

The Treasury

Budget 2017 Information Release

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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.

Reference: T2017/253 DH-10-0

Date: 16 February 2017

To: Minister of Finance (Hon Steven Joyce)

Deadline: 20 February 2017

Aide Memoire: Budget bilateral with Minister McCully

You are meeting Minister McCully on Monday 20th February to discuss the Ministry of Foreign Affairs and Trade's budget bids. This Aide Memoire outlines our assessment of these bids.

Context: Vote Foreign Affairs and Trade

The Ministry has an operating budget of \$522 million plus a development assistance budget of \$1.7 billion administered over three years. The Ministry produces comprehensive Four Year Plans and received an 'A' rating on their ICR.

The Vote Foreign Affairs and Trade baseline has been constant since 2008. In 2011, the Ministry (along with other departments) returned an 'efficiency dividend' to the Crown. The Ministry has also returned a further \$70 million to the centre since 2011.

In recent years, the Ministry has expanded its footprint and increased output to support Government objectives (e.g. UNSC). MFAT has managed this within baselines through cost management and a deliberate realignment of resources. The Ministry has limited capacity to continue reducing costs and has signalled that it is struggling to sustain the quality and scope of service delivery within current baselines.

However, as identified in their draft PIF review, prioritisation is a major challenge for the Ministry. This suggests that MFAT still has choices about how to allocate existing resources (including what to stop, scale or defer), while still meeting Ministerial expectations and delivering their strategic objectives.

Budget Initiatives: Vote Foreign Affairs and Trade

The Ministry's budget bids will be considered through the BGA Export Markets stream on Monday 27th February. The total amount of funding sought over the next four years in the Export Markets workstream is ^[33] **operating** and ^[33] **capital expenditure**. Of the initiatives we have assessed, Treasury recommends supporting ^[33] **operating**¹ and ^[33] **capital expenditure** over the next four years.

¹ ^[33] is non-discretionary to top up the *New Zealand Screen Production Grant – International MYA*.

The table below sets out the seven budget bids submitted by the Ministry of Foreign Affairs and Trade and an additional two bids submitted by Antarctica New Zealand. Further discussion on each bid is provided below and a summary table of these initiatives is included in the appendix.

Table 1: Vote Foreign Affairs and Trade initiatives

		2017/18	2018/19	2019/20	2020/21	Opex (4yr)	Capex
Support	Participation and leveraging opportunities with Expo 2020 Dubai	3.010	7.790	32.100	10.340	53.240	-
	Deepening network initiatives	[33]					-
Partial Support	Making New Zealanders more prosperous						-
	<i>TSY Rec</i>	2.634	4.209	4.485	4.546	15.874	
Partial Support	Making New Zealanders safer						-
	<i>TSY Rec</i>	1.498	1.593	1.557	2.055	6.703	
	Broadening network initiatives	[33]					
Defer	Embassy in Dublin, Ireland	1.432	1.149	3.191	3.361	9.133	4.781
	[1]	[33]					
	High Commission in Colombo, Sri Lanka	0.937	1.942	3.067	2.917	8.863	6.236
	Antarctica New Zealand	2.050	1.790	0.850	0.900	5.590	4.000
Support	Accommodation support for National Antarctic Programmes	0.850	0.850	0.850	0.900	3.450	-
	"Our Place in Antarctica" development of a detailed design for rebuild of Scott Base.	1.200	0.940	-	-	2.140	4.000
	Total	[33]					

Dubai Expo 2020 (support)

Cabinet has had early visibility of the strategic rationale for participating in Dubai Expo 2020 and invited Minister McCully to submit a budget bid [ERD-16-MIN-0025; CAB-16-MIN-0652]. The Minister recommended that New Zealand attend the event and build a modest pavilion with adequate meeting and entertainment facilities. The funding sought for this initiative is **\$53.24 million** over four years.

Minister McCully is travelling to Dubai in early March and we understand he would like to accept the invitation to participate in Dubai Expo 2020 during this visit. While this is still early in the budget process, the advantage of responding is that it would help New Zealand secure a prime location, cost effective contractors, and leverage the positive bilateral benefits of early response. However, once acceptance is formally given this cannot be withdrawn, locking in the need to fund this initiative.

Our preference is that a decision on Dubai is made through the budget process to allow this initiative to be evaluated alongside other priorities. However, if a decision is made to accept the invitation in March, then it should be considered by Cabinet before Minister McCully's visit (i.e. at Cabinet on 27th February). If Cabinet agrees, it will be reflected as a Budget 2017 pre-commitment.

Treasury recommends supporting this initiative. The development of the business case has been overseen by a cross-agency group comprising of MFAT, MBIE, NZTE and Treasury. There has also been engagement with agencies (e.g. Education NZ,

Callaghan Innovation) and businesses through the process. This is important as the success of the Expo depends on the degree to which other agencies and businesses leverage the Expo.

Participation in Expo 2020 is anticipated to have a positive return on investment. The costs and benefits of this initiative have been peer-reviewed. The assumptions used are reasonable and the impacts are credible. While the cost benefit ratio is modest, [29]

here has been a thorough analysis of options. The business case did identify an option that was approximately \$12 million cheaper, however it lacks entertainment facilities and was determined to not deliver the same degree of benefits. NZTE officials are unlikely to support this lower level option due to the lack of hosting and leveraging opportunities for stakeholders.

Deepening network initiatives (partial support)

The Ministry has submitted two bids to deepen the existing network of frontline staff abroad and in New Zealand: *Making New Zealanders more prosperous* and *Making New Zealanders safer*. The funding sought for these initiatives is [33] over the next four years, Treasury recommends supporting \$22.6 million.

Making New Zealanders more prosperous. Given significant changes in some of New Zealand's traditional export markets (e.g. Brexit, a new US administration), there is a case for further investment to protect existing trading links as well as diversify our export base. Top priorities are responding to Brexit and strengthening existing relationships with China and the USA.

We recommend:

- increasing resource to MFAT to bolster teams onshore and offshore to respond to Brexit
- additional resource to service the USA and China relationships
- a modest increase in Latin America and the Middle East to support export diversification
- a modest increase in representation to advance an ambitious Enhanced partnership with Singapore
- partial support for some high priority work around NTBs, and
- [33]

Making New Zealanders safer. MFAT has submitted a modest bid to advance a number of security-related objectives. Treasury recommends supporting additional consular resource [1]

33]

Broadening network initiatives (defer)

MFAT undertook a comprehensive and systematic review of their offshore network and identified the top priority opportunities for new investment. These are *Sri Lanka*²,
[1] and *Ireland*. The combined funding sought is [33]
operating and [33] **capital expenditure** over the next four years.

Given growing uncertainty around the world, Treasury agrees with MFAT's assessment that "deepening" the existing network is of a higher priority than "broadening." Treasury recommends deferring these investments as none are time critical and there are higher priority pressures on the budget allowance.

If Ministers would like to consider a new post (or posts) in Budget 18, they should task MFAT with pursuing further scoping activities from within baselines. However, if Ministers would like to invest in the NZ Inc. offshore footprint in Budget 17, we recommend funding *Sri Lanka* and/or *Ireland*. We recommend deferring a decision on
[1] until future budgets to allow for more detailed scoping.

Antarctica New Zealand (support)

Antarctica NZ has submitted two bids: the first is to advance the development of the *Our Place in Antarctica* business case to a stage where there is a detailed design and delivery strategy for the rebuild of Scott Base. For this, Antarctica NZ are seeking **\$6.2 million** in operating and capital over two years. The second initiative is for *Accommodation support for National Antarctic Programmes with operations based out of Christchurch*. The funding sought for this initiative is **\$3.5 million** over the next four years. Treasury recommends supporting both these initiatives.

[23]

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Chris Nees, Team Leader, International, [39]

² In October 2016, Prime Minister John Key and the Sri Lankan Prime Minister committed to establishing High Commissions in Wellington and Colombo "in the next few years". Despite this, we still see some flexibility around timing.

Appendix: Overview of Vote Foreign Affairs and Trade bids

Initiative	Initiative Description	TSY Rec	Treasury Advice	2017/18	2018/19	2019/20	2020/21	Opex (4 yr)	Capex	
Participation and leveraging opportunities with Expo 2020 Dubai	New Zealand participation in Expo 2020 Dubai. This funding will support: Development and implementation of inter-agency region and sector strategies to deliver shared outcomes from participation in Expo 2020; Construct a temporary Pavilion at Expo 2020 with a BGA theme and emphasis; Bilateral and non-monetised benefits unable to be achieved without participation; Monetised benefits unable to be achieved without participation	Support	The case for participating in Dubai Expo 2020 is convincing from a wider foreign policy perspective (i.e. not just economic). The benefits likely from attendance are modest but positive, [1] provide a compelling case for participation. The proposal assumes a level of support from NZ Inc. agencies and businesses which if not committed, would put the delivery of benefits at risk.	<i>Sought</i>	3.010	7.790	32.100	10.340	53.240	
				<i>TSY Rec</i>	3.010	7.790	32.100	10.340	53.240	

Deepening network initiatives

Initiative	Initiative Description	TSY Rec	Treasury Advice	2017/18	2018/19	2019/20	2020/21	Opex (4 yr)	Capex	
Making New Zealanders more prosperous	The best possible trade deal with Europe and managing Brexit	Support	There is a strong case for a modest increase in resource both across the existing European network (5 FTE) and in Wellington (3 FTE) to help ensure NZ has the best possible access to Europe following Brexit and through the proposed EU-FTA.	<i>Sought</i>	0.762	1.273	1.419	1.439	4.893	
				<i>TSY Rec</i>	0.762	1.273	1.419	1.439	4.893	
	Protection of current trade flows: North Asia and United States	Support	Support a small increase in resources to strengthen the resilience in New Zealand's engagement with the United States (1 FTE in Los Angeles and 1 onshore) and China (2 onshore), given the growing complexities associated with both relationships.	<i>Sought</i>	0.770	0.858	0.914	0.926	3.468	
				<i>TSY Rec</i>	0.770	0.858	0.914	0.926	3.468	
	Diversification of trade relationships: Latin America and Middle East	Partial support	While there is a case to diversify trade risk by deepening posts in Latin America and the Middle East, we support only a modest increase of one additional FTE in Tehran, Abu Dhabi, Mexico City, and one additional FTE in Wellington.	<i>Sought</i>	0.474	1.703	1.867	2.405	6.449	
				<i>TSY Rec</i>	0.474	1.242	1.300	1.314	4.330	
	A Comprehensive Strategic Partnership with Singapore	Partial support	An enhanced partnership with Singapore presents an opportunity for New Zealand. While negotiations are still in early stages, we support a modest increase in FTE onshore (1) and offshore (1 LES) to focus on advancing an ambitious agreement.	<i>Sought</i>	0.425	0.396	0.650	0.732	2.203	
				<i>TSY Rec</i>	0.239	0.244	0.248	0.253	0.984	
	APEC Logistics	Partial support	Given the importance of APEC 2021, we support two additional FTE to support the policy and logistical planning for this event. However, we recommend this funding be time-bound for five years.	<i>Sought</i>	0.246	0.250	0.255	0.261	1.012	
				<i>TSY Rec</i>	0.246	0.250	0.255	0.261	1.012	
	[33]	Defer	[33]	<i>Sought</i>	[33]					
				<i>TSY Rec</i>	0.000	0.000	0.000	0.000	0.000	
Increasing support for exporters, to maximise the benefits of FTAs and to address NTBs and other measures affecting goods, services, investment and the digital economy.	Partial support	Decisions regarding the resourcing implications of the trade strategy refresh should be deferred to Budget 18 to provide time for a whole of sector discussion about priorities and resourcing. However, we do support a small increase (2 FTE) to work on addressing NTBs in the nearer term as cross-agency work is already underway. Budget 2016 provided funding for 4 additional FTE in the trade implementation unit for three years; ongoing funding is now being sought. We recommend deferring this decision until the impact of the time limited funding has been demonstrated and opportunities for reprioritization within TND have been explored.	<i>Sought</i>	0.265	0.466	0.475	1.047	2.253		
			<i>TSY Rec</i>	0.142	0.341	0.348	0.355	1.186		

Initiative	Initiative Description	TSY Rec	Treasury Advice	2017/18	2018/19	2019/20	2020/21	Opex (4 yr)	Capex	
Making New Zealanders more prosperous (cont.)	[33]	Do not support	[33]	Sought	[33]					
				TSY Rec	0.000	0.000	0.000	0.000	0.000	
		Defer		Sought	[33]					
				TSY Rec	0.000	0.000	0.000	0.000	0.000	
Making New Zealanders Safer	Increased consular resource to meet demand	Support	Support additional resource to deal with increasingly complex consular cases. We judge that this increase in funding will lift MFAT's consular service delivery, improving outcomes for New Zealanders using this service. They have a clear customer-focus and this service directly to the Ministry's strategic outcome of promoting stability.	Sought	0.250	0.255	0.260	0.265	1.030	
				TSY Rec	0.250	0.255	0.260	0.265	1.030	
	[1]	Support	[1]	Sought	1.247	1.338	1.297	1.790	5.672	
				TSY Rec	1.247	1.338	1.297	1.790	5.672	
	[33]		Defer	[33]	Sought	[33]				
					TSY Rec	0.000	0.000	0.000	0.000	0.000
					Sought	[33]				
					TSY Rec	0.000	0.000	0.000	0.000	0.000

Broadening network initiatives										
Initiative	Initiative Description	TSY Rec	Treasury Advice	2017/18	2018/19	2019/20	2020/21	Opex (4 yr)	Capex	
Establishment of a New Zealand Embassy in Dublin, Ireland	A New Zealand Embassy in Dublin will allow New Zealand to pursue economic interests in Ireland and in the EU and will bolster relations with a close likeminded partner on a range of multilateral issues.	Defer	While there is a strategic case for establishing a post in Dublin, given the uncertainty that persists around Brexit and the EU FTA, we recommend deferring this initiative until the operating environment is clearer, and the criticality of this post within New Zealand's overall response to Brexit is more certain.	Sought	1.432	1.149	3.191	3.361	9.133	4.781
				TSY Rec	0.000	0.000	0.000	0.000	0.000	0.000
[1]		Defer	[1]	Sought	[33]					
				TSY Rec	0.000	0.000	0.000	0.000	0.000	0.000
Establishment of a New Zealand High Commission in Colombo, Sri Lanka	Open a High Commission in Colombo to support an intensified bilateral relationship with Sri Lanka, which helps to safeguard New Zealand's dairy trade, promote other commercial opportunities, support services trade (especially in education and tourism), [1]), and advance New Zealand as a trusted partner in South Asia.	Defer	Given the current momentum in the relationship between Sri Lanka and New Zealand, it seems unlikely that a delay of a few years would significantly disrupt relations. The strategic value of this post appears lower than the other proposals from MFAT. Despite the announcement by PM John Key in 2016, this investment is not time critical.	Sought	0.937	1.942	3.067	2.917	8.863	6.236
				TSY Rec	0.000	0.000	0.000	0.000	0.000	0.000

Initiative	Initiative Description	TSY Rec	Treasury Advice	2017/18	2018/19	2019/20	2020/21	Opex (4 yr)	Capex
[1]	[1]	Defer	[1]	<i>Sought</i> [33]					
			<i>TSY Rec</i>		0.000	0.000	0.000	0.000	0.000

Antarctica New Zealand										
Initiative	Initiative Description	TSY Rec	Treasury Advice	2017/18	2018/19	2019/20	2020/21	Opex (4 yr)	Capex	
“Our Place in Antarctica” – Development of a detailed design, business case and delivery strategy for the future replacement of Scott Base.	This funding will provide the necessary resource in the form of design, engineering, site survey, environmental impact assessment and project planning that is necessary to complete a full concept, developed design and detailed business case for a modern, low-impact, efficient facility that satisfies New Zealand’s strategic interests (as outlined in the “Our Place in Antarctica” Indicative business case).	Support	There is a clear strategic case to commit to New Zealand’s ongoing presence in Antarctica through funding the detailed design phase for the rebuild of Scott Base. Inaction or delay will only heighten ongoing health & safety concerns at the current Scott Base. Full costs for the rebuild will be sought in 2019 and while these are expected to be significant, we will ensure Ministers will be given options.	<i>Sought</i>	1.200	0.940	0.000	0.000	2.140	4.000
				<i>TSY Rec</i>	1.200	0.940	0.000	0.000	2.140	4.000
Accommodation support for National Antarctic Programmes with operations based out of Christchurch.	This funding will provide rent-free office and operational accommodation for National Antarctic Programmes, principally the US Antarctic Program, to increase their connectedness to Christchurch; protect New Zealand’s wider relationship with the US; ensure their continued economic commitment to New Zealand’s Antarctic Gateway; and enhance their collaborative logistics and science arrangements with Antarctica New Zealand.	Support	The case for providing accommodation support is strong. Due to the logistics sharing arrangements New Zealand has for Antarctica with the US, Italian and Korean Antarctic programmes, we assess this bid to be a relatively low cost but high impact initiative. Supporting this bid will help sustain New Zealand’s ongoing activities in Antarctica through a clear demonstration of commitment to the logistics sharing arrangements, [1]	<i>Sought</i>	0.850	0.850	0.850	0.900	3.450	
				<i>TSY Rec</i>	0.850	0.850	0.850	0.900	3.450	