

The Treasury

Budget 2013 Information Release

Release Document

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- [1] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
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- [10] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
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- [12] Not in scope
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Treasury Report: Accounting for changes in Treaty settlement expenditure

Date:	22 March 2013	Report No:	T2013/555
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Recommend to Budget Ministers that the Vote: Treaty Negotiations Budget initiatives are accepted. Note that the associated increase in non-departmental Treaty expenditure will not affect the operating allowance but will reduce the operating balance excluding gains and losses in the forecast period.	Before Budget Ministers meet on Tuesday 26 March
Associate Minister of Finance (Hon Steven Joyce)	Read prior to Budget Ministers meeting.	Tuesday 26 March
Associate Minister of Finance (Hon Dr Jonathan Coleman)	Read prior to Budget Ministers meeting.	Tuesday 26 March

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[3]		[3]	✓
Louise Lennard	Senior Analyst	04 917 6961 (wk)	
Oliver Valins	Manager, Justice & Security	04 917 6228 (wk)	

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

Return the signed report to Treasury.
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Enclosure: No

Treasury Report: Accounting for changes in Treaty settlement expenditure

Executive Summary

You met with the Minister for Treaty of Waitangi Negotiations on Monday 25 February. The Minister is seeking additional departmental funding for the Office of Treaty Settlements (OTS) through Budget 2013. This funding is intended to facilitate achieving agreements in principle (AIPs) with all [6] iwi by the end of 2014 [6]

At the meeting on 25 February you asked Treasury to provide further advice on the impact on the operating allowance associated with the Vote: Treaty Negotiations Budget initiatives.

We previously advised you if Budget Ministers agree to the Minister for Treaty of Waitangi Negotiations' Budget initiatives that the related increase in non-departmental expenditure would be counted against the operating allowance [T2013/245 refers].

However, following our conversation on 25 February, we have reviewed our approach to the Treaty forecasts. Treasury considers that additional departmental funding for OTS which brings forward non-departmental expenditure [10] into the forecast period should not impact on the operating allowance.

Treating the timing change this way would instead reduce the operating balance excluding gains and losses (OBEGAL) in the forecast period. There are precedents for treating fiscally neutral timing changes this way.

Treasury's preliminary fiscal forecasts for Budget 2013 are based on the March Baseline Update forecasts supplied by departments. Since then, OTS have revised their negotiations work programme and their forecasts have changed accordingly.

Budget Ministers will be making decisions for Budget 2013 based on those preliminary fiscal forecasts. Budget Ministers need to be aware that if they approve additional departmental funding for OTS, the associated non-departmental impacts will reduce the OBEGAL [10]. This will have a consequential impact on Treasury's final fiscal forecasts, [10]

You may also wish to seek a commitment from the Minister for Treaty of Waitangi Negotiations that, if additional departmental funding is approved, Treaty forecast accuracy will be improved [10]

There are still a number of risks and issues which may have flow on effects to the Government's fiscal position, including the following.

- [10]
- Delays in finalising settlements mean settlements often 'slip' from one financial year to the next. This can be mitigated by better management of the negotiations

process and more realistic timeframes. Treasury is working with OTS to implement new governance arrangements to assist their risk management.

Recommended Action

We recommend that you:

- a **note** that the Office of Treaty Settlements' current departmental baselines are insufficient to maintain settlement momentum in settling historic Treaty claims and to implement the government share offer
- b **note** that the Minister for Treaty of Waitangi Negotiations is seeking additional departmental funding for the Office of Treaty Settlements through Budget 2013 to achieve all agreements in principle by 2014/15 [6]

\$ million	2013/14	2014/15
Work programme	3.5	0
Government share offer	3.0	3.5

- c **note** that we previously advised that a change to non-departmental Treaty settlement expenditure should be treated as a 'revision to forecast' with an associated impact on the operating allowance [T2013/245 refers]
- d **note** that we have reviewed our approach and consider bringing forward non-departmental expenditure [10] into the forecast period should not impact on the operating allowance as it is a fiscally neutral timing change

[10]

- f **note** that this level of non-departmental expenditure will affect the operating balance excluding gains and losses [10]

- g **recommend** to Budget Ministers that the Minister for Treaty of Waitangi Negotiations' Budget initiatives are approved

Agree/disagree.

- h **seek** a commitment from the Minister for Treaty of Waitangi Negotiations that the Treaty forecast accuracy will be improved [10]

Agree/disagree.

- i **direct** officials from the Office of Treaty Settlements and The Treasury to report to joint Ministers before baseline updates to ensure that the fiscal implications of timing

changes in Treaty settlements are clearly communicated to Ministers, [10]

Agree/disagree.

j **refer** this report to the Minister for Treaty of Waitangi Negotiations.

Refer/not referred.

Oliver Valins
Manager, Justice & Security

Hon Bill English
Minister of Finance

Treasury Report: Accounting for changes in Treaty settlement expenditure

Purpose of Report

1. This report is to provide you with Treasury's proposed approach to account for the non-departmental impact of the Minister for Treaty of Waitangi Negotiations' Budget initiatives and advise you on the consequences of approving those initiatives.

Background

2. You met with the Minister for Treaty of Waitangi Negotiations on Monday 25 February at 5pm. Before that meeting we advised you that:
 - bringing non-departmental Treaty expenditure into the forecast period could have a significant impact on the operating allowance, and
 - [10]
3. The Minister for Treaty of Waitangi Negotiations is seeking additional departmental funding for the Office of Treaty Settlements (OTS) through Budget 2013. This funding is intended to facilitate achieving agreements in principle (AIPs) with all [10] iwi by the end of 2014 [6]

Table 1: Vote: Treaty Negotiations Budget initiatives (departmental funding only)¹

\$ million	2013/14	2014/15
Work programme	3.5	0
Government share offer	3.0	3.5

4. The initiatives reflect the additional departmental funding required to manage the impact of running significantly more negotiations simultaneously, including iwi who have not previously engaged with the Crown. If approved, OTS will be moving more iwi through all stages of the settlement pipeline. OTS received a similar time-limited increase in Budget 2010 to help achieve settlements by 2014. Their baselines will reduce at the end of the 2012/13 financial year without the additional funding sought in Budget 2013.
5. At the meeting on 25 February you asked Treasury to provide further advice on the impact on the operating allowance associated with the Vote: Treaty Negotiations Budget initiatives.

Existing and Revised Treaty Forecasts

6. Treasury's preliminary fiscal forecasts for Budget 2013 are based on the March Baseline Update (MBU) forecasts supplied by departments. OTS' MBU forecasts are outlined in the table below.

¹ Excludes the Relativity Mechanism bid as it is not related to the achievement of settlement milestones.

[10]

[

7. Since then, OTS have substantially revised their negotiations work programme. Their forecasts have changed accordingly. However, Budget Ministers will be making decisions based on the preliminary fiscal forecasts.
8. [10]

[10]

|

Key Trade-Offs

If Ministers approve additional department funding for OTS, Treasury will treat it as a timing change with an OBEGAL impact

9. Treasury supports the Minister for Treaty of Waitangi Negotiations' Budget initiatives as additional funding will increase settlement momentum and enhance the Crown-Māori relationship. However, additional departmental funding for OTS will have a flow on effect of bringing forward non-departmental Treaty settlement expenditure into the forecast period [10]
10. We previously advised you that an increase in expenditure in the forecast period would normally be treated as a 'revision to forecast'. That is, an increase would be counted against the operating allowance to reflect the fiscal impact of spending decisions taken by the Government within the forecast period [T2013/245 refers]. This approach is intended to ensure that the Government's fiscal forecasts are as accurate as possible.
11. However, following our conversation on 25 February, we have reviewed our approach to Treaty expenditure. Treasury considers that additional departmental funding for OTS which brings forward non-departmental expenditure [10] into the forecast period should not impact on the operating allowance.
12. Treating an increase in non-departmental Treaty expenditure as a fiscally neutral timing change would instead reduce the operating balance excluding gains and losses (OBEGAL) within the forecast period [10]

[10]

13. There are precedents for treating timing changes this way. For example, when Treaty settlements have slipped from one financial year to the next, Treasury has historically reflected that in the OBEGAL as a timing delay. Treating an increase in non-departmental Treaty expenditure within the Budget 2013 forecast period would mirror this approach.

Treating it as a timing change will have consequences for Budget decisions

14. [10]

Budget Ministers will be making decisions for Budget 2013 based on those preliminary fiscal forecasts.

15. Budget Ministers need to be aware that if they approve additional departmental funding for OTS, the associated non-departmental impacts will reduce the OBEGAL across the forecast period, altering Treasury's final fiscal forecasts for Budget 2013.
16. Maintaining steady progress toward the achievement of publicly stated fiscal goals is important for the credibility of the Government's fiscal strategy. A small reduction in the 2014/15 OBEGAL may not substantially alter market confidence in the Government's medium-term fiscal strategy, but a larger change could have some impact. The degree of impact would depend on the overall impact of fiscal decisions and the general financial and market conditions at the time.
17. The OBEGAL impact will also affect Ministers' ability to make choices in 2014/15.
[10]

Ministers may also wish to limit the OBEGAL impact

19. To minimise the OBEGAL impact on the Government's fiscal goals, Budget Ministers may also wish to seek a commitment from the Minister for Treaty of Waitangi Negotiations that, if additional departmental funding is approved, he will ensure that the Treaty forecast accuracy will be improved and the negotiations work programme will
[10] We consider the Minister can manage the negotiations work programme if OTS are able to deliver on their commitment to improve their strategic planning.

Risks and Issues

20. Even if Ministers seek a commitment from the Minister for Treaty of Waitangi Negotiations [10] there are still a number of risks and issues which may have flow on effects on the Government's fiscal position.

[10]

21. [10]

22.

[10]

Delay in finalising settlements

23. Treaty forecasts have been imprecise in the past, partly because it is a negotiations-based process. Settlements commonly 'slip' from one financial year to the next [10]

24. Better management of the negotiations 'pipeline' and more realistic timeframes will help this risk. It will help ensure that delays are factored into the forecasts at the earliest opportunity. [10]

Untested governance arrangements

25. OTS are implementing new governance arrangements intended to oversee their resource and work programme management, allowing them to better manage the risk of delays and policy changes [10]
Treasury is working with OTS to establish these governance arrangements.

26. However, the new arrangements are untested and may not ensure that the negotiations work programme and forecasts are realistic.

Conclusion

27. Treasury recommends that Budget Ministers approve additional departmental funding for OTS to support progress in finalising historical Treaty settlements and enhance the broader Crown-Māori relationship.

28. If Budget Ministers approve that additional departmental funding, Treasury will treat the associated increase in non-departmental expenditure as a timing change with an OBEGAL impact.

29. [10]

30. We also recommend that you direct officials from OTS and The Treasury to report to joint Ministers before baseline updates on the negotiations work programme, the fiscal forecasts and their alignment with the Government's fiscal strategy.