

# The Treasury

## Budget 2016 Information Release

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[s18(c)(i)]	that the making available of the information requested would be contrary to the provisions of a specified enactment	
[40]	Not in scope	

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

## Treasury Report: Outline of Funding Arrangements for Ōtākaro Limited and Next Steps

<b>Date:</b>	22 March 2016	<b>Report No:</b>	T2016/467
		<b>File Number:</b>	DH-50-3

### Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	<p><b>Agree</b> to the proposed funding arrangements for Ōtākaro Limited and resulting appropriation impacts.</p> <p><b>Agree</b> to Joint Ministers approving before 31 March 2016 the establishment of appropriations and any funding transfers required for Ōtākaro to deliver its work programme following the disestablishment of CERA.</p>	Wednesday 23 March 2016
Minister for Canterbury Earthquake Recovery (Hon Gerry Brownlee)	<p><b>Agree</b> to the proposed funding structure for Ōtākaro Limited and resulting appropriation impacts.</p> <p><b>Agree</b> to Joint Ministers approving before 31 March 2016 the establishment of appropriations and any funding transfers required for Ōtākaro to deliver its work programme following the disestablishment of CERA.</p>	Wednesday 23 March 2016

### Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[34]			✓
Elizabeth Scurr	Team Leader, Fiscal and State Sector Management	04 917 6190 (wk)	[23] (mob)

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

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**Return** the signed report to Treasury.

Note any  
feedback on  
the quality of  
the report

**Enclosure:**      No

# Treasury Report: Outline of Funding Arrangements for Ōtākaro Limited and Next Steps

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## Executive Summary

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This report provides an outline of the proposed funding arrangements for Ōtākaro Limited and the necessary changes to appropriations required to give effect to this. Ōtākaro will be taking over the delivery of anchor projects in Christchurch once the Canterbury Earthquake Recovery Authority (CERA) is disestablished on 18 April 2016.

**Funding already exists in Vote Canterbury Earthquake Recovery (CER) to deliver these projects and Cabinet has also set aside various tagged contingencies.** The available funding covers both the operating and capital expenses for each project. Officials are currently negotiating with Ōtākaro on the transfer of work programme and assets. The working assumption is that all project funding in Vote CER (plus tagged contingencies) will be made available to Ōtākaro and no additional funding is required at this stage. There are additional fiscal risks associated with the projects and cost pressures that have not been funded through the current appropriations. CERA is seeking funding in Budget 2016 to meet some of these cost pressures using existing underspends available in the Vote. Any approved Budget initiatives will be confirmed in the Budget Cabinet paper in Vote Finance under the new MCA.

**To allow Ōtākaro to access this funding, officials propose setting up a new multi-category appropriation (MCA) in Vote Finance taking effect from 1 April 2016.** The new MCA will maintain the current transparency around funding for each project, but also provide flexibility to Treasury for funds to be shifted between projects as necessary. The MCA needs to be established before 31 March 2016 and can be approved by Joint Ministers.

**This is quite a tight deadline and you will be provided with a report in the next week seeking your agreement to establish the MCA and complete the transfer of funding.** Some funding will be left in Vote CER pending March actuals with a further opportunity for Joint Ministers to transfer any remaining amounts into the new MCA before supplementary estimates are finalised.

This report also seeks agreement to (i) expire Vote CER from 2016/17 onwards, given all the appropriations would have transferred to other Votes, and (ii) change the effective date of transition funding for departments inheriting CERA functions.

## Recommended Action

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We recommend that you:

- a **note** that Ōtākaro Limited will need access to funding to deliver anchor projects in Christchurch and this has already been appropriated in Vote CER or held in a tagged contingency;
- b **agree in-principle** to establish a new multi-category appropriation in Vote Finance taking effect from 1 April 2016 and transfer project funding from Vote CER;

*Agree/disagree*

- c **note** that the multi-category appropriation would need to be established before 31 March 2016, and that Treasury will be drafting another report which seeks agreement from Joint Ministers to give effect to this and any transfers required;
- d **note** that the Minister for Canterbury Earthquake Recovery Authority will still be responsible for responsible for any new appropriations under Vote Finance;
- e **note** that this does not have any funding implications and any transfers would be fiscally neutral as the funding already exists in Vote CER;
- f **agree** to expire Vote CER from 2016/17 given all the appropriations would have moved out of the Vote by this time; and

*Agree/disagree*

- f **agree** to change the effective date of transition funding transferring from Vote Canterbury Earthquake Authority to inheriting agencies under Vote Lands, Vote Building and Housing, Vote Business, Science and Innovation, Vote Prime Minister and Cabinet and Vote Health to 1 April 2016.

*Agree/disagree*

Elizabeth Scurr  
**Team Leader, Fiscal and State Sector Management**

Hon Bill English  
**Minister of Finance**

Hon Gerry Brownlee  
**Minister for Canterbury Earthquake Recovery**

# Treasury Report: Outline of Funding Arrangements for Ōtākaro Limited and Next Steps

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## Purpose of Report

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1. The Canterbury Earthquake Recovery Authority (CERA) will be disestablished on 18 April 2016, following which a new Crown company (Ōtākaro Limited) will be responsible for the delivery of some or all of the anchor projects in Christchurch.
2. Ōtākaro will require funding (in the form of equity or operating grants) to deliver these projects on behalf of the Crown. The purpose of this report is to:
  - i. Give you an outline of the overall funding arrangements proposed for the Company.
  - ii. Signal the process required for transferring funding that is currently available for anchor projects in Vote Canterbury Earthquake Recovery (CER) to Vote Finance.
  - iii. Seek agreement on the future of Vote CER if no appropriations are expected to remain in the Vote following transfers.

## Funding Structure for Ōtākaro

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### *Funding for delivery of anchor projects*

3. Ōtākaro will require funding from the Crown to deliver anchor projects. The proposed funding structure as discussed by officials is set out in the table below. The key distinction is around the type of funding provided when the Crown owns the underlying anchor project assets compared to when ownership is transferred to the Company. For some projects it may take some time to transfer associated assets to the company and in other projects, the Crown does not own the land required for the project.
4. The Crown will provide capital funding for the construction/build costs and operating grants for any transactional expenses associated with delivering the project as well as managing the asset once it is built. Some of the projects only have operating costs as the land is not owned by the Crown (e.g. earthquake memorial, accessible city).

	Ōtākaro owns the asset	Crown owns the asset
Funding for design and construction for Anchor projects	For assets that are on the company's books, any funding provided by the Crown for construction will be in the form of an <b>uncalled capital facility (equity injection)</b> .	For assets still owned by the Crown, Ōtākaro will just be managing the projects on behalf of the Crown and will therefore need to be <b>reimbursed for any capital expenditure that increases the value of that asset</b> .
Operating funding	Operating costs will be provided for in the form of an <b>operating grant</b> .	Operating costs will be provided for in the form of an <b>operating grant</b> .

### ***Where is this funding going to come from?***

5. Funding (in the form of appropriations and tagged contingencies) already exists for anchor projects in Vote CER under three multi-category appropriations (MCAs). The three MCAs reflect the lifecycle of anchor projects namely: procurement of land, development of projects and ownership and divestment. Each MCA has categories for each project which provides transparency to parliament.
6. As well as being organised by project (or group of similar projects), the current appropriations are also split up by capital and operating. This matches the funding requirements for Ōtākaro mentioned above. We propose to keep the existing transparency around anchor project funding going forward. Further detail on how Ōtākaro will be able to access existing funding in Vote CER is outlined in the section below ('transferring funding and assets to Ōtākaro').
7. At this stage, we are assuming that all the funding currently in Vote CER (including tagged contingencies) will be made available to Ōtākaro and no additional funding is required. [38]

[38]

8. CERA is seeking additional funding through Budget 2016 to help meet some of these cost pressures. [38]

[38] Any approved initiatives will be funded through the reprioritisation of funding with existing appropriations in Vote CER.

### ***Funding already provided to Ōtākaro***

9. The Crown has already provided an initial capital injection to the Company of \$6.1 million to cover start-up costs in return for the issue of shares. Cabinet has also agreed to fund corporate costs of \$20 million per year. This has been provided by way of an operating grant and was pro-rated to \$6.667 million for the remainder of the 2015/16 fiscal year [CAB-16-MIN-0034 refers].

### ***Transfer of assets***

10. We intend to transfer all anchor project assets to Ōtākaro consistent with the setup of the Company as a commercial entity. Transferring assets will provide greater incentives for Ōtākaro to operate efficiently as they will be more than a project manager on behalf of the Crown.
11. The timing of these asset transfers is still uncertain and dependent on the outcome of negotiations with Ōtākaro and negotiations with the Christchurch City Council on the cost sharing agreement. Treasury will administer any assets that are not transferred before CERA is disestablished and resources may need to be reprioritised for Treasury to carry out this function. In return for the Crown transferring assets to the company, the company will issue shares. Details on the appropriation impacts of transferring assets from the Crown is outlined in the next section.

## Transferring Funding and Assets to Ōtākaro

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12. For Ōtākaro to access anchor project funding, changes will be required to the current appropriations in Vote CER before 31 March 2016. This includes changing scope statements to cover capital injections to Ōtākaro, the transfer of funding to Vote Finance given Treasury will now be the monitoring agency and new capital appropriations which give effect to the transfer of assets from Crown to Ōtākaro. The latter will not require more funding as it is fiscally neutral (the Crown is providing capital funding to Ōtākaro to purchase assets in return for shares in the company).
13. The Minister for Canterbury Earthquake Recovery will still be responsible for any appropriations created in Vote Finance.

### ***Creation of new MCA in Vote Finance***

14. Officials propose to create a new single MCA in Vote Finance and transfer all the current project funding that has been appropriated in Vote CER. The MCA will have categories for each project, split up by capital and operating expenses. The scope statement for the capital categories will need to reflect the Crown purchasing shares in the Company. We propose this will take effect from 1 April 2016 onwards.
15. The key reasons for this change are:
  - Treasury will be the administrator of project funding in Vote Finance and can make decisions around releasing funding to the company for projects based on its monitoring role.
  - Retaining the MCA structure where funding is broken down by each project ensures that transparency is maintained, while providing flexibility to move funds between different MCA categories.
  - Giving effect to these changes from 1 April 2016 (subject to the appropriate documentation being completed in time) ensures a smooth transition and allows for consistency. The alternative would be to leave the MCA structure under Vote CER for 2015/16 and create a new MCA in Vote Finance from 2016/17 onwards. Officials do not consider this option to be viable because the scope of capital categories needs to change sooner for the company to take on responsibility for the projects.
  - CERA can still access funding for projects under Vote Finance up to their disestablishment date (18 April) through the 'admin and use' provision under the Public Finance Act (PFA).

### ***Process for making these changes before 1 April 2016***

16. The new MCA in Vote Finance will need to be set up and funds transferred before 31 March 2016. As such an MCA is solely to give effect to the policy decision Cabinet has already made to establish Ōtākaro to develop the anchor projects, the new MCA could be established by Joint Ministers.



17. At the same time, we will also seek agreement from Joint Ministers that there should be no limits on Treasury's ability to transfer funding between categories of the MCA. Given Ōtākaro has been set up as a commercial company, it should have the ability to work on a programme basis which requires flexibility to move around money within an overall funding envelope subject to Treasury approval.
18. Conservative amounts would be transferred from the Vote CER MCAs to the new Vote Finance MCA prior to 1 April, with a further opportunity for Joint Ministers to approve the transfer of additional amounts on 11 April when the unaudited March actuals are available and before the 2015/16 supplementary estimates are finalised.
19. There is a risk that auditing issues could be identified after 2015/16 supplementary estimates have been finalised that could result in unappropriated expenditure. Officials consider that this risk is mitigated by an interim audit underway in CERA based on 28 February results during which any issues are expected to be identified before the completion of March actuals.

### ***Capital appropriation for transfer of assets***

20. The transfer of assets from core Crown to Ōtākaro will require a new capital appropriation. We propose to set up a non-departmental capital expenditure multi-year appropriation (MYA) to give effect to this given the uncertainty around timing of transfer. The appropriation will have a fiscally neutral impact on total Crown debt. The establishment of this appropriation will be included as part of the Joint Minister paper seeking agreement on the new MCA in Vote Finance discussed above.

### **Future of Vote CER**

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21. Following the transfer of anchor project funding to Vote Finance, there will be no appropriations remaining in Vote CER. Appropriations related to Regenerate Christchurch can be transferred to Vote Prime Minister and Cabinet (DPMC) given they will be involved in monitoring regeneration outcomes in Christchurch. Therefore, we propose that the Vote is expired from 2016/17 onwards.
22. The Minister for Canterbury Earthquake Recovery will still be responsible for Canterbury related appropriations in other Votes and Vote CER does not need to exist for this to happen.

### **Change to effective date of appropriation in Transition Funding Paper**

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23. The transition funding paper seeking the establishment of appropriations and transfer of funding from Vote CER to inheriting agencies was approved by the Minister for Canterbury Earthquake Recovery on 1 March 2016 and the Minister of Finance on 8 March 2016. In the paper, the proposed date of transfer was specified as 1 March 2016.
24. However legal advice has been provided that the effective date of a transfer of any appropriations cannot be earlier than the date of approval. So, in this case, the effective date cannot be before 8 March. Given that Ministers gave their approval specifically in relation to a 1 March effective date, we now seek joint Ministers agreement to a new effective date of 1 April. This provides for normal month end accounting practices to be applied by all agencies minimising the risk of appropriation and subsequent audit complications.

## Consultation

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25. Treasury has consulted with CERA officials on the contents of this report and have informed DPMC.

## Next Steps

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26. Treasury, in consultation with CERA and DPMC, will prepare a Treasury report seeking approval to establish a new MCA in Vote Finance, transfer funding to this MCA and set up any new appropriations required. **For the new MCA structure to take effect by 1 April 2016 this will need to be signed before 31 March 2016.**