The Treasury

Budget 2017 Information Release

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THE TREASURY
Kaitohutohu Kaupapa Rawa

Reference: T2017/743 SH-10-8

Date: 24 March 2017

To: Minister of Finance (Hon Steven Joyce)

Deadline: None

Aide Memoire: Advice following your bilateral budget meeting with Minister Bennett

Purpose

The purpose of this Aide Memoire is to provide you with advice on a number of questions following your bilateral meeting with Minister Bennett, including:

- What $4.000m over four years funding for MfE's Climate Change Directorate would buy the Government, and a Treasury assessment on the associated value for money
- an assessment of where there are possible cost savings in the BGA budget package, and
- a recommended process for addressing the additional funding proposal in DOC's Tourism Growth Initiative budget bid.

Key points:

- MfE's baseline is under pressure and investing an additional $4.000 million over four years will deliver higher quality work to support a resilient transition to a low carbon economy faster than otherwise would be the case.
- We have identified cost savings of [33] over four years within the BGA budget package from process efficiencies in the Tourism Infrastructure Fund.
- For DOC's Tourism Growth Initiative, we recommend only funding the critical needs and investment-ready opportunities that Treasury identified in the original bid.
  - If Ministers wish to provide the full funding for this initiative, we recommend using a tagged contingency and Better Business Case for release of funds.

Original Emissions Reduction at Home budget bid: Treasury's assessment

The Minister for Climate Change Issues' original Emissions Reduction at Home budget bid sought funding of [33] over 4 years [33] The Treasury recommended not supporting this initiative because it was not investment ready, we considered it to be business as usual work that could be resourced by existing FTEs when the ETS review concludes next year, and we did not see any significant risks from delaying this work by a year.

Revised Emissions Reduction at Home budget bid

[33] the Minister for Climate Change Issues is now requesting $1.000m funding per year. This would be combined with additional funding MfE has sought from NRS agencies, [33]
[33]

Increasing MfE's funding for climate change by an additional $4.000m over four years would buy the government a higher level of capability and deliver costed, tested and modelled policy options for transitioning to a resilient low emissions economy. Specifically, the government would be buying:

- $0.400 million per year for external modelling of costs and options of meeting the 2030, and subsequent, targets, and
- $0.600 million per year for stakeholder engagement to test the assumptions of models and partner with businesses to understand and overcome market barriers.

Treasury view on revised emissions reduction at home budget bid

This funding would buy the Government costed and consulted policy options, which we see value in. Modelling is expensive to procure and given the baseline pressure MfE faces, we consider it is appropriate to provide additional funding for this. We commend MfE for working across the NRS agencies to identify additional funding. The details of what this work programme would cover have not yet been worked through by MfE. From our perspective, it is very important that this modelling work focuses on complementing the ETS, which is New Zealand's primary climate change policy tool. To ensure value for money from this investment, it is essential the work is comprehensively integrated with the significant work underway this year in climate change, including the ETS review, Productivity Commission enquiry, Biological Emissions Reference Group, Forestry Emissions Reference Group and Adaptation Advisory Group. [34]

We would expect this work programme to be ramped up over time once resources are freed up following the conclusion of the ETS review.

There are limited risks to delaying this work until more resources are freed up within MfE following the completion of the ETS review. However without additional resource, the modelling element would not be possible. To achieve costed and tested policy options, these two work programmes would need to be delivered together, so we see value in funding this package of $4.000 million over four years.

MfE's operating context

We are aware that MfE's baseline is under pressure from increasing workloads and Ministerial demands to deliver across the Environment and Climate Change portfolios. MfE have done some prioritisation work as part of their Four Year Plan process. This has resulted in the focus for MfE climate change work being greenhouse gas reporting and data collection, ETS servicing and review and international negotiations, including access to international markets (which was funded from the 2016/17 Between Budget Contingency).

This means the work plan for transitioning to a low carbon economy, to sit alongside the ETS will be delayed. This baseline pressure means that MfE are not able to progress the work to sit alongside the ETS for achieving our 2030 target as quickly as Ministers may like.

Cabinet report back

Given the work programme has not been fully worked up by MfE [33]
we recommend that the Minister for Climate Change Issues reports back to Cabinet with details of the emissions reduction at home work programme.
[33]

Cost savings within the BGA budget package

You have asked for advice on where cost saving opportunities exist within the BGA budget package. We consider that there are process efficiency cost savings of [33]
available within the Tourism Infrastructure Fund (TIF) budget bid that would not compromise on the outcome achieved.

The [33] per annum budget bid includes [33] per annum for [33]
We understand that it is now proposed that the TIF structure includes an independent panel and MBIE secretariat function, which should reduce the administrative costs significantly. We therefore consider it prudent to reduce the [33] per annum sought for operating costs to [33]
per annum.

We have some additional concerns that the evidence base is not sufficient to justify a baselined fund. If this initiative is to be funded, we recommend that you consider time-limited funding through to 2020/21 only. This would allow for an evaluation in 2019/20 as it is difficult to forecast local government tourism related pressures. Should the evaluation identify a need for an extension of the TIF, we would recommend further funding be sought through the budget 2020 process. Further, the TIF provides a disincentive for local councils and tourism operators to find alternative solutions or mechanisms for managing infrastructure pressures, such as user charges and other demand management tools, so we consider it prudent for this funding to only be temporary.

If Ministers agree with this cost saving, and approach to four years of funding for the TIF, it would make [33] available over a four year period. We are supportive of $4.000 million of this being used to fund the revised emissions reduction at home budget bid over a four year period.

Recommended process for funding additional projects in DOC's Tourism Growth Initiative

Treasury's recommendation on DOC's Tourism Growth Initiative is for Ministers to support only the critical needs and investment-ready opportunities that Treasury identified in the original bid, which would not require a further business case.

However, if Ministers do wish to consider funding additional projects in the bid, they could approve a tagged contingency through the budget process. This would set aside funding for DOC from Budget 17 but the funding cannot be drawn down until DOC undertakes a two-stage Treasury Better Business Case process (see Appendix for details) on the additional projects in the bid. Once DOC produces a fit for purpose Detailed Business Case (DBC), they could submit a Cabinet paper requesting formal appropriation and draw down of the part or all of the tagged contingency.

[34]

Libby Masterton, Manager, Natural Resources, [39]

Appendix

Better Business Case requirements

Treasury requires all capital initiatives to be accompanied by Better Business Cases. DOC should outline additional projects in a two-stage Better Business Case process, For example, an indicative business case (IBC) to identify the preferred investment approach and then a Detailed Business Case (DBC) to provide reliable costs, benefits and impacts. Each business case has the following components:

Case type	**General purpose of the case**	Examples of evidence provided in each case
Strategic	**Outline alignment of the proposed investment with agreed priorities.**	-Evidence that immediate pressures at high-use sites will be addressed and will not be jeopardised by new build
Economic	**Assess costs, benefits, and risks of different options for New Zealand.**	-Estimates of tourism, cultural, and other benefits -Exploration of user charging and concessions in sites -Surveys or other evidence that there will be tourist demand in potential new sites -Analysis of economic development opportunities
Financial	**Affordability and details on funding options for the Crown.**	-Breakdown of Crown vs other funding
Commercial	**Procurement and identifying counterparties.**	-Committed partners and collaboration with other Crown resources (ie linking with MBIE and Tourism NZ's business expertise)
Management	**Plan for implementation and review.**	-A timeline for building and marketing any new products -How and when would success be measured? -Evidence that DOC will have the capability to take on new projects