

Treasury Report: Deposit Guarantee Scheme: Cabinet Paper

Date:	17 October 2008	Report No:	T2008/2031
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Action Sought

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Minister of Finance (Hon Dr Michael Cullen)	<p><i>Jointly with the Associate Minister of Finance:</i></p> <p>Agree to seek Cabinet's approval to additional operational funding of \$7.650 million and capital funding of \$800,000 to implement and operate the Crown Deposit Guarantee Scheme.</p> <p>Agree to add a new Output Class: "Crown Deposit Guarantee Scheme" to the Multi-class Output Expense "State Sector and Economic Performance Policy Advice and Management" in Vote Finance.</p>	In time for the Cabinet meeting at Monday 20 th October 2008.
Associate Minister of Finance (Hon Phil Goff)	Note	None
Associate Minister of Finance (Hon Trevor Mallard)	<p><i>Jointly with the Associate Minister of Finance:</i></p> <p>Agree to seek Cabinet's approval to additional operational funding of \$7.650 million and capital funding of \$800,000 to implement and operate the Crown Deposit Guarantee Scheme.</p> <p>Agree to add a new Output Class: "Crown Deposit Guarantee Scheme" to the Multi-class Output Expense "State Sector and Economic Performance Policy Advice and Management" in Vote Finance.</p>	In time for the Cabinet meeting on Monday 20 th October 2008.
Associate Minister of Finance (Hon Clayton Cosgrove)	Note	None

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Joanna Gordon	Manager, Business Regulation	04 917 6939 (wk)	<i>[deleted – privacy, OIA s9(2)(a)]</i>	✓
John Matheson	Chief Financial Officer	04 971 6100 (wk)	<i>[deleted – privacy, OIA s9(2)(a)]</i>	

Minister of Finance's Office Actions (if required)

Forward to the Associate Minister of Finance, Hon Trevor Mallard, for signing.

Enclosure: Yes

Treasury Report: Deposit Guarantee Scheme: Cabinet Paper

Purpose of Report

1. This report briefs you on the attached Cabinet paper, which updates Cabinet on the decisions taken to implement a Crown deposit guarantee scheme ("the Scheme") and seeks funding for implementing and operating the Scheme.

Analysis

2. The attached Cabinet paper updates Cabinet on the policy decisions you have taken to define the scope of the Scheme you announced on 12 October 2008 under powers granted to you under section 65ZD of the Public Finance Act 1989. The paper details the characteristics of the Scheme, the fiscal implications and seeks Cabinet approval for funding to implement and operate it.
3. The Treasury estimates that operational funding of \$7.650 million and capital funding of \$800,000 will be required to implement and operate the Scheme over the two year period, (though the Scheme will span three financial years). Initially 18 additional legal and financial professionals plus two support staff will be required to implement the Scheme. After the first six months we expect that the number of staff required will reduce by five. The role of these legal and financial staff will be to reduce the Crown's exposure to the Scheme by performing regular monitoring of the financial institutions to ensure they meet the necessary Scheme criteria.
4. Initial costs are currently being incurred by the Treasury. However, the Treasury is unable to absorb these and future costs within its current departmental baselines without making substantial reductions to agreed work plans. The Scheme's operational costs are largely made up of legal fees, financial and legal salaries and operating costs. The capital costs are largely for credit assessment software and computers. The budgets are summarised in the following table.

Crown Deposit Guarantee Scheme: Operating Budget

Operating Expenditure & Fees	2008/09 \$m	2009/10 \$m	2010/11 \$m	Total \$m
Legal fees	0.682	0.160	0.040	0.882
Professional legal and financial personnel	1.515	1.620	0.405	3.540
Support personnel	0.131	0.175	0.044	0.350
Operating	1.272	1.245	0.361	2.878
Total Operating Expenditure	3.600	3.200	0.850	7.650
Fee Revenue	89.250	119.000	29.750	238.000
Net Revenue	85.650	115.800	28.900	230.350

Crown Deposit Guarantee Scheme: Capital Budget

Capital Expenditure	2008/09 \$m	2009/10 \$m	2010/11 \$m	Total \$m
Credit Assessment Software	0.600	-	-	0.600
IT & Workstations	0.200	-	-	0.200
Total Capital	0.800	-	-	0.800

5. We recommend that you agree to seek additional operating funding in Vote Finance and capital funding for the Treasury to fund the implementation and operations of the Scheme.
6. We also recommend that a new departmental output expense "Crown Deposit Guarantee Scheme" be added to the Multi-Class Output Expense "State Sector and Economic Performance Policy Advice and Management" in Vote Finance, because the implementation and operation of the Scheme is outside the appropriation scopes of existing departmental output expenses in Vote Finance. A separate output class will 'ring-fence' funding and any funding that is not required will be returned to the Crown.
7. The Minister of Finance's approval is required to add a new output class to a multi-class output expense. However, where the Minister of Finance is also the Vote Minister, Cabinet Office Guideline (CO (02) 17) requires the Associate Minister(s) to take on the role of Finance Minister for the purposes of approval.

Recommended Action

We recommend that you:

- a **agree** to seek Cabinet's approval to additional operational funding of \$7.650 million and capital funding of \$800,000 to implement and operate the Scheme.

Agreed/Disagreed
Minister of Finance
(acting as Vote Minister)

Agreed/Disagreed
Associate Minister of Finance
(acting as Minister of Finance)

- b **agree** to add a new Output Class: "Crown Deposit Guarantee Scheme" to the Multi-class Output Expense "State Sector and Economic Performance Policy Advice and Management" in Vote Finance;

Agreed/Disagreed
Minister of Finance
(acting as Vote Minister)

Agreed/Disagreed
Associate Minister of Finance
(acting as Minister of Finance)

- c **sign** the attached Cabinet paper and submit it to the Cabinet Office in time for the Cabinet meeting on 20 October 2008.

Joanna Gordon
Manager, Business Regulation
for Secretary to the Treasury

Hon Dr Michael Cullen
Minister of Finance