

The Treasury

Budget 2018 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)
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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)
[34]	to maintain the effective conduct of public affairs through the free and frank expression of opinions	9(2)(g)(i)
[36]	to maintain legal professional privilege	9(2)(h)
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[40]	not in scope	
[41]	that the making available of the information requested would be contrary to the provisions of a specified enactment	18(c)(i)
[42]	information is already publicly available or will be publicly available soon	18(d)

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.

Reference: T2017/2543

DH-10-0-9

Date: 22 November 2017

To: Minister of Finance
(Hon Grant Robertson)

Associate Minister of Finance
(Hon Dr David Clark)

Deadline: None



Aide Memoire: Hosting APEC in 2021

This Aide Memoire provides background information on an upcoming Budget 2018 bid and new Specific Fiscal Risk for *Hosting the Asia Pacific Economic Cooperation 2021 (APEC21)*. The first of three budget bids for APEC21 will be submitted for consideration in Budget 2018 with an estimated cost of **\$234.5 million** over four years. This has been included in the budget pressures information communicated to you by the Treasury.

You are scheduled to receive a draft of the Specific Fiscal Risk chapter for the Half Year Economic and Fiscal Update (HYEFU) on Thursday 23 November. APEC21 will appear as a new risk in HYEFU as it had been overlooked previously by the Ministry of Foreign Affairs and Trade (MFAT) and the Treasury.

What will hosting APEC in 2021 involve?

In 2012, Cabinet agreed to host APEC in 2021 [ERD Min (12) 9/2 refers]. This involves hosting 12-18 clusters of meetings during the year, culminating with Leaders' Week in November 2021. 18,000-22,000 people including Ministers, officials, business people, youth and media are expected to attend, with roughly half attending during Leaders' Week.

The APEC host is required to meet all costs of planning and running APEC throughout the year including venues, logistics, IT requirements, security, providing resources for international media, liaison staff for delegations, and to meet the costs of visiting leaders.

MFAT, as lead agency, has set up a programme team to plan and deliver the hosting of APEC21 on an all-of-government basis. Governance arrangements include a Chief Executive Sponsoring Group¹. Delivery of APEC21 will be a collaborative effort by multiple government agencies, iwi, local authorities and business representatives.

¹ Chief Executives from MFAT, NZ Police, DIA, DPMC, NZDF, MBIE, MoD, TPK, MPI, NZTE and the Treasury.

Expected cost of hosting APEC21

The total cost of hosting APEC21 is expected to be between **\$265 and \$330 million**. As noted in the Specific Fiscal Risk, there is also an additional fiscal risk of \$113 million acknowledging the potential impact of a change in threat level, as this would require significant changes to elements of delivery.

In 1999, the cost of hosting was approximately \$44 million (not adjusted for inflation), however the environment has changed significantly since then. APEC now has four times more delegates, terrorist events such as 9/11 have changed security requirements, the Auckland accommodation market consistently operates at 95% capacity, and IT requirements are now extensive with much higher expectations from delegates.

Relevant benchmarks are [2], [26]

Phasing and Funding for APEC21

There will be three business cases prepared for APEC21. The following table outlines the planned phasing. Budget bids will be prepared for each business case.

Scope/Agency	Budget	Reason for phasing	Indicative costs
Business Case 1: Operations and hosting responsibilities – (MFAT)	2018	Need to commence contract negotiations and secure key venues, accommodation, office space and transport, and continue the procurement process for the online registration and accreditation system.	\$210-\$250m
Business Case 2: Security responsibilities – (NZ Police)	2019	Security costs are dependent on key operations and hosting planning decisions in the first phase including venues and accommodation being confirmed.	\$50-\$70m
Business Case 3: Policy and leveraging outcomes – (MFAT)	2020	Policy and leveraging costs are dependent on decisions that have yet to be taken about New Zealand's APEC-related policy focus for the hosting year. Further engagement with business and Maori is needed to identify leveraging opportunities.	\$5-10m

The business case and budget bid for 2018 set out four options that are assessed against the objectives set out for the APEC21 programme (see *Annex*). These options are based on delivering APEC in a manner that is consistent with the expectations of APEC attendees and delegates.

MFAT has undergone a robust process for costing the options outlined in the first business case. The preferred option (\$234.5 million of new funding, plus an additional \$11.6 million reprioritised from MFAT baselines), aims to maximise the economic and brand value of hosting APEC, provide opportunity for New Zealand regions to be involved, and ensure New Zealand is best placed to achieve policy outcomes.

MFAT has also developed a '*bare minimum*' option for the first business case of \$211.3 million below which they assess the project as not viable. This is achieved through driving efficiencies such as only locating meetings in major cities (not in regions).

	Preferred Option	Bare Minimum	Difference
Total Base Cost	\$186.8m	\$158.9m	\$27.9m
MFAT contribution from baselines	(\$11.6m)	(\$11.6m)	-
Total new funding	\$175.2m	\$147.3m	\$27.9m
Contingency	\$59.4m	\$52.3m	\$ 7.1m
Total project cost	\$246.1m	\$211.3m	\$34.8m
Total new funding required	\$234.5m	\$199.7m	\$34.8m

Are there opportunities to reduce costs?

A core planning assumption for all options (including the bare minimum option) is that there is a low appetite for risk during our hosting year. There are likely to be limited options to reduce costs without changing this core assumption about risk or the overall approach to delivering APEC21. While there may be some specific costs that could be reduced, a large scale reduction in cost is unlikely without significantly changing the way APEC is delivered or the degree to which the investment objectives are achieved.

In addition to the above, we see two potential avenues to reduce the amount of funding sought, particularly for the first budget bid, however the impact either of these avenues would have is unclear.

- Further reprioritisation from baselines** – As noted, the business case includes reprioritisation of \$11.6 million or 25% of expected staff needs from MFAT baselines. Agencies which provide relevant services as part of current day-to-day operations (such as Customs) will also continue to provide those services from within baselines. Options for further reprioritisation could be investigated including from MFAT, Police (as part of the second business case) or other agencies that currently have a budget to attend or support APEC. Scope for further reprioritisation may be limited, would require careful assessment, and would likely involve the cessation of existing activities.
- Reduce contingency funding sought in Budget 2018** – The business case currently includes a 25% provision for contingency which is within what is expected for a project of this nature. MFAT will undertake further work to ensure you are presented with a critical assessment of the risks and uncertainties in the project. There may be scope to reduce contingency funding allocated to APEC21 this budget as there will be opportunities to reassess through the next two budgets. However, this may only shift costs between budgets.

Next Steps

Funding for the first business case will be sought through the Budget 2018 process. MFAT is also planning to take a paper regarding APEC21 to Cabinet early next year. We will continue to update you as necessary through the budget process and as the project progresses.

Laura Browne, Analyst, International, [39]

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ANNEX: Investment Objectives for APEC21

1. **SECURE** - New Zealand will host a secure APEC year ensuring all APEC Leaders and attendees feel safe, secure and welcome.
2. **EXPERIENCE** - New Zealand will host a high-quality APEC year with all APEC attendees and Leaders experiencing friendly, authentic New Zealand hosting, from the first arrival to the last farewell.
3. **POLICY** - New Zealand will shape the APEC policy agenda so that it better supports the advancement of New Zealand's long-term prosperity.
4. **INTERNATIONAL** - New Zealand will fully exploit its investment in hosting the APEC year to demonstrate success on the international stage, to pursue bilateral meetings and visits with Leaders, Ministers and officials to sustain and refresh relationships, and to accelerate the achievement of broader objectives during the hosting year.
5. **EXPOSURE** - New Zealand will showcase its world-class capabilities, competitive advantages and amazing landscapes to the media and Leaders of economies that represent 40% of the world's population.
6. **BUSINESS LEVERAGE** - Business strategically leverages the on-shore hosting of APEC to create new trade and investment opportunities and ultimately benefit the long-term prosperity of all New Zealanders.
7. **LOCAL SUPPORT** - Promote public support in favour of hosting APEC and New Zealand's links with the Asia-Pacific.