

# The Treasury

## Budget 2017 Information Release

### Release Document July 2017

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[40]	Not in scope	

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Reference: T2017/714 MS-9-1

Date: 21 March 2017

To: Minister of Finance (Hon Steven Joyce)  
Associate Minister of Finance (Hon Simon Bridges)  
Associate Minister of Finance (Hon Amy Adams)

Deadline: Before Fiscal Issues meeting on 28 March 2017

## **Aide Memoire: BGA Budget 2017 – Considerations from the BGA Leadership Group**

In order to support Finance Ministers in developing a BGA Budget package, the BGA Leadership Group was asked to provide formal advice on the emerging package of initiatives for Budget 2017.

Please find attached the formal advice and recommendations by the BGA Leadership Group (see Annex I) in support of your discussion on the BGA budget package at the Fiscal Issues meeting on 28 March 2017.

Annex II outlines the total package with specific recommendations from the BGA Leadership Group highlighted.

The BGA Leadership Group met on Thursday 16 March following the discussion by Finance Ministers on Wednesday 15 March. At that meeting you agreed to share your discussions with the BGA Leadership Group and asked the Group to identify any areas that were missing, and highlight any particular red flags.

The BGA Leadership Group also considered the package in light of the BGA vision, with a particular focus on building resilience, inclusive growth that benefits all New Zealand's people and regions, and international connections through which we develop greater diversification and a more productive and resilient economy.

**Sebastian Doelle**, Senior Analyst, Economic Performance and Strategy (Policy), [39]

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## ANNEX I

### Advice and Recommendations for the BGA package as part of Budget 2017

To: BGA Ministers (Hon Steven Joyce and Hon Simon Bridges)

From: The Business Growth Agenda Leadership Group

Date: 21 March 2017

#### Purpose

This paper includes the Business Growth Agenda Leadership Group's (BGA LG) formal advice and recommendations for the BGA package as part of Budget 2017.

To support Ministers in progressing strategy-led BGA investment for Budget 2017, the BGA LG was asked to provide formal advice on the emerging package of initiatives.

In its recommendations, the BGA LG has considered the investment opportunities which best support the BGA vision, with a particular focus on building resilience, inclusive growth that benefits all New Zealand's people and regions, and international connections through which we develop greater diversification and a more productive and resilient economy.

The recommendations in this cover note and in the package (see Annex) are aimed at supporting Ministers' decision on the final BGA package for Budget 2017.

#### Recommendations for a BGA Budget 2017 package in support of the BGA Vision 2025

The core BGA budget package discussed by BGA LG consists of two sets of initiatives that support achieving the BGA vision:

a. **Low-discretionary initiatives averaging at** <sup>[33]</sup>

These initiatives have either a low level of funding discretion, are demand driven, or are Government pre-commitments. They include the Housing Infrastructure Fund, the New Zealand Screen Production grant, and the R&D Grants.

b. **Ministerial priority initiatives** <sup>[33]</sup>

These initiatives further support BGA investment by:

- I. **Investing in diversification through international connectedness** – this includes the Trade Agenda 2030, participating in the Expo 2020, and strategic science investment in Antarctica.
- II. **Investing for sustainable growth and building a more resilient economy** – this includes regional and social infrastructure, Tourism infrastructure, investment in rail and irrigation schemes.
- III. **Inclusive Growth for all New Zealand's people and regions** – this includes addressing NEETs, and the Regional Growth Programme.

The BGA LG recommends some amendments to this core package, and further consideration of the following initiatives, each of which supports the BGA vision under the three key elements:

- *Investing in diversification through international connectedness.*
- *Inclusive Growth for all New Zealand's people and regions.*
- *Investing for sustainable growth and building a more resilient economy.*

### **Investing in diversification through international connectedness**

#### *Education New Zealand initiatives*

The BGA LG notes the cost pressures relating to Education New Zealand (ENZ), as the result of: a managed spend-down of cash reserves; the end of time-bound Export Education Levy funding; and increased expectations to manage New Zealand education reputational risks. The Leadership Group recommends BGA Ministers consider investment in *Strengthening the Foundation for Sustainable Growth of International Education*. This bid supports building regional tertiary providers' capabilities to attract more international students, and allowing ENZ to continue in its international student marketing programme offshore.

Recommended average opex p.a. \$1.700 million over forecast period

#### *G2G Partnership Office (G2G Know-How)*

The BGA LG notes that deal flow is just beginning to build and believes that two more years of funding would enable the initiative to maximise the current pipeline of commercialisation deals which are valued at around [33]

the initiative should receive further funding after that period.

[33]

[33]

## **Inclusive Growth for all New Zealand's people and regions**

### *Reducing the Number of Youth who are not in Education, Employment or Training through the Regional Approach (NEETS)*

The BGA LG notes that this initiative is still under development by MBIE and MSD and has strong links to the *Regional Growth Programme* (RGP) initiative. The BGA LG supports the cross agency approach of addressing this issue.

The LG understands that initiatives in order to boost Maori Economic Development are negotiated by Ministers in a separate process, but are partially supported by the *NEETs* and the *RGP* initiatives.

## **Investing for sustainable growth and building a more resilient economy**

### *Marine Protection and Development*

[33]

However, they note that initiating the engagement process for two recreational fishing areas will require earlier funding of \$1.5 million opex in 2017/18 only. The BGA LG recommends that this funding is included in the BGA budget package, and notes that establishing and managing these fishing areas would require further investments.

Recommended average opex p.a. \$0.375 million over forecast period

### *Implementing the Government's Urban Development Priorities*

The Government has agreed to the Ministry of Business, Innovation and Employment's (MBIE) and Ministry for the Environment's (MfE) new function of implementing the Government's urban development priorities. The LG notes that the respective initiative could be scaled but that the total costs of the new functions cannot be met from within departmental baselines. The Leadership Group recommends to consider additional funding for MBIE and MfE at a scaled level.

Recommended average opex [33] over forecast period

### *Creating Economic Opportunity: A Treasury Presence Offshore, and Ministry of Transport Capacity and Capability*

On both these initiatives, BGA LG had questions on the case for additionality and on the effects of baseline funding for existing activities on the objective of productivity gains across public sector agencies. The Treasury and Ministry of Transport will follow up on these questions.

[33]

[33]

### **Further considerations for the BGA Budget 2017 package**

In the context of investments in **irrigation schemes**, the LG recommends to Ministers that the funding decisions are linked to the environmental impacts and sustainability of these schemes.

[33]

Export Markets		Agency initiative (net)						Draft set of initiatives						Comments	
Vote	Initiative name	2016/17	2017/18	2018/19	2019/20	2020/21	4YT	Avg.	2016/17	2017/18	2018/19	2019/20	2020/21		4YT
<b>Low discretion/demand pressures</b>															
Business, Science and Innovation	New Zealand Screen Production Grant – International	[33]													
	<b>Sub-total</b>	[33]													
<b>Trade Agenda 2030</b>															
Foreign Affairs and Trade	Making New Zealanders more prosperous through trade	[33]							-	2.943	4.947	5.581	6.808	20.279	5.070
Foreign Affairs and Trade	Making New Zealanders safer								-	1.497	1.593	1.557	2.055	6.702	1.676
Primary Industries and Food Safety	Boosting primary industry and food export value								-	7.286	8.794	9.625	9.625	35.330	8.833
Foreign Affairs and Trade	Establishment of a New Zealand High Commission in Colombo, Sri Lanka								-	0.937	1.942	3.067	2.917	8.863	2.216
[1]															Capex of \$6.2 million over the forecast period
Foreign Affairs and Trade	Establishment of a New Zealand Embassy in Dublin, Ireland	[33]							-	1.432	1.149	3.191	3.361	9.133	2.283
[1]															Capex of \$4.8 million over the forecast period
		[33]													
<b>Tourism Investment</b>															
Conservation	Tourism growth initiative	[33]													
[33]															
Business, Science and Innovation	Tourism Infrastructure Fund														
		[33]													
															<b>Total Tourism Infrastructure Investment</b>
<b>Other Export Markets Investment Opportunities</b>															
Foreign Affairs and Trade	Participation and leveraging opportunities with Expo 2020 Dubai	[33]							-	3.010	7.790	32.100	10.340	53.240	13.310
[33]															
Business, Science and Innovation	Rollover funding for G2G Partnerships Office (G2G Know-How)	[33]							-	2.000	2.000	-	-	4.000	1.000
[33]															\$0.2 million baseline funding from NZTE and MFAT. Value proposition of deal pipeline to be confirmed
															<b>BGA LG recommended</b>
Tertiary Education	Strengthening the Foundations for Sustainable Growth of International Education		1.700	1.700	1.700	1.700	6.800	1.700	-	1.700	1.700	1.700	1.700	6.800	1.700
[33]															<b>ENZ's highest priority</b> - To address ENZ cost pressures arising from a managed spend-down of cash reserves and the end of time-bound Export Education Levy funding, and increased expectations to manage New Zealand education reputational risks.
															<b>BGA LG recommended</b>
Primary Industries and Food Safety	Biosecurity 2025 – Protecting to Grow New Zealand	[33]													
Finance	Creating Economic Opportunity: A Treasury Presence Offshore (Singapore)		0.854	0.854	0.854	0.854	3.416	0.854	-	0.854	0.854	0.854	0.854	3.416	0.854
[33]															Treasury to respond to questions from the LG
	<b>Sub-total</b>	[33]													
	<b>TOTAL: EXPORT MARKETS</b>	[33]													

Infrastructure		Agency initiative (net)					Draft package							Comments			
Vote	Initiative name	2016/17	2017/18	2018/19	2019/20	2020/21	Avg.	2016/17	2017/18	2018/19	2019/20	2020/21	4YT		Avg.		
<b>Low discretion/Demand Pressures</b>																	
Building and Housing	Housing Infrastructure Fund (HIF)	[33]															
Transport	Auckland City Rail Link (CRL)	-	6.000	6.000	6.000	6.000	24.000	6.000	-	6.000	6.000	6.000	6.000	24.000	6.000	Capex of \$1700 million contributed by the Crown over 8 - 10 years	
[33]																	
Prime Minister and Cabinet	Kaikoura District Council - loan to support restoration of three waters network post November 2016 earthquake	[33]															
Transport	Reinstatement of the Southern Corridor post November 2016 earthquake	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Capex of \$1850 million over the forecast period	
[33]																	
<b>Other Infrastructure Investment Opportunities</b>																	
Building and Housing	Auckland Vacant or Underutilised Crown Land Programme	-	0.500	0.500	0.500	0.500	2.000	0.500	-	0.500	0.500	0.500	0.500	2.000	0.500	Capex of \$100 million over the forecast period which is supported by Investment Ministers. Fiscally neutral as it is repaid within 10 years.	
Transport	KiwiRail - ongoing support of the rail freight business	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Capex of \$1223 million over the forecast period	
Building and Housing	Implementing the Government's urban development priorities	-	[33]								1.267	0.934	0.662	[33]		Pre-commitment by the Government . Funding required for MfE and MBIE	BGA LG recommended
Transport	KiwiRail - rollover of existing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Capex of \$174.3 million over the forecast period	
[33]																	
Transport	Wellington metro rail upgrades - KiwiRail and Greater Wellington Regional Council	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Capex of \$98.4 million over the forecast period	
[33]																	
Prime Minister and Cabinet	Kaikoura Harbour – contribution to enhancement of facilities and channel widening to address growth pressures	-	0.600	-	-	-	0.600	0.150	-	-	-	-	-	-	-	Capex of \$2.8 million over the forecast period	
Prime Minister and Cabinet	Earthquake recovery - supporting councils' enhanced statutory tasks and activities	0.500	1.250	0.750	-	-	2.500	0.625	0.500	1.250	0.750	-	-	2.500	0.625		
[33]																	
Transport	Ministry of Transport - Capacity and capability	[33]															
[33]																	
Sub-total		[33]															
TOTAL: INFRASTRUCTURE		[33]															



Innovation		Agency initiative (net)					Draft package							Comments		
Vote	Initiative name	2016/17	2017/18	2018/19	2019/20	2020/21	Avg.	2016/17	2017/18	2018/19	2019/20	2020/21	4YT		Avg.	
<b>Low discretion/Demand Pressures</b>																
Business, Science and Innovation	R&D Growth Grants: Meeting Rising Demand	[33]						-	8.222	15.720	23.553	27.153	74.648	18.662		
Business, Science and Innovation	Funding for MBE's new functions as the lead space agency	-	3.750	3.750	3.750	3.750	15.000	3.750	-	3.750	3.750	3.750	3.750	15.000	3.750	
Business, Science and Innovation	Strategic Science Investment Fund: Development of Hazards Response Capability	-	3.000	4.500	6.000	6.000	19.500	4.875	-	3.000	4.500	6.000	6.000	19.500	4.875	
Business, Science and Innovation	Square Kilometre Array (SKA) Membership	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Funded from within MBE baselines
[33]		[33]														
	<b>Sub-total</b>	[33]														
<b>Other Innovation Investment Opportunities</b>																
[33]																
Business, Science and Innovation	R9 Accelerator – making it easier for business to deal with government	[33]						-	2.850	2.850	-	-	5.700	1.425		
Business, Science and Innovation	New Zealand Business Number (NZBN)	[33]						-	-	-	-	-	-	-		
[33]																
Foreign Affairs and Trade	Our Place in Antarctica” – Development of a detailed design, business case and delivery strategy for the future replacem	-	1.200	0.940	-	-	2.140	0.535	-	1.200	0.940	-	-	2.140	0.535	
Business, Science and Innovation	Strategic Science Investment Fund: Antarctic Science Platform	-	-	7.000	7.000	7.000	21.000	5.250	-	-	7.000	7.000	7.000	21.000	5.250	
Foreign Affairs and Trade	Accommodation support for National Antarctic Programmes with operations based out of Christchurch.	-	0.850	0.850	0.850	0.900	3.450	0.863	-	0.850	0.850	0.850	0.900	3.450	0.863	
[33]																
Business, Science and Innovation	The Endeavour Fund	[33]						-	4.264	17.648	17.719	42.284	81.915	20.479	Potential to upscale investment	
[33]																
Tertiary Education	Increasing the Performance-Based Research Fund	[33]														
[33]																
<b>Investment</b>																
Vote	Initiative name	2016/17	2017/18	2018/19	2019/20	2020/21	Avg.	2016/17	2017/18	2018/19	2019/20	2020/21	4YP	Avg.	Comments	
<b>Investment Opportunities</b>																
[33]																
Business, Science and Innovation	Improving Financial Capability in New Zealand	-	1.640	2.840	2.840	2.840	10.160	2.540	-	1.640	2.840	2.840	2.840	10.160	2.540	
Business, Science and Innovation	Multinational Corporation R&D Attraction Programme	-	2.000	2.000	2.000	-	6.000	1.500	-	2.000	2.000	2.000	-	6.000	1.500	
[33]																

Natural Resources		Agency initiative (net)					Draft package							Comments		
Vote	Initiative name	2016/17	2017/18	2018/19	2019/20	2020/21	Avg.	2016/17	2017/18	2018/19	2019/20	2020/21	4YP		Avg.	
<b>NRS Investment Opportunities</b>																
Conservation	Battle for our Birds 2017	21.316	-	-	-	-	21.316	5.329	21.316	-	-	-	-	21.316	5.329	
[33]																
Business, Science and Innovation	Regional Growth Programme	-	8.850	8.850	[33]											
[33]																
Environment	Marine Protection and Development	-	[33]					-	1.500	-	-	-	1.500	0.375		BGA LG recommended
Primary Industries and Food Safety	Grant funding to support regional irrigation scheme development	-	9.162	15.500	2.000	-	26.662	6.666	-	9.162	15.500	2.000	-	26.662	6.666	Consideration for funding of the irrigation schemes should be linked to environmental impacts of these schemes
Primary Industries and Food Safety	Investment in irrigation schemes in South-Canterbury, Marlborough, Nelson Tasman, and Hawke's Bay regions	[33]														
[33]																
Primary Industries and Food Safety	Future of our Fisheries	[33]														
[33]																
Business, Science and Innovation	Electricity Litigation Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Fiscally neutral - levy funded
Business, Science and Innovation	Electricity Security Management	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Fiscally neutral - levy funded
[33]																

SSW		Agency initiative (net)					Draft package							Comments		
Vote	Initiative name	2016/17	2017/18	2018/19	2019/20	2020/21	Avg.	2016/17	2017/18	2018/19	2019/20	2020/21	4YP		Avg.	
<b>SSW Investment Opportunities</b>																
[33]																
[33]																Further info on FTE levels and recent funding increases required
[33]																Fiscally neutral - levy funded
Transport	Health and Safety at Work Act activity - Maritime New Zealand	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Fiscally neutral - levy funded
Business, Science and Innovation	Reducing the Number of Youth who are not in Education, Employment or Training through Regional Approaches	[33]														Numbers and final package for NEETS to be confirmed
Transport	Health and Safety at Work Act (HSWA) – Civil Aviation Authority	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Fiscally neutral - levy funded
[33]																
Tertiary Education	Tuition Subsidy Increase	[33]														
[33]																
[33]																
[33]																
Tertiary Education	Careers New Zealand Integration into the Tertiary Education Commission	(4.000)	4.000	-	-	-	-	-	(4.000)	4.000	-	-	-	-	-	Underspend in tertiary subsidy funding
[33]																

[33]