

# The Treasury

## Budget 2017 Information Release

### Release Document July 2017

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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)
[4]	to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial	6(c)
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[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	

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: New Zealand Superannuation Fund Appropriations

<b>Date:</b>	16 June 2016	<b>Report No:</b>	T2016/1124
		<b>File Number:</b>	CM-1-3-96

### Action Sought

	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance (Hon Bill English)	<b>Agree</b> to support a paper to Cabinet OR <b>agree</b> to a combination of a Fiscally Neutral Adjustment in October and a Budget 17 initiative in December	Thursday, 30 June 2016

### Contact for Telephone Discussion (if required)

<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
Shelley Hollingsworth	Senior Analyst, Commercial Operations – Strategy and Policy	[39]	[23] ✓
Craig Weise	Manager, Commercial Operations – Strategy and Policy		

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

**Return** the signed report to Treasury.

Note any  
feedback on  
the quality of  
the report

**Enclosure:** No

## Treasury Report: New Zealand Superannuation Fund Appropriations

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### Purpose of Report

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1. You have recently been made aware that the appropriation for the Guardians of New Zealand Superannuation (Guardians) for 2016/17 will be insufficient to cover the Guardians' increased Board fees together with increases in its operating costs. As such, you have requested an overview of the process which has been undertaken to date within the Treasury with regard to the Guardians' appropriation level.

### Background

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2. The Guardians' appropriation has been set at \$528k since 2012/13. This budget has included an allowance of \$179k for the potential to hold an overseas Board meeting. To date, no such Board meeting has taken place and as such the full appropriation has not historically been utilised. The unutilised portion of the Guardians' appropriations from 2010 to 2015 is illustrated in the following table:

Year	Appropriation ('000s)	Actual ('000s)	Underspend ('000s)
2014/15	\$528	\$326	\$202
2013/14	\$528	\$351	\$177
2012/13	\$528	\$318	\$210
2011/12	\$348	\$266	\$82
2010/11	\$504	\$294	\$210
2009/10	\$504	\$354	\$150

3. The Guardians' appropriation for 2015/16 and 2016/17 has remained at \$528k.<sup>1</sup>

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<sup>1</sup> A one-off Fiscally Neutral Adjustment of \$100k was agreed as part of the 2016 March Baseline Update process, increasing the 2015/16 baseline to \$628k

## Recent Developments

4. The development of a shortfall in funds within the Guardians' 2016/17 appropriation may best be explained through a timeline of events:

Date	Action
November 2016	<ul style="list-style-type: none"> <li>▪ Gavin Walker resigns as Chair of NZSF [23] [34]</li> </ul>
1 December 2015	<ul style="list-style-type: none"> <li>▪ You consult with the Minister of State Services regarding your intention to increase the Guardians' Board fees</li> <li>▪ Treasury is advised of your decision</li> </ul>
3 December 2015	<ul style="list-style-type: none"> <li>▪ Treasury confirms<sup>2</sup> that the proposed increase in Board fees can be accommodated within the 2015/16 baseline but may fully utilise the appropriation of \$528k in 2016/17</li> <li>▪ The assessment is based on the historical underutilisation of the Guardians' appropriation which was \$202k in 2014/15, compared to the proposed Board fee increase of \$181.5k</li> <li>▪ This assumes no overseas Board meeting will occur and assumes no increase in other operating expenses</li> <li>▪ Treasury advise that such increases would be likely to require increase in appropriations which could be addressed through the Budget process</li> </ul>
4 December 2015	<ul style="list-style-type: none"> <li>▪ <b>Budget initiative deadline</b></li> </ul>
8 December 2015	<ul style="list-style-type: none"> <li>▪ Guardians' Board fee increase receives APH committee approval</li> </ul>
1 January 2016	<ul style="list-style-type: none"> <li>▪ Increase to Board fees effective</li> </ul>
26 January 2016	<ul style="list-style-type: none"> <li>▪ The Guardians indicate to Treasury that the 2016/17 appropriation will not be sufficient to cover expected costs</li> </ul>
Feb-May 2016	<ul style="list-style-type: none"> <li>▪ Guardians are asked by Treasury to outline any planned increases in operating expenses</li> <li>▪ Guardians indicate that they wish to retain and utilise their historical budget for an overseas Board meeting</li> <li>▪ New fees for the Chair of the Audit Committee and for Mark Tume to act on the Banking Committee are approved</li> <li>▪ Guardians inform Treasury of a number of increases to operating expenses:               <ul style="list-style-type: none"> <li>– Increase in international travel due to appointment of overseas Board member</li> <li>– Increase in audit fees</li> </ul> </li> </ul>

5. The Guardians have assessed that their expenses for 2016/17 will fall in the range of \$810k to \$920k depending largely on the frequency of in-person Board meeting attendance. These estimates also assume that the Board will utilise their option to hold an overseas Board meeting in the 2016/17 period.
6. Treasury's current assessment is that the Guardians' appropriations will need to increase by \$300k at the low end to \$400k at the higher end to allow for the increased Board fees (as approved in December 2015), increased operating expenses (travel and audit fees) and to allow for the overseas Board meeting allowance and some budget contingency to be maintained. The exact amount will be clarified in the ensuing formal process.

<sup>2</sup> T2015/2842 refers.

7. We note that the Guardians have acted as reasonable stewards to date in relation to managing their operating costs below their historical appropriation level. The cost pressures that they now face come as a result of the changing size and complexity of the New Zealand Superannuation Fund and the resulting need for appropriate international connectivity and specialist expertise.

## Next Steps

8. We seek guidance on your preferred process for addressing the appropriation shortfall. Actions available include:

	Action	Benefits	Drawbacks / Risks
a)	Cabinet Paper seeking between-Budget spending under Imprest (impacts on available budget contingencies)	- Certainty in the short term	- Requires Cabinet consideration and agreement
b)	Fiscally Neutral Adjustment (FNA) in the October Baseline Update (OBU)	- Utilises "ordinary course" budget process - <u>May</u> provide certainty over 2016/17 appropriation in the medium term (late October / early November)	- Does not provide certainty in the short term (OBU decisions are not taken until late October / early November) - There is no certainty that funds can be reprioritised from other activities within Vote Finance - Unlikely able to be supported on an ongoing basis
c)	"Significant" budget initiative for Budget 17 (lodge in December)	- Utilises "ordinary course" budget process	- Leaves Guardians with uncertainty of funding until Budget 17 decisions are taken (circa April 2017) - Funding will only stretch to this date assuming no overseas Board meeting, low in-person board attendance and full carry-forward of 2015/16 underspend

9. In order to provide funding certainty to the Guardians' Board, we recommend the tabling of a Cabinet Paper (action a). If you do not support this direction, then a combination of b) and c) would be our recommended course of action, albeit taking into account the risks outlined above.

## Recommended Action

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We recommend that you:

- a. **note** the contents of this report.
- b. **agree** to take a paper to Cabinet seeking an increase in the appropriation for the Guardians of New Zealand Superannuation, action a)

*Agree/disagree*  
Minister of Finance

OR

**agree** to a combination of actions b) and c) i.e. a Fiscally Neutral Adjustment in the October Baseline Update and a Budget 17 initiative in December

*Agree/disagree*  
Minister of Finance

Craig Weise  
**Manager, Commercial Operations – Strategy and Policy**

Hon Bill English  
**Minister of Finance**