. If Ministers did want to increase spending on preventative measures, we consider that significant scaling would be appropriate. [4]

[4]

[4]

[33]

Investment in an integrated, sector based approach to address non-compliance in the Immigration system

28. While not featuring in the draft package, the Treasury supports a scaled-version of this initiative that would target non-compliance in three priority sectors, rather than the six proposed. We consider that:
- three sectors would enable adequate testing of a new sector-based approach to addressing non-compliance, while also reflecting the limited analysis available on the expected impact of the intervention
 - there is sufficient evidence of under-resourcing,^[4] and
 - this initiative is of higher priority for addressing non-compliance in the labour and immigration systems than an additional investment in Employment Services (including the Labour Inspectorate), where only 20 per cent of complaints cannot be progressed.
29. The Treasury's proposed approach would mean that:
- INZ chooses these three sectors in consultation with MBIE's Employment Services branch, and that there is ongoing coordinated compliance action, and
 - INZ monitor and evaluate the effectiveness of these interventions, in order to support future requests for funding compliance activities. There is currently limited information on the effectiveness of current activities, and additional benefit of increased spending.

Workplace Relations and Safety

Tools and resources to support the implementation of the new pay equity regime

[33]

Prioritisation

ACC

46. The Minister has identified operational spending of ^[33] per annum for prioritisation, relative to the target of \$55.6 million per annum.
47. The Treasury does not support reprioritising funding from ACC, which would effectively reduce the solvency of the Non-Earners' Account. The government has a legislative requirement to fully fund the Account, which is presently funded at 69 per cent solvency compared to a target of 88 per cent.^[33]
^[33]

Immigration

48. The Minister has identified operational spending of ^[33] per annum for prioritisation, relative to the \$0.812 million per annum required by the one per cent calculation. The initiatives include reducing:
- travel expenditure for staff engaging with employers for the purpose of attracting migrants to New Zealand
 - intelligence capability
 - identity capability
 - INZ governance and strategy functions, and
 - policy capability.
49. We have supported the proposed reprioritisation of travel expenditure, amounting to \$0.019 million per annum, but we consider that the other proposals present material risks if prioritised and so have not supported these.

Workplace Relations and Safety

50. The Minister has identified operational spending of ^[33] per annum for prioritisation, sufficiently close to the target of \$0.505 million². The initiatives include reducing:
- future policy advice capability (from 2019/20 onwards), and
 - the travel budget for MBIE's Employment Services function.
51. We did not support either of these prioritisation initiatives, given the resourcing pressures faced by these areas, as reflected in the Budget bids across policy capability, pay equity, and Employment Services.
52. Following moderation by Finance Ministers, we understand that the policy advice component (^[33] per annum) was directed to be included in the set of initiatives to be accepted for prioritisation.

² This amount did originally cover the one per cent requirement, but a late change in approach to the treatment of portfolio spending within the Policy Advice and Related Services MCA resulted in a marginally different split across the Immigration, WRS and Employment portfolios.

Overall Prioritisation

- Can you outline your regulatory capability priorities, and where they sit relative to the maritime mass arrivals prevention initiative that has placeholder funding in the draft Budget package?

Immigration

Employer-assisted work visas and regional workforce planning (p.6)

- I consider that, given the uncertainty of consultation, further implementation planning required, and the pending outcomes of a number of different reviews, it is more appropriate to consider funding for implementing this policy at the same time as final policy decisions are taken.
- What consideration has been given to funding the operating spending through immigration fees and levies?

Enhancing New Zealand's ability to prevent a maritime mass arrival (p.7)

- Given the existing border agency response to mass arrivals, what is the rationale for further preventative measures?

Investment in an integrated, sector based approach to address non-compliance in the Immigration system (p.8)

- How does the Minister view the relative priorities of introducing sector-based INZ compliance activities AND increasing the capacity and capability of Employment Services?
- How would INZ track the effectiveness of the new approach, in order to support future requests for funding?

Workplace Relations and Safety

Tools and resources to support the implementation of the new pay equity regime (p.8)

- What additional cost is expected to be borne by the Crown if no additional tools and guidance can be provided?

[33]

Annex A: Initiatives by Portfolio for Bilateral Discussion

ACC

| Title | Description | Funding Sought by Agency | | Vote team assessment | | Draft package | | Treasury Comment |
|---|--|--------------------------|-------------------|----------------------|-------------------|-----------------|-------------------|---|
| | | Opex Avge (\$m) | Capex Total (\$m) | Opex Avge (\$m) | Capex Total (\$m) | Opex Avge (\$m) | Capex Total (\$m) | |
| [33] | | [33] | - | - | - | - | - | Triaged out |
| Total spending initiatives | | | - | - | - | - | - | |
| ACC - Prioritisation | Management response (Integrated Change Investment Portfolio and Injury Prevention) | | - | - | - | - | - | This initiative is effectively a decrease in the solvency of the non-earners' account. Although low risk for the short term, the government has a policy of full funding for this account; solvency has been dropping for some years and is below target; and we do not support decreasing solvency further. [33] [33] |
| Total Prioritisation initiatives | | | - | - | - | - | - | |

Immigration

| Title | Description | Funding Sought by Agency | | Vote team assessment | | Draft package | | Treasury Comment |
|---|---|--------------------------|-------------------|----------------------|-------------------|-----------------|-------------------|---|
| | | Opex Avge (\$m) | Capex Total (\$m) | Opex Avge (\$m) | Capex Total (\$m) | Opex Avge (\$m) | Capex Total (\$m) | |
| [33] | | | | | | | | |
| Enhancing New Zealand's ability to prevent a maritime mass arrival | The funding enhances New Zealand's capability to prevent a maritime people smuggling venture from departing from South/South East Asia to New Zealand. The initiative does this by increasing our offshore irregular migration network ^[1] , expanding the scope and number of capacity building programmes for operational agencies in priority partner countries, and renewing strategic deterrence messaging campaigns that reduce the attractiveness of New Zealand as a maritime people smuggling destination. The funding also increases our domestic intelligence and advisory capacity to support increased offshore engagement. | | | - | - | ? | ? | Do not support. The initiative does not directly align to any of the Budget priorities. The resources would strengthen the implementation of the Mass Arrivals Prevention Strategy but are not required to implement the Strategy. There was previous investment in 2017/18 to support the Strategy. The risk is low and while the bid identifies that the consequences of a mass arrival would be significant. However, there is no evidence of an increase in risk or that the existing measures are not sufficient. |
| [33] | | | | | | | | |
| Investment in an integrated, sector based approach to address non-compliance in the Immigration system | This funding provides additional resources for immigration intelligence, compliance and investigations, and a new information and education function. This supports a targeted compliance strategy in priority sectors, aimed at better detecting and punishing unlawful behaviour and incentivising industry self-regulation, to increase compliant behaviour by employers. | [33] | | | | - | - | Support scaled. This initiative does not align with a priority. The initiative presents evidence of the increase in reports of non-compliance and the likelihood it will continue. There has been increased pressure on the compliance function and very little increase in compliance resource. The bid cannot quantify the counter-factual or the outcomes of the initiative. The additional resource required is considerable. We support a scaled version to allow INZ to trial the proactive, sectoral approach in 3 sectors on the basis that these sectors are chosen in collaboration with Employment Services. Further bids for expansion should be informed by the review of migrant exploitation, and show evidence of the consolidation of proactive sectoral engagement between INZ and Employment Services |
| Total spending initiatives | | [33] | | | | - | - | |

| Title | Description | Funding Sought by Agency | | Vote team assessment | | Draft package | | Treasury Comment |
|---|--|--------------------------|-------------------|----------------------|-------------------|-----------------|-------------------|--|
| | | Opex Avge (\$m) | Capex Total (\$m) | Opex Avge (\$m) | Capex Total (\$m) | Opex Avge (\$m) | Capex Total (\$m) | |
| Prioritisation Immigration | - Prioritisation initiatives within the immigration portfolio, including: <ul style="list-style-type: none"> Reducing travel expenditure for staff engaging with employers for the purpose of attracting migrants to New Zealand Reducing intelligence capability Reducing identity capability Reducing Immigration New Zealand Governance and Strategy functions Reducing policy capability | [33] | - | (0.019) | - | (0.019) | - | 1% of the eligible baseline has been identified for prioritisation. We agree with the assessment of the risk RAG ratings outlined by the agency. We consider that the majority of the feasibility ratings should be downgraded to amber. We recommend that Ministers only accept the initiative Reducing Attraction travel for prioritisation. This is only \$0.076m over the forecast period. |
| Total Prioritisation initiatives | | | - | (0.019) | - | (0.019) | - | |

Workplace Relations and Safety

| Title | Description | Funding Sought by Agency | | Vote team assessment | | Draft package | | Treasury Comment |
|---|---|--------------------------|-------------------|----------------------|-------------------|-----------------|-------------------|---|
| | | Opex Avge (\$m) | Capex Total (\$m) | Opex Avge (\$m) | Capex Total (\$m) | Opex Avge (\$m) | Capex Total (\$m) | |
| <p>Funding WorkSafe to reduce the risk of acute, chronic and catastrophic harm for New Zealand workers</p> | <p>The funding will improve the health and safety of workers in New Zealand by providing WorkSafe with the capacity to:</p> <ul style="list-style-type: none"> • Build an intelligence-led and technology-enabled approach to the prevention of work-related harm so WorkSafe can better target resources to underlying drivers of harm • Develop and deliver evidence-based harm prevention programmes for mental health, hazardous substances, and SMEs • Expand the inspectorate to keep pace with changing and growing risk profile of work • Improve staff learning & development. | | | | | | | <p>Support with contingency – seeks to establish greater capability for targeting chronic and catastrophic harm. The overall strategic assessment and high level economic case is sound, but the modernisation/transformation elements are not considered implementation ready. While the potential scale of benefits in the form of harm prevention has been estimated, there is not yet a clear, realistic plan for how these will be achieved. We recommend funding the cost pressure and inspectorate components up front, and setting aside a contingency for the modernisation, ICT replacement and harm prevention programmes, for allocation subject to further implementation planning. Operating impacts are fiscally neutral as funded from levy.</p> |
| [33] | | | | | | | | [33] |
| | | | | | | | | Triaged out |
| | | | | | | | | Triaged out |
| Total spending initiatives | | | | | | | | |

| Title | Description | Funding Sought by Agency | | Vote team assessment | | Draft package | | Treasury Comment |
|--|--|--------------------------|-------------------|----------------------|-------------------|-----------------|-------------------|---|
| | | Opex Avge (\$m) | Capex Total (\$m) | Opex Avge (\$m) | Capex Total (\$m) | Opex Avge (\$m) | Capex Total (\$m) | |
| Prioritisation - Workplace Relations and Safety | Prioritisation initiatives within the WRS portfolio, including: <ul style="list-style-type: none"> Reducing future policy advice capability (from 2019/20 onwards) Reducing employment services travel budget. | [33] | | | | | | MBIE has completed the 1% identification for the portfolio. The proposed funding for prioritisation also correlates to areas seeking funding through Budget 2019, however, we do not consider there to be clear alternatives. While we disagree with the feasibility RAGs, and it is not made clear how significant the impact of prioritisation would be, we agree that reprioritising funding from the proposed areas is not desirable. Policy advice was reprioritised at the request of the Minister of Finance. |
| Total Prioritisation initiatives | | | | | | | | |