

The Treasury

Budget 2017 Information Release

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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) |
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| [29] | to avoid prejudice to the substantial economic interests of New Zealand | 9(2)(d) |
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| [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) |
| [37] | to enable the Crown to carry out commercial activities without disadvantages or prejudice | 9(2)(i) |
| [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: T2017/669

DH-51-1

Date: 17 March 2017

To: **Minister of Finance (Hon Steven Joyce)**
Cc: Minister for Economic Development (Hon Simon Bridges)

Deadline: None
(if any)

Aide Memoire: New Zealand Screen Production Grant – International New Multi-Year Appropriation Considerations

We understand that consideration is being given to ceasing the existing five year *New Zealand Screen Production Grant – International* (NZSPG) multi-year appropriation¹ (MYA) in 2016/17 to establish a new four year NZSPG MYA (2017/18 – 2020/21). This aide memoire provides high-level advice on the implications to be considered in determining whether to take this approach.

[34]

This aide memoire follows recent Treasury reports and aide memoires on the NZSPG pressures. A list of these has been appended for your reference.

Appropriation and Budget 2017 Initiative context

The current appropriation was established in 2014/15 as a five year MYA (expiring in 2018/19) with a \$252.780 million baseline (\$50.566 million per annum). Due to an increase in the number of international productions locating in New Zealand, the MYA will be exhausted in 2016/17, with two further years remaining unfunded. The pre-existing baseline of \$50.556 million continues as an annual appropriation in fiscal years 2019/20 and 2020/21 only.

While a further \$88.872m was appropriated via an operating contingency established as part of the Budget 2016 process, the appropriation is likely to be exhausted in 2016/17. We understand from Ministry of Business, Innovation and Employment (MBIE) officials that approximately \$15 million in additional funds may be required to meet accruals in 2016/17 (TY2017/443 refers).

¹ This multi-year appropriation was scheduled to expire in 2018/19.

The \$240 million being sought through the Budget 2017 process is to cover anticipated accruals based on known productions occurring in 2017/18 and 2018/19 only and any potential shortfall in 2016/17. MBIE advises that, if a new four year MYA was to be established, they would instead recommend seeking \$120 million per annum (or \$480 million over the period of the MYA under consideration) based on current policy settings². We agree with this approach and outline our rationale below.

Key considerations for ceasing the current multi-year appropriation

If the current NZSPG MYA is ceased in 2016/17 rather than 2018/19, officials would need to investigate:

1. the treatment of current accruals that span beyond 2016/17;
2. implications for the NZSPG - New Zealand MYA and whether this should follow the same treatment;
3. the appropriate, prudent and fiscally responsible level of funding necessary over the proposed four year MYA period;
4. any 'signalling effect' to the industry; and
5. determine an appropriate mechanism to fund the anticipated shortfall in 2016/17.

It is anticipated that officials would need two weeks to appropriately investigate these key considerations.

The current financial hazard would remain if a four year MYA is established and appropriated for \$240 million. Under current policy settings³ this MYA would likely be exhausted at the end of 2018/19, if not earlier. Further, funding for the years following (2019/20 and 2020/21) will be exhausted, having already been included in the new MYA. Funding would then be required from future operating allowances to ensure the MYA would not go unappropriated.

Other fiscal responsibility considerations

The fiscal responsibility provisions (Part 2) of the Public Finance Act 1989 require transparent reporting about what the government has decided to spend. Based on current policy criteria, a MYA of approximately \$480 million over four years would be appropriate.

Furthermore, the fiscal forecasts in our Economic and Forecast Updates (EFUs) are required to reflect the Treasury's assessment of the costs over the forecast period of implementing existing government policy using "its best professional judgement". This would be complicated by the amounts currently proposed to be in baselines, and thus in forecasts, being significantly below the anticipated actual costs. Where our assessment of the costs of implementing an existing government policy exceeds what is in baselines by more than \$100 million over the forecast period there is a requirement to disclose the excess amount in EFUs as a specific fiscal risk.

² This figure assumes that the criteria changes before Cabinet, that are due for consideration on March 20th, are agreed to.

³ As above in footnote '2'.

We consider that the proposed approach is not sufficiently transparent, or fiscally prudent to meet conventional fiscal responsibility principles. Our view is that the current approach of funding the known and anticipated commitments in 2017/18 and 2018/19 better represents these principles. On balance we would not recommend continuing with the proposed approach.

Michael Chatterley, Analyst, Economic Performance and Strategy, ^[39]

Sam King, Acting Team Leader, Economic Performance and Strategy, ^[39]

Appendix one: Comparison of proposed multi-year appropriation structures

Table one: Current settings, accruals and Budget 2017 Initiative

| | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|--|---------|---------|---------|---------|-----------------|-----------------|
| Accruals (\$m) | \$356.657* | | | [33] | | [33] | |
| | [33] | | | | | | |
| Appropriation (\$m) | MYA \$252.780 + \$88.872 contingency** Total = \$341.652 | | | | | \$50.556 | \$50.556 |
| Funding sought through Budget 2017 (\$m) | [33] | | | | | - | - |
| Estimated funds required through future Budgets (\$m) | | | | | [33] | | |

*these figures are based on anticipated production levels for known productions only

**even with the additional contingency funding, the appropriation is still likely to be exhausted before the end of 2016/17

Table two: Funding structure under consideration

| | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|--|--|---------|---------|---------------|---------|---------|---------|
| Accruals (\$m) | \$356.657* | | | [33] | | | |
| Proposed Appropriation (\$m) | MYA \$252.780 + \$88.872 contingency** Total = \$341.652 | | | MYA \$240.000 | | | |
| Funding required through Budget 2017 (\$m) | \$15.005 (accruals less amount currently appropriated) | | | [33] | | | |
| | [33] | | | | | | |
| Estimated funds required through future Budgets (\$m)*** | | | | | [33] | | |

*these figures are based on anticipated production levels for known productions only

**even with the additional contingency funding, the appropriation is still likely to be exhausted before the end of 2016/17

*** this row is based on current policy settings (this assumes that the criteria changes before Cabinet, that are due for consideration on March 20th, are agreed to.)

Appendix two: Previous Treasury advice on the NZSPG (March 2016 – March 2017)

| Title | Reference |
|--|------------------|
| New Zealand Screen Production Grant: Demand Management | T2016/502 |
| New Zealand Screen Production Grant - International appropriation and forecasting options (Joint Report) | T2016/1177 |
| Policy changes to the New Zealand Screen Production Grant – International (Joint Report) | T2016/2107 |
| Policy changes to the New Zealand Screen Production Grant – International | T2017/121 |
| Policy changes to the New Zealand Screen Production Grant – International (Joint Report) | T2017/131 |
| New Zealand Screen Production Grant – International, proposed Significant Economic Benefit test changes | T2017/248 |
| New Zealand Screen Production Grant – International Multi-Year Appropriation | T2017/365 |
| New Zealand Screen Production Grant – International Multi-Year Appropriation | T2017/443 |
| New Zealand Screen Production Grant – International New Multi-Year Appropriation Advice | T2017/669 |