MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Briefing for the Incoming Minister

Skills and Employment

20 December 2016

New Zealand Government

Contents

1. Portfolio overview

Skills and Employment forms part of the Tertiary Education, Skills and Employment (TESE) portfolio. Your portfolio is focused on ensuring that the New Zealand population have the skills needed to get and maintain productive employment, and that businesses can access the skilled people they need to grow.

Skills and Employment is critical to New Zealand's economic growth

A workforce with the right knowledge and skills – and the effective utilisation of these skills in workplaces – drives economic growth by lifting the competitiveness and profitability of our firms, and facilitating innovation across the economy. Work in the Skills and Employment portfolio supports New Zealanders to develop the skills they need to engage in employment, and for employers to access the skills they need to be productive and competitive.

We have a broad skills system and a dynamic labour market…

Our skills system is composed of a broad range of actors, including firms and employees, the education and tertiary education sectors, and our immigration and welfare systems. Our labour market is dynamic, encompassing a multitude of reciprocal relationships between these actors and systems – as well as substantial movement between jobs and between industries, and up-skilling by those already in work.

…and we perform well by international standards…

New Zealand's population is highly qualified and skilled compared to the OECD average. We are ranked fourth in literacy skills compared to other OECD countries, and fifth for problem solving skills (OECD Survey of Adult Skills 2015). We also have: relatively high rates of labour force participation; relatively low unemployment; and our labour market is generally considered to be flexible and effective at matching people to jobs. Indications are that the New Zealand labour market is still robust with 35,000 more people employed in the September quarter of 2016. The unemployment rate is 4.9%, the lowest rate since December 2008.

…but there is still progress to be made

However, our high levels of qualification have not led to as great an increase in productivity as might have been expected. Some groups are still being left behind and there continue to be groups at higher risk of long periods of unemployment. We need to look to ways to improve the economic outcomes of tertiary education, and the integration of the immigration, welfare and skills systems.

Further, social and technological advances are driving changes in our industries and workplaces, requiring learners and workers to upskill and adapt. Our school-leavers, graduates, and those already in the workforce need to be equipped with the right skills, including soft skills, to meet the evolving needs of employers. To help achieve this, we need to place firms at the centre of our understanding of skill development.

To help ensure the greatest scope for economic growth between now and 2025, we should aim to raise New Zealand's long-run productivity growth rate while maintaining and increasing our high rate of labour force participation. This will mean boosting the economy's skills base across the board, improving returns on the skills we already invest in, and ensuring that the correct matching tools are in place to aid both employers and jobseekers. We will also need to consider how best to use migration to supplement our domestic supply and improve the contribution that immigration makes to the labour market.

2. Immediate priorities

The Employment portfolio has no current legislation in the House, and no decisions that must be made in the next 100 days. However, there are several priority pieces of work that you may wish to turn your attention to during your first few months as Minister for this portfolio.

[Information withheld consistent with s9(2)(f)(iv) of the Official Information Act 1982]

Cabinet decisions on lifting the bar for skilled migration

In September 2016 Cabinet agreed to a package of changes to the Skilled Migrant Category (SMC) to help achieve the planning range for the New Zealand Residence Programme (NZRP) and ensure that highly-skilled and higher-paid migrants are prioritised. Analysis of the SMC showed the average income and skill level of skilled migrants had been dropping, in part due to the change in the age and composition of SMC migrants over time, as an increasing proportion of SMC migrants are now recent students (up from 17 per cent to 45 per cent in the last 10 years). Data indicates that former international students generally earn less than comparable domestic graduates and generally the earnings gap does not close over time.

[Information withheld consistent with s9(2)(f)(iv) of the Official Information Act 1982]

This work is led by the Minister of Immigration, but as Minister for Tertiary Education, Skills and Employment you have an interest in the impact of this work on employment opportunities, the ability for employers to access the skills they need to be productive and competitive, and the overall skill level of the workforce.

[Information withheld consistent with s9(2)(f)(iv) of the Official Information Act 1982]

[Information withheld consistent with s9(2)(j) of the Official Information Act 1982]

Upcoming publications

Labour Market Reports

There are also several labour market reports (listed below) which are due to be published in the next 100 days. We will obtain your approval prior to publication.

Name	Description	Timing
Jobs Online Report	Vacancies report for November 2016	21 December 2016
Maori in the Labour Market Report	Key labour market information for Maori by iwi region	mid- January 2017
Medium-Long Term Employment Outlook	Employment demand forecasts to 2025	mid-January 2017
Jobs Online Report	Vacancies report for December 2016	25 January 2017

Occupation Outlook 2017	provides labour market information on the income, fees and job prospects for occupations	mid- February 2017
Quarterly Labour Market Scorecard	Household Labour Force Survey results for December quarter 2016	1 February 2017
Quarterly Labour Market Report	Analysis and commentary on Household Labour Force Survey results for December quarter 2016	10 February 2014
Jobs Online Report	Vacancies report for January 2016	22 February 2017

3. Portfolio responsibilities

Skills and Employment forms part of the Tertiary Education, Skills and Employment (TESE) portfolio. MBIE works closely with the Tertiary Education Commission (TEC) and Ministry of Education on TESE issues. You will receive briefings from the TEC and the Ministry of Education focusing on the Tertiary Education component of this portfolio.

Portfolio functions and responsibilities

Your key areas of responsibility relating to Skills and Employment are as follows:

- the functioning of the labour market, and its role in improving employment, social, and economic outcomes in New Zealand
- bringing a labour market perspective to discussions with the education, social development, economic development, immigration and Māori and Pasifika sectors
- participation on the Skilled & Safe Workplaces (SSW) Ministerial Group
- you are also involved in the labour market issues associated with the Canterbury Earthquake Recovery for beneficiaries, migrants, trainees, and existing workers.

Since 2014/15, Skills and Employment is funded from Vote Economic Development and Employment.

In practice, identifying and addressing barriers to good performance of the labour market generally involves working closely with employers and sector leaders and across portfolios – particularly Education, Tertiary Education, Workplace Relations and Safety, Immigration, and Social Development. For example, the previous Minister for Tertiary Education, Skills and Employment was Chair of the SSW Ministerial Group, one of six key cross-portfolio areas identified as crucial to the Business Growth Agenda (BGA). The SSW Ministerial Group currently meets monthly.

Key MBIE officials

Advice on Skills and Employment is provided by the Skills and Employment Policy team, the Labour Market Trends team, and the Regions and Cities team. These sit within MBIE's Labour, Science and Enterprise Group and are concerned with:

- the functioning of the labour market, and its role in improving employment, social, and economic outcomes in New Zealand
- working with the SSW agencies, comprising the Tertiary Education Commission, ACC, the Ministry of Education, the Ministry of Social Development, Immigration New Zealand and Te Puni Kōkiri
- working with other groups and agencies who form part of the Tertiary Education, Skills and Employment (TESE) portfolio, including the Tertiary Education Commission and the Ministry of Education

The Skills and Employment Policy team is the secretariat for the SSW Ministerial Group, the home for the Sector Workforce Engagement Programme (SWEP) and provides policy advice relating to the skills and employment portfolio. The Skills and Employment policy team is responsible for the analysis of labour market issues to lead and support the delivery of strategic advice related to the labour market and the skills system. This is to support New Zealanders to develop the skills they need to engage in employment and employers to access the skills they need to be productive and competitive. The team's areas of focus include:

- The overall effectiveness of the labour market and the employment outcomes of individuals and groups, including the strategic direction of labour market policy.
- The economic outcomes of migration and the immigration system.
- The contribution of the skills system, including firms, to productivity.
- Operational and facilitation initiatives to support better labour market matching and skills supply in occupations, sectors and regions.

The Labour Market Trends team provides:

- data, information, and analysis for ministerial servicing and ad hoc enquiries,
- periodic reports on the state of the labour market, including on job vacancies, and for Māori, and
- modelling and forecasting of employment nationally and for the Canterbury rebuild.

Key contacts are set out in the table below:

Contact	Role	Priority Area	Contact details
David Smol	Chief Executive, Ministry of Business, Innovation and Employment	All	**E** david.smol@mbie.govt.nz *[Information withheld consistent with s9(2)(a)of the OIA 1982]*
Paul Stocks	Deputy Chief Executive (Labour, Science and Enterprise Group), Ministry of Business, Innovation and Employment	All	**E** paul.stocks@mbie.govt.nz *[Information withheld consistent with s9(2)(a)of the OIA 1982]*
Joanne Hughes	General Manager, Labour and Immigration Policy, Ministry of Business, Innovation and Employment	Skills and Employment Policy	**E** joanne.hughes@mbie.govt.nz *[Information withheld consistent with s9(2)(a)of the OIA 1982]*
Michael Bird	General Manager, Evidence, Monitoring & Governance, Ministry of Business, Innovation and Employment	Labour Market Monitoring and Performance	**E** michael.bird@mbie.govt.nz *[Information withheld consistent with s9(2)(a)of the OIA 1982]*

Hayden Fenwick	Manager, Skills and Employment Policy, Ministry of Business, Innovation and Employment	Skills and Employment Policy	**E** hayden.fenwick@mbie.govt.nz *[Information withheld consistent with s9(2)(a)of the OIA 1982]*
David Paterson	Manager, Labour Market Trends, Ministry of Business, Innovation and Employment	Labour Market Monitoring and Performance	**E** david.paterson@mbie.govt.nz *[Information withheld consistent with s9(2)(a)of the OIA 1982]*
John Doorbar	Manager, Regions and Cities, Ministry of Business, Innovation and Employment	Regional Economic Development	**E** john.doorbar@mbie.govt.nz *[Information withheld consistent with s9(2)(a)of the OIA 1982]*

Legislative responsibilities

You are not responsible for any legislation as part of the Skills and Employment component of your portfolio.

Crown entities

As Minister of Tertiary Education, Skills and Employment you are responsible for monitoring the Tertiary Education Commission (TEC), the Crown entity responsible for funding tertiary education in New Zealand. MBIE and the Ministry of Education jointly monitor and report to you on the TEC.

Statutory or advisory bodies

You are not responsible for any statutory and advisory bodies as part of the Skills and Employment component of your portfolio.

Other State agencies

You are not responsible for any State agencies as part of the Skills and Employment component of your portfolio.

4. Key policy issues

Ongoing priorities

As outlined in the portfolio overview, the skills system and labour market face both challenges and opportunities over the near term and into the future. The current work programme is focussed on the following priorities.

The Business Growth Agenda: Skilled & Safe Workplaces (SSW) work stream

The overarching objective of the SSW work stream is to 'lift New Zealand's long-run productivity while maintaining our high rate of labour market participation.' It is one of eight work streams under the Business Growth Agenda for which the Minister of Finance and the Minister for Economic Development have overarching responsibility.

On 9 November 2016 the Building Skilled and Safe Workplaces chapter of the *Towards 2025 BGA 2015/16* report was published. This report provides a current update on recent successes and sets out seven priority result areas:

- Prepare all our students for 21st century living.
- Strengthen transitions from secondary school to higher education and into the workplace.
- Delivering skills and qualifications needed for a modern economy.
- Maximise the employment of adult New Zealanders.
- Lift the participation of Maori and Pasifika in the workforce to the same level as the rest of New Zealand.
- Use immigration settings to attract the best people to fill skill shortages across different sectors and regions.
- Ensure safe and fair workplaces.

It will be important for SSW Ministers to monitor and shape the initiatives focused on these outcomes.

Skilled & Safe Workplaces Ministerial Group

As the Minister for Tertiary Education, Skills and Employment you have responsibility for one of the three systems identified as core to the SSW work stream (immigration, welfare and skills) and your attendance will be critical at SSW Ministerial Group meetings. These meetings are in the process of transitioning to monthly (previously they were bi-monthly), and the Group is expected to meet in the first quarter of 2017.

[Information withheld consistent with s9(2)(f)(iv) of the Official Information Act 1982]

[Information withheld consistent with s9(2)(f)(iv) of the Official Information Act 1982]

International Education

A draft of the International Education Strategy is to be considered by International Education Ministers (the Ministers for Tertiary Education, Skills and Employment and Minister of Immigration).

[Information withheld consistent with s9(2)(f)(iv) of the Official Information Act 1982]

Overall the International Education Senior Officials Group (chaired by Paul Stocks, Deputy Chief Executive, Labour, Science and Enterprise Branch, MBIE) is satisfied with progress on the strategy which is developing into a coherent whole, portraying a positive image of the sector while not denying the challenges needing to be faced. The key issue now is to identify the specific initiatives which will need to be taken to turn the strategy into action and who will undertake those actions by when.

MBIE has a number of interests in the International Education Strategy, including: the contribution to the Government's BGA (primarily through the strategic development of a major export industry); border integrity (through the operation of the immigration system); labour market impacts (through impacts on the skill base and potential worker displacement); and compliance with minimum labour standards. We have worked to ensure these interests are reflected in the strategy.

Sector Workforce Engagement Programme (SWEP)

As part of the BGA SSW, government is engaging with industry to develop labour market solutions in industries critical to New Zealand through SWEP. These solutions are expected to:

- Improve supply and matching of skills in the labour market.
- Reduce the number of working-age beneficiaries and the cost of long-term welfare dependence.
- Increase the responsiveness of the skills development system to labour demand.
- Remove skills constraints to enable business growth and improved productivity.
- Reduce reliance on low skilled temporary migrant labour.

The programme is progressing well with industry and government agencies working well together to identify the main issues within each sector and to develop strategies and actions to address these. One of the strengths of the programme is the strong industry engagement and the emphasis being placed on industry leading and supporting the activities. A range of individual industry-led projects are already underway, in the construction, road freight transport, horticulture and viticulture, dairy, and tourism sectors.

SWEP has been operating for seven months and during that time some common themes have emerged across all sectors that impact on industry having access to workers such as driver licensing, transport, affordable accommodation and youth employment. A number of these issues are areas that officials and Ministers are already aware of and are working through to ensure better access to employment opportunities.

Improving the economic outcomes of tertiary education

Like immigration, tertiary education is a critical interface with the skills system. As outlined earlier, New Zealand has achieved high levels of participation and achievement in tertiary education. The next step is to deliver a lift in outcomes, and ensure qualifications are delivering the right skills for our changing world.

Identifying and addressing labour market issues in this portfolio often involves working across the Education and Tertiary Education portfolios. MBIE has a number of different roles that impact on, and are influenced by, the tertiary education system. These include:

- Joint leadership alongside the Ministry of Education on the development of the Tertiary Education Strategy.
- Joint monitoring role alongside the Ministry of Education of the Tertiary Education Commission as a crown entity.
- Policy input from a labour market perspective, including how the current system could better incentivise providers to deliver economic relevance and better outcomes for at-risk groups, and to contribute to wider economic growth.
- Providing periodic reports on the state of the labour market.

In addition to these roles on-going engagement with the wider labour market and employers has enabled MBIE to support employers, wider community and the tertiary system to better connect and develop new models of delivery. This includes the use of group training schemes in the Sector Workforce Engagement Programme (SWEP) and responses to the Regional Growth Studies.

Productivity Commission's draft report on its inquiry into new models of tertiary education

MBIE has been working jointly with the Ministry of Education to support the Productivity Commission as it undertakes this inquiry to provide fresh insight into the adoption of new models of tertiary education.

To date The Ministry of Education and MBIE have sought to clarify some issues of fact and data interpretation, outline a range of current Government activities that contribute to the results sought from innovative models, and to identify key themes and questions where we would encourage the Commission to develop its analysis and advice. We have recommended that the Commission focus its final report on new models, transition pathways and on how actors in the tertiary system can contribute effectively.

When the Productivity Commission submits its final report in February 2017, our role will be to advise you as the Government considers its response to the Commission's findings and recommendations.

Improving the contribution of migration to the labour market

The immigration system supports the BGA by building the skill level of the workforce, filling skill shortages, encouraging investment, enabling and supporting innovation and growing export markets. Migration can make a positive or negative contribution to these objectives depending on the policy choices made, and the immigration system has a key role to play as it regulates the inflow of migrants (excluding Australians) in to New Zealand and their access to our labour market.

Current major focus areas include:

- Improving the contribution of permanent migration
- Improving the contribution of temporary migration
- Immigration settings in the response to the Kaikoura Earthquake
- Initial analysis of the introduction of front loading of the labour market test.

This work is led by the Minister of Immigration, but as Minister for Tertiary Education, Skills and Employment you have an interest in the impact of this work on employment opportunities, the ability for employers to access the skills they need to be productive and competitive, and the overall skill level of the workforce.

Improving the contribution of permanent migration

During 2016 the high level of permanent and long-term (PLT) arrivals to New Zealand led to record net migration of over 70,000. In September 2016 Cabinet approved a reduced planning range for the New Zealand Residence Programme of 85,000 to 95,000 for 2016/17 – 2017/18 along with a package of changes to the Skilled Migrant Category (SMC) to ensure that highly-skilled and higher-paid migrants are prioritised.

The implementation and monitoring of these changes will be important to ensure they achieve the anticipated impacts. *[Information withheld consistent with s9(2)(f)(iv) of the Official Information Act 1982]*

Improving the contribution of temporary migration

Temporary migrants can help to address genuine skill shortages and are important to the economy. In recent years, we have seen an increase in the number of people granted visas that allow work. Overall the number of temporary migrants has increased almost 50 percent in the last 10 years. A total of 31,331 people were approved to work in New Zealand under the Essential Skills policy in 2015/16, an increase of 11 per cent from 2014/15. An increasing number of temporary migrants in industries with lower-skilled jobs, lower-wages and lower productivity could over time have negative impacts on the Government's long-term labour market objectives.

In July 2015, Ministers with power to act agreed to the development of a pathway to residence for long-term temporary migrants (pathway policy) currently employed in the South Island. Without amendments to visa settings, cohorts of well-settled temporary migrants with no pathway to residence will continue to develop.

The Building Skilled and Safe Workplaces chapter of the BGA launched on 9 November 2016 included reference to the Government's commitment to review temporary work right settings to improve the long term contribution of temporary labour migration. The review is to be completed over the next year.

Initial feedback on front-loading of the labour market test

The Canterbury Skills and Employment Hub (the Hub) was established in 2012 to assist the Christchurch rebuild through streamlining the skills matching process to help meet employer demand. Following a successful pilot through the Canterbury Skills and Employment Hub, a front-loaded labour market test was launched nationwide in 2015. One of the aims of front-loading the labour market test is to ensure New Zealanders have the first opportunity to be placed in these positions.

The change to the labour market test requires employers to work with MSD to advertise lower-skilled roles (ANZSCO Level 4 and 5) through Work and Income and provide evidence from Work and Income of the outcome of this engagement when the application is lodged with Immigration New Zealand. MSD has some initial indications about the performance of the front-loaded labour market test. Since November 2015, INZ has approved 97% of visa applications for labour market tested roles. The number of declined visa applications since November 2015 is low at 577. The declined volume trend appears to be increasing slightly over time but numbers are very small, meaning little change has been noticed in the overall rate. This initial information indicates that there are only low-levels of beneficiaries finding employment due to the front-loading process.

MBIE and MSD will work together to undertake further analysis of outcomes, and consider the scope for operational and policy change to ensure that the front-loaded labour market test is performing as it should, and improving connections between job seekers and employers while also being mindful of the other aims of the policy.

Lessons from Canterbury and how we apply them to the Kaikoura Earthquake

MBIE is co-ordinating the response to the Kaikoura earthquakes in terms of its likely impact on the infrastructure sector, the tourism sector and the horticulture and viticulture sector

We will revise MBIE's baseline occupations projections for the Canterbury region, including Kaikoura, to include the impact of the most recent earthquakes. The projections to date indicate that there would be some supply from the current 'stock' of construction occupations in Canterbury, to undertake additional work on infrastructure (as a result of the Kaikoura earthquake series) in 2017 and 2018. It is likely that these workers could be employed on Kaikoura earthquake infrastructure remediation and reconstruction projects over the period to 2021.

Following the Kaikoura Earthquake officials considered what immigration options were available to assist employers in the viticulture, horticulture and tourism sectors in Kaikoura, the Marlborough region and the Hurunui district. INZ will engage with the industry and ensure that local firms know existing policies that can be used to support their businesses during the recovery. We consider that existing immigration policies provide firms affected by the Kaikoura Earthquake with a number of avenues to supplement their labour force with migrant labour, but we will continue to monitor the situation.

Understanding the changing nature of work and employment

There has been significant international and local debate about how work is changing, or may change, in response to several converging trends (technological change, globalisation, demographic change). Alongside other SSW agencies, MBIE has been investigating what these trends might mean for the welfare, education and employment regulatory systems.

This work is focused on:

- Augmenting our existing evidence on New Zealand labour market trends

- Building our understanding or the potential implications of technology, demography and globalisation for New Zealand
- Identifying whether there are policy or regulatory areas that may need to be future-proofed to deal with a range of possible future outcomes (While keeping in mind that a policy response may not be necessary at this time).

Although we have not yet seen major evidence of change in the New Zealand labour market, it is prudent to continue to test whether our skills policy and regulatory settings are robust enough to respond to a range of different possible future outcomes. Our settings will need to continue to support flexible labour market settings, ease transitions and reduce barriers to innovation, while continuing to provide basic protections and standards.

OECD's New Zealand Country Review '*Back to Work: New Zealand; Improving the Re employment Prospects of Displaced Workers*'

The OECD is carrying out a thematic review of policies in nine OECD countries (Australia, Canada, Denmark, Finland, Japan, Korea, New Zealand, Sweden and the United States). The OECD's New Zealand Country Review will be released for publication by the OECD in February 2017.

The key findings are that New Zealand's social and labour market policy differs considerably from policies in other OECD countries. New Zealand has no mandatory redundancy provisions, which paired with a means tested benefit system means that economic support for displaced workers is limited to those who meet the criteria for these benefits. The OECD also expressed concern that high skilled workers did not have access to suitable government funded employment services; however no evidence was provided that there is need or demand for this kind of service.

Publication of the report (delayed slightly by the recent earthquake) is expected in February 2017. MBIE has been co-ordinating agency feedback and advice from ministers throughout this process and is working with OECD to refine and improve the final version of the draft report.

[Information withheld consistent with s9(2)(f)(iv) of the Official Information Act 1982]

Major links with other portfolios

Skilled & Safe Workplaces (SSW)

A BGA priority, SSW comprises multiple work streams centred on actions to build a more productive and innovative workforce and a more responsive labour market. The other portfolios involved in SSW are:

- Education
- Tertiary Education
- ACC
- Workplace Relations and Safety
- Social Development
- Immigration

Tertiary Education component of the Tertiary Education, Skills and Employment portfolio

The Tertiary Education component predominantly focuses on optimising the “supply” of skills into the labour market (including improving its responsiveness to the “demand” side). The other portfolios involved in TESE are:

- Economic Development
- Science and Innovation
- Education

Canterbury Recovery

A wide range of portfolios are involved in the Canterbury rebuild. Those most closely related to Skills and Employment’s role in the rebuild include:

- Canterbury Earthquake Recovery
- Immigration
- Housing
- Workplace Relations and Safety
- Tertiary Education
- Social Development
- ACC
- Economic Development

Welfare/Education/Immigration interface

There are a range of initiatives in place or in development testing ways to improve the balance between domestic and migrant labour in regions/industries with a high reliance on temporary migrant labour. The other portfolios involved in this work include:

- Social Development
- Immigration
- Workplace Relations and Safety
- Tertiary Education

Science and Innovation

The science and innovation portfolio has a number of close links with initiatives in place to develop the science workforce (recent initiatives include growing the number of engineering students, the

Entrepreneurial Universities initiative and launching ICT graduate schools). Other portfolios involved in this work include:

- Tertiary Education
- Science and innovation

Annex 1: Funds and appropriations

In 2016/17, the Employment portion of the Tertiary Education, Skills and Employment portfolio is funded from Vote Labour Market. The annual operating appropriations in estimates for Vote Labour Market in 2016/17 total $ 1,696m, of which the following are relevant to the Tertiary Education, Skills and Employment portfolio:

- $3.025m (0.18% of the total Vote) is for employment policy advice and ministerial services. The $2.171m is provided for policy advice to the Minister of Tertiary Education, Skills and Employment. This is part of a Multi Category Appropriation (MCA) - Policy Advice and Related Outputs which is the overall responsibility of the Minister for Tertiary, Education, Skills and Employment. The MCA totals $22.742m (1.3% of the Vote).
- $4.634m (0.27% of the Vote) is for coordination of employment sectors analysis and facilitation.

Tertiary Education, Skills and Employment Portfolio

	Jun 2017 ($000)	Jun 2018 ($000)	Jun 2019 ($000)	Jun 2020 ($000)	Jun 2021 ($000)
VOTE: LABOUR MARKET					
Departmental Output Expenses					
TES&E - Employment Sector Analysis and Facilitation	4,634	4,134	2,984	2,984	2,984
Total Departmental Output Expenses	**4,634**	**4,134**	**2,984**	**2,984**	**2,984**
Non-Departmental Output Expenses					
Multi-Category Expenses and Capital Expenditure					
Policy Advice and Related Outputs MCA					
Departmental Output Expenses					
- Policy Advice - Employment	2,171	2,177	2,179	2,179	2,179
- Related Services to Ministers - Employment	854	854	1,504	1,504	1,504
Total Multi-Category Expenses and Capital Expenditure	**3,025**	**3,031**	**3,683**	**3,683**	**3,683**
Total Annual and MYA Expenses	**7,659**	**7,165**	**6,667**	**6,667**	**6,667**

[Information withheld consistent with s9(2)(f)(iv) of the Official Information Act 1982]

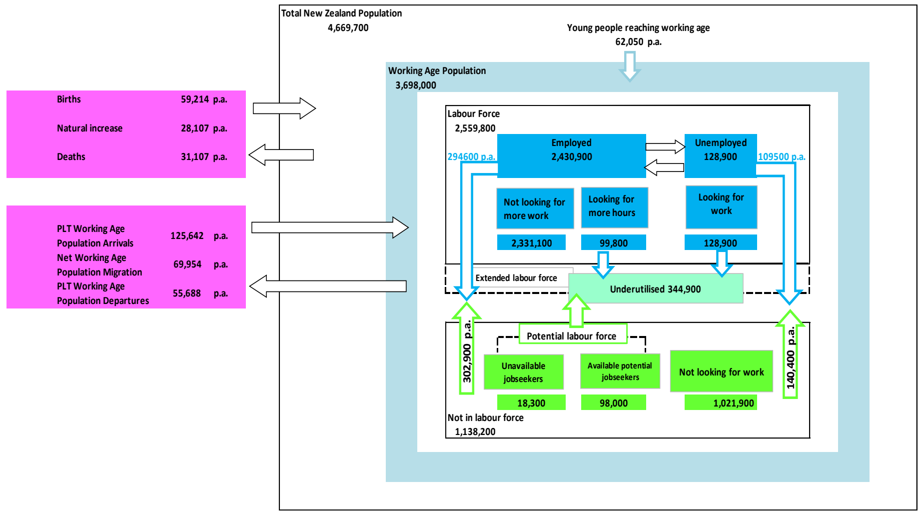
[Information withheld consistent with s9(2)(f)(iv) of the Official Information Act 1982]

[Information withheld consistent with s9(2)(f)(iv) of the Official Information Act 1982]

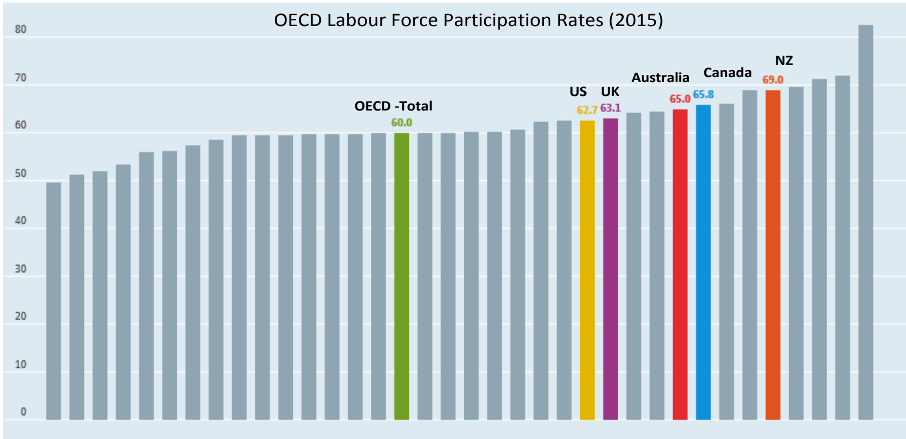
Annex 3: Labour market issues (November 2016)

The labour market has been a key driver for our economic growth.

New Zealand's dynamic labour market has been a pivotal part of the story for our economic growth with strong growth in labour supply and utilisation over many years - driven by migration, rising qualification levels, natural population growth and increased participation by women and people over 65 years.



New Zealand ranks 5th out of 36 OECD countries for labour force participation. Our high participation and labour utilisation has helped sustain economic growth in New Zealand.



New Zealand's unemployment rate is low compared to the majority of OECD countries. However it remains higher than we would like (4.9% September 2016). Our underutilisation rate (12.2%), while lower than the OECD average, shows a higher level of unutilised labour resource. Intergenerational and long term unemployment by some groups will continue remain a significant policy concern.

Moderate growth is expected in service industries, with strongest growth expected in higher skilled occupations (eg some ICT, health, building and engineering professions and some trades.

The labour market regulatory systems (ie health and safety, immigration and employment relations) are generally performing well, but need to remain fit-for-purpose given the future changes in labour market and the changing nature of work.

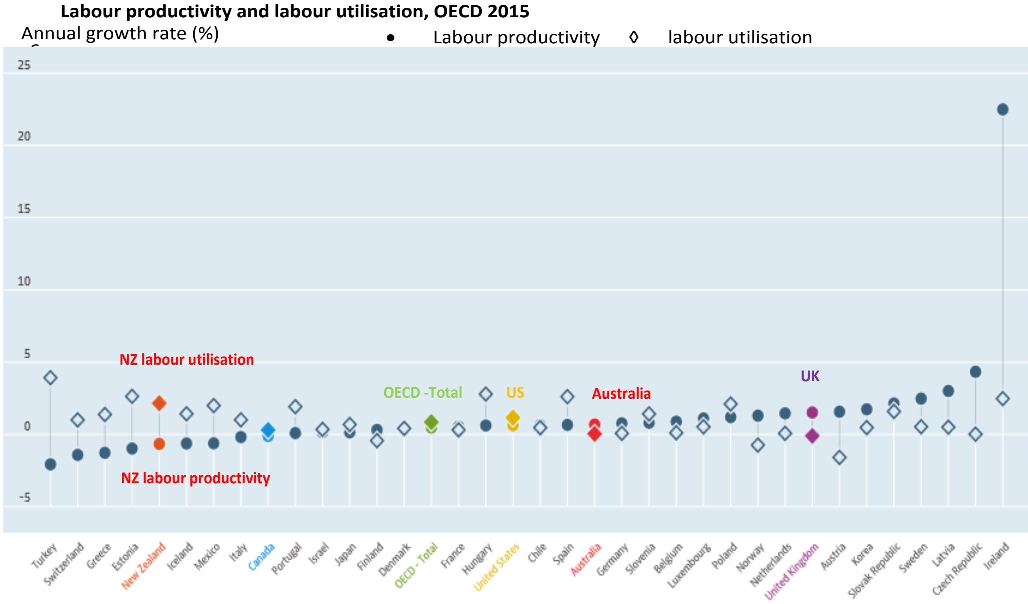
But, a labour productivity gap with other OECD countries persists...

New Zealand has derived economic growth from increasing labour force participation as compared to increasing labour productivity. Our labour productivity has been failing to catch up with other OECD countries - our GDP per capita is 20% below the OECD average.

This is despite high numbers of hours worked and favourable policy settings which predict that incomes should exceed the OECD average. The causes of low productivity growth reflect the interplay between many factors.

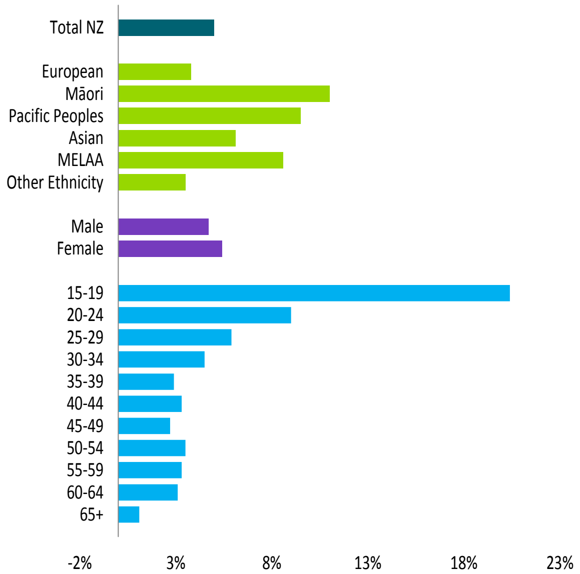
The reasons for New Zealand's poor productivity performance are likely to include our small size, distance from markets, levels of research and development, industry structure and factors related to skill utilisation in firms.

Labour productivity and labour utilisation, OECD 2015



and although New Zealand has high overall participation rates compared to other OECD countries, some groups still have disproportionally higher unemployment rates (Māori and Pacific workers and youth).

Percentage of the labour force who were unemployed, Sep 2016 year



- Women, Māori and Pacific workers, people without formal qualifications, disabled workers, youth, refugees and migrants are over-represented in low wage employment.
- NEET rates are still a persistent issues. The seasonally adjusted youth NEET rate is 11.3% (September 2016).
- For the year to the September 2016, there 75,,000 young people that are not in the labour force but are also not in education, training or caregiving.

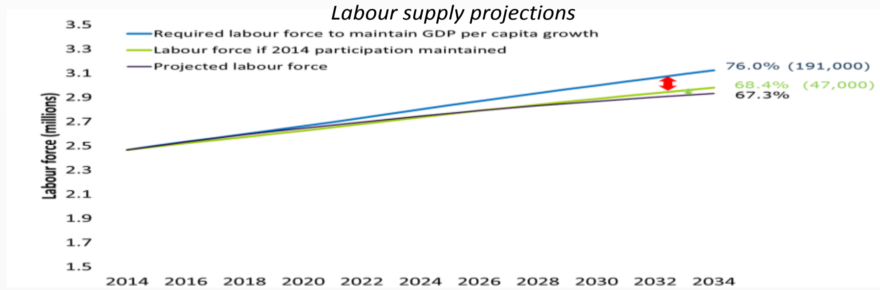
We need to future-proof the labour market to respond to forces that are shaping the world of work

Ageing population will lead to lower participation rates

Population ageing is taking place unevenly across regions – the population is younger in major cities and urban areas. Nationally, there is an increasing proportion of the population aged 65+ years, while the proportion of people aged 15-64 years is projected to grow gradually.

The ageing population is an important issue for economic growth, not just because of the impact on the labour market, but also increased pressure on our welfare and health systems.

Also, there will be marked differences in the age profile across ethnic groups. Māori, Pacific and Asian ethnic groups will all increase their share of the NZ population and have younger age structures than European. The changing ethnic mix of the labour force potentially raises challenges in the labour market around recruitment, retention, training and education, progression and cultural needs in workplaces.



Technological change and globalisation will have impacts on what work is needed and by whom, and where and how it will be carried out.

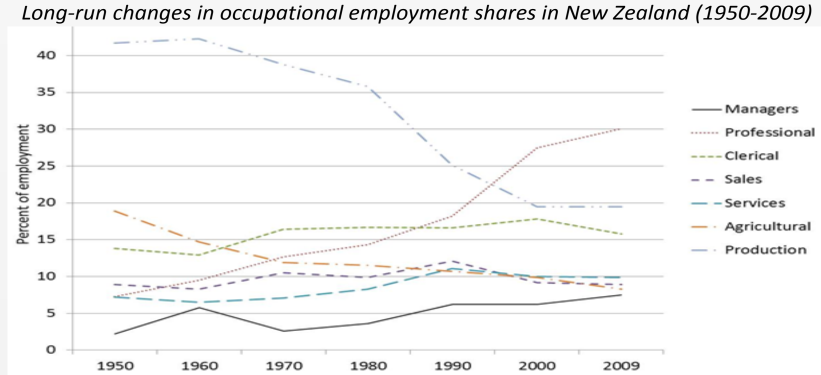
Globalisation of value chains and technological change will continue to have impacts on the sectoral and occupational structure in NZ as well as the tasks that constitute each job.

A key challenge will be to ensure that we have a dynamic, well-functioning labour market where workers can easily transition into and out of the workforce, between sectors and jobs.

Skills upgrading….. but not major technology-driven skills polarisation

Nationally, there is evidence of skills up-grading. There is also some evidence of polarisation, although not at similar levels observed in UK and the US. These are likely to reflect New Zealand's current industry and labour market characteristics.
Evidence for technology-driven skill requirement within occupations has yet to be developed in New Zealand.

Long-run changes in occupational employment shares in New Zealand (1950-2009)



We need a better understanding of the extent to which changes in the employment share are reflected in changes in wages, types and levels of skill required to do the same job and the likely pace of future change.

Internationally non-standard work is a growing trend

For business, the short-term effect of flexible labour appears to be positive, allowing businesses to respond better to seasonal demands and shocks in the market. The long-term impact is less certain, for instance, whether short, on-off relationships change the incentives and ability of firms and workers to invest in workplace training and how this interacts with the costs to automate.

Flexible contracts can also create uncertain employment conditions for workers. The extent to which the use of these are changing and their impact is unknown.

Annex 4: Quarterly Labour Market Scorecard (November 2016)

Legend
Weakness
Strength

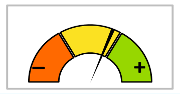
State of the labour market scorecard - November 2016

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HIKINA WHAKATUTUKI

GDP
▲0.9% quarterly change (Jun 16)

Labour utilisation (hours worked)

Labour productivity (output per hour worked)



Labour demand

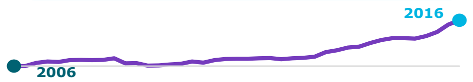
Change since Jun 2016: Increased
Outlook for Dec 2016: Improving

Employment growth (up 1.4 per cent or 35,000 people) continued to exceed growth in the working-age population (up 0.7 per cent or 24,000 people). This resulted in a 0.5 percentage points (pp) increase in the employment rate over the quarter to 66.7 per cent.

Employment growth for men was stronger than for women in the September 2016 quarter. Men in full-time employment (up 1.4 per cent) also showed stronger increase than for women (up 1.1 per cent) over the quarter.

Overall, employment growth was driven by a 4.0 per cent increase in part-time employment from the previous quarter, the largest growth in part-time employment since March 2011 quarter.

Headline indicator:
Employment
2.49m (Sep 16)
▲1.4% on Jun 16



Sep 06	Sep 15	Jun 16	Sep 16	Annual	Qrtly
2.13m	2.35m	2.46m	2.49m	▲6.1%	▲1.4%

Contributing indicators:

Employment by gender
Sep 16 (ann. change since Sep 15)

	Part-time	Full-time	All
Male	▲11.9%	▲5.7%	▲6.4%
Female	▲5.8%	▲5.8%	▲5.8%
Total	▲7.5%	▲5.7%	▲6.1%

Employment by work period
Sep 16 (qtr. change since Jun 16)

	Part-time	Full-time	All
Quarterly	▲4.0%	▲0.3%	▲1.4%

Employment by industry
Sep 16 (ann. change since Sep 15)

Biggest rises	
Wholesale Trade	▲24.1%
Rental, Hire, Real Estate	▲20.0%
Ag, Forestry, Fishing	▲14.9%
Biggest falls	
Mining	▼46.4%
Elect, Gas, Water, Waste	▼15.7%
Manufacturing	▼4.4%

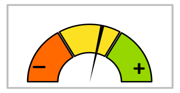
Consensus employment forecasts
Sep-16
3.2% p.a. employment growth to March 2017

Employment rate by ethnicity
Sep 16

	Rate	Annual
European	67.7%	▲1.8pp
Māori	60.0%	▲2.5pp
Pacific	60.0%	▲6.8pp
Asian	66.1%	▲1.1pp

Employment by region
Sep 16

	'000	Annual
Auckland	851.9	▲8.7%
Waikato	229.8	▲6.9%
Wellington	281.0	▲6.1%
Canterbury	335.9	▲2.7%
Otago	116.8	▼0.1%



Labour market matching

Change since Jun 2016: Improved
Outlook for Dec 2016: Steady

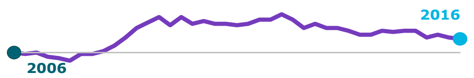
The unemployment rate fell to 4.9 per cent from a revised rate of 5.0 per cent last quarter, with 3,000 fewer people unemployed over the quarter and 10,000 fewer over the year. This is the first time since December 2008 the unemployment rate fell below 5.0 per cent.

The unemployment rate decreased for both the North Island (down 0.8pp to 5.2%) and the South Island (down 0.2pp to 3.8%) over the year to September 2016.

The underutilisation rate fell to 12.2 per cent, from 12.7 per cent in the last quarter.

The NEET rate increased to 11.1 per cent in the September 2016 quarter, up from 10.8 per cent in the June quarter.

Headline indicator:
Unemployment rate
4.9% (Sep 16)
▼0.1pp on Jun 16



Sep 06	Sep 15	Jun 16	Sep 16	Annual	Qrtly
3.9%	5.5%	5.0%	4.9%	▼0.6pp	▼0.1pp

Contributing indicators:

Unemployment by gender
Sep 16

	Rate	Quarterly	Annual
Male	4.6%	▼0.1pp	▼0.5pp
Female	5.1%	▼0.3pp	▼0.9pp

34.5% of unemployed deemed 'long-term'
(i.e. unemployed more than 6 months)

Underutilisation rate by gender
Sep 16

	Rate	Quarterly	Annual
Male	9.8%	▼0.3pp	▼1.1pp
Female	14.9%	▼0.7pp	▼0.9pp

Youth not in employment, education, or training
Sep 16

	Rate	Quarterly	Annual
15 - 24 yr olds	11.1%	▲0.3pp	▲0.1pp
15 - 19 yr olds	7.1%	▲0.2pp	▲0.4pp
20 - 24 yr olds	14.7%	▲0.4pp	▼0.2pp

Advertised job vacancies
Sep 16

All vacancies (*Jobs Online*)	
Monthly to Sep 16	▲0.5%
Year to Sep 16	▲12.5%
Vacancies/applicant *(SEEK Employment Index)*	
Monthly to Sep 16	▲0.1%
Year to Sep 16	▲0.5%

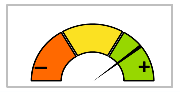
Difficulty finding skilled labour
Sep-16
Net 41% of firms found it harder to get skilled staff than three months ago (net 23% in Sep 15).

Unemployment rate by ethnicity
Sep 16

	Rate	Annual
European	3.6%	▼0.6pp
Māori	10.6%	▼1.5pp
Pacific	10.1%	▼2.2pp
Asian	5.9%	▼0.3pp

Unemployment by region
Sep 16

	Rate	Annual
Auckland	5.3%	▼0.3pp
Waikato	4.5%	▼1.6pp
Wellington	4.6%	▼1.6pp
Canterbury	3.9%	▲0.4pp
Otago	3.7%	▼0.2pp



Labour supply

Change since Jun 2016: Increased
Outlook for Dec 2016: Improving

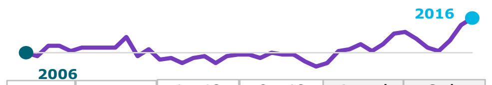
The labour force participation rate rose by 0.4pp to 70.1 per cent in the September 2016 quarter. This reflected fewer people not in the labour force and the growth in employment.

The participation rates for men and women increased by 0.7pp and 0.1pp over the quarter to 75.9 per cent and 64.6 per cent,respectively.

Net permanent and long-term migration showed a record gain of 70,000 people in the September 2016 year. The countries with the biggest changes in migrant arrivals over the year were South Africa, China, Australia and India.

New Zealand citizens still show a net loss but the level has declined compared to a year ago.

Headline indicator:
Labour force participation rate
70.1% (Sep 16)
▲0.4pp on Jun 16



Sep 06	Sep 15	Jun 16	Sep 16	Annual	Qrtly
68.1%	68.4%	69.7%	70.1%	▲1.7pp	▲0.4pp

Contributing indicators:

Participation by gender
Sep 16

	Rate	Quarterly	Annual
Male	75.9%	▲0.7pp	▲1.9pp
Female	64.6%	▲0.1pp	▲1.6pp

Migration
Sep 16

Net migration:
Net gain of 70,000 in year to Sep 16, compared with a 61,200 gain (Sep 15)

Net NZ citizen departures to Australia:
Net loss of 3,500 in year to Sep 16, compared with a 5,300 loss (Sep 15)

Immigration (Essential Skills workers):
Full year to Jun 16: 31,900
▲12% on year ended Jun 15
Jul 16-Sep 16: 8,100 - down 0.2% on Jul 15-Sep 15

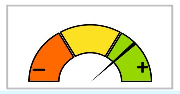
Retirement rates
2016 (2006 base)
Est. retirements as a % of labour force:
2017: 1.2% per year
2022: 1.3% per year
2027: 1.5% per year

Participation rate by ethnicity
Sep 16

	Rate	Annual
European	70.2%	▲1.4pp
Māori	67.1%	▲1.7pp
Pacific	66.7%	▲6.0pp
Asian	70.3%	▲1.0pp

Participation by region
Sep 16

	Rate	Annual
Auckland	69.7%	▲2.8pp
Waikato	68.8%	▲1.7pp
Wellington	72.8%	▲1.9pp
Canterbury	72.0%	▲0.3pp
Otago	67.4%	▼1.5pp



Labour quality

Change since Jun 2016: Improved
Outlook for Dec 2016: Improving

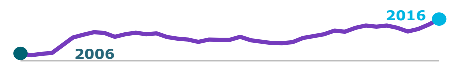
The proportion of people aged 25 to 34 years with NCEA level 4 or higher qualifications increased by 3.2pp to 57.1% in the year to September 2016.

24.7% of the working age population had bachelor's degree or higher in the June 2016 quarter, up 1.9pp on the same quarter last year.

In 2015, 83.3% of all 18 year-olds attained the equivalent of NCEA level 2 or above, up 2.1pp from 2014. Māori had the largest increase in the proportion of leavers attaining at least level 2 over the year.

Note: Some contributing indicators are only available up to June 2016 and for 2015.

Headline indicator:
Qualification attainment rate
25 to 34 year olds with level 4+ quals
356,200 (57.1%) in the year to Sep 16
▲3.2pp on Sep 15



2006	2015	2016	Annual
49.4%	53.9%	57.1%	▲3.2pp

Contributing indicators:

Degree holders in the workforce
Jun 16
24.7% of the workforce (Jun-16)
▲1.9pp on Jun-15

School level qualifications
2015

% of 18 yr olds with a NCEA level 2 or higher
2015

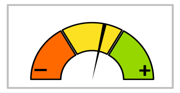
	Rate
New Zealand	83.3%
Male	81.0%
Female	85.8%
European	87.3%
Māori	71.1%
Pacific	77.6%
Asian	88.8%

% of school leavers with less than NCEA level 1
2015

	Rate	Annual	Since 2009
New Zealand	11.6%	▼0.9pp	▼7.5pp
Male	12.9%	▼1.0pp	▼8.4pp
Female	10.2%	▼0.8pp	▼6.7pp
European	8.5%	▼0.8pp	▼5.9pp
Māori	23.6%	▼1.9pp	▼13.1pp
Pacific	14.8%	▼1.6pp	▼11.5pp
Asian	5.2%	▼0.1pp	▼5.5pp

25 to 34 year olds with level 4+ qualifications by region
Jun 16

	Rate	Annual
Auckland	62.3%	▲1.6pp
Waikato	54.8%	▲7.0pp
Wellington	65.1%	▲4.1pp
Canterbury	55.2%	▲4.7pp
Otago	57.4%	▼1.0pp



Workplace performance

Change since Mar 2016: Improved
Outlook for Sep 2016: Improving

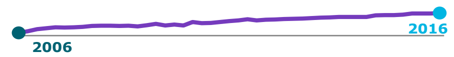
The share of people working in skilled occupations increased by 0.6pp to 62.3% in the year to June 2016.

Annual pay increases in the private sector that were due to productivity related factors averaged 1.0% between September 2015 and September 2016.

Employment confidence improved in the September 2016 quarter (back to its highest level since September 2014), as workers became more optimistic about labour market opportunities.

Note: The headline indicator is only available up to June 2016 and some contributing indicators are only available up to 2014.

Headline indicator:
Skilled occupation rate
62.3% are in skilled work (Jun 16)
▲0.6pp on Jun 15



Jun 06	Jun 15	Mar 16	Jun 16	Annual	Qrtly
58.3%	61.8%	62.3%	62.3%	▲0.6pp	n/c

Contributing indicators:

Skilled occupation rate
Jun 16

	Rate	Annual
Auckland	63.5%	▲0.5pp
Waikato	61.9%	▲0.5pp
Wellington	65.7%	▲0.4pp
Canterbury	62.2%	▲0.5pp
Otago	60.7%	▲0.5pp

Private sector productivity-related wage growth
Sep 16
▲1.0% on Sep 2015
based on labour quality-related wage increases in the private sector, collected in the Labour Cost Index.

Work-related injuries
average 2012- 2014

Work-related fatal injury
2.2 per 100,000 workers in 2012- 2014
▼31.5% on 2011- 2013

Work-related serious non-fatal claims
16.2 per 100,000 workers in 2012- 2014
▼7.1% on 2011- 2013

Labour market efficiency
(Employer survey measure)
2016/17
NZ ranked 6th out of 138 countries
n/c from 2015/16

Employment Confidence Index
(Employee survey measure)
Sep 16
▲8.5pp on Jun 2016
▲10.8pp on Sep 2015