

The Treasury

Budget 2020 Information Release

July 2020

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- [29] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [42] 18(d) - information is already publicly available or will be publicly available soon.

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Treasury Report: Bilateral Budget 2020 Discussion: Minister Clark
and Minister O'Connor on 11 November at 4:30pm

Date:	7 November 2019	Report No:	T2019/3526
		File Number:	SH-12-2-2-0 (General)

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Note the contents of this report.	None
Hon Dr David Clark Associate Minister of Finance	Discuss the contents of this report with Minister O'Connor at your bilateral on 11 November 2019.	4:30pm, 11 November 2019

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Dylan Chambers	Graduate Analyst, Natural Resources	[39]	N/A (mob)	✓
Gwen Rashbrooke	Manager, Natural Resources		N/A (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any
feedback on
the quality of
the report

Enclosure: Yes (performance reporting letters attached)

Treasury Report: Budget 2020 Discussion: Minister Clark and Minister O'Connor on 11 November at 4:30pm

Recommended Action

We recommend you **read** this report and attached material prior to your Budget 2020 bilateral discussion with Minister O'Connor at 4:30pm on Monday 11 November 2019.

Gwen Rashbrooke
Manager

Hon Grant Robertson
Minister of Finance

Hon Dr David Clark
Associate Minister of Finance

Purpose of Report

1. The purpose of this report is to provide background information and advice for your Budget 2020 bilateral discussion with Minister O'Connor at 4.30 pm on Monday 11 November, regarding the Agriculture, Biosecurity and Food Safety portfolios.
2. This discussion is an opportunity for you to seek additional information from Minister O'Connor on cost pressure bids or progress reports, clarify expectations around the Budget 2020 process, and invite him to raise any concerns he may have.
3. This report provides:
 - Context on existing funding, including funding received in recent Budgets; and
 - An overview of cost pressures submitted for Budget 2020.
4. Attached to this report are three annexes:
 - Annex A provides talking points for your bilateral discussion.
 - Annex B provides a full list of the cost pressure initiatives submitted within Minister O'Connor's portfolios.
 - Annex C provides the Budget 2018 and 2019 initiative progress reports requested by the Minister of Finance.
5. We have provided preliminary comments for some of the significant cost pressure initiatives. We will provide further advice, including funding recommendations for each cost pressure, ahead of the development of the cost pressures package.

Context

Vote Agriculture, Biosecurity, Fisheries and Food Safety¹

6. The 2019/20 annual operating expenditure of the agriculture, biosecurity and food safety portfolios is \$713.377 million.
7. The 2019/20 capital expenditure of the agriculture, biosecurity and food safety portfolios is \$24.586 million.
8. The baseline uplift over the last two Budgets is summarised in the below table:

¹ The Fisheries portfolio has been removed from the figures that follow as it is the responsibility of the Minister of Fisheries.

Agriculture, Biosecurity and Food Safety

Budget Estimates	Total appropriations (4 year annual avg) at Budget (\$m)	% increase (decrease) in total appropriations (4 year annual avg) from previous Budget (\$m)
Budget 2017	733.052	
Budget 2018	750.206	2.34 %
Budget 2019	705.491	-5.96 %

9. The 5.96 % decrease is primarily due to time limited funding ending in 2019/20 and 2020/21, including *Mycoplasma bovis* (M. bovis) (\$184.000 million ending 2019/20), Wilding Conifers (\$21 million ending 2020/21) and personnel, ICT and other inflationary pressures (\$21.457 million ending 2019/20).

Cost Pressures

10. As at 11am 6 November, cost pressure bids seeking a combined total of \$14.9 billion operating over the forecast period (\$3.7 billion average per annum), and \$6.1 billion total capital have been submitted.
11. Minister O'Connor submitted 12 cost pressure bids totalling [33] million of operating over four years and [33] million of capital funding for Budget 2020. These are split among the portfolios as follows:
- Agriculture: a total of \$192.198 million operational funding and no capital funding;
 - Biosecurity: a total of [33] million operational funding (including a placeholder for M. bovis) and [33] million capital funding;
 - Food Safety: a total of [33] million operational funding and no capital funding;
12. The Treasury expects components of some of these bids may not meet the cost-pressure definition, which requires that costs arose from external factors (e.g. volume, price or legislation) and have a high risk if unfunded (e.g. service failure). However, further analysis will be required to confirm this.

Mycoplasma bovis

13. The response to M. bovis was funded only until the end of 2019/20. We understand Cabinet decisions on the future of the response will be sought in February 2020 following a Technical Advisory Group report. As this does not align with the Budget timeframe, the Minister for Biosecurity has submitted a placeholder initiative into the Budget 2020 cost pressure process, with an upper estimate of the amount required (\$408 million over two years).

MPI-wide cost pressures and baseline review

14. Minister O'Connor has submitted a \$142.945 million cost pressure bid (over four years) for ongoing funding of ICT, Property, Personnel and other Inflationary Pressures. MPI received two years of time-limited funding for this in Budget 2018, which extended previous time-limited funding that resulted from funding rolled forward following the establishment of MPI. The funding will expire at the end of fiscal year 2019, leaving a baseline gap of approximately \$20 - \$30 million in 2020/21.
15. The reason previous funding was time-limited was that MPI had planned to undertake a baseline review by 2020, as noted by Minister O'Connor in his Budget 2018 submission letter. We understand a baseline review has not been undertaken owing to changes within MPI and other high priority work programmes.
16. The Treasury recommends that a baseline review be completed within the next few years in order to ensure that the amount of funding received by MPI is appropriate and that MPI's work is prioritised effectively.

Other cost pressures

17. Information on the other cost pressure bids can be found in the talking points in Annex A. We have provided initial comments on the significant initiatives but are yet to assess them in detail. A fuller assessment will be provided in due course.

Annex A: Talking Points for your Bilateral with Minister O'Connor

Cost pressures

You may wish to:

18. Note the Treasury anticipates components in several cost pressure bids may not meet the cost pressure definition and might therefore not be funded as part of the cost pressure package (but that the Treasury will require further analysis to confirm this).
19. Reiterate the definition of cost pressure: costs arising from external factors such as volume, price or legislation, with a high risk if unfunded.
20. Outline that if bids do not meet these criteria, they could be resubmitted through the 'other' or priority-aligning process.

Mycoplasma bovis

21. You may wish to ask Minister O'Connor what will be his preferred approach to the next stage of the M. bovis response, and what will be the likely funding requirements. We understand Cabinet decisions on the future of the M. bovis response will be sought in February 2020, following the Technical Advisory Group's report.

MPI-wide cost pressures and baseline review

22. The bid *Continuing the Ministry for Primary Industries current scope of operations* is quite significant (\$142.945 million over four years). MPI notes the bid is driven by a reduction in MPI's baseline despite growing operational activity; the conclusion of time-limited funding; and price, wage and inflationary pressures. You may wish to ask the Minister to elaborate on these drivers.

Performance reporting

23. You may wish to ask Minister O'Connor why the 2019 Budget initiative *Productive and sustainable land use: enabling the transition in agriculture* appears on track to be significantly underspent for 2019/20. MPI has spent \$0.555 million of \$15.851 million appropriated in 2019/20.

Annex B: Submitted Cost Pressure Initiatives

Agriculture

Title	Description	Funding Sought by Agency			Treasury Comments
		Opex Avg (\$m)	Opex Total (\$m)	Capex Total (\$m)	
Global Research Alliance – Continuing New Zealand's international leadership to reduce agricultural emissions	Current funding of \$8.500 million per year for the Global Research Alliance (GRA) expires in June 2020. MPI is seeking four years of further funding with a slight increase (to \$8.800 million per annum) to continue to fulfil New Zealand's obligations to the GRA membership and deliver on New Zealand's priorities: demonstrate global climate change leadership; support New Zealanders in climate transition; and enable more sustainable land use.	8.800	35.200	0.000	
Agricultural Production Statistics (APS) programme funding increase	This initiative seeks funding to support the continued running of the Agricultural Production Statistics (APS) survey. The survey is managed by Stats NZ but is fully funded by the Ministry for Primary Industries (MPI). The APS information contributes to key domestic and international reporting and analysis functions. In March 2019 Stats NZ the survey cost from \$2.050 million to \$3.290 million. Funding is only being sought for one year as an MPI-led review of the programme is underway, due for completion next year.	0.310	1.240	0.000	

Supporting a modern Animal Health and Welfare System	To provide funding for resources to deliver increased responsibilities created by the National Civil Defence Emergency Management Plan, and the Government's Framework for Action on Animal Welfare, ensuring base level regulatory requirements are met. Under-resourcing risks failures of our animal health and welfare system, harmful effects on our economy, community wellbeing, emergency readiness, and trade reputation.	1.378	5.511	0.000	
Continuing the Ministry for Primary Industries current scope of operations	This initiative provides critical funding for MPI to continue its current scope and level of operations as MPI is facing significant cost pressures over the next four years. The bid is driven by a significant reduction in MPI's baseline despite a growing level of operation activity; the conclusion of time-limited funding and the expectation that the associated activities continue for another four years; and price, wage and inflationary pressures.	35.736	142.945	0.000	<p>MPI received two years of time-limited funding for ICT, Property, Personnel and other Inflationary Pressures in Budget 2018. This extended previous time-limited funding that was a result of funding rolled forward following the establishment of MPI. The funding will expire at the end of fiscal year 2019, leaving a baseline gap of approximately \$20 - \$30 million in 2020/21.</p> <p>In his Budget 2018 submission letter Minister O'Connor noted that MPI planned to undertake a baseline review over these two years. We understand at a baseline review has not yet been completed owing to changes within MPI and other high priority work programmes.</p>
Enabling New Zealanders and international visitors to access the outdoors	This initiative enables the New Zealand Walking Access Commission (the Commission) to continue to create new public access to the outdoors for New Zealanders and visitors, and to maintain	1.826	7.302	0.000	The New Zealand Walking Access Commission receives \$1.789 million baseline funding each year to meet its obligations under the Walking Access Act 2008. The Commission asserts that it

for active transport and recreation	existing access. It will do this through continuing regional projects that identify access needs in partnership with local authorities, iwi and community groups; through providing small grant funding to community groups to create, maintain and improve public access; through managing the internationally significant Te Araroa trail from Cape Reinga to Bluff; and through providing digital services for the public to find access.				cannot meet its obligations due to increased demand (volume pressures), and is seeking an increase in baseline funding. [33]
Total		48.050	192.198	0.000	

Biosecurity

Title	Description	Funding Sought by Agency			Treasury Comments
		Opex Avg (\$m)	Opex Total (\$m)	Capex Total (\$m)	
Enabling the continuation of the Mycoplasma bovis eradication programme – Place holder	On 28 May 2018 Cabinet agreed to eradicate Mycoplasma bovis, an 8-10 year programme despite uncertainty about future costs. The decision to eradicate was made despite limited information available at the time, as it was considered that this uncertainty was outweighed by the need to create a pathway forward and provide certainty for farmers and the wider sector. Mycoplasma bovis has significant production, management and animal health and welfare impacts.	102	408	0.000	Cabinet decisions on the future of the M. Bovis response are expected to be taken in February 2020; this is a placeholder initiative with an upper estimate entered as the funding sought. The Treasury will provide further advice on the response and funding for M. bovis when these decisions are sought.

[33]	[33]	[33]	[33]	[33]	
Funding for maintaining compliance in the NAIT scheme	<p>The funding will purchase a national workforce of 36 NAIT Compliance Officers, management and analysis functionality for a further year. It will also contribute to the work MPI Verification Services and Legal Services undertake to support NAIT compliance by providing capacity to monitor compliance and take enforcement action. In 2018 Cabinet approved \$6.75 million per annum for 2 years to improve the NAIT system, \$5.2 million of which was used to establish an MPI NAIT Compliance workforce and the remainder was used by MPI's Policy and Trade Branch to enable legislative changes. The enforcement work undertaken by the MPI NAIT Officers and analytical support team have revealed the scale of non-compliance to be much greater than anticipated. The funding for both ends on 30/06/2020.</p>	1.407	5.629	0.000	

Increasing capability for Post-Entry Quarantine Services to better manage demand	<p>This initiative seeks funding for 18 new interim Level 3B Post Entry Quarantine (PEQ) greenhouse units to address the pressures on MPI's current capability, due to increasing demand and aging infrastructure. MPI's aging infrastructure. PEQ testing, in a containment greenhouse, provides an assurance that imported plant material does not contain regulated and unwanted organisms, plant health cannot be easily assessed on material that is not actively growing.</p> <p>The Biosecurity Act and Import Health Standards require imported plant material to be isolated and held for inspection and/or testing prior to biosecurity clearance and Level 3B PEQ testing is required for the importation of high-value crops/cultivars.</p>	2.101	8.404	6.249	
Increase readiness/response functions to preserve primary industries & protect our natural environment & taonga species	<p>This will increase MPI's readiness & response functions and reduce growing post-border risk from pests and pathogens entering/establishing in NZ. It will ensure MPI has the ability to meet regulatory obligations to preserve human health, protect NZ's economic, environmental, cultural and social values, which are under growing pressure from increases in tourism, trade and climate change making it easier for pests and diseases to enter/establish in NZ. It will ensure a step-change in baseline resource to protect and maintain core readiness and response functions, will ensure MPI can</p>	9.038	36.151	0.000	

	fulfil Treaty obligations for readiness and response, deliver more training, manage contracted services, implement improvements, and ensure specialist responders and sufficient technical expertise are available.				
Total		[33]	[33]	[33]	

Food Safety

Title	Description	Funding Sought by Agency			Treasury Comments
		Opex Avg (\$m)	Opex Total (\$m)	Capex Total (\$m)	
[33]	[33]	[33]	[33]	[33]	[33]
Maintain capacity and resources to meet statutory obligations across Food Safety Legislation	This initiative seeks funding to alleviate increased pressure on the food safety system and address current issues linked to legislative, demographic & market drivers. Current services are at high risk of regulatory failure; without further funding	[33]	[33]	[33]	[33]

	MPI will not be able to meet its statutory obligations.				[33]
Total		[33]	[33]	[33]	

Annex C: Delivering on past Budget Commitments – Initiatives within Scope

Budget	Title	Funding Allocated (\$m)			Treasury comment
		Opex Avg	Opex Total	Capex Total	
Agriculture					
2018	Infrastructure – ICT and Property for MPI	2.512	10.048	0.000	Note there is a cost pressure bid to continue this previously time limited funding. MPI had previously indicated they would undertake a baseline review, but this is now expected in the future. You may wish to discuss this with Minister O’Connor.
2018	Personnel and Other Inflationary Pressures for MPI	7.006	28.023	0.000	As per comment above.
2018	Enhancing the Overseer Farm Management Tool	1.250	5.000	0.000	The full amount has been spent and the programme appears to be on track.
2018	Sustainable Farming Fund	3.750	15.000	0.000	This initiative was slightly underspent in 2018/19 and appears on track to be slightly underspent for 2019/20.
2019	Productive and Sustainable Land Use: Enabling the Transition in Agriculture	30.560	122.241	0.000	While there are activities and progress underway, this initiative appears on track to be significantly underspent for 2019/20.
Biosecurity					
2018 & 2019	Response to the Cattle Disease Mycoplasma bovis and its Eradication	139.250	557.000 ²	0.000	Cabinet decisions on the next phase of the response are expected in February 2020. A draw-down from the tagged contingency is expected at some point in 2019, but the report-back template notes the response will likely stay within the total allocated funding envelope.
Total		184.328	737.312	0.000	

² Total includes \$88 million set aside in contingency

