

Treasury Report: Budget 2009: for Vote Agriculture & Forestry and Vote Biosecurity

Date:	6 March 2009	Report No:	T2009/495
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	read the attached briefing for you bilateral with the Minister of Agriculture and Biosecurity on Wednesday 11 April	Wednesday 11 April
Associate Minister of Finance (Hon Simon Power)	note contents	none

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Tom Hall	Manager, Natural Resource Management	<i>[deleted – privacy]</i>	✓
<i>[deleted – privacy]</i>			

Minister of Finance's Office Actions (if required)

None.

Enclosure: No

Treasury Report: Budget 2009: for Vote Agriculture & Forestry and Vote Biosecurity

Attached is a briefing for the bilateral between the Minister of Finance and the Minister of Agriculture at 5.30p.m. on Wednesday 11 March 2009 to discuss the Budget initiatives for Vote Agriculture & Forestry and Vote Biosecurity.

The bilateral briefing is structured as follows:

Overview of the Vote	p 4
Savings component & recommendations	p. 4
Emergency pressures & recommendations	p. 7
Value for Money & Strategic Direction	p 9
Policy priority initiatives & recommendations	p 10

We expect the key issues for discussion will be:

- Savings options that were not put forward by the Ministry under the Value for Money Review;
- Funding of the initiative Management of West Coast Forests; and
- An agreed funding profile for the Primary Growth Partnership.

Treasury agrees with the savings put forward by the Minister, noting the some of these have already been used to fund the bonding scheme for veterinarians. Further savings were sought, and the Minister has now agreed to offer up some of these.

Treasury supports funding for the Management of West Coast Forests for one year initially, pending a review as to how to best deal with the assets of the former Timberlands.

Treasury supports the Primary Growth Partnerships initiative which will be funded by the winding down of the Fast Forward fund. However, we consider that a lower level of funding than that sought should be committed in the first three years.

Recommended Action

We recommend that you **read** the attached briefing and use it as the basis for taking decisions in your bilateral with the Minister of Agriculture at 5.30p.m. on Wednesday 11 March 2009.

Tom Hall
for Secretary to the Treasury

Hon Bill English
Minister of Finance

Overview of the Vote

VOTE AGRICULTURE & FORESTRY

1. As part of the Minister of Finance's request to Vote Ministers to carry out a line-by-line review, submission of emergency pressures and policy priorities, the Minister for Vote Agriculture & Forestry submitted the following:

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Savings	(3.600)	(2.072)	(2.592)	(1.428)	(1.176)
Emergency pressures	-	7.600	7.572	7.592	7.600
Policy priorities	-	70.000	70.000	70.000	70.000
Total funding requested	(3.600)	75.528	74.980	76.164	76.424
<i>Capital (GST excl)</i>					
Savings	(700.000)	-	-	-	-
Emergency pressures	-	0.300	2.000	0.802	0.750
Policy priorities	-	-	-	-	-
Total funding requested	(700.000)	0.300	2.000	0.802	0.750

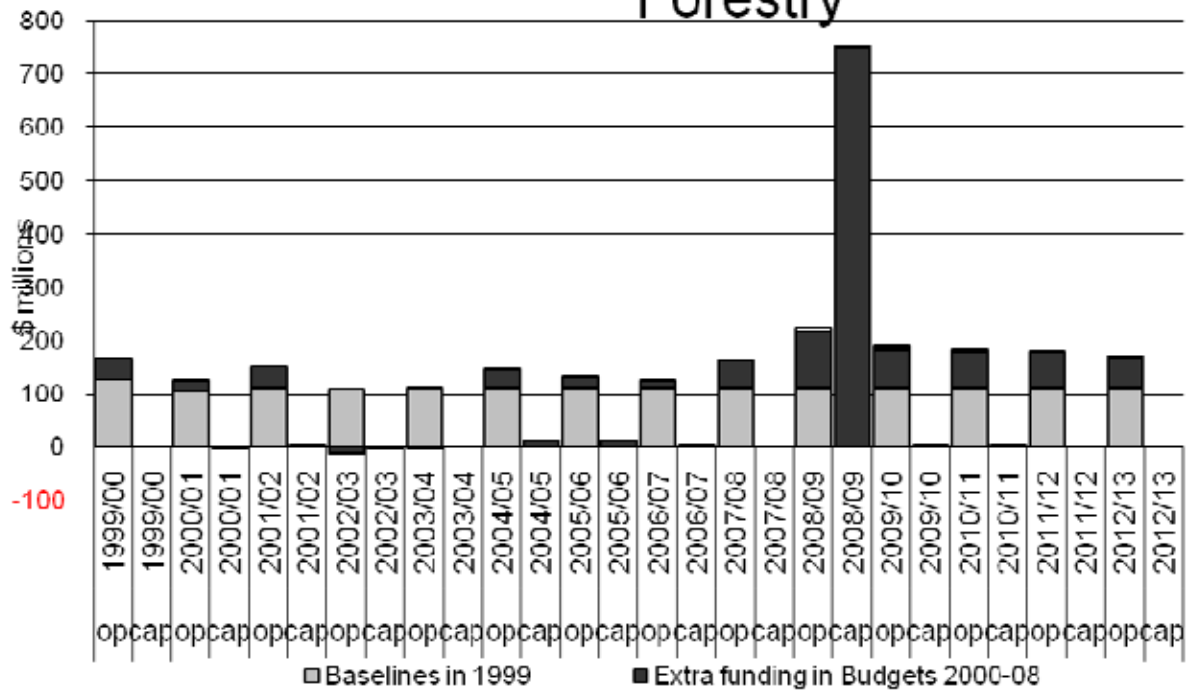
2. Other than the \$700 million capital returned from Fast Forward, the initial savings above represent small amounts 'shaved' off a long list of programmes. The initial savings represent less than 1.5% of the departmental and non-departmental budget, which is lower than savings put up by other Votes in the natural resources sector (eg Conservation, Fisheries, Food Safety) which typically range from 4% to 7%.
3. Subsequently, the Minister of Agriculture has identified further savings in Vote Agriculture and Forestry of \$3 million per annum for Afforestation Grants Scheme and around \$0.65 million per annum in other reductions in the policy area. The Minister has also identified a one-off saving of \$1 million in 2009/10 for the funding of the New Zealand Walking Access Commission. When these savings are added, and the funding that MAF has been required to put towards rural veterinarians bonding is taken into account, savings in Vote Agriculture and Forestry are in a similar range to the other Natural Resources Votes.

4. The savings put forward are worthwhile. There are, however, areas where further savings are possible:
 - New forestry programmes - Afforestation Grant Scheme (\$10 million per annum) and, Permanent Forest Sinks Initiative, with reviews scheduled for 2011, have not been put forward for savings. The rationale for maintaining them is questionable given the Emissions Trading Scheme, and may rest on the trade-off between the costs of the programmes to the Crown and the impact that they had on the Crown's Kyoto liabilities. As noted above, the Minister is prepared to reduce the Afforestation Grant Scheme by \$3 million per annum.
 - Savings put forward from the East Coast Forestry Project and the Sustainable Farming Fund have already been taken to fund the voluntary workforce bonding scheme for rural veterinarians. These savings were small relative to the size of the funds, and we consider that greater savings are possible. For example the Sustainable Farming Fund (over \$8 million per annum) could be stopped, as more substantial environmental and sustainability outcomes are likely to ensue from Primary Growth Partnership research.
 - There is a large appropriation in Vote Agriculture & Forestry (\$28 million) for 'Policy Advice', although that also includes activities that are not "conventional" policy advice. Further savings are possible from this appropriation. MAF will be undertaking an Output Class Review in time for Budget 10/11 that is likely to result in some expenditures being removed from this appropriation, however that should prevent further savings being found in the meantime.
5. These programmes are being reviewed as part of the All-of-Government Climate Change Stock-Take Review Review.

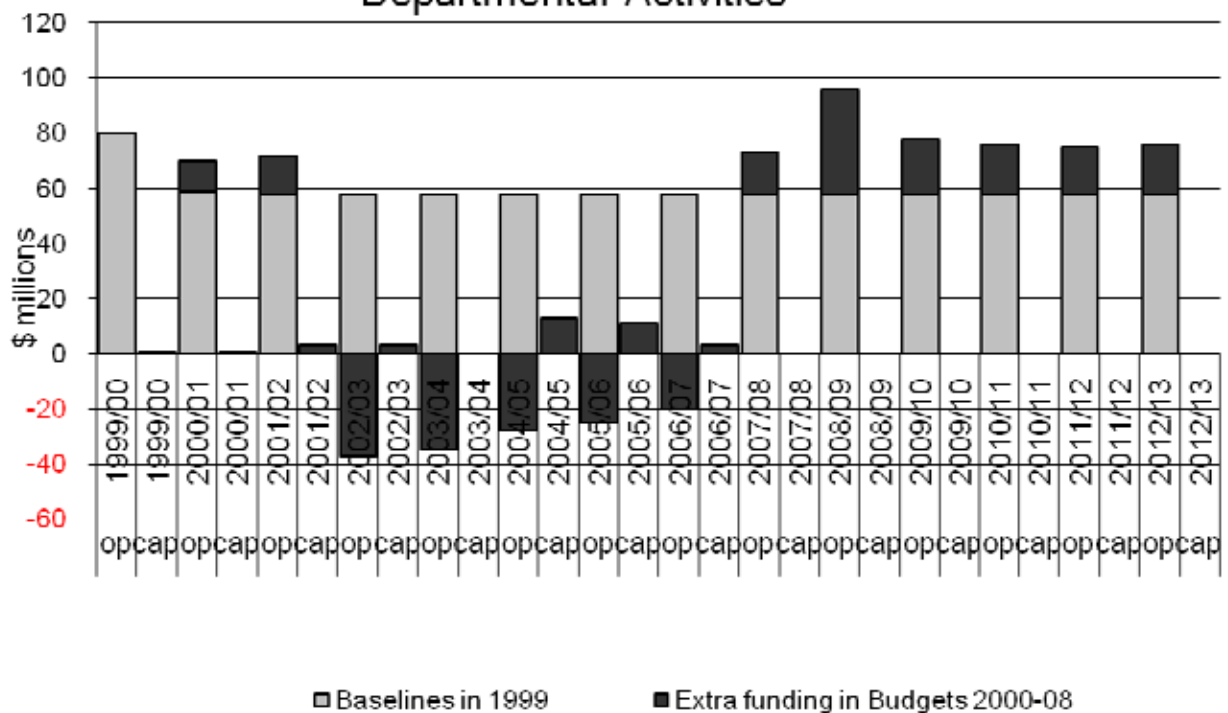
Analysis of Vote

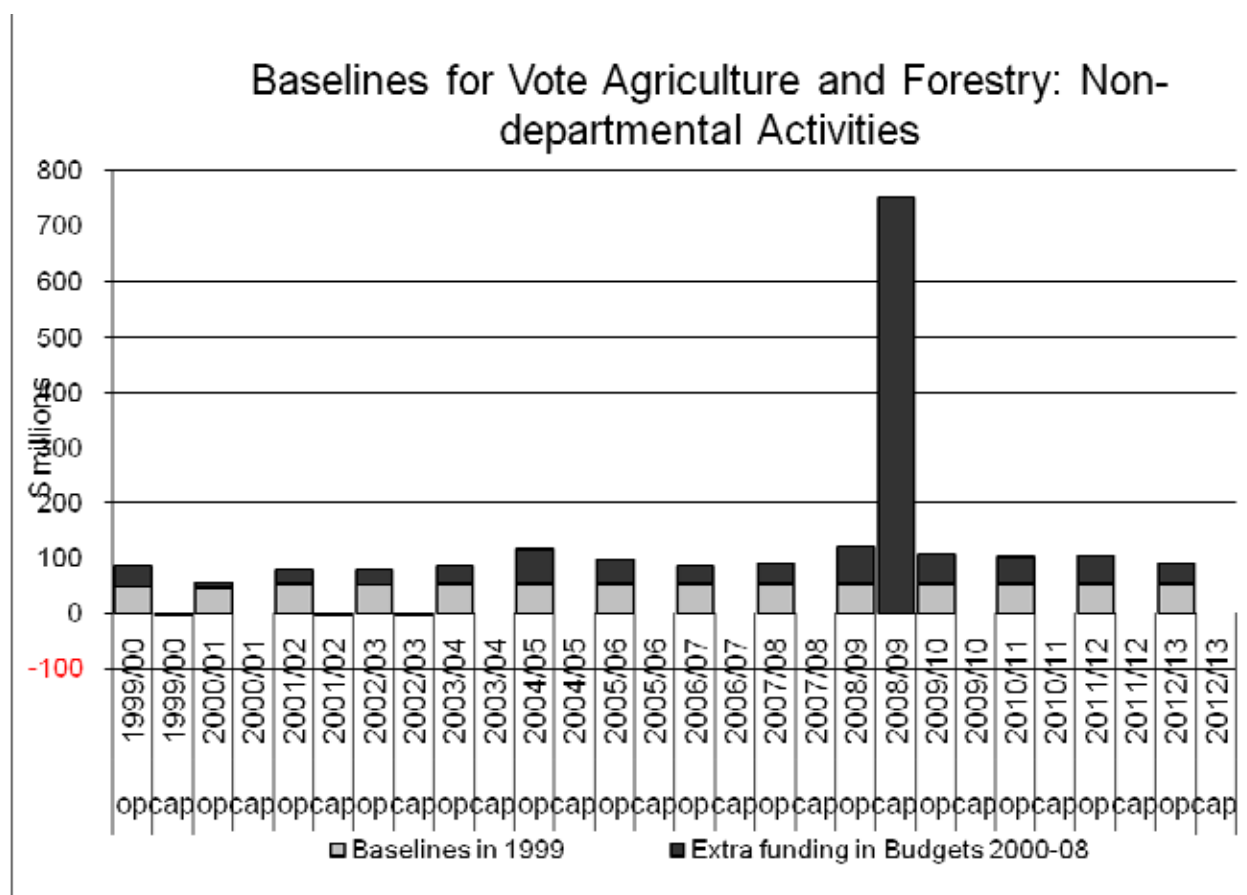
6. Vote Agriculture & Forestry baselines are shown in the graph below. (The large increase in non-departmental funding in 2008/09 in the third graph refers to the implementation of Fast Forward.)

Baselines for Vote Agriculture and Forestry



Baselines for Vote Agriculture and Forestry: Departmental Activities





Recommendations

Treasury recommends that you support the savings put forward for Vote Agriculture & Forestry;

Agree/Disagree

Emergency Pressures

7. The Minister has submitted three emergency pressure bids:

- A bid for Resource Needs for Trade Agreements seeks funding for work related to implementing the agriculture components of Free Trade Agreements. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- \$7 million per annum (plus \$0.3 million in capital in 2009/10) is sought for Crown Forestry to manage the forestry assets formerly owned by Timberlands, and transferred to Crown Forestry on 1 January 2009. This amount sought reflects the estimated difference between the management costs and the revenue from harvesting.
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

8. We do not support the bid for Resource Needs for Trade Agreements. The Ministry has policy resources that can be reprioritised to undertake this work. Treasury also does not support corresponding bids for Trade Agreement work made by other agencies.
9. We support additional funding for Crown Forestry to manage the newly-acquired forestry assets on the West Coast, as it constitutes a genuine emergency pressure. Since the bid was submitted, Crown Forestry has revised its figures, and the loss arising from the difference between management costs and revenue is now around \$5 million per annum.
 - Crown Forestry is undertaking a review of how to manage its West Coast assets, which is due to report later in 2009.
 - Pending the findings of the review, the Government broadly has two options. It can choose to fund the continued operation of the forest resource, with expected losses of around \$5 million per annum. Alternatively, it can decline to do so and close down the forestry operations. It is estimated that the second course of action would cost up to \$18 million in 2009/10, including on-going (and unavoidable) rental payments to the Ngai Tahu land owners, buying out the management contract, and paying compensation for the non-delivery of logs to sawmills.
 - Consequently, funding should be provided to Crown Forestry for 2009/10 only, pending a decision by Cabinet later in 2009 on the future of the West Coast assets.
9. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Recommendations

Treasury recommends that you:

- (i) Do not support the emergency pressure submitted for Resource Needs for Trade Agreements;
Agree/Disagree
- (ii) Support the emergency pressure submitted for Management of West Coast Forests for 2009/10 only, for an amount of up to \$5 million, plus the capital component of \$0.3 million.
Agree/Disagree
- (iii) *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
Agree/Disagree

Value for Money/Strategic Direction

10. The next steps in Value for Money for both Vote Agriculture and Forestry and Vote Biosecurity are to examine the following areas of spending over the next 12 months:
 - *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
 - Tuberculosis (Tb) Strategy: a proposal to review the current strategy needs to be notified by the Minister by September 2009. The funding arrangements between various industry parties and the Crown need to be agreed.
 - Timberlands West Coast: a Cabinet directed review aimed at identifying future options for the ongoing management and ownership of the Crown's exotic forest estate on the West Coast. A final report will be prepared for the Minister of Forestry before the end of the 2009 calendar year clearly identifying the range of future options for the overall West Coast estate.
 - Information Management Costs and Services: review by 30 June 09.
 - Management of IT assets: examination of the asset life cycle and funding for acquisition and identify options for reducing the whole of life costs of IT fixed assets (30 June 09).
11. No specific issues have been identified affecting Vote Agriculture and Forestry in Budgets 2010/11 and 2011/12, although the wider direction of climate change policy will have implications for the programmes discussed on page 5 of this briefing.

Vote Agriculture & Forestry – Analysis of Policy Priorities

12. Vote Agriculture & Forestry has submitted the following policy priority initiative:

a Primary Growth Partnership (PGP)

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	70.000	70.000	70.000	70.000
Treasury	-	30.000	40.000	60.000	70.000
<i>Capital (GST excl)</i>					
Department	-	-	-	-	-
Treasury	-	-	-	-	-

13. The Ministry of Agriculture & Forestry seeks a 5-year multi-year appropriation of \$350 million (average \$70 million per year) to implement commitments made by the Government to increase investment in primary sector research.

14. We support funding of the initiative subject to confirmation of a governance structure setting a clear expectation of 1:1 matching public/private funding. The detail of programme design, including governance structure, will need to be considered by Cabinet before establishment.

15. The Budget bid has been designed as a multi-year appropriation with an average expenditure of \$70 million per annum. Due to the time it takes to scale up initiatives and the current economic climate, it is likely that demand for drawing on the fund will not be at the level of \$70 million over the next few years. Consequently, we recommend a funding profile which 'ramps up' over four years to a maximum annual amount of \$70 million in 2012/13 and onwards.

16. The proposed multi-year appropriation provides less fiscal control – and runs the risk that annual funding will be above \$70 million by the fifth year. It also creates uncertainty about the funding beyond the five-year horizon. As such, we propose that funding is made through a standard annual appropriation, noting that Ministers can make explicit choices to transfer funding between years if desirable.

17. *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]*

Recommendations

Treasury recommends that you:

- (iv) Support the Primary Growth Partnership initiative at the amounts recommended by Treasury, through ongoing annual appropriations, subject to Cabinet approval of the governance structure and programme design to ensure matching private sector funding. **Agree/Disagree**

Overview of the Vote

VOTE BIOSECURITY

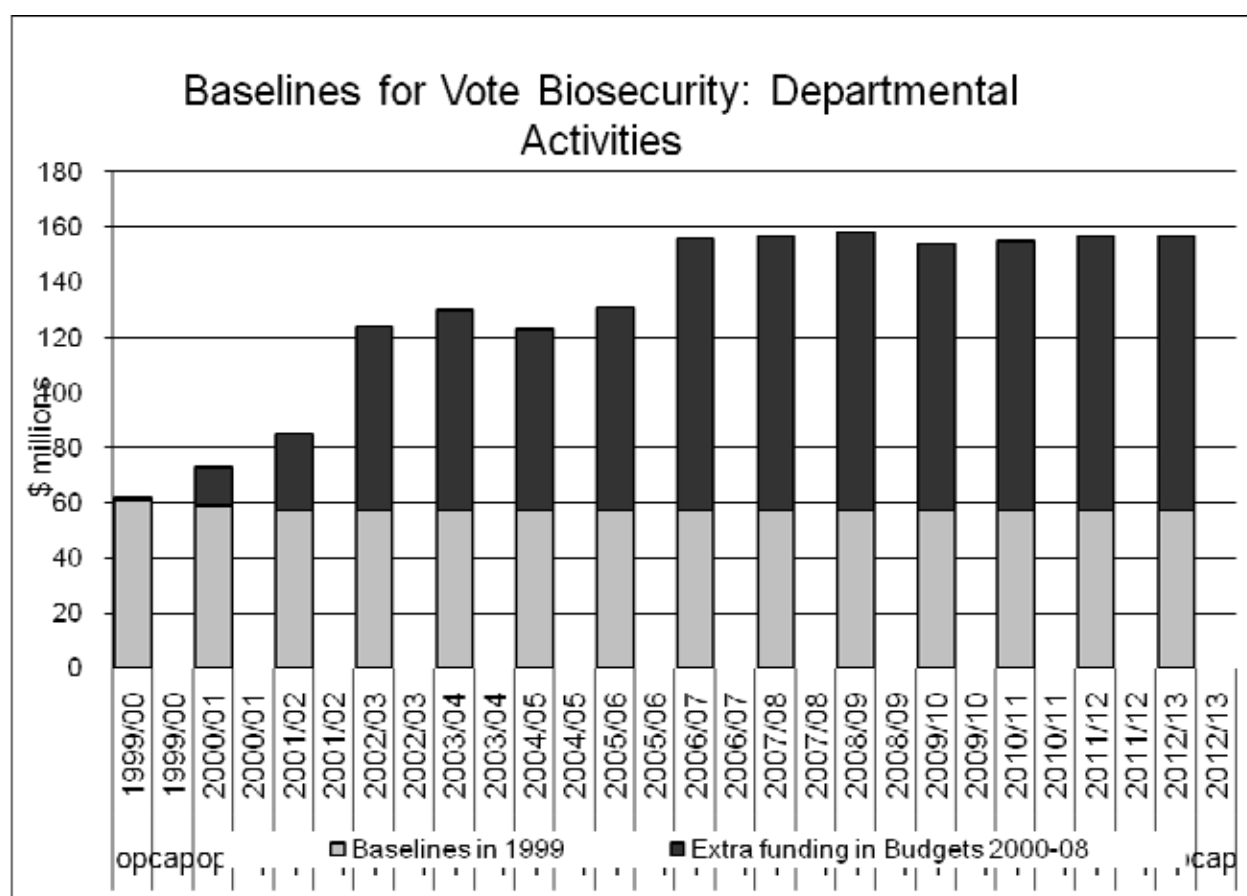
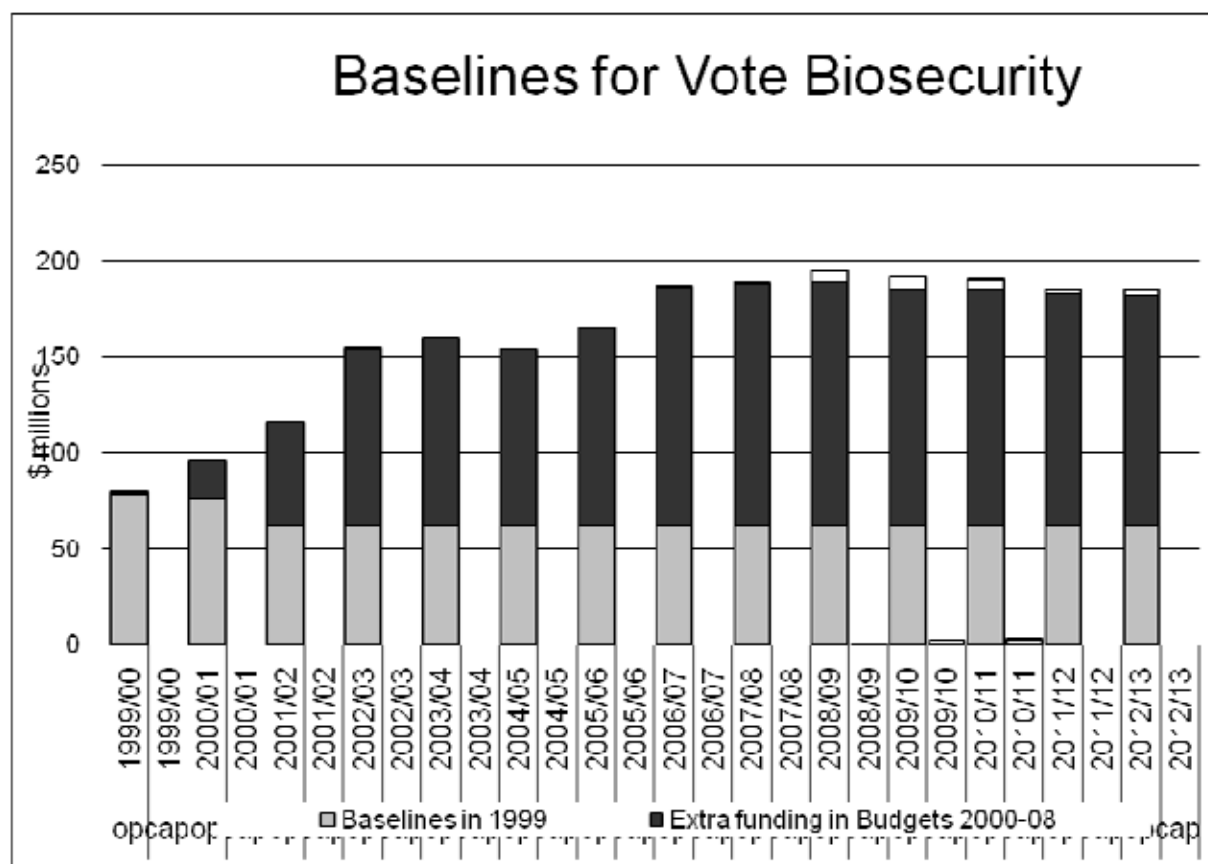
18. As part of the Minister of Finance's request to Vote Ministers to carry out a line-by-line review, submission of emergency pressures and policy priorities, the Minister for Vote Biosecurity submitted the following:

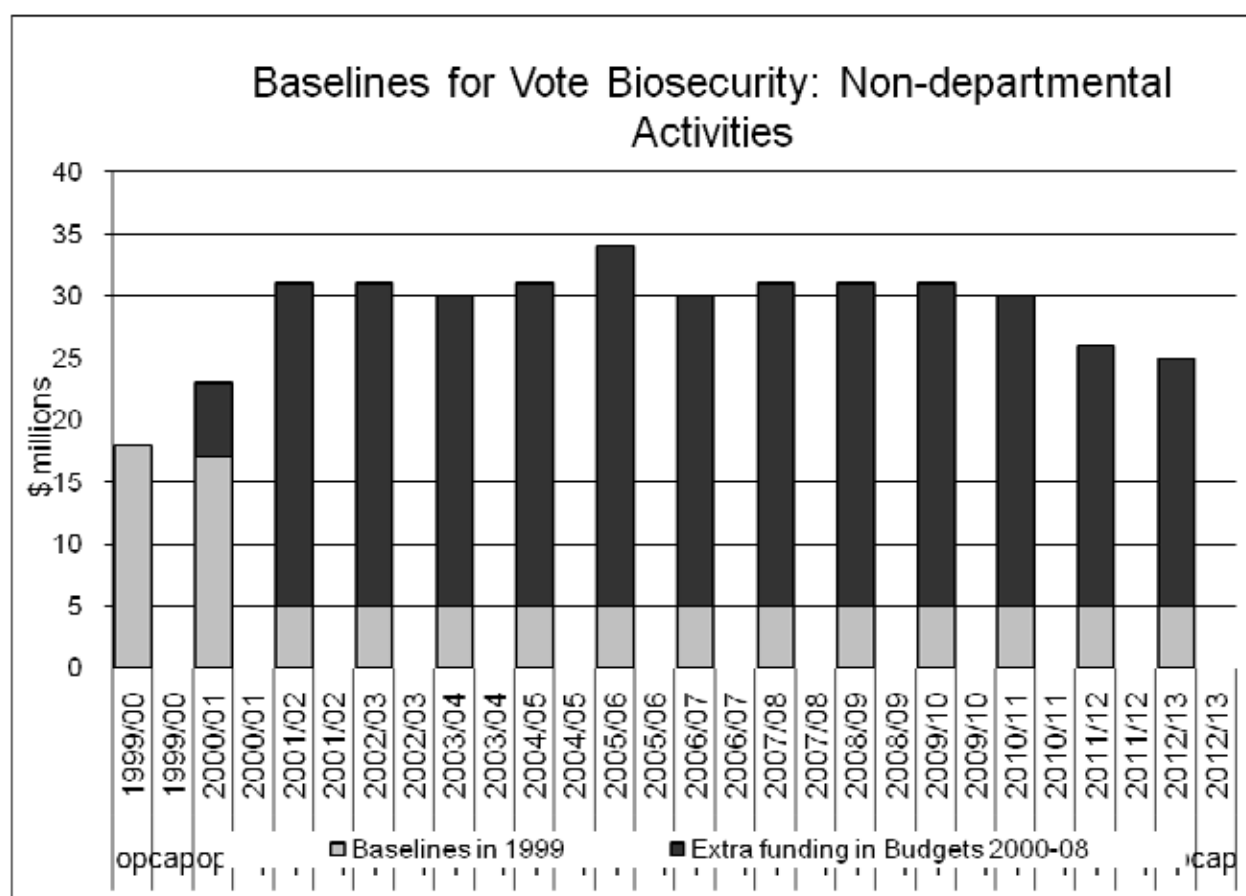
	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Savings	-	(1.184)	(0.654)	(0.488)	(0.410)
Emergency pressures	-	2.323	5.348	5.792	6.721
Policy priorities	-	-	-	-	-
Total funding requested		1.139	4.694	5.304	6.311
<i>Capital (GST excl)</i>					
Savings	-	-	-	-	-
Emergency pressures	-	-	-	-	-
Policy priorities	-	-	-	-	-
Total funding requested					

19. We support the savings submitted by Vote Biosecurity, recognising that Biosecurity New Zealand is a risk-management agency with the need to maintain an appropriate level of response capability. We understand that MAF has identified some additional savings in Vote Biosecurity of around \$0.2 million per year.

Analysis of Vote

20. Vote Biosecurity baselines are shown in the graph below. Variations in the Vote generally reflect changes in expenditure on incursion responses.





Recommendations

Treasury recommends that you support the savings submitted for Vote Biosecurity; and
Agree/Disagree

Emergency Pressure

21. The Minister has submitted two emergency pressure bids:

- A bid for Resource Needs for Trade Agreements seeks funding for work related to implementing the agriculture components of Free Trade Agreements. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].*

22. We do not support the bid for Resource Needs for Trade Agreements. As is the case with the bids submitted under Vote Agriculture & Forestry *[deleted – confidentiality of advice]*, we do not support the bid, as it does not meet the criteria for additional funding.

23. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Recommendations

Treasury recommends that you:

- (v) Do not support the emergency pressure submitted for Resource Needs for Trade Agreements;

Agree/Disagree

- (vi) *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Agree/Disagree

Value for Money/Strategic Direction

24. The next steps in Value for Money for Vote Biosecurity are outlined in the previous section dealing with Vote Agriculture & Forestry.
25. The main issues that will affect Vote Biosecurity in Budgets 2010/11 and 2011/12 are funding associated with
- animal welfare compliance and enforcement;
 - reduced revenue from cargo inspections;
 - proceeding with National Animal Welfare Inspection and Tracing and FarmsOnLine initiatives;
 - management of marine biosecurity risks; and
 - *[deleted – confidentiality of advice]*

Reviews are taking place in these various areas, with reporting to Government involving Treasury as appropriate.

Vote Biosecurity – Analysis of Policy Priorities

26. No policy priority initiatives have been submitted for Vote Biosecurity.