

The Treasury

Budget 2015 Information Release

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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: Vote Canterbury Earthquake Recovery - Advice for Budget 2015 Decision Making

Date:	19 March 2015	Report No:	T2015/504
		File Number:	DH-50-1

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Note that the Minister for Canterbury Earthquake Recovery is seeking [8] in Budget 2015. Note Treasury recommends [8]	Prior to Meeting with Minister Brownlee on 23 rd March
Associate Minister of Finance (Hon Steven Joyce)	Note the contents	Prior to Meeting with Minister Brownlee on 23 rd March
Associate Minister of Finance (Hon Paula Bennett)	Note the contents	Prior to Meeting with Minister Brownlee on 23 rd March

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Louise Lennard	Senior Analyst	04 917 6961 (wk) [4]	✓
Simon McLoughlin	Team Leader, Fiscal and State Sector Management	04 917 6011 (wk)	

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

Return the signed report to Treasury
If agreed **provide** a copy to the Prime Minister

Enclosure: [Final CERA Budget Bids 18 March 2015 \(Treasury:3145416v1\)](#)
[Detailed Table on budget bids 19 March 2015 for Budget Ministers \(Treasury:3145106v1\)](#)

Treasury Report: Vote Canterbury Earthquake Recovery - Advice for Budget 2015 Decision Making

Purpose of Report

1. This report responds to your request for information and advice on the Vote Canterbury Earthquake Recovery Budget 2015 proposals.

Information Provided

2. Attached to this report are two tables from the Canterbury Earthquake Recovery Authority (CERA):
 - A summary table of the current budget proposals
 - A table with detailed information on the composition of the amounts sought.

At this stage, however, we are unable to provide independent assurance or verify the numbers CERA has provided. We have therefore used a range of sources to assess [8] other proposals (Appendices 1-3).

Analysis

3. For the majority of the Budget proposals there are limited choices that can be made without stopping or delaying projects. [8]

The operating expenses have the following profile:

Operating \$million	2014/15	2015/16	2016/17	2017/18	2018/19
Must-do	[8]				
“Discretionary”					
Total					

4. If Ministers wish to retain the July 2012 Blueprint, then most of the must-do appropriations and the discretionary operating proposals will need to be agreed. Vesting, building impairment and vesting of development costs are all non-cash based must-do expenses and were in general already been counted against net debt when the Crown purchased the land and buildings. These non-cash appropriations will still have an OBEGAL impact.
5. Treasury is supportive of the increases sought where they are for initiatives that maintain the momentum of anchor projects or largely relate to decisions already taken by Ministers. This Report provides advice on the [8] [8] and other proposals (Appendix 3) covering the Departmental baseline, [8] [8]

Preliminary net earthquake costs

6. Based on the March Baseline Update and preliminary Budget forecasts, the total cost to the Crown of the Canterbury earthquakes is currently estimated at \$16.3b. This compares to \$16.0b at the Half Year Update with the increase spread across a number of areas. The key changes to the fiscal forecasts are:
- central city rebuild costs have increased \$141m partly due to additional capital expenditure for a number of anchor projects (primarily the Frame and Avon River) and [12]
 - the Southern Response support package has increased by \$95m due to an updated valuation of their claims liability as at 31 December.
 - offsetting the above increases, EQC net costs have decreased \$138m following an updated claims liability valuation at 31 December.
7. In addition, we are currently investigating the increases in Crown assets (\$158m) and Crown entity (\$118m) expenditure. We are aware these largely relate to schools capital expenditure for the 2018/19 year and the inclusion of DHBs capital expenditure beyond 2014/15, both of which had not been disclosed in this format before. However, we are yet to confirm whether these amounts were included in the previous Half Year Update fiscal forecast.
8. We expect these numbers to change between now and the final Budget forecast as Budget decisions are taken, Budget forecasts are updated and we complete our review processes

Net earthquake costs (operating and capital) – preliminary forecast

Year ending 30 June	2011-2014	2015	2016	2017	2018	2019	Outside forecast	Total Budget Update	Total Half Year Update	change
\$millions	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	period			
Local infrastructure	1,473	110	173	50	-	-	-	1,806	1,806	-
Crown assets ¹	158	493	696	513	204	118	-	2,182	2,024	158
Land zoning	1,009	26	34	68	-	-	-	1,137	1,139	(2)
Christchurch central city rebuild ²	588	274	364	242	(28)	2	(175)	1,267	1,126	141
Welfare support	288	9	4	3	2	-	-	306	306	-
Southern Response support package	582	122	(36)	(18)	(4)	4	-	650	555	95
Other costs	628	213	103	40	35	52	-	1,071	1,094	(23)
Core Crown Canterbury earthquake recovery costs	4,726	1,247	1,338	898	209	176	(175)	8,419	8,050	369
EQC (net of reinsurance proceeds)	7,757	(201)	(164)	(124)	(1)	-	-	7,267	7,405	(138)
Other SOE and Crown entities ³	(129)	(24)	303	295	118	50	-	613	495	118
Total Crown	12,354	1,022	1,477	1,069	326	226	(175)	16,299	15,950	349
Operating and capital expenses										
Operating expenditure (OBEGAL)	11,552	162	279	160	93	115	-	12,361	12,327	34
Capital expenditure	802	860	1,198	909	233	111	(175)	3,938	3,623	315
Total Crown	12,354	1,022	1,477	1,069	326	226	(175)	16,299	15,950	349

- Notes: 1. Crown assets includes capital expenditure on Canterbury hospitals, schools, Tertiary Education Institutions, housing and the Justice and Emergency Services Precinct.
2. Central city rebuild costs include land acquisition and are net of expected recoveries and contributions from third parties.
3. Other SOE and Crown entities largely relates to expenditure by DHBs, TElS, and Housing New Zealand net of insurance recoveries. This excludes capital expenditure items included in the Crown assets line above.

Risks

9. Both the Convention Centre and Metro Sports Facility anchor projects are at the early design stage, so the costs are still indicative and subject to change. We consider there is a high likelihood of cost variability until further design work is completed.
10. The following table sets out the risks that will need to be considered within the next six months, excluding budget proposals.

[8]

11. The following table sets out the broad categories of risk in the longer term.

Risk	Value	Comment
Residential Red Zone	Unknown mixture of operating and capital	This is contingent on decisions yet to be taken on the future use of the residential red zone
Flood mitigation	Unknown	Council is working on a proposal to address urgent flooding issues

[8]

[8]

Risk	Value	Comment
Anchor project risks -scope changes -cost escalation -land acquisition	Unknown	This risk is dependent on future decisions.

[8]

New policy decisions	Unknown operating and capital	There are still emerging issues that Ministers may decide to respond to. For example [8]
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Recommended Action

We recommend that the Minister of Finance:

- a. **note** that the budget proposal figures includes in this report are the latest available from the Canterbury Earthquake Recovery but are still subject to change
- b. [8]
- c. [8]
- d. **note** that there are still a significant number of risks relating to future decisions and uncertainty in Canterbury
- e. [8]

Agree/disagree

- f. **refer** to the Prime Minister.

Refer/not referred

Simon McLoughlin
Team Leader, Expenditure Management

Hon Bill English
Minister of Finance

[8][9]

[8]

[8]

[8]

Appendix 3 Other proposals

Departmental baseline:

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19 & outyears
Existing	30.7	44.5	64.0	89.1	72.0	25.0	25.0	25.0
Proposal					9.0	[8]		
New	30.7	44.5	64.0	89.1	81.0			

The on-going baseline for vote Canterbury Earthquake Recovery never took into account a long term view of the functions of CERA and their delivery. The profile shows the overall level of costs [8] Officials are preparing advice for Ministers on the transition planning which is expected to be completed in July.

Advice

- Include the 2015/16 amount in the vote CER baseline

[8]

[8]

[4][5][8]

[4][8]

Canterbury Earthquake Recovery Authority
Proposed Departmental and Non-Departmental Budget Bids

Post Minister's Meeting 18/3/2015

Operating Costs (Impacting OBEGAL)											[8]
'Must-Do' Appropriations					Total Must-Do Apprprns	Discretionary Appropriations				Total Discret'ry Apprprns	Total Operating Costs
Vesting of Land/ C'sionary leases	Building Impair'm	Sale/ Vesting of Devel'mnt Costs	Depart'l	Cost of Ownership of Land and Devel'mnts		Post Devel'mnt Facility Operating Costs	Disposal / Divest'm Expenses	Purchase/ Demo/ Holding Expenses			
Forecast Expenditure	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	[8]	\$m	\$m
Bus interchange	0.6	0.5			1.1	4.0	4.3	0.4	[11][12]		[8]
Justice Precinct		0.2			0.2			0.4			
Convention Centre					0.0			0.5			
East and North Frames		6.0	26.6		32.6		0.4	5.0			
Metro Sports Facility	2.0	6.0			8.0			0.2			
Christchurch Stadium					0.0						
Performing Arts	7.9	3.0			10.9			0.4			
An Accessible City					0.0						
South Frame	8.0	13.5			21.5			2.0			
Avon River			16.6		16.6			0.2			
Retail					0.0			0.5			
Residential Demo					0.0						
Central Library	9.5	3.2			12.7			0.2			
Earthquake Memorial			9.8		9.8			0.3			
Current Cost Pressures	4.1	24.5			[8]	0.4					
Subtotal - Non-Departmental Bids	32.1	56.9	53.0	0.0		4.4	4.7	10.1			
Total \$85.1m. Refer to separate vesting spread-sheet & map for details											
Departmental Bids					[8]						
Total Bids	32.1	56.9	53.0			4.4	4.7	10.1			
Proposed Budget Bids											
2014/15	22.2	42.9	0.0	0.0	[8]	0.7	0.0	3.9			
2015/16	9.9	14.0	53.0	9.0		1.3	1.7	4.1			
2016/17	0.0	0.0	0.0			1.2	1.5	2.1			
2017/18	0.0	0.0	0.0			1.2	1.5	0.0			
2018/19 and outyears	0.0	0.0	0.0			0.0	0.0	0.0			
Total Budget15 Bids	32.1	56.9	53.0			4.4	4.7	10.1			

CERA 2015 Budget Bids:

Departmental Bids

Comments	Period	Current Appropriation	Budget Bid	
	May and June 2016	Nil	\$9.0m	CERA has no funding for May and June 2016 - potential that CERA will be underfunded for remaining activities and functions in May / June 2016
Recommendations Approve a departmental bid of \$9m operating funding				
Comments	Period	Current Appropriation	Budget Bid	
	2016/17/18	\$25m per year	[8][12]	
Recommendations [8][12]				

Non-Departmental bids

Comments	Project	Current Appropriation	Budget Bid- new money
	Bus Interchange	\$52.4m construction budget (Land \$37.7m)	Total budget bid of \$9.8m as follows: \$0.6m to provide for the vesting of land to CCC \$0.5m for building impairment \$8.7m operating & ownership costs for budget years 2014/15 to 2017/18
Recommendation: Approve a non-departmental budget bid of \$9.8m (operating)			

Comments	Project	Current Appropriation	Budget Bid- new money
	Justice Precinct	\$0m [8][11][12]	[8][11] \$0.2m – Vesting for 2014/15 [8][11][12]
Recommendation: [8][11][12]			

Comments	Project	Current Appropriation	Budget Bid – new money
	[8]		[8][11][12]

Comments	Project	Current Appropriation	Budget Bid – new money
	Convention Centre Precinct	Nil [11]	[11] \$0.5m for disposal and Divestment Expenses
Recommendations			
11			
Comments	Project	Current Appropriation	Budget Bid- new money
	East and North Frames	\$31.0m [8][11][12]	[8][11][12] \$6.0m for building impairment \$26.6m for vesting of East Frame green space development in 2015/16 [8][11][12] \$5.4m for divestment expenses and operating costs [8][11][12]
Recommendations			
[8][11][12]			

Comments	Project	Current Appropriation	Budget Bid -new money
	[8]	[8][11][12]	[8][11][12]
Recommendation [8][11][12]			
Comments	Project	Current Appropriation	Budget Bid -new money
	Metro Sports Facility	\$nil	[11] \$2.0m to provide for the vesting of land to CCC \$6.0m for building impairment [11] \$0.2m for divestment expenses and operating costs
Recommendation [11]			

Comments	Project	Current Appropriation	Budget Bid new money
	Performing Arts	\$0m [8][11][12]	[8][11] \$7.9m for reduction in value of land (capital cost) due to issuing concessionary leases \$3.0 for building impairment [8][11] \$0.4m for divestment expenses
Recommendation			
[8][11]			

Comments	Project	Current Appropriation	Budget Bid- new money
	South Frame	\$30.0m [8][11][12]	[8][11] \$8.0m for vesting of purchased public realm laneways \$13.5m for impairment on building purchased for laneways [8][11] \$2.0m for divestment expenses
Recommendation			
[8][11]			

Comments	Project	Current Appropriation	Budget Bid- new money
	Avon River	\$116.0m (Includes playground transferred in from the East frame) [8][11][12]	Total budget bid of \$16.8m as follows: \$13.6m for loss on 'sale' of the playground \$3.0m for vesting of public realm land \$0.2m for divestment expenses
Recommendation			
Approve a total budget bid of \$16.8m (operating)			

Comments	Project	Current Appropriation	Budget Bid- new money
	Retail	Nil [8][11][12]	[8][11] \$0.5m for divestment expenses
Recommendation [8][11]			

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Comments	Project	Current Appropriation	Budget Bid
	Central Library	Nil	[8][11] \$9.5m for the cost of the Crown vesting land to CCC at no cost \$3.2m for impairment of buildings [8][11] \$0.2m for divestment expenses
Recommendation [8][11]			
Comments	Project	Current Appropriation	Budget Bid
	Earthquake Memorial	\$10m	Total budget bid of \$10.1m as follows: \$9.8m for vesting of development/construction costs \$0.3m for divestment expenses
Recommendation Approve a budget bid of \$10.1m (operating)			