

# The Treasury

## Budget 2018 Information Release

### Release Document August 2018

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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)         |
| [2]  | to avoid prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by the Government of any other country or any agency of such a Government   | 6(b)(i)      |
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| [29] | to avoid prejudice to the substantial economic interests of New Zealand  | 9(2)(d)      |
| [31] | to maintain the current constitutional conventions protecting collective and individual ministerial responsibility   | 9(2)(f)(ii)  |
| [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)      |
| [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)      |
| [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.

## Treasury Report: Budget 2018: Bilateral with Minister Peters [#3]

|              |               |                     |           |
|--------------|---------------|---------------------|-----------|
| <b>Date:</b> | 14 March 2018 | <b>Report No:</b>   | T2018/630 |
|              |               | <b>File Number:</b> | DH-10-0-9 |

### Action Sought

|  | Action Sought   | Deadline      |
|--|---|---------------|
| Minister of Finance<br>(Hon Grant Robertson) | <b>Read</b> this report ahead of your meeting with the Prime Minister on Thursday 15 March and ahead of Budget Ministers meeting on Monday 19 March | 15 March 2018 |

### Contact for Telephone Discussion (if required)

| Name             | Position                         | Telephone    | 1st Contact    |
|------------------|----------------------------------|--------------|----------------|
| Laura Browne     | Analyst, International           | [39]<br>(wk) | N/A<br>(mob) ✓ |
| Rachel Pettigrew | Senior Analyst, International    | [39]<br>(wk) | N/A<br>(mob)   |
| Thomas Parry     | Team Leader, Overseas Investment | [39]<br>(wk) | N/A<br>(mob)   |

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

|  |
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| <b>Return</b> the signed report to Treasury. |
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Note any feedback on the quality of the report

**Enclosure:** No

## Treasury Report: Budget 2018: Bilateral with Minister Peters [#3]

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### Executive Summary

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This report provides you with additional information in response to the issues you raised following your meeting with Minister Peters on Monday 12 March.

You are receiving a draft budget package today (*T2018/614*) that includes the options that you discussed with Minister Peters in your bilateral, as set out in *T2018/617*. If this option is included in the budget package for the second Budget Ministers meeting on Monday 19 March, you may wish to indicate to Minister Peters that you intend to use this option until final details of his package have been agreed.

#### *MFAT Departmental Funding*

We see the biggest risks in the capital space. In your bilateral, <sup>[26]</sup>  
to free up one-off savings of <sup>[33]</sup> This proposal relies on fully funding the capital injection at \$279.8 million and will only generate one-off 'savings' from re-phasing of operating funding associated with the initiative.

From a wider budget perspective, supporting additional capital funding over and above the current \$40 million in the draft package would involve making trade-offs against other portfolios such as Health, Education and Housing. <sup>[33], [38]</sup>

The two remaining areas you will need to reach agreement on are operating pressures (forecast deficit) and additional capability (FTE). <sup>[33][38]</sup>

#### *Official Development Assistance*

<sup>[26]</sup>

<sup>[34]</sup>

In the current draft Budget package that you are also receiving today, we have included ODA funding of \$147.2 million p.a. of operating funding. Any changes to this will result in significant trade-offs across the wider Budget operating package.

Strategies to reduce the overall fiscal impact of <sup>[26]</sup> include:

- <sup>[38]</sup>
- 
-

## APEC21

There may be some confusion around what was agreed regarding APEC contingency funding. We recommend clarifying that you and Minister Peters have agreed to:

- reduce funding in the general contingency by \$15 million; and
- [33], [38]

## Recommended Action

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We recommend that you:

- a **note** that if the budget package for the second Budget Ministers meeting on Monday 19 March includes the options that you discussed with Minister Peters in your bilateral, as set out in *T2018/617*, you may wish to indicate to Minister Peters that you intend to use these until final details of his package have been agreed.

### *MFAT Departmental Funding*

- b **note** that [26] to free up savings relies on fully funding the capital injection of [33] and only reduces the amount of operating funding associated with the capital that is required in the first couple of years;
- c **note** that from a wider budget perspective, supporting additional capital funding over and above the current \$40 million in the draft package would involve making trade-offs against other portfolios such as Health, Education and Housing;
- d [33], [38]
- e **note** that you will need to reach agreement with Minister Peters on the following two remaining areas: operating pressures (forecast deficit) and additional capability (FTE);

[33][38]

*Agree/disagree.*

### *Official Development Assistance*

- h **note** that [26]
- i **note** that strategies to reduce the overall fiscal impact of the Official Development Assistance initiative include:
- [38]
  - 
  -

APEC21

j **agree** to clarify that in your bilateral with Minister Peters you agreed to reduce funding in the general contingency by \$15 million [33], [38]

*Agree/disagree.*

Thomas Parry  
**Team Leader**

Hon Grant Robertson  
**Minister of Finance**

### Purpose of Report

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1. You met with Minister Peters on Monday 12 March to discuss the Budget initiatives for Vote Foreign Affairs and Trade, Vote Official Development Assistance, and Vote Racing (*T2018/504 & T2018/617 refers*). This followed a previous discussion with Minister Peters where he identified his top priorities (*T2018/20 refers*). We understand you are meeting with the Prime Minister on Thursday 15 March and may discuss these initiatives.
2. This report responds to your request for additional information following your meeting with Minister Peters this week. As per your request, we have engaged with MFAT officials to ensure we fully understood the proposals discussed in your meeting.
3. You are receiving a draft budget package today (*T2018/614*) ahead of the second Budget Ministers meeting on Monday 19 March. The draft package currently includes the options that you discussed with Minister Peters in your bilateral, (as set out in *T2018/617*). If this option is included in the budget package for discussion, you may wish to indicate to Minister Peters that you intend to use this option until final details of his package have been agreed.

### A. MFAT Departmental Funding

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4. Prior to your meeting with Minister Peters, you tabled an option for departmental funding of **\$29.5 million p.a.** operating and **\$40.3 million** capital (*T2018/617 refers*).  
[26]

#### Capital Pressures

5. **We see the biggest risks in the capital space.** Capital is the tightest area across the entire budget package and Minister Peters is seeking a significant amount of funding. This proposal has significant components which are not implementation ready and as such, we assess that funding all, or a significant proportion of the capital sought could result in some low value investment.
6. **We understand that** [26] **to free up a total of**  
[33] **in operating funding** [33] **by re-phasing capital**  
expenditure, where savings are generated by delaying associated operating costs. We also understand you discussed using these 'savings' to offset the cost of additional FTE.
7. **This proposal is premised on fully funding the capital injection at \$279.8 million, which we do not recommend. Moreover, it will also only generate one-off savings which means it is not a viable option to offset the cost of additional FTE.** The initiatives, as submitted, assume the entire capital injection of [33] would occur in 2018/19, requiring associated depreciation and capital charge to also be funded in full from 2018/19. By phasing the capital, the associated operating funding is also phased, creating 'savings' only when compared to single capital injection approach.
8. **Our recommended option remains to fund \$35.5 million<sup>1</sup> in capital to address health and safety, and protective security requirements.** [33], [38]

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<sup>1</sup> We have already phased the capital expenditure in the Treasury recommended option. This created a total of **\$5.4 million** in 'savings' across 2018/19 and 2019/20 compared to funding all in 2018/19.

9. **From a wider budget perspective, supporting additional capital funding over and above the current \$40.3 million in the draft package would involve making trade-offs against other portfolios** such as Health, Education and Housing. [33], [38]

While we acknowledge that the Ministry is facing a legacy of unfunded capital investment in property and ICT that will need to be addressed (see T2018/20, para 19), investment beyond this level runs the risk of being of low value, given the uncertainty in funding requirements and significant strategic choices that still need to be taken in areas such as ICT. [33]

### **Outstanding decisions**

10. We see greater flexibility to meet [26] amongst the operating components. There are two remaining areas that you will need to reach agreement:
- **Operating pressures.** Fund either 60% (TSY recommended), 80% or 100% (Minister Peters' preference) of the Ministry's forecast deficit.
  - **Additional capability.** Fund 12 FTE (TSY recommended), or up to [33] (Minister Peters' preference).
11. Regarding the increase in FTE, it is important to note that there are FTE increases included in some of the other MFAT initiatives:
- **Protective security requirements.** This includes an increase of approximately 8 FTE which will be focused on lifting the Ministry's security policy capability.
  - **ODA.** Any significant increase will be accompanied by a commensurate increase in departmental funding to administer the programme. [33]
  - **APEC21.** This includes time-bound FTE specifically related to the programme.
12. [33][38]

### ***Bilateral with Minister Peters***

15. **Bilateral Proposal [✓]**: At the meeting you tabled an option with a fiscal impact of **\$147.2 million p.a.** which includes:
- an initial cash injection of **\$64.8m** to lift the ratio to 0.26% in 2018/19; and
  - increases of 0.01% of GNI per annum. (**+\$63 - \$67m p.a.**) across the triennium.

16. [26]

17. [34]

18. In the current draft Budget package that you are also receiving today, we have included ODA funding of \$147.2 million p.a. of operating funding. Any changes to this will result in significant trade-offs across the wider Budget operating package.
19. You may wish to inform Minister Peters that this option will be included in the Budget package ahead of the meeting until final details are decided.

**Strategies to reduce fiscal impact**

20. Given the size of <sup>[26]</sup> we have set out below a set of options to reduce the overall fiscal impact.

21. **At a minimum, we recommend that the funding agreed this Budget only increases the level of ODA across the next triennium** (see T2018/504, para 28). We recommend that further funding decisions are made in Budget 2021 to coincide with the start of the following triennium.

- <sup>[26]</sup> – *triennium only* [★]: Adopting this approach would bring <sup>[26]</sup> increase over current Vote ODA baselines.

22. Options to reduce the fiscal impact of this bid are provided below. These options are variations on <sup>[26]</sup> All these options are prepared on the basis of funding increases across the triennium only.

[38]

23. The appendix provides you with a table setting out the fiscal impact of further combinations of initial cash injections and growth pathways.

[33], [38]

24.

25.

## C. APEC21 Contingency Funding

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26. Following discussion with MFAT officials, we note that there may be some confusion around what was agreed. To clarify, there are two separate adjustments to APEC21 contingency funding being discussed:
- **Reduce funding in the general contingency:** To reduce by **\$15 million** from \$36.8 million to \$21.8 million. This will place greater pressure on MFAT to manage costs, but also increase the overall risk profile (this will be reassessed as part of the Budget 2019 APEC21 bid); and
- [33], [38]
27. We recommend clarifying that you and Minister Peters have agreed to both these adjustments [33], [38]

## D. Racing (bloodstock initiative)

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[40]

