

The Treasury

Budget 2016 Information Release

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[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
[4]	to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial	6(c)
[11]	to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.	6(e)(vi)
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[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
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[36]	to maintain legal professional privilege	9(2)(h)
[37]	to enable the Crown to carry out commercial activities without disadvantages or prejudice	9(2)(i)
[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
[39]	to prevent the disclosure of official information for improper gain or improper advantage	9(2)(k)
[s18(c)(i)]	that the making available of the information requested would be contrary to the provisions of a specified enactment	
[40]	Not in scope	

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Treasury Report: Canterbury Budget Bids 2016

Date:	15 March 2016	Report No:	T2016/449
		File Number:	DH-50-1

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	<p>Agree to the treatment of underspends in Vote CER for Budget 2016.</p> <p>Discuss the contents of this report with officials at the Fiscal Issues meeting on Wednesday 16 March.</p>	Wednesday 16 March 2016

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[34]			✓
Elizabeth Scurr	Team Leader, Fiscal and State Sector Management	04 917 6190 (wk)	[23] (mob)

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

Return the signed report to Treasury.

Refer a copy of the report to the Minister of Canterbury Earthquake Recovery's office.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Canterbury Budget Bids 2016

Purpose of Report

1. The Canterbury Earthquake Recovery Authority (CERA) submitted their Budget bids on 1 March 2016, following consultation with their Minister. The purpose of this report is to provide you with an outline of these bids and Treasury's initial assessment. The report also seeks to test your comfort around using existing underspends in Vote CER to fund these initiatives, with no impact on the Budget operating and capital allowances.
2. As these bids were submitted late in the process, they have not been included to date in advice Treasury has provided on various packages.

Summary of bids

3. [38]
[38] The funding required is mainly for cost pressures associated with:
 - a. The delivery of existing anchor projects in Christchurch [38]
[38]
 - b. Transaction expenses and compensation payments arising from the compulsory acquisition of land for projects.
 - c. Accounting treatment costs that were not previously forecast such as depreciation, valuation changes to anchor project land, and the provision of concessionary leases.
4. **CERA as a department will be disestablished on 18 April 2016.** A new Crown company (Otakaro Limited) has been set up to deliver the anchor projects in Christchurch and negotiations on the transfer of work programmes are currently underway. CERA has indicated that if funding is not provided for these cost pressure in Budget 16, this may have implications for the company's willingness to take on assets and the delivery of the specific projects.
5. **CERA are proposing to use existing underspends in Vote CER to fund these Budget bids.** Following the transfer of funding to other agencies inheriting CERA functions, there is around \$57 million of departmental funding available which can potentially be used to fund cost pressures. Further, an estimated \$89 million capital from the non-departmental 'land and asset acquisition' category is no longer required for the acquisition programme and has been identified as surplus. Based on this, CERA has submitted all of their initiatives as 'technical' Budget bids, [38]
[38]

Analysis

Breakdown of Initiatives

Initiative	Funding sought over forecast period (\$m)	Treasury Comment
<i>Delivery of existing anchor projects</i>		
[38]		
<u>The Square</u> : additional funding required to meet Crown's contribution under the Cost Sharing Agreement (CSA) with the Christchurch City Council (CCC).	0.6	Support as Crown required to contribute \$4.6m towards development of the square with the CCC under the CSA but only \$4m has been set aside in a contingency so far. No incentive for CCC to meet its contributions for anchor projects if Crown is falling short. If not funded now, likely to be a cost pressure outside of Budget.
[40]		
<i>Other cost pressures</i>		
<u>Acquisition and demolition</u> : transaction and demolition expenses associated with the acquisition of land for projects.	12.0	Support . Allocation of funding for transaction costs associated with land acquisition and demolition was arbitrary and CERA now facing cost pressures as the acquisition programme is taking longer to complete.
<u>Depreciation and de-recognition of Stadium buildings</u> due to delays in the project commencing.	4.3	Support . Until decisions are made on the stadium project, Audit NZ has indicated that current buildings need to be depreciated. These costs were not previously forecasted.
[40]		
<u>Changes in valuation of anchor project land</u>	10.0	Support . Cost pressure arising from changes in the valuation methodology for anchor project land associated with Convention Centre and Metro Sports Facility.
[38]		

Treasury Assessment

6. The transitioning of CERA's departmental activities to other entities in April means that the proposed bids for 2016 relate entirely to non-departmental activities and outputs. The bids reflect cost pressures associated with existing activities and there are no bids for 'new' initiatives.
7. Once CERA is disestablished on 18 April, the anchor project work programme and assets will be transferred to the newly formed Crown company, Otakaro Limited. Funding related to the anchor projects in Vote CER will also be transferred to allow the company to deliver on Crown objectives. However, CERA has identified some funding gaps and pressures which are not currently forecast in appropriations.
8. The company may be less willing to take on fiscal risks associated with certain anchor projects without some assurance from the Crown that funding is available or will be provided. Directors will look to adjust their capitalisation requirements to reflect any funding gaps. **For this reason, Treasury recommends supporting the bids which represent immediate cost pressures and is likely to have a material impact on the negotiations with Otakaro on the transfer of anchor project work programmes.**

[38]

Use of Underspends in Vote CER

12. CERA propose to fund all their initiatives in Budget 2016 using existing departmental and non-departmental underspends in the Vote. These include:
- a. \$57 million across the forecast period from their departmental appropriation – ‘managing the recovery.’ This represents remaining funding in the appropriation following transfers to departmental agencies inheriting CERA functions. Work to be undertaken by inheriting agencies is significantly reduced in comparison to the core work undertaken by CERA to date.
 - b. Around \$89 million in 2015/16 from their non-departmental capital appropriation – ‘land and assets acquisition.’ Areas originally designated for anchor projects was significant scaled down, reducing overall Budget requirements. The acquisition programme for anchor project land is mostly complete with the exception of south frame, the stadium and the performing arts precinct.
13. Given the initiatives represent genuine cost pressures and there are implications for the transfer of anchor projects to Otago, Treasury’s assessment of these bids is unlikely to change even if any alternative sources of funding were not available. Therefore, we recommend that the existing underspends in Vote CER are used to fund initiatives in Budget 2016, with no impact on the capital and operating allowances. [38]
[38]

14. [38]



15. **You may have a preference for all underspends (\$146 million) to return to the centre and be used to increase the operating and capital allowances for Budget.** If this is the case, the technical budget bids will need to re-submitted as significant bids and will require new funding. These bids are likely to progress through the ‘other’ package for consistency with how they were treated in previous Budgets.

Recommended Action

We recommend that you:

- a [38]

- b **note** CERA are proposing to fund this through forecast departmental (\$57 million) and non-departmental (\$89 million) underspends in Vote CER;

- c **note** the agency will be disestablished on 18 April 2016, following which a Crown company will take on the responsibility of delivering anchor projects in Christchurch;

- d **note** any unfunded cost pressures associated with anchor projects are likely to impact on negotiations with the company on the transfer of work programmes and be reflected in the capitalisation of the company;

- e **agree** to the following treatment of underspends in Vote CER:

EITHER (Treasury Recommended)
 - i. use the underspends available in Vote CER to fund the Budget initiatives which are supported by Treasury, noting that [38] savings will still remain which could be used to increase the operating and/or capital allowance for Budget;

Agree/disagreeOR
 - ii. return all the underspends in Vote CER (\$146 million) to the centre and re-submit Canterbury bids as significant initiatives requiring new funding; and

Agree/disagree

- f **refer** a copy of this report to the Minister of Canterbury Earthquake Recovery.

Refer/not refer

Elizabeth Scurr
Team Leader, Fiscal and State Sector Management

Hon Bill English
Minister of Finance