



2007/08 Financial review of the Department of Labour

Report of the Transport and Industrial
Relations Committee

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Department of Labour

Recommendation

The Transport and Industrial Relations Committee has conducted the financial review of the 2007/08 performance and current operations of the Department of Labour and recommends that the House take note of its report.

Introduction

The Department of Labour's primary role is to improve the performance of the labour market, with the long-term aim of strengthening the economy and improving the value and rewards of work for the New Zealand people. The department manages four Votes: Labour, Immigration, Employment, and Accident Compensation Corporation (ACC).

The department's total revenue for the financial year was \$282.170 million and expenditure was \$263.130 million. A surplus of \$19.040 million arose, which reflected under-expenditure across all four Votes.

In its 2007/08 audit, the Office of the Auditor-General graded the department's management control environment and financial information systems and controls as "needs improvement" and has made a number of recommendations.

We note that the department was given the same grading in its 2006/07 audit. We expect the department to address the recommendations of the Office of the Auditor-General, particularly with respect to the department's management of sensitive expenditure, and hope to see the results reflected in improved audit results for this financial year.

Staffing issues

We note that the department's management team currently has three of the six senior management roles filled by staff in acting roles. Some of us were concerned that the uncertainty created by this situation might be a destabilising factor across the department. The department acknowledged that a resolution of the current situation was desirable, but was unable to say when this would happen. The Government has given a manifesto undertaking to create a Department of Immigration and Citizenship.

The department noted that the possibility of changes to its structure meant that some senior appointments had yet to be finalised. The Labour and Green party committee members are of the view that the Government should resolve the structural issue as soon as possible and that structural change is not necessary at this point.

In the previous committee's review of the department for the 2006/07 financial year, the committee noted a concern about the 18 percent turnover of staff and a dramatic rise in the cost of settling personal grievances. The department's staff turnover has reduced in the last year, with a rate of 16.1 percent recorded for the six months between July and

December 2008. We will continue to monitor the department's staff retention and other staffing issues.

Border arrangements with Australia

At a recent meeting of the Prime Ministers of Australia and New Zealand, interest was expressed in a common border between the two countries. We were interested to know what involvement the department had in planning for the common border. Some work was done in the early 1990s when the idea of a common border was last mooted. The department has been involved in working groups since then, but the recent announcements have provided a new impetus for advancing the work.

We sought clarification on whether the intention was to create a common border or a system for pre-clearance. The department told us that "common border" usually refers to an international border, for example one that would include Australia and New Zealand within it.

The likely arrangements would mean an inter-country border between Australia and New Zealand, with a range of pre-clearance activities allowing travellers to avoid further clearances. Various issues were being explored by working groups, including whether pre-clearance would apply to citizens of other countries travelling through New Zealand and Australia, which involves immigration issues. A much larger issue than the immigration process would be the matter of biosecurity, which affects the Ministry of Agriculture and Forestry and the New Zealand Customs Service. We were told that it was too early to make any predictions about the likely cost of pre-clearance, and whether it would fall on the traveller or the tax-payer. We will monitor the progress of this work in the coming year with interest.

Skills strategy

The New Zealand Skills Strategy was developed in 2007/08 because skills programmes run by several different agencies were poorly linked. The department is responsible for raising awareness of the benefits of literacy, language, and numeracy skills in the workforce. It realised that many groups would benefit from tailored responses to their skill needs. Multi-partner strategies were developed through consultation, resulting in the Skills Strategy Action Plan launched in July 2008. We were told that the department is holding resources for the strategy and awaiting advice from the Government on what shape the work would take in the future. It continues to implement the 2008 action plan, including the development of a database of information about the supply, demand, and matching of skills across occupations. In addition, the skills insight tour, an interactive tour for the layperson, is due to be launched shortly.

Economic downturn

Some of us questioned the general perception that the impact of the economic downturn and the inevitable rise in unemployment is hardest for low-skilled workers, when anecdotal evidence suggests that large numbers of highly educated and trained employees are also losing their jobs. The department has data available to substantiate a pattern in which higher numbers of low-skilled workers, particularly Māori and Pacific people, are seeking assistance following lay-offs. It claims that while managers and accountants also lose their jobs when regional firms close or restructure, critical skill shortages across the whole

economy mean that the highly skilled continue to move more quickly to other employment. We will continue to monitor the situation and review available data as the year progresses.

Māori skills strategy

We are interested in the department's work with Māori, and its relationship with Te Puni Kōkiri. The Māori Skills Strategy was developed as part of the national skills strategy, and the department worked closely with Te Puni Kōkiri in its own consultation process. The department treats Te Puni Kōkiri as a client, working with it on areas of targeted labour market development. The department has also developed, in consultation with Te Puni Kōkiri, its own Māori strategy, with the key objective of identifying areas where it can enhance Māori labour market development and economic outcomes.

Employment Relations Amendment Act 2008

The Employment Relations Amendment Act 2008 amended the Employment Relations Act 2000 to enable small and medium-sized employers to hire staff for trial periods of up to 90 days. We inquired about the impact of the recently passed legislation on the department's workload. The department reprioritised its work programme to accommodate the additional work. Its focus has been on providing information to employers on the Act, and letting small employers know what they have to do to implement the new provisions. Only small numbers of inquiries have been received to date. The department has updated its online employment contract to provide the option of a standard clause. The department has no way of monitoring those who lose their jobs within 90 days, other than through the complaints procedure, nor has it the ability to report positive or negative impacts on the labour market. Outside of this administrative data, it will have access to data on the numbers of people returning to benefits administered by the Ministry of Social Development within a 90-day period.

Job summit

We inquired whether the department had undertaken any work, prior to the recent prime ministerial job summit, on possible changes in immigration numbers in response to rising unemployment. The department monitors the labour market constantly and makes adjustments to immigration intake to address areas of skill shortage. It operates a policy to ensure New Zealanders are first into work. Information packs were prepared for the job summit advising that critical skill shortages remain across the labour market and it was unlikely that displaced workers would be suitable for vacancies in these areas. It would not, therefore, be sensible to close down immigration targeted at skill shortages. The department is working with the Ministry of Social Development to gather information on people applying for benefits through regional Work and Income New Zealand offices in order to build an accurate picture of the available labour supply.

We observe that in the current economic climate there is a need for greater efficiency in helping people to attain the right skills to move into areas where there is a perceived shortage. We suggest that the skills strategy or other training initiatives could help New Zealanders to fill gaps in the fragmented labour market. We were told that the job summit identified a number of initiatives that will involve opportunities for training. The department has begun work in conjunction with the Ministry of Education and the

Ministry of Social Development to provide further advice to the Government on the development of these initiatives.

Nine-day fortnight

We are interested in the advice provided by the department on the nine-day fortnight initiative and whether people could be provided with alternative skills to help them move to other work. Following the job summit, the department and other agencies that would be involved in the programme began work to provide detailed advice to the Government on its implementation. The focus of the initiative is on retaining staff in their current workplace and giving them additional skills for use in their current work rather than re-training them for alternative employment.

We note that the costs of the initiative and the level of infrastructure required to implement it could be higher than anticipated, considering the possibility that up to 100,000 people may need to be funded for a 10th day in skills training. We note that training organisations have subsequently indicated their ability to assist in skills training. The inter-agency working group is currently exploring these issues and we intend to monitor the progress of the initiative.

Recognised Seasonal Employer scheme

One of the central issues facing the horticulture and viticulture industry before the scheme's inception was the difficulty in attracting people into this work because of its low pay and poor conditions. Some of us are concerned that in the current climate people will be pushed into the work through necessity, and improvements in the quality of the work will be abandoned. There have been some examples of Pacific Island employees being poorly treated by employers registered with the Recognised Seasonal Employer (RSE) scheme. We were assured that the department would ensure its targets for improvements in the industry would continue to be met despite rising unemployment.

We were informed that there has been one major breakdown of an employment relationship this season and the department is working with the parties involved. The RSE scheme has been running for a year and while some regions remain difficult, particularly the Marlborough region, the scheme continues to evolve. At the job summit, major seasonal labour employers accepted the challenge to address, in a more coordinated manner, areas that made the industry less attractive to work in, including the provision of adequate accommodation options. General work and productivity improvements in horticulture and viticulture through the RSE scheme have resulted in increased awareness in other seasonal labour industries of the improvements necessary to attract employees. We will monitor the RSE scheme and the effect of the economic downturn on the uptake of seasonal employment by New Zealanders.

Unemployment projections

We are interested in the department's predictions about future unemployment, which are based on its own analysis of employment statistics. The department uses a consensus forecast based on an average of the information available and adjusts this using on-the-ground information. It has traditionally tended to err on the optimistic side of forecasts due to its confidence in the flexibility of the New Zealand labour market. However, it is now advising that the true figures may be higher than Treasury predictions and by mid-2010

unemployment may be more than 7.5 percent. This will depend on how well the labour market adjusts in the next six months.

We were informed that the department's "future of work" work stream looks at current trends in the labour market to provide advice on likely scenarios for the next five to 10 years. It advises on measures that might be taken now to ensure better employment and productivity outcomes in the long term. The current situation was not predicted as a result of information in the last cycle of work in the programme. However, that work led to a report on the impact of demographic changes on potential labour supply in the next 40 years. Evidence shows that in a recession the first people to lose their jobs are low-skilled workers followed by older workers. The department has recently released a pamphlet to address some of the myths and preconceptions about older people in the workforce. When older people are unemployed it is more difficult for them to get back into work. Major publications that contain best practice in utilising an ageing workforce will also be released in the coming months.

We are interested in this area of work, particularly considering the long-term changes in the labour market that will result from the current situation. We hope to have a more detailed update in the future.

Accident Compensation Corporation

We note that claims to the non-earners' account in the last four years have increased about 55 percent. Changes in the criteria for acceptance of cover have resulted in increases of 100 percent in medical costs and 112 percent in dental costs, amongst others. This is a matter of volume and price. We asked whether the department had warned about the need to increase premiums and whether previous Ministers had heeded this advice. The department maintains that the previous Government had a number of policy positions in line with its general programme which informed its interpretation of advice, while the current Government's policy positions are different. We were informed that the department relies on the estimates provided by ACC. While the department discusses and debates these details with ACC, the responsibility for calculations and the prediction of increases sits with the corporation.

We were concerned about the mechanisms for advising responsible Ministers about ACC, and whether these were sufficiently robust to ensure that vital information was not lost. Advice is provided by the department and ACC in separate streams to Ministers. Detailed technical advice is provided by ACC, with overview and operational advice from the department. The department monitors ACC's performance, and recent history shows that the corporation has not performed well against some of its key performance indicators. Advice to this effect has been provided to the Minister of Labour and the Minister for ACC.

Immigration fraud

We are pleased to note a decrease in proven allegations of dishonesty in the immigration process. During the last financial review, the previous committee asked the department for information on reported fraud cases involving false job offers. We were informed that there are a number of active investigations and some cases in which immigration officers have been implicated in allegations of immigration fraud. However, we were advised that

the number of proven allegations of dishonesty has decreased significantly in recent times, and the department is confident that improved risk management practices in this area are having positive results.

Immigration leadership

We are concerned about the quality of leadership previously exhibited within immigration services. We asked what the department was doing to improve this. There have been a range of changes in the management of the workforce group and the department as a whole has addressed the question of leadership through its development programme, which provides training and support for managers, with a focus on specific skills. The department is confident that it is now providing improved leadership and has staff who behave in a professional manner. There have been 15 reviews undertaken of the workforce group and some of these are yet to report. There is further progress to be made as a result of the reports' findings. We will monitor the situation closely and hope to receive a report on progress in the near future.

Pay and Employment Equity Plan of Action

Some of us expressed concern about the *Pay and Employment Equity Plan of Action*, given the cancellation of two pay investigations by the Government. We were informed that pay investigations are only one part of the plan of action and the broader programme is under active discussion with the Minister of Labour. The Labour and Green members of the committee are concerned that the plan of action may be abandoned and will monitor this carefully.

State sector bargaining

We note that the State sector bargaining parameters have changed and that the previous approach of the Ministers of Labour and State Services meeting to consider exceptions has not been continued.

Appendix

Approach to this financial review

We met on 5 and 26 March 2009 to consider the financial review of the Department of Labour. Evidence was heard from the Department of Labour and advice received from the Office of the Auditor-General.

Committee members

David Bennett (Chairperson)
Dr Jackie Blue
Carol Beaumont
Darien Fenton
Jeanette Fitzsimons
Hon Tau Henare
Hon Trevor Mallard
Allan Peachey
Michael Woodhouse

Sue Bradford replaced Jeanette Fitzsimons for this item of business

Evidence and advice received

Department of Labour, *Annual Report for the Year ended 30 June 2008*.

Office of the Auditor-General, *Financial review briefing to the Transport and Industrial Relations Committee: Department of Labour*, 5 March 2009.

Clerk of the Committee, Organisation briefing paper, 3 March 2009.