

Treasury Report: Budget 2007 Bilateral Briefing: Capital initiatives in Vote Economic, Industry and Regional Development

| | | | |
|------------------------|------------------|---------------------------|-----------|
| Date: | 22 February 2007 | Treasury Priority: | Medium |
| Security Level: | | Report No: | T2007/209 |

Action Sought

| | Action Sought | Deadline |
|---|--|---------------------------------------|
| Minister of Finance (Hon Dr Michael Cullen) | Read the attached bilateral briefing before your meeting with the Minister of Economic, Industry and Regional Development | Tuesday 27 February 2007 at 9.00 a.m. |
| Associate Minister of Finance (Hon Trevor Mallard) | Read the attached bilateral briefing before your meeting with the Minister of Finance | Tuesday 27 February 2007 at 9.00 a.m. |

Contact for Telephone Discussion (if required)

| Name | Position | Telephone | 1st Contact |
|--|-----------------|------------------|--------------------|
| <i>[information deleted in order to protect the privacy of natural persons, including deceased people]</i> | | | |

Enclosure: **Yes**

Treasury Report: Budget 2007 Bilateral Briefing: Capital initiatives in Vote Economic, Industry and Regional Development

Attached is a briefing for the bilateral between the Minister of Finance and Minister of Economic, Industry and Regional Development at 9.00 a.m. on Tuesday 27 February 2007 to discuss the capital components of budget initiatives for Vote Economic, Industry and Regional Development.

The bilateral briefing is structured as follows:

| | |
|-------------------------------|------|
| Recommendations | p. 3 |
| Analysis by Vote | p. 4 |
| One-page initiative summaries | p. 6 |

The key issues for discussion will be:

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Treasury's view is that the *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]* initiative needs further work and that funding the development of a business case should be considered in the ET theme.

Treasury's view with regards to the *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]* is that whilst this is not a priority amongst our capital package, it represents a minor service delivery risk and any funding should be considered from the capital available in the ET theme.

Recommended Action

We recommend that you **read** the attached briefing and use it as the basis for making decisions in your bilateral with the Minister of Economic, Industry and Regional Development at 9.00 a.m. on Tuesday 27 February 2007.

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Senior Analyst – Markets Infrastructure and Government Section
for Secretary to the Treasury

Hon Dr Michael Cullen
Minister of Finance

Recommendations

VOTE ECONOMIC, INDUSTRY AND REGIONAL DEVELOPMENT

a *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]* analysis p. 4

- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- Treasury's view: while there is some service delivery risk, not a priority amongst capital allocation.
- While initial capital funding is sought from the Crown, increases in both the capital charge and depreciation expenses will be recovered by way of fees in outyears. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*.
- Funding could be considered from the ET package if there is room, at present there is \$6m of uncommitted capital in the draft ET package.

| | \$million - increase/(decrease) | | | | |
|--------------------|--|---------|---------|---------|--------------------|
| | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 & Outyears |
| Capital (GST excl) | | | | | |
| Department | - | 2.000 | - | - | - |
| Treasury* | We recommend that you consider this proposal against capital funding available in the ET allocation. | | | | |

b *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]* analysis p. 5

- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

| | \$million - increase/(decrease) | | | | |
|--------------------|---------------------------------|---------|---------|---------|--------------------|
| | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 & Outyears |
| Capital (GST excl) | | | | | |
| Department | - | 20.000 | - | - | 10.000 |
| Treasury | - | - | - | - | - |

Vote Economic, Industry and Regional Development – Analysis

Analysis of Initiatives

- Funding is being sought for Vote Economic, Industry and Regional Development through this bilateral and also through the Economic Transformation theme. This is summarised in the table below:

| | \$million - increase/(decrease) | | | | |
|---|---------------------------------|---------------|---------------|---------------|--------------------|
| <i>Funding sought for Vote Economic, Industry and Regional Development in Budget 2007</i> | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 & Outyears |
| <i>Operating (GST excl)</i> | | | | | |
| At this bilateral | - | - | - | - | - |
| Through Economic Transformation Theme | (3.083) | 22.229 | 34.650 | 42.453 | 27.498 |
| TOTAL OPERATING | (3.083) | 22.229 | 34.650 | 42.453 | 27.498 |
| <i>Capital (GST excl)</i> | | | | | |
| At this bilateral | - | 22.000 | - | - | 10.000 |
| Through Economic Transformation Theme | - | 1.470 | 5.101 | 0.345 | - |
| TOTAL CAPITAL | - | 23.470 | 5.101 | 0.345 | 10.000 |

- Of the operating funding sought through the Economic Transformation theme, none relates to capital initiatives being discussed in this bilateral.

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- [information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].*
- Treasury considers that if this initiative is not funded then it would represent a minor service delivery risk. However, the service delivery risks associated with a delay of a year are unlikely to be significant. The additional funding being sought is due to the fact that the costs have now been fully established (and the costs have been independently reviewed) and there is some additional functionality that is necessary to ensure a degree of future-proofing.
- While initial capital funding is sought from the Crown, increases in both the capital charge and depreciation expenses will be recovered by way of fees in outyears. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- While this initiative is not a priority amongst the capital allocation, we recommend that funding for this be considered from the Economic Transformation (ET) package if there is room (subject to Cabinet confirmation of a fully developed business case).

7. The capital allocation for ET is not currently oversubscribed or under pressure. Initial advice suggests that of the \$20m capital available, there is \$14m of supported initiatives.

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8. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
9. Treasury considers that while the proposal potentially has merit, the business case is currently poorly developed. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
10. We suggest that assessment of this proposal proceed as part of the development of policy on means to develop better links between firms, universities and CRIs.
11. We believe that the proposal requires further development of a business case, and partnership and governance arrangements and propose that funding for development of a business case (approximately \$0.3m) be considered in the ET package or as part of the change to funding streams associated with the regional partnership programme. We propose that consideration of this initiative be deferred until next budget when the business case has been developed.
12. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Analysis of Vote

13. The Vote Economic, Industry and Regional Development capital baseline is estimated to be \$34.870 million in 2006/07 (from the time of the baseline assessment).
14. The Ministry's working capital ratio at 31 December 2006 was 0.7:1 (i.e. only 70% of current liabilities could be met immediately from cash reserves. Managing working capital is a matter of balance. While the Ministry must have sufficient cash on hand to meet its immediate needs (while ensuring that idle cash is invested to the organisation's best possible advantage), this is a large one off capital investment for the Ministry that cannot be met from within current cash reserves.

One-page Initiative Summaries

One-page summaries of the initiatives for discussion at this bilateral are attached on subsequent pages.

Vote: Economic, Industry and Regional Development **Portfolio Minister:** Hon Trevor Mallard

Title: *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Description: *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Purpose: Current Policy - Increase in Quantity **Ranking:** 1

Theme: Economic Transformation **Theme Objective:** Non-specific

Funding Sought:

| | | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 |
|-----------|--------|---------|---------|---------|---------|---------|
| | | \$000 | \$000 | \$000 | \$000 | \$000 |
| Operating | Gross | 0 | 0 | 0 | 0 | 0 |
| | Saving | 0 | 0 | 0 | 0 | 0 |
| | Net | 0 | 0 | 0 | 0 | 0 |
| Capital | Gross | 0 | 2000 | 0 | 0 | 0 |
| | Saving | 0 | 0 | 0 | 0 | 0 |
| | Net | 0 | 2000 | 0 | 0 | 0 |

Performance Information:

Either Option 1 - where performance/outputs can be expressed in a table

OR Option 2 - where performance/outputs are best expressed as text

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Problem Definition (provide evidence)

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How do we know this initiative will deliver the outcomes (intervention logic)?

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Evaluation of Initiative's contribution to Outcome

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How could the initiative be scaled?

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Vote: Economic, Industry and Regional Development **Portfolio Minister:** Hon Trevor Mallard

Title: *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Description: *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Purpose: New Policy **Ranking:** 2

Theme: Economic Transformation **Theme Objective:** World-class Auckland

Funding Sought:

| | | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 |
|-----------|--------|---------|---------|---------|---------|---------|
| | | \$000 | \$000 | \$000 | \$000 | \$000 |
| Operating | Gross | 0 | 0 | 0 | 0 | 0 |
| | Saving | 0 | 0 | 0 | 0 | 0 |
| | Net | 0 | 0 | 0 | 0 | 0 |
| Capital | Gross | 0 | 20000 | 0 | 0 | 10000 |
| | Saving | 0 | 0 | 0 | 0 | 0 |
| | Net | 0 | 20000 | 0 | 0 | 10000 |

Performance Information:

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Problem Definition (provide evidence)

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How do we know this initiative will deliver the outcomes (intervention logic)?

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Evaluation of Initiative's contribution to Outcome

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How could the initiative be scaled?

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