

# The Treasury

## Budget 2011 Information Release

### Release Document

June 2011

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

**Vote Economic Development**

# Four Year Budget Plan

Version 1

26 November 2010

Submitted by:

**Hon Gerry Brownlee**

## Section 1: New Baseline and Summary of Changes

Vote Economic Development helps to develop enterprising and innovative businesses, improve international linkages, make Auckland more productive and competitive, create dynamic and trusted markets, and increase the ease of doing business. It does this by providing advice on how the Government can promote economic development, improve public sector procurement practices, and lift the capability of small businesses - as well as providing advice and services to help firms grow faster and be more successful internationally.

The Ministry of Economic Development's (the Ministry) focus for Vote Economic Development over the next four years is to continue to lead work on the science, innovation, and trade driver of the medium term economic growth agenda, deliver specific Economic Growth Agenda initiatives, and implement the Government's Procurement Reform Agenda (GPRA). This focus is reflected in the three priorities outlined in Section 2 below. In the short term, ensuring New Zealand realises the economic benefits from hosting the Rugby World Cup remains a priority.

By its very nature, this work is long-term and ongoing, and therefore largely involves continuing the work begun in previous years. However, there are two areas where we want to place more emphasis for the coming year and beyond:

- ensuring that environmental performance does not become a barrier to our ability to access and grow in international markets
- bringing a greater international focus to the science, innovation and trade driver, in particular by developing a more coordinated and proactive approach to supporting businesses seeking to access Asian markets.

The Vote has undergone significant changes over the last two years to enable it to meet the Government's priorities. A number of programmes have been consolidated or discontinued and resources redeployed to meet Government priorities in the current fiscal environment.

Over the last 12 months, the joint Ministers (Economic Development and Trade) have initiated a process to provide greater clarity to the Government's expectations of NZTE. This built on progress made through the value-for-money process which has seen a number of grants and programmes being discontinued.

The objective of this process is to refocus NZTE on its primary role of supporting internationally competitive firms, particularly around priority areas identified through the Economic Growth Agenda. The Economic Development Minister will consider changes to output class structures and the allocation of resources between them to support these changes and intends to bring a paper to Cabinet in early 2011 on these proposals.

In the interim, NZTE has been realigning its resources to meet Ministerial priorities as set out in the letter of expectations to the Board. This proposal contains a set of technical adjustments to the current allocation of resources across output classes for this financial year to reflect the organisation's response to Ministerial priorities. This will also make the transition to the proposed new output class structure more transparent.

The most significant new proposals presented here are to reallocate resources for New Zealand's contribution to the international effort on the Square Kilometre Array and reallocation of resources within NZTE to enhance NZTE's leveraging and legacy activities to support the Rugby World Cup.

Overall Impact

| <b>Operating</b>                 | <b>Impact (\$000s)</b> |                |                |                |                |
|----------------------------------|------------------------|----------------|----------------|----------------|----------------|
|                                  | <b>2010/11</b>         | <b>2011/12</b> | <b>2012/13</b> | <b>2013/14</b> | <b>2014/15</b> |
| Current baseline                 | 415,845                | 349,054        | 276,976        | 266,472        | 266,472        |
| Cost of new/increased activities | 32,881                 | 3,350          | 2,150          | 1,250          | 1,250          |
| Amount reprioritised             | (29,944)               | (848)          | (848)          | (848)          | (848)          |
| New baseline                     | 420,782                | 351,556        | 278,278        | 266,874        | 266,874        |

| <b>Capital</b>  | <b>Impact (\$000s)</b> |                |                |                |                |
|---|------------------------|----------------|----------------|----------------|----------------|
|   | <b>2010/11</b>         | <b>2011/12</b> | <b>2012/13</b> | <b>2013/14</b> | <b>2014/15</b> |
| Capital proposals seeking decisions in Budget 2011    | <i>Nil</i>             | <i>Nil</i>     | <i>Nil</i>     | <i>Nil</i>     | <i>Nil</i>     |
| Capital proposals seeking new funding in Budget 2011. | <i>Nil</i>             | <i>Nil</i>     | <i>Nil</i>     | <i>Nil</i>     | <i>Nil</i>     |

## Section 2: Vote Priorities and Pressures

### Vote Economic Development priorities

In the letter of priorities to the Prime Minister, we identified three priority areas. Because of the nature of the portfolio, these will endure over the next four years, although the activity within these priority areas will continue to evolve over time.

1. *Leading the Science Innovation and Trade Driver*

Work on the Innovation Science and Trade driver comprises a set of initiatives that will continue to evolve over time. We intend to work with other economic Ministers to present a paper to Cabinet in the last quarter of this year outlining next steps for this driver.

Two areas will require greater attention over the next 12 months; the role that the environment plays in the Economic Growth Agenda and developing a stronger international focus, with a particular emphasis on how we can develop a more co-ordinated and proactive approach to supporting businesses seeking to access Asian markets.

2. *Delivering the Science, Innovation and Trade Driver actions that fall within the Economic Development portfolio*

Work will continue to implement those actions in the Economic Growth Agenda falling within the Economic Development portfolio, including:

- a continued focus on key sectors – specifically food and beverage and high-value manufacturing and services (including working with relevant Ministers to take forward the Managed Funds Domicile project).
- continuing to improve delivery of business support programmes within Vote Economic Development, including providing more focused support for businesses seeking to grow internationally and continuing the drive for agencies within Vote Economic Development to provide greater value for money
- better integration of business support activities across government, in particular between those provided within Vote Research Science and Technology and those within Vote Economic Development.
- taking a bolder and more focused approach to major events and business tourism, extracting greater economic return from business events; including a national convention centre and developing an international air services hub in Auckland. This is in addition to delivery of a successful Rugby World Cup and realising the economic benefits that flow from hosting this event.
- improving the economic performance of Auckland remains a priority for this Government, including creating better alignment of central and local government economic development activities in Auckland, and ensuring the proposed spatial plan better aligns public sector investment in Auckland.

- access to capital, including taking a more proactive approach to attracting foreign investment into areas where it will improve our overall economic performance.
- supporting the joint bid with Australia for the Square Kilometre Array.

### 3. *The Government Procurement Reform Agenda*

A priority for the coming year will be to maintain the momentum for the Procurement Reform Agenda. The success of the first year has demonstrated the value that can be achieved through this reform agenda. However, this is just a start and there will be significant future benefits through further value-for-money improvements, better and more consistent procurement policies and tools and greater opportunities for New Zealand businesses to supply to government.

#### **Vote Economic Development pressures**

There are three key areas within the Vote that are available for reprioritisation. The first is the International Growth Fund. This is a new fund that has been formed through the consolidation of a number of previous funds into a single fund to support export focused businesses access and develop international markets.

This fund is in its first full year of operation and the focus has been on getting the systems and processes in place. Applications are being subjected to more rigorous assessment of their net economic benefit. Application levels have been low in the first months of this year, but current projections suggest that the fund will be 65% subscribed this year and fully subscribed in out-years. The low number of applications is due to a combination of reduced economic activity (applications require 50% industry co-funding) and bedding down the processes associated with the new fund. This means that \$10M will be available for reprioritisation this year.

The International Biotechnology Partnerships Fund will be disestablished from 1 July 2011 and the appropriation transferred to Vote Energy to support the Petroleum Knowledge Investment Strategy. A residual of \$1.700M is available for reprioritisation this year.

Finally, savings of \$2.600M are available for reprioritisation from the multiyear appropriation for Shanghai Expo.

Section 3 outlines a range of proposals for reprioritisation within Vote Economic Development and between Votes to address pressures. There are other potential initiatives that have not been included due to the high level of uncertainty or that they are subject to further decisions and the Economic Development Minister will discuss these with Cabinet in due course.

These include:

[6]

[6]

The main medium term cost pressure is the evolving programme of initiatives resulting from the Science, Innovation and Trade driver of the Government's Economic Growth Agenda which will largely be supported through reprioritisation within and across Votes. However, some projects such as the Square Kilometre Array and the Managed Funds Domicile project could require substantial investment by government in the medium term if they proceed and are to be successful.

The Economic Development Minister intends to bring a proposal to Cabinet in early 2011 to aggregate the residual from the Enterprising Partnerships Fund with the Transformational Initiatives multiyear appropriation to provide a mechanism to support major initiatives decided by Cabinet as part of the Science, Innovation and Trade driver. This will enable new initiatives to be met from within existing baselines in the first instance.

### **Section 3: Proposed Changes for Budget 2011 (Reprioritisation)**

As stated above, there is \$10.000M available for reprioritisation from the International Growth Fund and \$1.700M available from the residual remaining from the Biotechnology Partnerships Fund. The other significant underspend is \$2.600M operating funding associated with the Shanghai Expo. In total \$14.300M was available for reprioritisation within Vote Economic Development.

#### **Square Kilometre Array (SKA)**

The total costs for construction and operation of the SKA over a 50 year lifespan were estimated in 2007 to be €1.5 billion, with €90 million needed for the pre-construction phase of the project by the end of 2011 (to cover through to 2015).<sup>[2]</sup>

[2]

The International Growth Fund is projected to be 65% subscribed this year. We propose that \$5.000M of the residual for 2010/11 be reprioritised to supporting the international effort for the SKA. This would be phased over four years from 2011/12 through to 2014/15 at \$1.250M per annum.

#### **Large Budget Screen Production Fund**

Warner Brothers Memorandum of Understanding resulted in an additional \$20.037 million in 2010/11 as a result of the widening of the Large Budget Screen Production Fund criteria. This amount was funded from the Emerging Priorities Contingency.

This is not reflected in current baselines as the funding was approved after the October Baseline Update process CAB Min (10) 39/20 refers.

#### **Canterbury Earthquake Business Support Package**

The Government has received requests for assistance from businesses affected by the Canterbury earthquake. To date, the Government has provided support through existing channels and by working through local business groups. While we do not propose to provide direct financial support to businesses from Vote Economic Development, the Government has a role in supporting the capability of local support networks through this period. We propose to implement a package of support with a total value of \$0.600M. This will fund additional business recovery co-ordinators, along with promotional and marketing activities to encourage customers back in affected retail areas.

We propose to transfer \$0.600M from International Biotechnology Partnerships to the Non-Departmental Output Expense: Canterbury Earthquake Recovery Commission. This would be phased \$0.450M in 2010/11 and \$0.150M in 2011/12.

## **Rugby World Cup**

The Rugby World Cup is a priority for this Government and we intend to focus on ensuring that New Zealand realises the economic benefits from staging the event. This will require a concerted effort across the whole of Government. NZTE has identified areas where existing 2010/11 funding can be reprioritised within Vote Economic Development towards the NZTE-led Rugby World Cup legacy initiatives. As this will require commitments to be made soon, the Economic Development Minister will be taking a paper to Cabinet before the end of 2010 seeking agreement to the reprioritisations within Vote Economic Development. Therefore, these changes will be contingent on Cabinet agreeing to support the package of changes.

The total legacy and leveraging programme requires an additional \$5.940M, of which \$1.350M can be met within the current funding allocation. The balance of \$4.590M will need to be met by reprioritisation within Vote Economic Development. We propose that \$4.000M be transferred from Non-Departmental Output Expense: Standardised Training and Advisory Services and \$0.590M be transferred from Regional and Sector Development Services into the output class Identification and Co-ordination of International Market Opportunities. The transfer will need to be phased with \$2.140M in 2010/11 and \$2.450M in 2011/12.

In addition, the Rugby World Cup 2011 Office has identified that no allocation of resources has been made for an international media hosting programme. New Zealand will be in the spotlight of the international media through this period and it will be important to ensure that they are well supported while in New Zealand. Further to this, provision also needs to be made for additional sector showcasing as specified by Ministers.

Therefore, we propose that an additional \$1.000M be transferred from International Biotechnology Partnerships into the multiyear appropriation Rugby World Cup Leverage and Legacy Programmes. The phasing of the expenditure is expected to be \$0.250M in 2010/11 and \$0.750M in 2011/12.

## **Major Events Development Fund**

On 8 December 2010, the Economic Growth and Infrastructure Committee will consider a proposal to increase available support for the Major Events Development Fund. This will improve New Zealand's success in attracting major events. It is proposed that the fund be increased to \$10.000M per annum from its current base of \$3.321M, requiring an additional \$6.679M per annum for 2010/11 and out-years. If Cabinet approves this proposal, the changes will be met from Imprest Supply.

## **Infrastructure Funding Within Vote Economic Development**

There is currently \$0.848M set aside for infrastructure advice within Vote Economic Development. About half of this money is currently being used for advice on energy and resource management issues and infrastructure resilience, and the other half of this is discretionary spend on overarching infrastructure issues.

We are aware that there is an ongoing shortfall in Vote Communications and that this Vote has also acquired additional policy work supporting the Ultra Fast Broadband (UFB) and Rural Broadband Initiatives (RBI). The UFB and RBI are critical infrastructure priorities for the Government, and it would be difficult for Vote

Communications to deliver on these initiatives without additional operational funding. We, therefore, propose a transfer of \$0.848M per annum from Vote Economic Development: Policy Advice and Sector Leadership to Vote Communications: Policy Advice – Communications for 2011/2012 and out-years.

As this funding was originally set aside for policy advice on infrastructure we believe that moving it to advice on critical infrastructure would be in keeping with the original purpose for which it was set aside.

Currently this is funding energy and resource management issues and infrastructure resilience (mainly comprising salaries for staff working on other energy issues) and the Ministry is confident that Vote Energy has the capacity to absorb the cost of these issues within current baselines.

### **International Funds Domicile Project**

The 2010 Baseline Alignment Proposal reprioritised \$1.500M into the Transformational Initiatives multiyear appropriation to support work on the Managed Funds Domicile Project. The Government's approach to this project has changed following the conclusion of the work of the Taskforce and this expenditure needs to be rephrased. The proposed phasing is \$0.600M in 2011/12 and \$0.900M in 2012/13.

### **Government Procurement Reform Agenda**

The first year of the Government Procurement Reform Agenda resulted in four all of government contracts realising significant savings across the public sector. There were delays in putting these contracts in place due to the complexity of the initial contracting processes. The reform agenda is delivering benefits and we propose to reprioritise \$1.200M to accelerate this work. This will allow an additional whole of government contract to be undertaken and will provide additional resources to support FTA negotiations (procurement is an important element of those negotiations).

We propose that \$0.600M be transferred from New Zealand's participation in Shanghai Expo to Policy Advice and Sector Leadership – Firm Capability, Sectoral and Regional Development in 2011/12. The remaining \$0.600M for 2010/11 will be met from reprioritisation from departmental baselines.

### **Fiscally Neutral Adjustments Required**

#### *Primary Sector Initiatives*

\$1.200M was expense transferred for the expansion of the Primary Sector Initiatives. This funding was expense transferred from the 2009/10 financial year to 2010/11 to be utilised for projects aimed at capturing the long-term returns to the New Zealand economy, through leveraging New Zealand's agribusiness intellectual property. The funding needs to be transferred into Regional and Sector Development Services

- (\$0.800M) from Regional Partnership Fund
- (\$0.400M) from International Growth Fund
- \$1.200M to Regional and Sector Development Services

### *Business Opportunities in Australia*

\$0.200M was expense transferred for the Project Link website redevelopment in Australia. This funding was expensed transferred from the 2009/10 financial year to 2010/11 to fund this project which will help identify business opportunities for New Zealand firms in the Australian specialised manufacturing sector. The funding needs to be transferred into Identification and Co-ordination of International Market Opportunities.

- (\$0.200M) from Regional Partnerships Fund
- \$0.200M to Identification and Coordination of International Market Opportunities

### *Refocusing activities to provide greater support for export-focused firms*

In October 2009, NZTE reviewed how it delivered its services so it could best target its resources to assist firms in response to the Ministerial direction as set out in the Letter of Expectations and the evaluation of Output Class 2 (Regional and Sector Development Services). As a result, NZTE has refocused its activities to provide greater support to export-focused firms and segmented its client base to focus on 'Key Account' firms that seek to become market leaders, and smaller firms that are capable of growing and operating internationally.

This change in delivery and focus better aligns NZTE activities to Ministerial priorities and has resulted in NZTE needing to re-align the structure of the organisation to where the effort and resources are being expended. This FNA allows for better transparency of NZTE activities and essentially will align the funding with where the resources are now being expended. The Output Class Review will be considered by Ministers to resolve this issue in the long term. We propose that the following fiscally neutral transfers.

- (\$10.744M) from Regional and Sector Development
- \$1.244M to Standardised Training and Advisory Services
- \$4.200M to Analysis and Development Services for Firms
- \$5.300M to Identification and Coordination of International Market Opportunities

### **Savings**

Of the \$14.300M available for reprioritisation within Vote Economic Development, we have reprioritised \$7.200M, therefore a balance of \$7.100M is identified as savings within the Vote.

#### **Section 4: Summary of Financial Movements**

This section details the changes to appropriations (including new appropriations) which are required to implement all of the proposed changes in section 3.

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