

# The Treasury

## Budget 2013 Information Release

### Release Document

July 2013

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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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- [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.



Reference: T2013/902

DH-51-12

Date: 5 April 2013

 To:  
 Minister of Finance  
 (Hon Bill English)

 Associate Minister of Finance  
 (Hon Steven Joyce)

Deadline: None

## Aide Memoire: Options for the Budget 2013 Growth Package

On 2 April 2013, Budget Ministers supported a \$100 million per annum package of Growth Initiatives for Budget 2013, including new funding for science and innovation, tourism and international education. We understand that this funding was indicatively allocated between the three areas as below:

<b>Growth Budget Package</b>	<b>2013/14 \$000</b>	<b>2014/15 \$000</b>	<b>2015/16 \$000</b>	<b>2016/17 &amp; outyears \$000</b>
Science and Innovation	50,000	50,000	50,000	50,000
Tourism	40,000	40,000	40,000	40,000
International Education	10,000	10,000	10,000	10,000
<b>Total</b>	<b>100,000</b>	<b>100,000</b>	<b>100,000</b>	<b>100,000</b>

Within these three spending areas, Treasury considers that focusing more (or all) of this new funding on science and innovation would have greater net benefits.

Further, focusing the package on science and innovation would contribute more directly to the Government's Business Growth Agenda (BGA), which includes the goal of lifting public research funding to 0.8% of GDP. With the spending allocation above, public research funding will fall from around 0.7% to 0.55% of GDP between now and 2016, as nominal GDP rises.

### **Value from Increasing Science and Innovation Funding**

Increased science and innovation funding would represent good value-for-money, and can be easily scaled up:

- New Zealand's business spending on research is low, at 0.58% of GDP compared to the OECD average of 1.62% of GDP. Business innovation appears to be an important driver of productivity growth, and the Government is committed to increasing private sector R&D spending to 1% of GDP.
- Increased funding for business research support programmes would complement the current changes in this area, allowing the programmes to support more firms, and be more predictable.
- Additional public research funding would accelerate the introduction of National Science Challenges, and increase the support for investigator-led research. New Zealand produces high quality public research, and these research funds haven't been increased since 2009.

### **Value from Increasing Tourism Funding**

In contrast, the benefits of additional tourism spending are unclear. There is no strong evidence of market failure being addressed by programmes in this area, and current spending hasn't yet received robust evaluation. Increased funding may be largely captured by tourism operators, without wider benefits to the economy.

Alternatively, if the Government considers these initiatives are a priority for tourism, there is lower value spending in the portfolio that could be used to fund these initiatives.

### **Value from Increasing International Education Funding**

Education New Zealand is a new Crown Entity that was established in September 2011 to promote international education. It is still building its organisational capability, and retained a surplus of \$5.8 million in 2011/12.

Given this early stage of development, it isn't clear that Education New Zealand requires additional funding at this stage. Other spending options within Tertiary Education could potentially offer better value for money. For instance, increased funding for CoREs or the PBRF could be explored further.

As Ministers are interested in pursuing some increase in tourism funding, we would view an indicative allocation such as the one below as preferable:

**IN-CONFIDENCE**

<b>Treasury Alternative Growth Budget Package</b>	<b>2013/14 \$000</b>	<b>2014/15 \$000</b>	<b>2015/16 \$000</b>	<b>2016/17 &amp; outyears \$000</b>
Science and Innovation	70,000	70,000	70,000	70,000
Tourism	20,000	20,000	20,000	20,000
Tertiary Education (e.g. CoREs or PBRF)	10,000	10,000	10,000	10,000
<b>Total</b>	<b>100,000</b>	<b>100,000</b>	<b>100,000</b>	<b>100,000</b>

In summary, there would be greater gains from focusing the Growth Package more intensely on increasing science and innovation funding, in place of additional tourism spending.

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