

# The Treasury

## Budget 2017 Information Release

### Release Document July 2017

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[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
[4]	to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial	6(c)
[11]	to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.	6(e)(vi)
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[31]	to maintain the current constitutional conventions protecting collective and individual ministerial responsibility	9(2)(f)(ii)
[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
[34]	to maintain the effective conduct of public affairs through the free and frank expression of opinions	9(2)(g)(i)
[36]	to maintain legal professional privilege	9(2)(h)
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[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
[39]	to prevent the disclosure of official information for improper gain or improper advantage	9(2)(k)
[40]	Not in scope	

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: T2017/388 BM-4-5-2

Date: 27 February 2017

To: Minister of Finance (Hon Steven Joyce)

Deadline: Monday 27 February 2017

## **Aide Memoire: Anti-money Laundering/Countering the Financing of Terrorism Phase II Reforms**

You asked Treasury to respond to the following questions regarding phase II of the anti-money-laundering/countering the financing of terrorism (AML/CFT) reforms being led by the Ministry of Justice (Justice).

- Where is the money for the financial recommendations coming from?
- What is Treasury's view as to how robust the numbers are?
- Is the funding in the table the full extent of the costs?

The Minister of Justice intends to lodge a Cabinet paper seeking funding and confirming policy decisions on Thursday 2 March.

### **Where is the money coming from?**

The paper seeks new Crown operating and capital funding as a pre-commitment against the Budget 2017 operating and capital allowances. The funding is being sought ahead of the Budget process to meet the Minister of Justice's timeframe for getting legislation passed and implemented.

Our view is that while there is likely to be some benefit in early implementation, we are not aware of any critical imperative for early decisions and our preference is for decisions to be taken through the Budget process, allowing for more rigorous assessment and prioritisation against other initiatives.

This funding sought is in line with that identified in the October 2016 Cabinet paper.

- Operating costs sought are [33] in 2016/17 and [33] across the four year forecast period.
- \$2.09 million in capital costs in 2017/18 for new IT capability to support DIA in supervising the new entities, as the new number of entities proposed to be covered by the AML/CFT regulation is significantly larger than the number of entities covered by Phase I.

The operating funding is mainly for the Department of Internal Affairs (DIA) to expand its monitoring regime resulting from the inclusion of Phase II entities [33]. A further [33] over the forecast period is sought for Justice to process exemption applications from businesses.

### **What is Treasury's view on how robust the numbers are?**

The key cost driver is the number of FTEs required to supervise the entities proposed to be covered by the new regulation. The number of FTEs is based on a weighted average of three different approaches:

- the independent assessment carried out by Deloitte last September
- the experience from Phase I of the ratio of FTEs required to support each entity covered by the regime, and
- DIA's proposed approach of focusing resources on higher risk entities and businesses.

While Treasury is broadly comfortable with the process to determine the number of FTEs, direct personnel costs represent only 42 per cent of the total DIA costs. Related costs including travel, technology and overheads are larger than expected and we have yet to see a robust justification for these - we are awaiting further information from DIA.

We do not think DIA is in the position to absorb the full costs of implementing the proposal, however there is likely to be scope to reduce or absorb some of the non-personnel costs. We will provide further information in our Cabinet Committee briefing later in the week once DIA have provided the additional information we have requested.

We are also awaiting information for Justice to demonstrate why it cannot absorb its costs within baselines or what lower priority activity could be stopped in order to absorb these costs.

Public consultation on an earlier draft of the reforms resulted in a reduction of the estimated number of entities to be covered by the new regime, thereby reducing the base cost of supervision. However, funding sought is similar to that identified in the October paper as, on the basis of experience gained from Phase 1, additional costs are included to help support businesses to reduce their compliance costs (e.g. guidelines on implementation and compliance plans).

**To what extent does the paper reflect the full extent of the costs?**

The October paper noted that there will be financial implications for NZ Police and the Ministry of Justice. The costs for Justice are being sought in this paper, while the costs for Police were agreed to in the Safe, Confident and Resilient Communities package pre-committed against Budget 2017 on 24 January.

Justice has advised that any additional costs that may arise in 2016/17 can be met from within Justice's baseline. Justice has also advised that there may be some additional costs to DIA in 2016/17, resulting from additional FTEs required to support lawyers and conveyancers in meeting compliance and implementation obligations over a slightly longer time. These are likely to be in the order of \$0.10-0.15 million. DIA is currently considering its ability to absorb these costs from baselines. These costs may be included in the final version of the Cabinet paper. Our view is that these additional costs should be met from within baselines.

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