

Vote Economic Development

Baseline Alignment Proposal

8 March 2010

Hon Gerry Brownlee

Minister for Economic Development

Section 1: Alignment to Government Priorities

[Deleted in order to maintain the effective conduct of public affairs through the free and frank expressions of opinions]. In short, as Minister for Economic Development I am committed to:

1. Leading the overall development and implementation of a medium term cross-cutting and sectoral action plan which will enhance support for science, innovation and trade (one of our six main economic policy drivers). The plan (known as the Economic Growth Agenda or EGA) is centred on tackling three challenges common to most sectors – raising business investment in R&D and innovation, improving access to capital and improving international connections. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*.
2. Ensuring rapid and effective implementation of the actions in the EGA which fall partly or wholly within my Economic Development portfolio. This will include working with colleagues to:
 - develop and implement options to improve the innovation and science system;
 - implement the Government's conclusions on the recommendations of the Capital Markets Development Taskforce;
 - ensure New Zealand Trade and Enterprise's (NZTE's) activities are aligned with the plan and that NZTE and the Foundation for Research Science and Technology (FRST) are coordinating service delivery more effectively;
 - identify priorities for Auckland in delivering on the targets and initiatives in the plan;
 - enhance paths to market for food products; and
 - overcome impediments to aquaculture development.
3. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

These priorities reflect the areas of focus that we discussed at Premier House and were further reinforced in the Prime Minister's recent Statement to Parliament.

To achieve these priorities, I will be:

- Ensuring the successful delivery of the EGA initiatives that fall within my own portfolio. Some examples of key initiatives that I am prioritising are the development of the Food Innovation Network New Zealand (FINNZ) to which we have committed a total of \$21.105 million across five years (\$18.205 million of which will be directly funded out of Vote Economic Development) and, coming out of the Capital Markets Development Taskforce, the work around financial funds domicile, specialising in providing high-value middle and back office functions for the fund management industry. My officials are currently determining what steps we would need to take to make this a reality.

- Working proactively with my colleagues to ensure the successful implementation of the key sectoral initiatives that have been identified in the EGA and were agreed by Cabinet at the end of last year.
- Leading a process for identifying, and seeking agreement to, additional actions (subject to funding) to grow the economy and create sustainable new employment in the short to medium term.
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Given the wide range of actions required to rapidly implement the EGA and identify new actions to grow our economy, the main risk is of failing to secure sufficiently extensive and effective collaboration - across central government, local government and business - to ensure the EGA is successfully developed and implemented.

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

Alongside my focus on delivering the priorities that are identified above, another key area of priority for Vote Economic Development is supporting the delivery of a successful Rugby World Cup in 2011. We have an ambitious programme, not only to ensure that the tournament itself is a success, but also to maximise the wider benefits to New Zealand in terms of jobs and growth. To achieve this, the Minister for the Rugby World Cup has been developing a work programme for the New Zealand 2011 Office which is focussed on leveraging off the RWC in order to capture the maximum benefit for New Zealand. While this work programme is yet to be finalised and considered by Ministers, it is currently anticipating a funding commitment of \$17.25m (of which \$5m was approved in principle by Cabinet in July 2009).

Section 2: Reprioritisation

Funding for EGA related work

To assist in funding EGA initiatives, NZTE has identified savings in the current financial year in its International Biotechnology Partnerships fund, Food and Beverage Taskforce budget and web development project, which provide a total of \$4.020 million.

I propose to allocate \$1.5m of these savings to progress the financial funds domicile work, and to retain the remaining \$2.52m as a contingency to fund further EGA proposals once they are more fully developed. In section 3 below, I recommend that any further underspends in Vote Economic Development in 2009/10 due to lower than expected demand for economic development grants and programmes be used to fund the expanded task in the area of financial funds domicile work in both the current and future years.

Alongside the EGA, I have also given priority to the Square Kilometre Array (SKA). I have allocated \$3 million over the next four years from the Enterprising Partnerships Fund in order

to fund the New Zealand government's effort to secure New Zealand's position as co-host, with Australia, of the SKA. I also propose to fund the Vote Economic Development MED commitments in relation to the New Zealand Productivity Commission and the RWC TV Rights out of the Enterprising Partnerships Fund.

As highlighted earlier, the funding for FINNZ and the initial exploratory work on the financial funds domicile project has also been found from reprioritisation within Vote Economic Development.

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

Funding for Rugby World Cup Leveraging Activities

In my letter at the end of last year in which I highlighted priority delivery pressures, I indicated that, while I anticipated being able to deliver priorities from within the existing Vote Economic Development baseline, I was aware that the New Zealand 2011 Office was in the process of developing a programme of events and festivities focussed on leveraging off the RWC and creating a lasting legacy for New Zealand. The Minister of Rugby World Cup has now agreed in principle to this work programme which will necessitate \$17.250 million over the next three years.

Last year, Cabinet agreed in principle to provide up to \$5.0 million over three financial years (2009/10 to 2011/12) for the operation of the NZ 2011 Office (CAB Min (09) 23/7 refers). Drawing down the funds requires the agreement of the Minister of Finance and myself as Minister for Economic Development and Minister for Energy and Resources. A paper is being prepared to achieve this.

I have prioritised \$5.625 million within Vote Economic Development to contribute towards this programme of activities and will be looking to my ministerial colleagues in the tourism, foreign affairs, culture and heritage and Maori Affairs areas to find the remaining funding commitment. I have also asked the Minister of Tourism for approval to transfer \$1 million from the Tourism Strategy Development Fund for RWC work.

Other Funding Pressures

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

Section 3: Summary of Financial Movements

To ensure we can deliver on the priorities I have identified, I propose the following changes to appropriations:

1. Transfer **\$4.020m** in 2009/10 from NZTE operating expenses (\$0.75m) and the International Biotechnology Partnerships fund (\$3.27m) to
 - MED Transformational Initiatives departmental funding (\$1.5m for the financial funds domicile work); and
 - Transformational Initiatives non-departmental multi-year funding (\$2.52m, for an EGA contingency fund).

2. Transfer **\$3.842m** over the next five years and then **\$0.1m** p/a from the MED Enterprising Partnerships Fund to
 - a new MED non-departmental multi-year appropriation for SKA bid (\$3m over four years);
 - a transfer out of the Vote for the Productivity Commission (\$0.048m in 2010/11, \$0.094m in 2011/12 and then \$0.1m p/a); and
 - a transfer out of the Vote for RWC TV rights (\$0.5m in 2010/11).

3. Transfer
 - **\$5.625m** in 2010/11 from the Enterprising Partnerships Fund;
 - **\$1m** from the Tourism Strategy Development Fund in Vote Tourism (yet to be agreed by the Minister of Tourism);
 - **\$5m** in new budget funding (approved in principle by Cabinet in July 2009 and subject to final approval by joint Ministers in a separate paper);
 - **\$5.625m** from other Votes (yet to be discussed with other Ministers);into a new MED non-departmental multi-year appropriation for Rugby World Cup leveraging that will total \$17.25m over three years.

4. Transfer of **\$2.9 m** from Vote Research Science and Technology to Transformational Initiatives non-departmental multi-year funding for the Food Innovation Network New Zealand (FINNZ).

5. In addition to the \$4.020m in savings NZTE has identified for EGA purposes, I consider that there is potential for some further underspends in the Vote in 2009/10 in the order of **\$1 - \$2m**. The exact amounts of these further underspends are uncertain as they are partly subject to the level of demand for NZTE grants and services and MED grants in the remaining months of this financial year. Given the expansive task in the financial funds domicile work, and given the tight fiscal circumstances, I consider that it would be prudent to make provision in Budget 2010 for any underspends to be automatically transferred to 2010/11 and used to provide additional funding in the Transformational Initiatives non-departmental multi-year appropriation for the financial funds domicile work as part of the EGA.

These changes are reflected in the attached report from CFIS.