

The Treasury

Budget 2017 Information Release

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[40]	Not in scope	

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Treasury Report: Kaikōura Earthquake Recovery Budget 2017 Initiatives

Date:	22 March 2017	Report No:	T2017/639
		File Number:	TY-2-3-1

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Steven Joyce)	Discuss the content of this report with Investment Ministers on 27 March	27 March 2017

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Julia Pearce	Senior Analyst	[39]	✓
Simon McLoughlin	Manager		

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

Return the signed report to Treasury.

Refer the report to Investment Ministers (Hon Bridges, Hon Adams and Hon Dunne) if recommendation d is agreed.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Kaikōura Earthquake Recovery Budget 2017 Initiatives

Executive Summary

Four initiatives related to the recovery of Kaikōura and Hurunui have been submitted for consideration in Budget 2017. They are being considered as part of the Business Growth Agenda (BGA) and Capital packages. Total funding for all initiatives of [33] of operating and [33] of capital [33] is sought across the forecast period.

This report provides you with some further information and analysis of each of the initiatives above to assist in your consideration of them. We recommend that you discuss the level of support envisaged for Kaikōura at the Investment Ministers' Meeting on 27 March.

Aside from the significant funding commitment to the Southern Corridor Reinstatement, [33]

This is "Supporting councils' enhanced statutory tasks and activities" at a cost of \$2.5 million operating over the forecast period.

This initiative would allow Kaikoura District Council (KDC) and Hurunui District Council (HDC) to hire some additional specialist staff for a limited period of time to manage the significant increase in consents, rating assessments and land use change that is expected. Staffing resources from other Councils have already been lent in-kind, but cannot continue to be lent over the necessary period of time. Treasury recommends that this initiative be considered for investment in Budget 2017, [34]

The three other initiatives are [33]

- Kaikoura District Council: upfront payment [33] restoration of three waters network post November 2016 earthquake. The initiative seeks both operating funding for the Crown's 60% share of costs [33]
- Kaikōura Harbour: contribution [33]

[33]

[37], [33]

We now expect this initiative to impact on operating allowance of \$2.4 million in total over the forecast period (being the amount of the Crown's 60% not covered by the PLA) and recommend that Ministers consider funding it as part of Budget 2017.

The remaining two initiatives both have some merit and could form part of a recovery package. However, it is our view that these initiatives are not investment ready in their current state. They could be pursued in Budget 2018 or alternative funding methods could be explored. [34], [33]

As well as discussing and coming to a view on the level of support for Kaikōura at Investment Ministers on 27 March, we recommend that you meet with Minister Brownlee (as the responsible Minister for these initiatives) to discuss the level of support you propose for Kaikōura.

Recommended Action

We recommend that you:

a **Note** that aside from the significant Crown investment in road and rail reinstatement, [33] other recovery initiative - "Supporting councils' enhanced statutory tasks and activities" – is included [33]

b [33]

c **Discuss** at the Investment Ministers' Meeting on 27 March your level of comfort with the earthquake recovery initiatives prioritised for funding, in light of the Budget Policy Statement strategic priority to rebuild Christchurch and respond to the Kaikōura earthquakes.

Agree/disagree.

d **Refer** this report to Investment Ministers for discussion at the meeting on 27 March.

Agree/disagree.

e **Agree** to meet with Minister Brownlee, as the responsible Minister for the Kaikōura recovery initiatives, to communicate the amount of support you envisage for these initiatives in Budget 2017.

Agree/disagree.

Simon McLoughlin
**Manager, Earthquake Recovery
Strategy**

Steven Joyce
Minister of Finance

Treasury Report: Kaikōura Earthquake Recovery Budget 2017 Initiatives

Purpose of Report

1. This report provides you with information ahead of the Investment Ministers' Meeting on 27 March and some visibility of the initiatives related to the recovery of Kaikōura following the earthquake sequence starting on 14 November 2016. It highlights which initiatives are currently included in the funding package for Budget 2017. We suggest that you discuss your level of comfort with the initiatives' status with your colleagues at the Investment Ministers' Meeting on 27 March.
2. This report does not discuss the Southern Transport Corridor Reinstatement initiative but instead focuses on the initiatives that relate more directly to the recovery of Kaikōura.

Background

3. Ministers indicated as part of the Budget Policy Statement that one of their broad strategic priorities and policy goals is to rebuild Christchurch and respond to the Kaikōura earthquakes. Excluding the Southern Transport Corridor Reinstatement, there are four initiatives relating to Kaikōura's recovery from the earthquake sequence starting on 14 November 2016 that have been submitted.
4. The initiatives are being progressed through the Business Growth Agenda (BGA) Infrastructure package and through the Capital package. The following section provides a summary of each initiative, indicates whether Treasury recommends that it be considered for investment, and whether it is currently within the funding package.
5. Across the four initiatives, a total of ^[33] of operating funding and ^[33] of capital funding is sought in Budget 2017.

Kaikōura Recovery Initiatives in Budget 2017

Kaikoura District Council (KDC): upfront payment and loan to support restoration of three waters network post November 2016 earthquake

6. This initiative has operating ^[33] components. The operating component provides for:
 - i. the Crown's requirement to reimburse 60% of the costs of reinstatement of water, sewerage and stormwater services to original capacity, per agreed Civil Defence and Emergency Management (CDEM) policy
 - ii. a discretionary contribution from the Crown for 60% of repair costs that are outside of agreed CDEM policy (e.g. where they are more in relation to betterment than like-for-like asset replacement)
 - iii. ^[33]

16. As discussed above, included in the cost of this initiative is a contingency for elements such as betterment repairs, where appropriate (\$2.4 million). The existing PLA covers repairs of a like-for-like nature, but does not generally cover betterment of infrastructure.
17. In Treasury's view, it is reasonable for the Crown to provide a 60% share of appropriate betterment costs involved in replacing the three waters infrastructure that would not otherwise be covered by the PLA, where it makes sense for this work to be undertaken at the same time as the like-for-like repairs. This could include where it is cheaper to undertake betterment at the same time or where it would cause significant disruption to do betterment at a later stage. Such a contribution recognises the impact on KDC relative to the magnitude of the event.
18. Any expenses relating to betterment repairs that are not covered by the PLA will require an appropriation and impact commensurately on the Budget 2017 operating allowance. [33]
- After discussions with MCDEM we now believe that these are unlikely to exceed the \$2.4 million indicated in the bid.
19. As detailed damage assessment and governance of the project is yet to be completed, a funding profile for this project is not yet available. We have indicatively phased the \$2.4 million contribution that impacts the Budget 2017 operating allowance at \$0.6 million in 2016/17 and \$1.8 million in 2017/18. [33]
20. The proposed funding profile sought in the Budget 2017 initiative is shown in the table below.

[33]

21. As set out in the above discussion, the impact on the Budget 2017 allowances, assuming no loan, is \$2.4 million operating (\$0.6 million in 2016/17 and \$1.8 million in 2017/18), and nil capital.

22. [33]

Earthquake recovery - supporting councils' enhanced statutory tasks and activities

23. Both Kaikōura and Hurunui District Councils (HDC) face increased statutory activity following the earthquake sequence. In particular, this is expected through increased consent processing (Resource Management Act and building consents in particular), financial planning, rating assessments, new infrastructure projects, community interaction/communication, and investigations for change of land use decisions.
24. The proposed funding is a contribution to increased cost pressures rather than covering the actual expected cost and will allow the Councils to hire some additional specialist staff for a limited period of time. By way of comparison, HDC's annual operating expenditure for 'regulatory services' including RMA and building control work is around \$2.25 million, while KDC's equivalent 'regulation and control' activity costs \$0.720 million annually. Total annual expenditure of the Councils is around \$38 million for Hurunui and \$11 million for Kaikōura.

Operating (\$ million)						Capital (\$ million)					
16/17	17/18	18/19	19/20	20/21	Total Opex	16/17	17/18	18/19	19/20	20/21	Total Capex
0.5	1.25	0.75	-	-	2.5	-	-	-	-	-	-

25. Treasury's recommendation is that this be considered for investment as part of Budget 2017. KDC and HDC will both be facing high workloads in terms of meeting their statutory requirements over the short to medium term. While some of the associated cost can realistically be expected to be recoverable from fees and charges (e.g. for resource consents), others cannot (e.g. rating revaluations, ongoing monitoring of dams).
26. In the absence of a government grant, rates would need to be increased significantly, at least in the short term putting significant additional pressures on Kaikōura residents. Information from KDC suggests that for every \$57,000 of increased costs a rates increase of 1% is required. Further, we note that both KDC and HDC are among the smallest local authorities in the country in terms of rating base. We note that, proportionally, KDC has the greater need and this is expected to be reflected in any proposed allocation of the above contribution.
27. We note that there is an ongoing funding provision for the smallest council (the Chatham Islands) of \$3.170m per annum, for this same purpose. On this basis the amount bid for, and the fact that it is time-limited and across two small councils, appears reasonable.
28. Staffing resources from other Councils have already been lent in-kind to assist with the increased workload and complexities, but this goodwill is unlikely to continue over the necessary period of time.
29. [33]

Kaikōura Harbour: contribution [33]

30. [33]
This bid seeks a contribution from the Crown to finance additional capital works at Kaikōura Harbour. [33]

31. [33]
Initial government support of \$5 million was provided to cover the essential work to restore access post the significant land uplift. This funding for improvement is sought over and above the existing government contribution.

[33]

32. Treasury's recommendation is that this initiative not be considered for investment as part of Budget 2017. The initiative is not sufficiently developed to warrant investment at this stage, and other sources of funding should be explored such as contributions from key harbour users and other Regional Economic Development funds.

33. [33]

[33]

Discussion at Investment Ministers Meeting on 27 March

[33] one of the above initiatives (supporting councils' enhanced statutory activities) is currently included [33]

42. The other item related to Kaikōura that the government is supporting is the Southern Transport Corridor. This obviously represents a significant investment in the road and rail network and assists the South Island more widely than just Kaikōura. The government also contributed a range of funding in the immediate aftermath of the earthquakes to support immediate and ongoing response efforts.

43. [34]

We suggest that Ministers discuss their level of comfort with the current allocation of resources to support Kaikōura's recovery at the Investment Ministers Meeting on 27 March.

44. Treasury sees a strong case to provide funding for the Kaikōura three waters elements not covered by the PLA. It often makes sense for some "betterment" work to be undertaken at the same time as the other repairs. Further, not doing so would place additional financial strains on KDC which is already stretched in responding to the current situation [33], [37]

45. [33], [37]

46. [34]

we consider the initiative providing some additional staffing resource to KDC and HDC to be investment ready. This initiative focuses on the immediate priorities to support recovery for the involved communities, in particular supporting the consenting and review processes to support quicker recovery of businesses, homes and farms than would otherwise be able to occur.

47. [33]

Alternative sources of funding could also be explored to reduce costs to the government.

48. You may also wish to meet with Minister Brownlee, as the portfolio Minister for these initiatives, to discuss the level of support you envisage for Kaikōura.