

The Treasury

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Treasury Report: Budget 2024 Bilateral: Hon David Seymour (Lead MBIE)

Executive Summary

This briefing is to support you in your Budget 2024 Bilateral meeting with Minister Seymour regarding the Ministry of Business, Innovation and Employment (MBIE).

It covers the MBIE Budget 2024 Savings Package (including baseline savings, targeted and 100-day plan savings, and MBIE's changes in FTEs), potential additional savings and ways to address the savings shortfall, information on new spending proposals, and forecast cost pressures MBIE have identified they will have to manage within their reduced baseline.

For your discussion, you may want to raise that MBIE has met the majority of their targeted policy and 100-day plan savings targets, ^[33] It also submitted a significant amount of baseline savings that would meet the target if accepted. However, the recommended Budget 2024 package currently has MBIE not meeting its target.

There are some areas where we haven't recommended agreeing to MBIE's proposed baseline savings, primarily because we suggest they count towards other targets or are not actionable at this time, and this has resulted in a shortfall. Key to your meeting and addressing the shortfall will be Ministers perspectives on our recommendations and the potential saving options to close the gap and meet the target. We have provided some potential saving options from paragraph 25 onwards. These align with the comments you provided on the Vote Business, Science and Innovation savings options.

There are also new spending initiatives in MBIE's budget package which have all have been supported, although all but 1 has been scaled. Most notably, operating funding for Kānoa has been scaled 27% to Budget 22 levels.

Recommended Action

We recommend that you:

- a **note** the material provided in this report to support your discussion with Minister Seymour about the Ministry of Business, Innovation and Employment's Budget 2024 package.

John Marney
Manager, Regions, Enterprise and Economic Development

Hon Nicola Willis
Minister of Finance

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Treasury Report: Budget 2024 Bilateral: Hon David Seymour (Lead MBIE)

Proposed Agenda

1. You are meeting with Minister Seymour on Monday 18 March to discuss the Budget package for the Ministry of Business, Innovation and Employment (MBIE). The proposed agenda is:
 - a MBIE Budget 2024 Savings Package
 - i Baseline Reduction Target
 - ii Targeted savings
 - iii Change in FTEs
 - b Addressing the savings shortfall
 - c New spending
 - d Managing cost pressures within baselines

Budget 2024 Package – General Information

2. Following agency submissions for Budget 2024, both operating and capital demands are significantly higher than the funding available. This ambition for new spending will not be achievable from both a fiscal and delivery perspective.
3. We therefore recommend you emphasise to Ministers that it will be necessary for them to consider what the Government does at this Budget versus future Budgets.
4. We also recommend that you continue to push Ministers on where further savings could be realised, particularly with regards to stopping funds and programmes not aligned with your priorities, or addressing back office and contractor and consultant growth.
5. Finally, we recommend that – where appropriate – you re-emphasise that you are taking a stricter approach to out-of-cycle requests for funding ahead of Budget 2024, to ensure that the Government can assess the relative benefits of proposals across the full Budget package.

Summary of Package

MBIE Budget 2024 Savings Package

6. The savings that MBIE was asked to provide included:
 - a Baseline savings of \$233.9 million p.a. (\$935.6 million across the forecast period).
 - b 100-day plan/Coalition Agreement savings for Immigration and ending the Regional Skills Leadership Groups.
 - c Targeted policy savings for the International Visitor Conservation and Tourism Levy, Warmer Kiwi Homes, ^[33]
7. MBIE submitted \$691.040 million in 100-day plan and targeted policy savings. We have recommended accepting all 100-day plan and targeted policy savings submitted. We

have also recommended an additional \$72.369 million of savings that relate to the fiscal plan or mini-Budget decisions (and submitted as baselines savings).

8. MBIE submitted and \$1,032.248 million of baseline savings across the forecast period. We recommend that \$767.985 million are agreed to and counted as part of the baseline saving exercise. This is \$167.215 million short of the target. The main reasons for the shortfall are:
 - a Savings that we support but do not recommend counting toward the baseline savings target: the levy-funded proportion of the WorkSafe savings (no fiscal impact); savings from the administration of the Government Investment in Decarbonising Industry (GIDI) Fund (should be counted as 100-day plan savings); additional immigration savings submitted in excess of the fiscal plan target (should be counted as targeted savings); and minor savings in the Science, Innovation and Technology portfolio that were attributed to the wrong financial year.
 - b Savings we do not support, either partially or fully: partial Retirement Commission savings (front-line service); ^[33]
 - c Savings that aren't actionable at this time: ^[25] and ^[33]
9. We have indicated to MBIE where we consider savings should not count towards the baseline target (first bullet above). We have also told MBIE that there are other areas where our recommendations differ from their proposals, but have not provided the details (second and third bullets).
10. In light of the shortfall, there are additional savings options to consider, including potential options we have identified, further on in this briefing, starting from paragraph 25. This includes savings from the ^[33] policy and back-office staff, and funds and programmes within Energy and Science, Innovation and Technology.
11. We have received your comments from the line-by-line readout of the Vote Business, Science and Innovation savings options and reviewed them against our recommendations for the current MBIE Budget 2024 Savings Package. We note there are a few areas where your support, or lack thereof, for some savings initiatives deviate from our recommendation, or you have inquired if we can go further.
12. We will still need to complete a full review to reflect your views in the final package, answer your questions, and respond to any specific comments. We have also outlined some savings options later in this briefing from paragraph 25. Some areas where you have suggested we can go further, including contestable funds and programmes in some portfolios, and reductions in contractor and consultant spend, are reflected in the additional options we have suggested.
13. MBIE's total operating baseline in 2023/24 is \$7.274 billion, while the eligible base for the baseline reduction exercise was \$3.119 billion. This reflects the exclusion of the ACC non-earners account funding (around \$2 billion) as well as exclusions that applied to all agencies.

Baseline savings

14. MBIE's approach to savings has been to seek 7.5% savings from each portfolio, and cross-MBIE functions in corporate and enablement services (i.e., areas that service MBIE internally). Key items in the baseline savings package include:

- a Reductions to back-office staffing (in enablement services and other internal MBIE services) totalling \$128.180 million across the forecast period.
- b Reductions in policy expenditure totalling \$21.330 million across the forecast period, primarily on FTE reduction but also some discretionary spending reduction.
- c Scaling of the Science, Innovation, and Technology (SIT) work programmes and funds totalling \$278.880 million across the forecast period.
- d Scaling or ending Energy portfolio (including Energy Efficiency & Conservation Authority) programmes totalling \$92.320 million across the forecast period.
- e Scaling New Zealand Trade and Enterprise's (NZTE) operational funding and the International Growth Fund that NZTE administers totalling \$50.170 million across the forecast period.

Table 1: Total Recommended Savings by Portfolio

Vote	Portfolio	Baseline savings (\$m)	Targeted/100-day savings (\$m)	% of total MBIE savings
Business, Science and Innovation	Economic Development	243.978	-	15.93%
	Auckland	-	-	-
	Commerce and Consumer Affairs	42.494	-	2.77%
	Energy	92.320	103.109*	13.87%
	Media and Communications	8.000	-	0.52%
	Public Service	2.400	-	0.16%
	Regional Development	-	-	-
	Resources	-	-	-
	Science, Innovation and Technology	283.280	-	18.50%
	Small Business and Manufacturing	11.840	-	0.77%
	Space	-	-	-
	Tourism and Hospitality	36.339	50.000	5.64%
Labour Market	ACC	0.880	-	0.06%
	Immigration	-	547.396*	35.74%
	Social Development and Employment	2.132	45.931	3.14%
	Workplace Relations and Safety	27.557	-	1.80%
Building and Construction	Building and Construction	7.240	-	0.47%
	Housing	9.525	-	0.62%
Total		767.985	763.409	1531.392

* These figures also include the \$72.369 million of additional savings (\$16.973 million relating to GIDI and \$55.396 million relating to immigration) that were submitted by MBIE as baseline savings, but we have counted as targeted/100-day plan savings.

15. The blanket 7.5% approach has resulted in portfolio Ministers being asked to offer savings specific to their areas, with limited trade-offs being made across portfolios. Savings have also been sought from areas that are largely funded through levies, where the ability to return Crown funding to the centre is limited (e.g., WorkSafe). This is partly because levy-funded services were included in the eligible baseline calculation, rather than being excluded like other third-party funded expenditure. MBIE considers that this effectively increased its required savings on Crown-funded revenue above the nominal 7.5% target.

100-day plan and targeted policy savings

16. MBIE has delivered the 100-day plan savings that were requested. Immigration savings will be achieved through increasing fee and levy rates. The proposed new rates will be considered by Cabinet shortly. There are risks in that over 70% of Immigration system costs are fixed, which could make the system vulnerable to a funding shortfall if visa volumes drop unexpectedly. MBIE proposes to manage this risk by building in contingency when adjusting the rates of fees and levies.
17. MBIE has also delivered the targeted policy savings that were requested.^[33]
18. Budget Ministers requested advice on what additional savings could be made^[33]

You will receive further advice and costings as part of BM3 materials, for final decisions on whether to include the additional savings in the Budget package.

19. ^[33]

FTE Changes

20. MBIE has seen significant FTE growth since 2017, growing 86.7% from 3,365 FTE to 6,282 FTE. The most growth by total FTEs has been in roles in the Inspectors and Regulatory Officers, Information Professionals, and Clerical and Administrative Workers occupation groups.
21. There is the opportunity to ask Minister Seymour for more detailed information on the 2017-2023 growth in MBIE FTEs, particularly around what areas have seen significant growth (such as the occupation groups above) and what functions they are carrying out within MBIE.
22. The current FTEs in each portfolio, split by operational and policy staff, is outlined in Table 2. In addition, 1381.2 FTE (21.5%) are categorised as Enablement and provide services across portfolios.

Table 2: MBIE FTEs Across Portfolios (excluding Crown Entities).

Vote	Portfolio	Operational	Policy	Total
Business, Science and Innovation	Economic Development	87.9	77.6	165.5
	Auckland	0.0	5.5	5.5
	Commerce and Consumer Affairs	392.9	55.9	448.8
	Emergency Management and Recovery	*	*	0.0
	Energy	7.0	68.4	75.4
	Māori Development	8.6	0.0	8.6
	Media and Communications	44.8	16.3	61.1
	Public Service	10.9	2.0	12.9
	Police	*	*	0.0
	Regional Development	75.5	6.0	81.5
	Resources	66.5	10.0	76.5
	Science, Innovation and Technology	62.9	67.7	130.6
	Small Business and Manufacturing	57.0	10.0	67.0
	Space	6.8	10.0	16.8
	Sport and Recreation	*	*	0.0
	Tourism and Hospitality	12.9	27.5	40.4
Labour Market	ACC	0.0	5.0	5.0
	Health	*	*	0.0
	Immigration	2821.4	39.0	2860.4
	Social Development and Employment	41.1	32.9	74.0
	Workplace Relations and Safety	293.4	39.3	332.7
Building and Construction	Building and Construction	178.5	54.4	232.9
	Housing	271.4	15.9	287.3
Other (0.75%)	Multiple	41.3	7.0	48.3
Total		4480.8	550.4	5031.2
Enablement (e.g., finance, legal, personnel, ICT, etc.) and multiple portfolios FTEs				1381.2
Total				6412.4

* FTE figures are counted within the multiple portfolio and enabling functions.

23. MBIE also funds a number of Crown entities, many of which have also had significant FTE growth, as outlined in Table 3.

24. [33]

Many initiative templates did not include information on FTE impacts, so this may understate FTE reductions associated with the savings package.

Table 3: FTEs for Selected Entities Funded By MBIE

Crown Entity	FTEs			Crown funding		Core reasons for expenditure and FTE growth
	2017	2023	Change	2023/24 Funding before savings	Increase since 2017	
Commerce Commission	189	428	+239	\$108.2 million (\$69.9 million from Crown)	\$38.351 million	The Commission's funding and FTE growth is driven by new work it has been required to undertake, including fuel regulation, retail payment system regulation, grocery regulation, competition studies, increased work in consumer and competition regulation, ongoing regulation of fibre infrastructure, extension of credit regulation, and enforcement.
Financial Markets Authority	154	289*	+135	\$74.843 million (\$16.465 million from Crown)	\$12.543 million	FMA's funding and FTE growth is also due to new work, in particular the new financial advice regime (74 FTE) and the new conduct of financial institutions regime (currently approximately 35 and will grow to about 92 FTE by FY25/26). The FMA is 83% third party funded.
New Zealand Trade and Enterprise	577	753	+176	\$262.598 million	\$62.008 million	Growth in FTEs is likely due to increases to NZTE's operational funding of approximately \$40m from FY 2018/19 to FY 2023/24. Approximately \$30m of this baseline increase is carried through to outyears.
Energy Efficiency and Conservation Authority	39	121	+81	\$78.94 million (\$58.63 million from Crown)	-	This increase reflects the additional responsibilities taken on by EECA, including administration of the GIDI fund and Warmer Kiwi Homes programme. EECA's FTE will decrease by 36 with the proposed savings initiatives.
Callaghan Innovation	386	433	+47	\$85.9 million (from ops MCA)	-	Most of the increase occurred between 2018-2020. The increase is likely due to the range of Innovation centred funds/subsidies the previous government implemented. The most significant of these was the RDTI tax incentive which received funding in Budget 2018.
New Zealand Tourism Board	150.73 (2019)	162.2	+11.47	\$112 million	-	The increase in FTE is mostly related to increased operational support of Qualmark and a shift in some delivery from contractors to permanent staff. There are also some fluctuations in vacant positions over these time periods.

For the EECA: Please note that these figures are incorrect. The 2017 figure should be 75 and the change figure 46.

* Note the exact FTEs for this year were not provided and instead represents all permanent employees. Some small variation in actual FTEs is likely.

Addressing the savings shortfall

25. We recommend targeting any further savings at areas of low value spend across MBIE. This may require portfolios that have already offered significant savings to offer more. This can be challenging for MBIE because of the number of Ministers that have portfolio responsibilities and will therefore require some direction from the Lead Minister.

26. [33]

We are also expecting a late savings submission for the Energy portfolio (up to \$65 million); we are awaiting detailed information on these savings and have not yet carried out an assessment.

27. [33]

28. We have identified areas for possible further savings for Budget 2024 (see Table 4 below). We also recommend that further work outside Budget 2024 is required to manage future costs and ensure value for money from existing expenditure. Possible areas to investigate further could be:

a [33]

b

c

d

29. There are some portfolios where there is limited scope for further savings:

a Further savings options in Immigration would result in transferring the costs of refugee quota and related programme costs onto visa applicants who aren't directly benefiting from this programme. [33]

b Some portfolios, including Workplace Relations and Safety, Immigration, and Media and Communications, have significant amounts of levy funding and so many additional savings options would not generate savings for the Crown.

c Further savings in Media and Communications would likely impact frontline services (e.g., the Emergency Caller Location Information service).

Table 4: Potential Additional Savings Options

Area	Current status	Further opportunity
Policy expenditure	MBIE have provided policy savings of \$21.33 million p.a. from some portfolios.	Since 2017, policy FTE has grown 26% to 508.4 FTEs. Further policy savings may be found by prioritising how policy resource is allocated to priority areas.
Back-office	MBIE have provided \$127.2 million of back-office savings across enablement services and other back-office functions (areas that service MBIE internally) through FTE reductions and reducing contractor and consultant spend.	There may be opportunities to scale these savings further. Some back-office savings reflect scaling of services by 6.5%-10% to deliver savings. We recommend investigating further whether additional savings can be realised, and what the impact on policy and service delivery could be.
Science, Innovation and Technology	\$278.88 million savings have been offered from the SIT portfolio (excluding policy savings). Over half of this is from a permanent reduction to the National Science Challenges appropriation (totalling \$173.38 million from 2024/25). The rest is from permanent reductions to a range of SIT funds (totalling \$35.5 million from 2027/28) and stopping or reducing low-value time-limited programmes (totalling \$70 million over 2024/25 and 2025/26).	[33]
Energy	Savings of \$92.338 million have been provided primarily through scaling or ending programmes.	There are programmes that could be scaled or stopped including ^[33] returning the Regional Hydrogen Industry Transition tagged operating contingency (\$100 million), ^[33] for final decisions on whether to include the additional savings in the Budget package.
Regional Development	No savings are currently provided as there is no existing baseline operating funding. New spending is being sought to provide baseline operating funding going forwards. We have already recommended additional scaling beyond the 7.5% scaled option MBIE requested – which equates to a c27% reduction to the current operating model.	There is the potential to return funding from the NIWE Primary Producer Finance Scheme. MBIE currently estimates total demand will be approximately \$230 million (leaving approximately \$10 million of underspend to be returned to the centre). This total demand is expected to naturally decline further as applications are worked through. As such, we expect the underspend to be higher than \$10 million. Should Ministers provide additional direction, such as refusing individual projects or amending the overall settings, further savings could be achieved. To date around \$130 million of the total \$240 million quantum is unallocated.
Economic Development	Savings of \$112.498 million have been provided through stopping or scaling programmes and initiatives, most notably scaling NZTE operational funding and the International Growth Fund.	[33]
[33]		

New Spending

30. Five new spending initiatives were invited for MBIE portfolios. Four of these were to address time-limited funding for ongoing policies or programmes. These four are included in the draft package but some need further work to address underlying issues. The Treasury recommendations are outlined below.
31. The initiative to provide ongoing funding for Kānoa to manage its existing portfolio, includes the costs of Crown Regional Holdings Limited, has been scaled by 27% - a more significant reduction than other areas of MBIE. Further scaling would have implications for the effective management of the existing \$4.74 billion investment portfolio and/or policy support for the Minister for Regional Development. Funding is required regardless of the outcome of the Regional Infrastructure Fund bid.

Title	Draft package		Treasury recommendation and Comment	
	Total Operating (\$m)	Total Capital (\$m)		
Temporary Accommodation Service – 2023 North Island Weather Events	27.833	-	Support	We support this initiative and note that failure to provide further funding will necessitate the removal of accommodation for those displaced by the NIWEs. Sourcing accommodation for displaced peoples is costly and resource intensive, however, providing certainty of funding for the next two FYs will minimise the reliance on more expensive short-term contracts. Given significant uncertainties around costings and FTE requirements, our support is contingent on quarterly reporting on demand and spend, with any residual funding directed to be returned to centre. ^[33]
New Zealand Screen Production Rebate – International	[33]	-	Support Scaled	This initiative seeks funding to cover shortfalls in the NZSPR – International and administrative costs. We support a scaled version of this initiative which provides the minimum amount of funding needed to meet NZSPR – Intl obligations. Current and anticipated commitments for the NZSPR - Intl will exhaust available funding before the MYA ends in FY25/26. Funding this initiative is critical as failure to make rebate payments or deferring funding carries legal and reputational risk to the Crown. ^[33]
Geohazard Information Services: GeoNet and the National Seismic Hazard Model		-	Support Scaled	Although Geonet and NSHM provide critical services, we have concerns about cost escalations and GNS Science's financial management. MBIE have not put forward options for ^[33] Our recommended option would provide ^[33]
Regional Development – Baseline operating funding to support the Regional Infrastructure Fund and previous interventions	88.000	-	Support Scaled	We initially support scaled funding in line with the Budget 22 levels, pending any decisions on the Government's approach to regional investment (including the proposed Regional Infrastructure Fund 15809) and overall reprioritisation within MBIE for Budget 24. While Kānoa - RDU has no operational funding beyond 30 June 2024 to manage existing investments, there is a question as to how these functions will evolve in terms of final decisions on the RIF and where responsibility for managing these investments will lie. The initiative's title references the RIF as Kānoa's funding was invited as an overall RIF condition, yet RIF delivery is now in initiative 15809.

32. MBIE submitted a new spending initiative for \$1.2 billion for a Regional Infrastructure Fund, as outlined in the Coalition Agreement. However, we have significant concerns and recommended deferring as the policy settings have not been finalised and there is not sufficient evidence of demand for high value investment within scope of the current proposals. We understand MBIE is developing updated proposals based on feedback from Ministers. There are also various options for scaling that you can consider.

Title	Draft package		Treasury recommendation and Comment	
	Total Operating (\$m)	Total Capital (\$m)		
Regional Development - Regional Infrastructure Fund Establishment	4	200	Support Scaled	<p>BM2 package (change from Treasury draft package): Include scaled funding for Budget 2024, with remainder considered in future Budgets.</p> <p>Treasury comment: We recommend deferring establishing the RIF. The proposed quantum likely exceeds the scope of high value investments in the investment categories. Given the Government's infrastructure priorities are still being determined, deferral would allow for development of a proposal that better aligns with these priorities. If Cabinet proceeds with RIF establishment, we recommend a scaled option with funding for where RIF proposals are most developed and the remainder in a tagged contingency.</p>

Managing Cost Pressures Within Baselines

33. MBIE has sought to manage existing cost pressures through internal prioritisation and finding improvements in efficiency and effectiveness of existing systems and services. This is likely to continue as MBIE continues to manage within a reduced baseline and may result in trade-offs needing to be made between different portfolios and priorities.
34. MBIE has forecast a number of significant cost pressures, including:
- a [33]
 - b
 - c
 - d Other cost pressures relating to maintaining IT upgrades and licencing, and functional support requirements [25] and property-related cost pressures [25]
35. It is not clear how MBIE will manage these cost pressures, and this may be something to discuss further with Minister Seymour.
36. We do have some concerns as to how credible and achievable savings are for reducing the use of ICT contractors by replacing them with employees, given the limited information we have received. While MBIE is confident in its ability to deliver these savings without reductions in service, there are potential risks that MBIE will lose technical expertise through the conversions that could impact service delivery.